

Eyeopener

Inflation surprised to the upside

Stocks in Europe slightly worse, Biden presented his second package
 CPI inflation above expectations due to a jump in core inflation
 EURUSD higher, EURPLN lower
 Today series of PMI in manufacturing

On Wednesday stock indexes declined insignificantly. The dollar was slightly weaker, which supported EM currencies. Christine Lagarde said that faced with extraordinary circumstances, the ECB has extraordinary tools at hand and will not hesitate to use them if investors try to push bond yields high. This made the German bond yields rise a bit. Oil prices fell somewhat ahead of today's OPEC+, where decisions on May supply are to be made.

Joe Biden announced an infrastructure public investment fund worth \$2trn spread over 8 years, which is supposed to be financed by higher corporate taxes. \$620bn will be spent on transport infrastructure, \$400bn for elderly care, \$300bn for improvements in water, electricity and broadband systems, \$300bn for schools and \$580bn for manufacturing, research and job training.

According to a flash release, Polish **CPI inflation** surged in March to 3.2% y/y from 2.4% with market expectations around 2.8-2.9% and our forecast 3.0%. Fuel prices rose by 6.6% m/m in March, which was responsible for a large chunk of total CPI rise, but this component was easily observable. The source of the upside surprise was apparently core inflation, moving to 4% (our rough estimate after the limited information provided in the flash release) from 3.7%. Before the today's release we thought a fall to 3.4% in core CPI was likely and there was wide dispersion of other analysts' forecasts, spanning from 3.1 to 3.7%. The impulse from higher oil prices may still be putting upside pressure on headline CPI in the following months, add to this the surprising persistence of core CPI and in our view by May inflation could be around 4% (i.e. clearly above the 3.5% threshold of tolerable deviations from the 2.5% NBP target). Overall, this is a big upward surprise from inflation and it seems likely that market expectations for policy tightening will build again. The MPC may be reluctant to signal that interest rate hikes may be needed before the end of its term in the office (early 2022) but this could be even more supportive for the steepening of the Polish yield curve. We do not know yet what categories caused the surge of core CPI, but if we assume it was a permanent factor then average CPI this year could be around 3.3% rather than 3% we have expected.

MPC member Jerzy Kropiwnicki said that there are many pro-inflationary factors present in the Polish economy, but he would refrain from suggesting a rate hike motion as the priority is to avoid the economic crisis. Kropiwnicki expects the 2021 GDP growth at 3.0%.

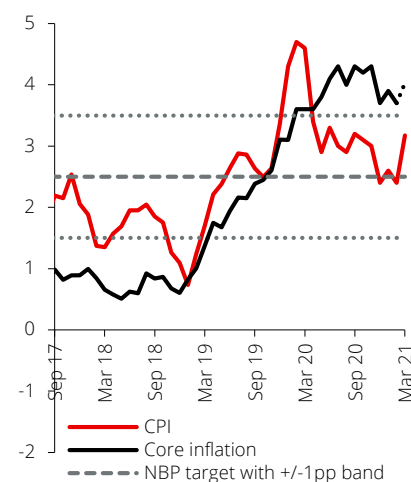
General government debt has increased to 57.6% of GDP in 2020 after an increase of 11.9pp over the year. Of this increase, around 7.0pp comes from issuances of BGK and PFR "Covid-bonds". We expect that the public debt will increase further in 2021, however not as much as in the previous year.

EURUSD at the end of the month rose by 0.2% to 1.175 while its further direction may possibly be set by Friday reading of US non-farm payrolls. **EURPLN** dropped by 0.3% to 4.467 which was a reaction to global factors (weaker dollar) rather than local ones (higher inflation), **USDPLN** dropped by 0.5% to 3.958. **As for other CEE fx**, **EURHUF** fell by 0.2% to 362.9, **EURCZK** by 0.1% to 26.13 and **USD RUB** by 0.9% to 75.3.

On the domestic interest rate market, IRS rates rose a bit, by 1-2bp. Bond yields declined ahead of high redemptions and news about two QE auctions by NBP planned in April. At the 30 March auction BGK sold bonds worth PLN3.0bn and its total issuance in March reached PLN9.3bn. The Ministry of Finance informed that at the end of February the share of foreign investors in PLN-denominated Polish government debt dropped from 17.7% to 17.3% (but rose nominally by PLN0.2bn to 139.4bn). **The Ministry of Finance** plans to hold 3-5 bond auctions in 2Q worth PLN20-35bn. Plus optionally 1-3 switching auctions in May-June. Also, issuances on foreign markets are possible. In April alone the FinMin plans two outright bond auctions: on 8 April worth PLN3-5bn (OK0423, PS1026, DS1030, WZ1131, WZ1126) and on 23 April worth PLN5-8bn (OK0423, PS1026, DS1030, WZ1131, WZ1126). There are no switching auctions planned for April. **BGK** plans two auctions in April: on 15 and 28 April (FPC0328, FPC0733, FPC1140), while NBP announced it will hold two repurchase auctions: on 14 and 19 April. Additional auctions cannot be ruled out.

