14 May 2021

Eyeopener

Today important domestic data

Stock markets stable
Core yields stable despite high PPI in USA
EURPLN down, domestic interest rates up
Today Poland's GDP, CPI inflation and balance of payments, US retail sales and industrial output

On Thursday the equity markets were stable or slightly gaining. In the USA, despite the release of producer prices, which breached market expectations by 0.3-0.4pp, bond yields have not increased further and 10Y UST yield fluctuated near 1.68%. Similarly in case of Bund, where despite its morning attack at -0.10% level the yield retraced in the afternoon to -0.12%. Commodity prices went down, including crude oil and metals.

Yesterday two MPC members spoke in favour of small rate hikes. **Eugeniusz Gatnar** said that if inflation becomes permanently high, he will consider a "small and gradual" normalisation, a rate hike of c10-15bp already in June 2021. In his view the anti-crisis rate cuts went too far (they should have reached no less than 0.50%) and currently it is important to prevent de-anchoring of inflation expectations. Gatnar thinks that 2021 GDP growth will be 5% (and that inflation may also reach 5%) and as the European Recovery Fund money starts to pour in, QE tapering should start. **Jerzy Żyżyński** spoke in a similar tone: to anchor inflation expectations better there should be a one-off rate hike by 10-15bp. He added that after 29 May (the final stage of relaxation of economic anti-pandemic restrictions) it will be the right time to consider ending QE program. He assumes 2021 inflation may be less than 3.5%, starting from 3Q21. The different opinions about expectations of the MPC members regarding inflation may express the same dilemma other central banks are facing – if the current rise of inflation is permanent or transitory. It seems likely that a motion to raise rates will appear already at the June meeting, but will probably be rejected.

On Thursday **EURUSD** was moving within a narrow range of 1.205 and 1.210 but has barely changed day to day (close near 1.210).

EURPLN declined by 0.5% to 4.528 and was not a CEE outlier. Actually the ruble, forint and zloty belonged on Thursday to the top 3 global EM FX vs the USD. The nearest support is at 4.514 and this is where the focus will likely be in the following days.

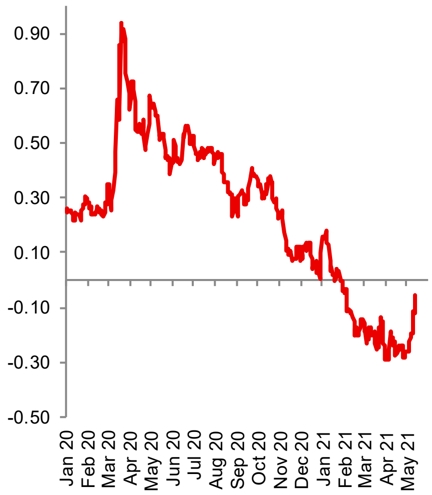
As for the **other CEE currencies**. EURHUF fell by 0.2% to 356.6 (MTD it is already 1.0% lower) despite the fact that the 1 week deposit rate remained unchanged at 0.75%. EURCZK gave away almost all of the Wednesday loss and gained 0.4% to 25.52 (2 day change roughly zero). Rouble gained 0.7% vs the USD and EUR basket.

On the domestic interest rate market the significant rise of yields continued, partly due to their further increase on core markets, but also due to local factors. FRA9x12 contracts rose by 15bp to 0.60% which means they are already pricing-in around 40bp of rate hikes by early 2022. IRS rates were also going up, the most at the short end of the curve, e.g. 2Y by c.10bp to 0.78%, 5Y +4bp to 1.51%, but 10Y by only 1-2bp to 1.96%. Government bonds saw heavy losses: 5Y yield went up by 11bp to 1.31%, and 37bp in total since last Friday. 10Y yield went up another 10bp to 1.92%. This led to a very fast normalisation of asset swap spreads, with 10Y ASW returning to practically zero. The Bund spread rose to 204bp, the highest since June 2020.

Today we will see the final inflation data for April, flash 1Q21 GDP data and balance of payments. We expect to see a confirmation of flash CPI print at 4.3% y/y. According to our forecast, inflation may go even higher in the coming months. Polish GDP growth is likely to remain slightly below zero in y/y terms, but should be already higher than in corresponding period of 2019. Data about March balance of payments in the afternoon should reveal another strong rise in both exports and imports (growth rates above 20% y/y) and a decent surplus in current account.

.

10Y asset swap in Poland, % y/y



Source: Bloomberg, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website: santander.pl/en/economic-analysis
Piotr Bielski +48 22 534 18 87
Marcin Luziński +48 22 534 18 85
Wojciech Mazurkiewicz +48 22 534 18 86
Grzegorz Ogonek +48 22 534 18 84

FX market

Today's opening

EURPLN	4.5287	CZKPLN	0.1775
USDPLN	3.7402	HUFPLN*	1.2571
EURUSD	1.2104	RUBPLN	0.0507
CHFPLN	4.1356	NOKPLN	0.4487
GBPPLN	5.2550	DKKPLN	0.6087
USDCNY	6.4341	SEKPLN	0.4458

*for 100HUF

Last session in the FX market 13.05.2021

	min	max	open	close	fixing
EURPLN	4.520	4.556	4.553	4.527	4.545
USDPLN	3.738	3.773	3.769	3.751	3.768
EURUSD	1.205	1.211	1.208	1.207	-

Interest rate market 13.05.2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.15	0
DS0725 (5Y)	1.33	13
DS1030 (10Y)	1.90	8

