

30 April 2021

Weekly Economic Update

What can the MPC do about inflation?

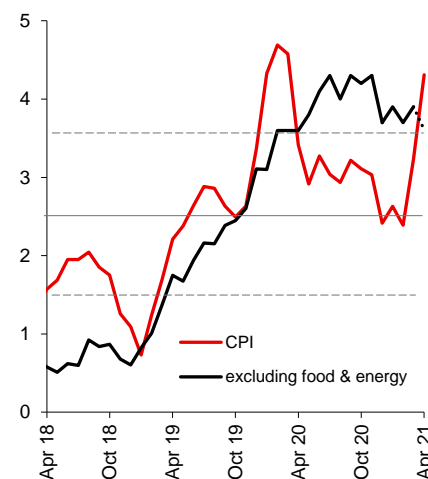
What's hot next week

- Inflation was supposed to be the highlight of the week... and it surely was – by spectacularly beating the market consensus and rising to 4.3% y/y in April, CPI pushed higher our forecasts for the rest of the year and raises speculation what the central bank will do about it. Even before the release the FRA and IRS markets were pricing in the start of interest rate hikes before the end of this year.
- The central bank will have the opportunity to respond to the situation in a matter of days – **on Wednesday, 5 May there is an MPC meeting**. And while there is a growing sense that its rather “careless” rhetoric from recent months (if inflation goes up, it is going to be temporary and due to factors outside the scope of monetary policy) is less and less suitable to reality, we do not think that much will change about it. In our view the MPC, and later governor Glapiński at his video conference (most likely on Friday), will stick to a dovish tone stressing their conviction that risks to inflation are not high and the best central bank in Europe is going to hold interest rates constant at least until the end of the current MPC's term of office.
- The way interest rates are addressed will be interesting and important, but so will any reference to the QE programme – abroad, bond yields have returned to the uptrend, in Poland the recent economic activity data were strong and we got a huge inflation surprise. As a result, the domestic debt market has already seen a significant weakening despite an increased scale of bond purchases by NBP at recent tenders. Will NBP in these circumstances continue to increase the scale of QE trying to keep yields under control (but at the same time adding fuel to the inflationary trend)? The answer may be crucial for the prospects of the Polish debt market. We expect a declaration about further expansion of QE, otherwise the weakening of bonds might gain momentum.
- Apart from the MPC meeting the weekly calendar also includes **PMI indexes in Poland and abroad**. We forecast a rise of Polish manufacturing PMI to 55 pts, which would confirm the positive trends seen in other business sentiment surveys.
- Abroad, there will be many data releases i.a. the already mentioned PMIs, new orders in the USA and Germany, German and Eurozone retail sales and also US labour market report.
- Still this evening the government should, at an extraordinary meeting, approve the **national recovery and resilience plan** and possibly also the **Convergence Program Update**. We might get to know the contents of these documents soon after the extended weekend (national holidays on 1 and 3 May). They should include i.a. plans regarding the utilisation of EU funds in the coming years and the assumed path of fiscal consolidation. On Tuesday, 4 May, Sejm (the lower chamber of the Polish parliament) at an extraordinary sitting is to work on the **ratification of EU's Own Resources bill** (which is required for launch of EU Recovery Fund).
- Also this evening Moody's may update Poland's rating. We do not expect any change here.
- **On Friday, 7 May** some of the **Civil Chamber of the Polish Supreme Court** judges may hold a meeting about issues important for FX loans. We are not going guess if the meeting will eventually be held on that day and what the outcome will be.
- The New Polish Deal, i.e. the new program of Law and Justice party was supposed to be released on 8 May, however PAP (Polish Press Agency) obtained information that it will not happen before 15 May.

Markets next week

- The zloty has recently been underperforming the regional currencies (e.g. the forint) which is not surprising given the increased uncertainty due to the recent ECJ ruling and the upcoming Supreme Court sittings (7 May part of judges, 11 May in full force). As the decision dates regarding FX loans approach, the risk premium linked to this issue can decrease letting the zloty strengthen. It would however be a mistake not to take into consideration the global market environment which – via higher yields on core markets – may be quite challenging for the EM currencies. There will also be plenty of data releases abroad. It seems safe to say that EURPLN in the coming two weeks may exhibit heightened volatility.
- The recent streak of positive data surprises in the Eurozone (ESI indicators, 1Q GDP among others) and in Poland (inflation, and somewhat earlier: industrial output and retail sales) cause a shift of market attention from pondering if it is already the beginning of a post-pandemic rebound (we can already say with much certainty that this is the case) to the questions if and how this will affect the behaviour of NBP and if NBP can deliver on its declaration of stable interest rates until the end of the MPC term (for most members in 1Q22, for the governor – mid-2022) and if the current situation requires an increase of the pace of government bond purchases as part of the NBP QE programme. This is why the Wednesday MPC meeting will be a quite important one. Lack of NBP reaction may make investors feel that the Council is increasingly “behind the curve” and lead to even higher yields and steeper yield curve.