Polish manufacturing PMI rose in March to 54.3, below market consensus (55.4) and our forecast (54.9). It was the biggest improvement in the industrial sector's situation since January 2018. However, there is a caveat: the lengthening of delivery times had the biggest contribution to the index improvement, which means that the PMI improvement may be misleading as the problems with supply chains and deliveries could be in fact limiting the sector's output capacity, not signalling the expansion. On the positive note: production, orders and employment also increased. New orders were rising at the fastest pace since July 2020.

CPI and core inflation, %/y



Source: GUS, NBP, Santander

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FX market

Today's opening			
EURPLN	4.6309	CZKPLN	0.1771
USDPLN	3.9515	HUFPLN*	1.2661
EURUSD	1.1721	RUBPLN	0.0522
CHFPLN	4.1813	NOKPLN	0.4610
GBPPLN	5.4356	DKKPLN	0.6227
USDCNY	6.5717	SEKPLN	0.4513

*for 100HUF

Last session in the FX market						31.03.2021
	min	max	open	close	fixing	
EURPLN	4.627	4.669	4.659	4.630	4.660	
USDPLN	3.941	3.983	3.979	3.942	3.968	
EURUSD	1.170	1.176	1.171	1.174	-	

Interest rate market 31.03.2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.09	0
DS0725 (5Y)	0.84	0
DS1030 (10Y)	1.58	-2

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.26	2	0.22	0	-0.54	0
2L	0.53	4	0.29	0	-0.50	0
3L	0.79	5	0.50	2	-0.45	1
4L	1.07	5	0.78	4	-0.39	1
5L	1.31	5	1.04	5	-0.31	1
8L	1.70	6	1.56	3	-0.07	2
10L	1.88	6	1.76	4	0.07	1

WIBOR rates

Term	%	Change (bps)
O/N	0.10	-1
T/N	0.09	-1
SW	0.10	0
2W	0.16	0
1M	0.18	0
3M	0.21	0
6M	0.25	0
1Y	0.25	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.21	0
3x6	0.22	-1
6x9	0.27	2
9x12	0.35	3
3x9	0.26	2
6x12	0.36	7

