

Eyeopener

Inflation surprises to the upside

Most of macro data still above expectations
 The dollar is buoyant, the zloty gains
 UST stronger, stable Bunds and POLGBs despite high CPI reading
 Today Polish manufacturing PMI, US factory orders

Stock market indices – counting from Thursday to Monday's close decreased slightly (0.4%) and the dollar gained vs the basket of currencies c.0.3%. Bund yield did not change (-0.2%) even though flash 1Q GDP data for the euro zone and German March retail sales were better than expected. US personal income rose to record levels due to the government aid, personal spending also soared, which should support recovery of US economy. The final reading of Michigan consumer confidence was revised up 2pp to 88.3. The only scar was the manufacturing ISM index (drop due to the shortage of components and workers). Final PMIs for European manufacturing proved to be slightly lower than earlier estimated.

On Friday the **government approved the National Recovery Plan** and sent the document to Brussels. The **Convergence Programme Update** was also approved, in which the government plans the fiscal deficit at 6.9% of GDP in 2021, 4.2% of GDP in 2022 and 3.2% in 2023. The underlying government's forecasts of GDP and inflation are mostly below our expectations, for example: GDP growth has been assumed at 3.8% this year and 4.3% next year (we: 4.7% and 5.1%), while inflation at 3.1% and 2.8% respectively (we: 3.6%, 3.5%). Today the Sejm will vote on the ratification of increasing the EU's own resources (the approval of all member states is needed to launch the payments from the Recovery Fund).

CPI surprised in April, rising to 4.3% y/y, not only due to higher than we expected rise in fuel and food prices, but also due to core component. A revision of CPI basket also played an important role. The inflation trajectory for the rest of 2021 moves higher and it is very likely now that CPI will reach 4.6% in May and even if it retraces slightly in 2H, the rest of the year will be well above the inflation target. Such scenario could be a serious challenge for the NBP's pledge to keep interest rates unchanged until the end of the MPC term of office. Nevertheless, we think the MPC will keep its dovish narrative, claiming that inflation rise is temporary and caused by exogenous factors. MPC holds a meeting tomorrow (it will be interesting to see how they address the CPI surge and the recent rise of bond yields despite their QE operation).

EURUSD fell by 0.4% to 1.2065 which is the 100-day moving average.

EURPLN fell on Friday for a second day in a row (by 0.3%) while on Monday the declines continued (to 4.54). The gradual decrease in the uncertainty surrounding the upcoming Supreme Court ruling regarding the CHF mortgages (the nearest one is scheduled for Friday, 7 May when only some of the judges would be present) might support the zloty. On the other hand, the rising core market yields might undermine the zloty. In the coming 1-2 weeks we expect elevated EURPLN uncertainty.

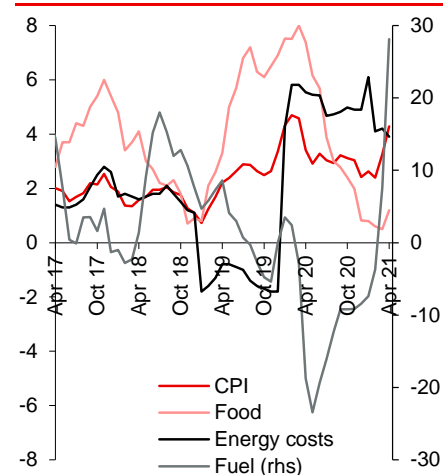
As for the **other CEE currencies**, the forint has been gaining over the past week to 359.5. Formally, it remain in an upward trend as long as it does not break the 358-359 support level. The nearest resistance is at 370.0. EURCZK has not changed (25.9) while the Q1 GDP has - similarly to eurozone and Germany - beaten expectations. USDRUB hovers near 75 while the oil price remains stable near US\$67.5 per barrel.

The Ministry of Finance said that in March 2021 **the share of foreign investors in the domestic debt** market stood at PLN 134.7bn (16.8%) after declining m/m by PLN 4.7bn (0.5pp m/m). The ownership share of Polish banks keeps increasing - in March by another 0.4pp to 54.9%. The Ministry also said that the pre-financing of the 2021 needs currently stands at 65% while the Ministry deposits with the NBP at the end of April equalled PLN 119.0bn (up by 6.7bn vs March).

Moody's rating agency confirmed the Polish rating at the current level (A2 with a stable outlook) after earlier the two other major rating agencies did the same (confirmed the current rating level). The possibility for an upgrade would occur in case Poland would be able to withdraw the pandemic-related stimuli without major disruptions in the economy as well as reverse the institutional changes in the judiciary system. The rating decline would occur if the GDP growth weakened while the fiscal statistics deteriorated.