Inflation in Poland, % y/y



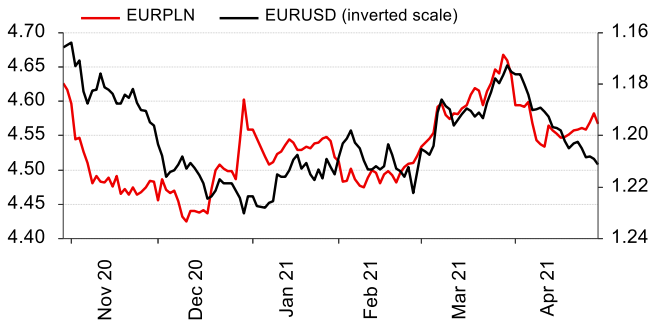
Source: GUS, NBP, Santander

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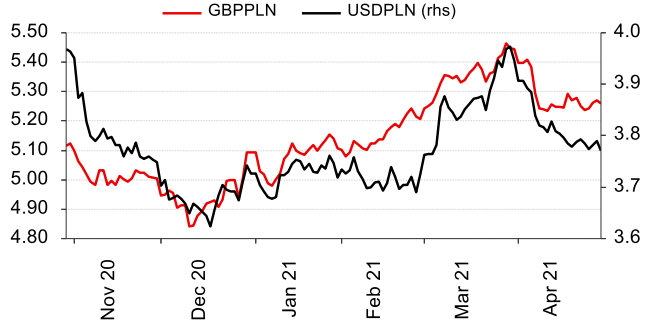
FX and FI markets

EURPLN and EURUSD



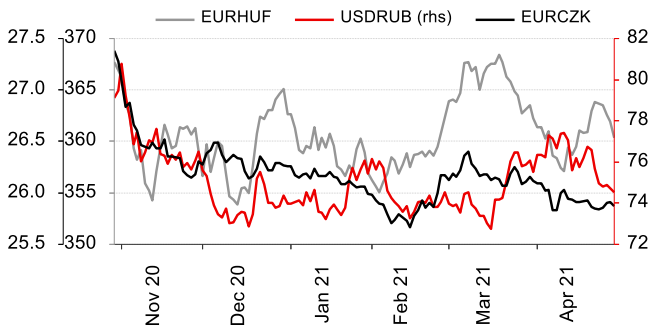
Source: Refinitiv Datastream, Santander Bank Polska

GBPPLN and USDPLN



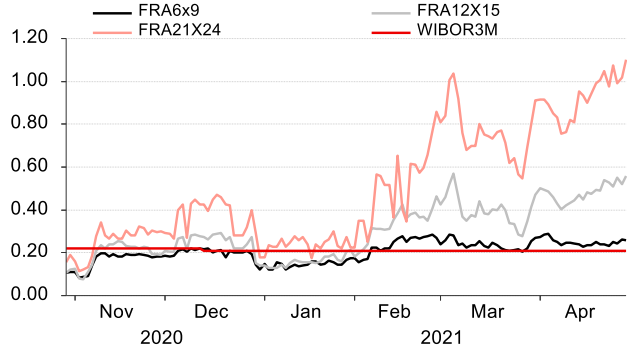
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



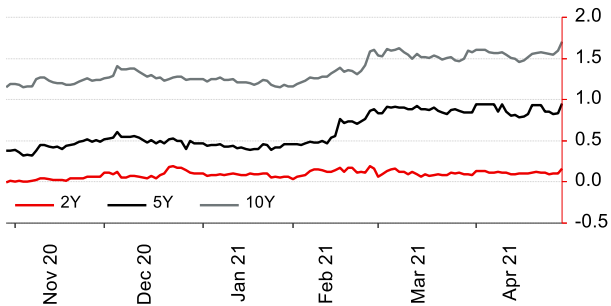
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