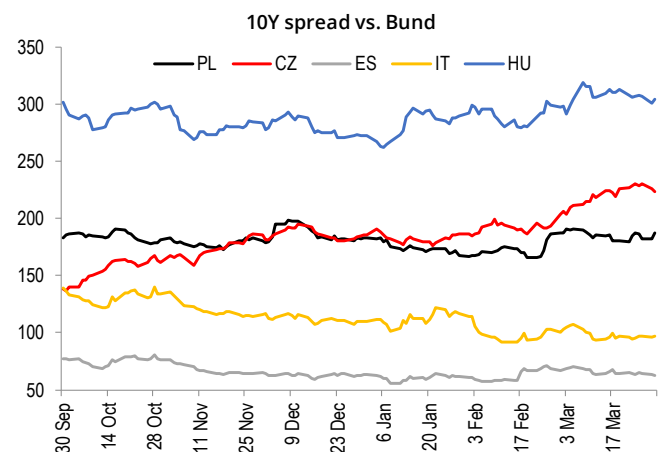
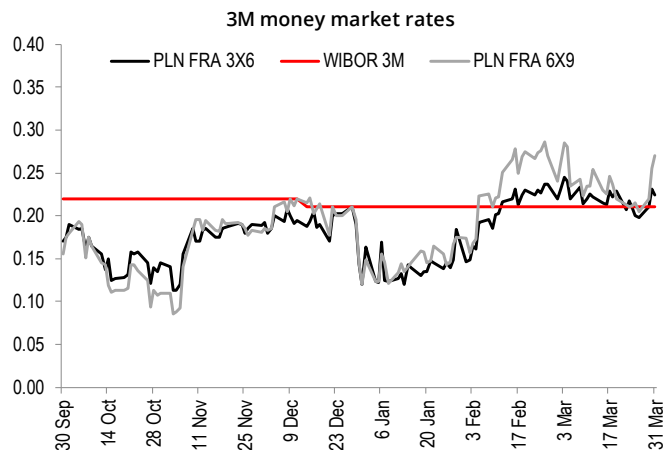
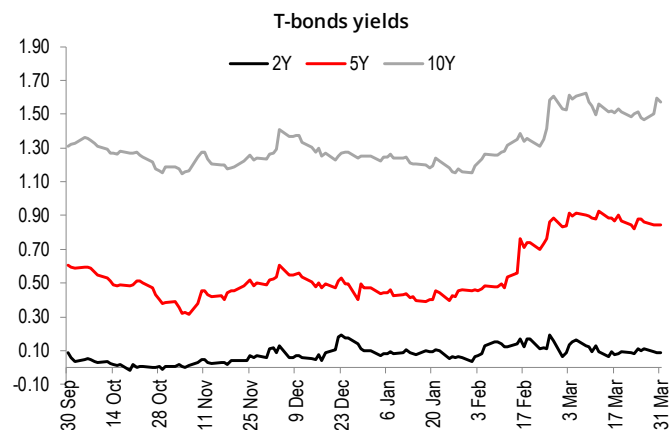
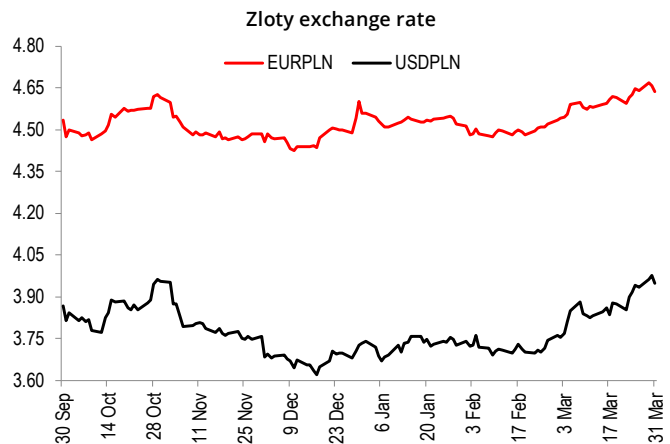
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	37	0	187	5
France	8	0	25	0
Hungary	64	0	305	4
Spain	34	-1	63	-1
Italy	45	-1	97	0
Portugal	23	-1	52	0
Ireland	9	0	34	-1
Germany	8	0	-	-

* 10Y treasury bonds over 10Y Bunds

**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*
				MARKET	SANTANDER		
FRIDAY (26 March)							
10:00	DE	IFO Business Climate	Mar	pts	93.2	96.6	92.4
13:30	US	Personal Spending	Feb	% m/m	-0.8	-1.0	2.4
13:30	US	Personal Income	Feb	% m/m	-7.2	-7.1	10.0
13:30	US	PCE Deflator SA	Feb	% m/m	0.3	0.2	0.3
15:00	US	Michigan index	Mar	pts	83.6	84.9	83.0
TUESDAY (30 March)							
11:00	EZ	ESI	Mar	pct.	96.0	101.0	93.4
14:00	DE	HICP	Mar	% m/m	0.5	0.5	0.6
16:00	US	Consumer Conference Board	Mar	pts	96.0	109.7	91.3
WEDNESDAY (31 March)							
10:00	PL	CPI	Mar	% y/y	2.8	3.0	3.2
11:00	EZ	Flash HICP	Mar	% y/y	1.4	1.3	0.9
14:15	US	ADP report	Mar	k	550.0	517.0	117.1
16:00	US	Pending Home Sales	Feb	% m/m	-3.0	-10.6	-2.8
THURSDAY (1 April)							
08:00	DE	Retail Sales	Feb	% m/m	1.0	1.2	-6.5
09:00	CZ	GDP SA	4Q	% y/y	-4.7	-4.8	-5.0
09:00	PL	Poland Manufacturing PMI	Mar	pts	55.4	54.9	54.3
09:55	DE	Germany Manufacturing PMI	Mar	pts	66.6	-	66.6
10:00	EZ	Eurozone Manufacturing PMI	Mar	pts	62.4	-	62.4
14:30	US	Initial Jobless Claims	Mar/21	k	730.0	-	684.0
16:00	US	ISM manufacturing	Mar	pts	61.0	-	60.8
FRIDAY (2 April)							
14:30	US	Change in Nonfarm Payrolls	Mar	k	600.0	-	379.0
14:30	US	Unemployment Rate	Mar	%	6.0	-	6.2
	PL	S&P rating review					A-, stable

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

** estimate after CPI data

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