On the Polish **fixed income market** the bond yields were relatively stable despite the strong beat in April preliminary CPI reading. Both yield curves (bond and IRS) moved higher only by 2bp. There has not been any correction lower after the strong yield increases that happened on Thursday. The 10Y bond yields still remains above 1.70%. The ASW spread stands at -0.27% while the spread vs Bund at 191bp. The **issuance calendar** for May looks like this: Ministry of Finance plans 1 switch auction on 6 May (Thursday), the MF would buy PS0422, OK0521, PS0721, DS1021 and sell the OK0423, PS1026, WZ1126, DS1030, WZ1130. On top of that the Ministry of Finance plans 1 outright sell auction on 21 May (Friday), the MF would sell OK0423, PS1025, DS1030, WZ1126 for a total amount of PLN 4.7bn. The BGK plans 2 auctions in May: on 10 May (Thursday) it will sell FPC0631, PFC1140 while on 24 May (Monday) it will sell FPC0328, FPC0631, FPC0733 and FPC1140. In May, there will be 2 **NBP purchase auctions** (within the QE programme) in Wednesdays on 12 May and 26 May. More auctions might take place if needed.

Inflation rate and its components, % y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4,5462	CZKPLN	0,1757
USDPLN	3,7796	HUFPLN*	1,2654
EURUSD	1,2033	RUBPLN	0,0503
CHFPLN	4,1487	NOKPLN	0,4550
GBPPLN	5,2398	DKKPLN	0,6124
USDCNY	6,4730	SEKPLN	0,4471

*for 100HUF

Last session in the FX market 03.05.2021

	min	max	open	close	fixing
EURPLN	4,534	4,558	4,557	4,544	4,565
USDPLN	3,763	3,794	3,790	3,769	3,775
EURUSD	1,201	1,208	1,202	1,206	-

Interest rate market 03.05.2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0,11	0
DS0725 (5Y)	0,95	0
DS1030 (10Y)	1,71	0

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0,29	0	0,21	0	-0,53	0
2L	0,63	-1	0,28	-1	-0,48	0
3L	0,93	-1	0,46	-1	-0,41	0
4L	1,22	1	0,69	-2	-0,34	0
5L	1,44	0	0,91	-2	-0,26	0
8L	1,81	0	1,39	-3	-0,01	1
10L	1,97	-1	1,59	-3	0,14	1

WIBOR rates

Term	%	Change (bps)
O/N	0,09	-2
T/N	0,10	0
SW	0,10	0
2W	0,16	0
1M	0,18	0
3M	0,21	0
6M	0,24	0
1Y	0,25	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0,22	0
3x6	0,24	-1
6x9	0,29	1
9x12	0,42	0
3x9	0,31	0
6x12	0,40	-1