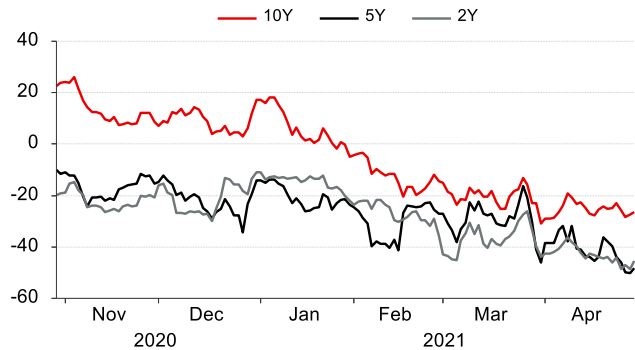
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



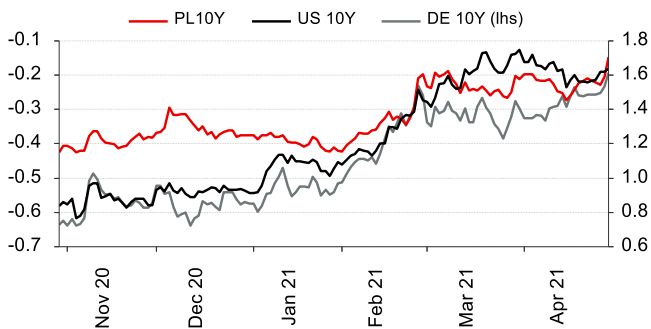
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



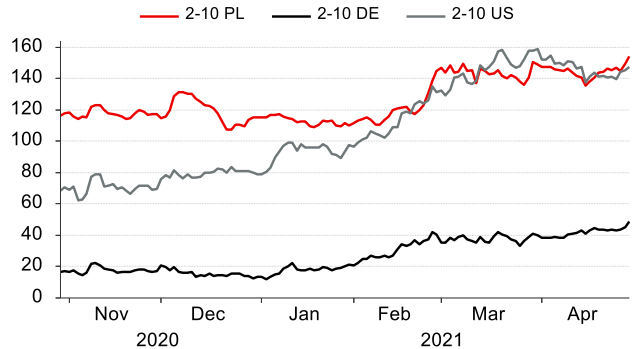
Source: Refinitiv Datastream, Santander Bank Polska

10Y bond yields



Source: Refinitiv Datastream, Santander Bank Polska

Steepness of yield curves



Source: Refinitiv Datastream, Santander Bank Polska

Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE
				MARKET	SANTANDER	
MONDAY (3 May)						
08:00	DE	Retail Sales	Mar	% m/m	3.3	2.7
09:55	DE	Germany Manufacturing PMI	Apr	pts	66.4	66.6
10:00	EZ	Eurozone Manufacturing PMI	Apr	pts	63.3	62.5
16:00	US	ISM manufacturing	Apr	pts	60.7	64.7
TUESDAY (4 May)						
09:00	PL	Poland Manufacturing PMI	Apr	pts	55.3	55.0
16:00	US	Durable Goods Orders	Mar	% m/m	0.0	0.5
16:00	US	Factory Orders	Mar	% m/m	1.6	-0.8
WEDNESDAY (5 May)						
	PL	MPC decision		%	0.1	0.1
09:55	DE	Markit Germany Services PMI	Apr	pts	50.1	51.5
10:00	EZ	Eurozone Services PMI	Apr	pts	50.3	49.6
14:15	US	ADP report	Apr	k	825.0	516.8
16:00	US	ISM services	Apr	pts	64.0	63.7
THURSDAY (6 May)						
08:00	DE	Factory Orders	Mar	% m/m	1.5	1.2
09:00	HU	Industrial Production SA	Mar	% y/y	0.0	3.9
11:00	EZ	Retail Sales	Mar	% m/m	1.0	3.0
14:30	US	Initial Jobless Claims		k	540	553
14:30	CZ	Central Bank Rate Decision	May/21		0.25	0.25
FRIDAY (7 May)						
03:45	CN	Caixin China PMI Services	Apr	pts	54.3	54.3
08:00	DE	Exports SA	Mar	% m/m	0.5	1.0
08:00	DE	Industrial Production SA	Mar	% m/m	2.5	-1.6
09:00	CZ	Industrial Production	Mar	% y/y	13.1	-2.6
14:30	US	Change in Nonfarm Payrolls	Apr	k	950	916
14:30	US	Unemployment Rate	Apr	%	5.8	6.0

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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