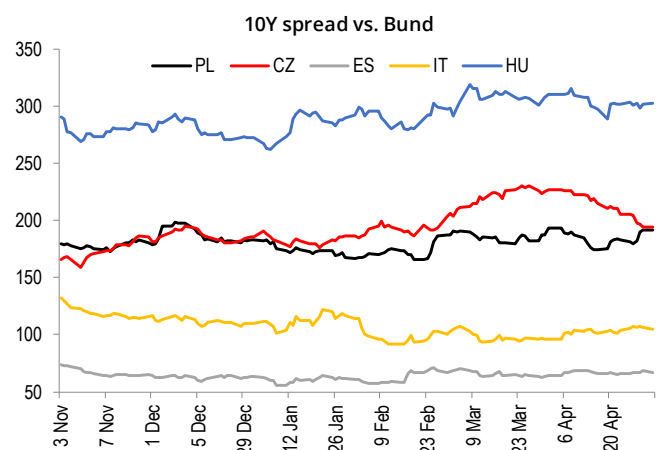
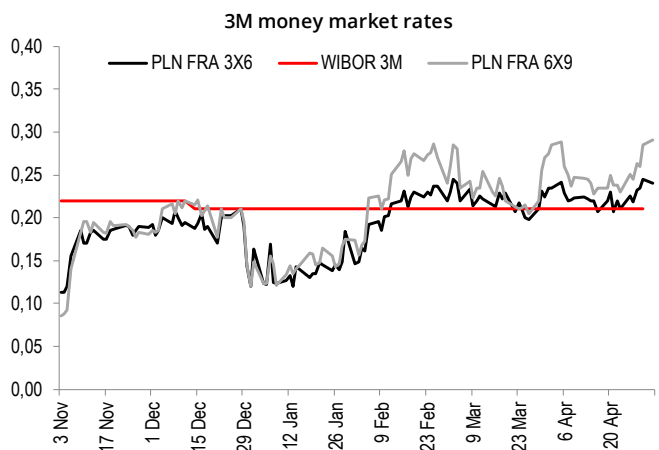
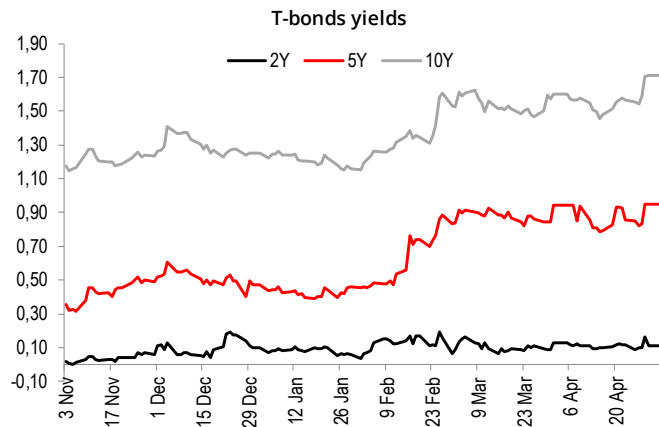
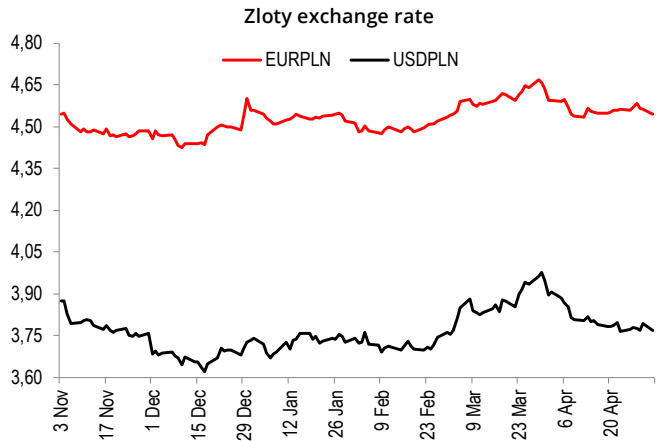
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	37	0	192	0
France	10	0	36	-1
Hungary	64	0	302	1
Spain	35	0	67	-1
Italy	50	0	105	-2
Portugal	22	0	68	-1
Ireland	11	0	39	0
Germany	9	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 (30 April)								
09:00	CZ	GDP SA	1Q	% y/y	-2.6		-2.1	-4.8
10:00	PL	CPI	Apr	% y/y	3.9	3.8	4.3	3.2
10:00	DE	GDP WDA	1Q	% y/y	-3.2		-3.0	-3.7
11:00	EZ	Flash HICP	Apr	% y/y	1.6		1.6	1.3
11:00	EZ	GDP SA	1Q	% y/y	-2.0		-1.8	-4.9
11:00	EZ	Unemployment Rate	Mar	%	8.3		8.1	8.3
14:30	US	Personal Spending	Mar	% m/m	4.1		4.2	-1.0
14:30	US	Personal Income	Mar	% m/m	20.3		21.1	-7.1
14:30	US	PCE Deflator SA	Mar	% m/m	0.5		0.5	0.2
16:00	US	Michigan index	Apr	pts	87.5		88.3	86.5
MONDAY (3 May)								
08:00	DE	Retail Sales	Mar	% m/m	3.3		7.7	2.7
09:55	DE	Germany Manufacturing PMI	Apr	pts	66.4		66.2	66.6
10:00	EZ	Eurozone Manufacturing PMI	Apr	pts	63.3		62.9	62.5
16:00	US	ISM manufacturing	Apr	pts	65.0		60.7	64.7
TUESDAY (4 May)								
09:00	PL	Poland Manufacturing PMI	Apr	pts	55.3	55.0	-	54.3
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	-	0.1
09:55	DE	Markit Germany Services PMI	Apr	pts	50.1		-	50.1
10:00	EZ	Eurozone Services PMI	Apr	pts	50.3		-	50.3
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	540.0		-	547.0
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	950.0		-	916.0
14:30	US	Unemployment Rate	Apr	%	5.8		-	6.0

Source: Santander Bank Polska, Bloomberg, Parkiet
* in the case of a revision the data is updated

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