IRS on the interbank market**

Term	PL %	PL Change (bps)	US %	US Change (bps)	EZ %	EZ Change (bps)
1L	0.40	8	0.19	-1	-0.53	0
2L	0.78	9	0.25	-2	-0.47	0
3L	1.08	7	0.44	-2	-0.40	0
4L	1.32	6	0.68	-4	-0.31	0
5L	1.50	3	0.90	-5	-0.23	-1
8L	1.79	-2	1.39	-5	0.02	-1
10L	1.94	-2	1.59	-6	0.16	-2

WIBOR rates

Term	%	Change (bps)
O/N	0.10	0
T/N	0.10	0
SW	0.11	1
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	0.26	2
3x6	0.33	6
6x9	0.47	11
9x12	0.61	15
3x9	0.40	4
6x12	0.58	11

Measures of fiscal risk

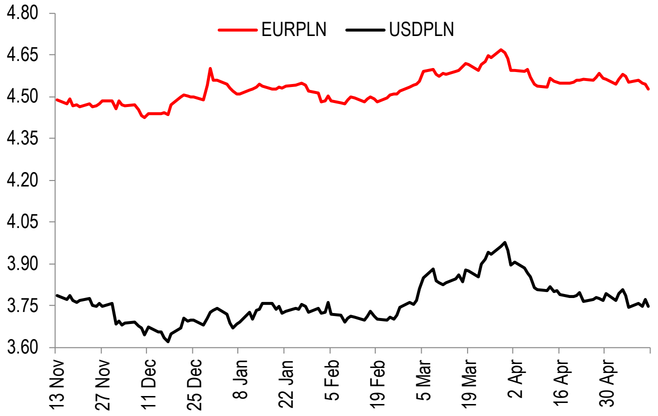
Country	CDS 5Y USD Level	CDS 5Y USD Change (bps)	10Y spread* Level	10Y spread* Change (bps)
Poland	37	0	201	6
France	10	0	39	0
Hungary	64	0	327	16
Spain	36	1	71	1
Italy	50	0	113	2
Portugal	23	0	71	1
Ireland	11	0	42	0
Germany	8	0	-	-

* 10Y treasury bonds over 10Y Bunds

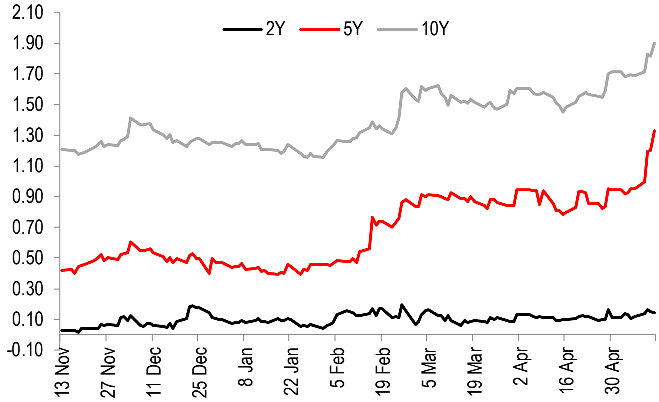
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

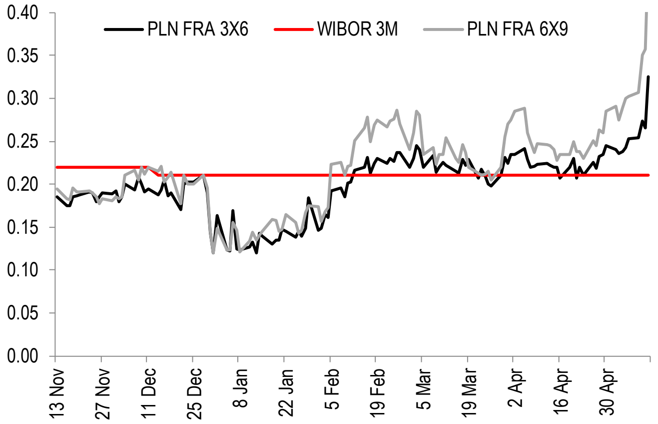
Zloty exchange rate



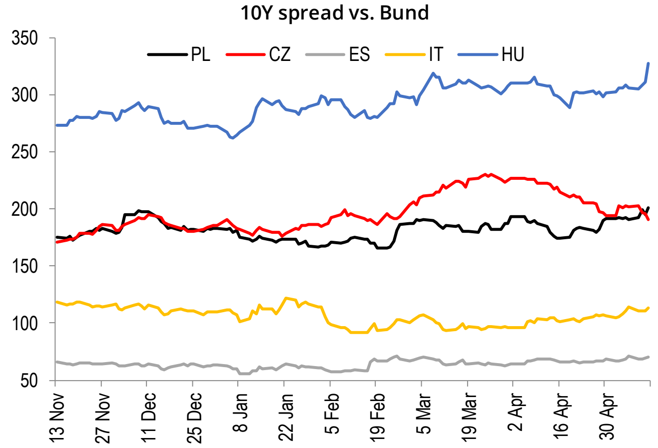
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST SANTANDER	ACTUAL VALUE	LAST VALUE*
			FRIDAY (7 May)					
03:45	CN	Caixin China PMI Services	Apr	pts	54.2		56.3	54.3
08:00	DE	Exports SA	Mar	% m/m	0.5		1.2	1.0
08:00	DE	Industrial Production SA	Mar	% m/m	2.2		2.5	-1.6
09:00	CZ	Industrial Production	Mar	% y/y	12.1		18.2	-2.6
14:30	US	Change in Nonfarm Payrolls	Apr	k	997.5		266.0	916.0
14:30	US	Unemployment Rate	Apr	%	5.8		6.1	6.0
			TUESDAY (11 May)					
09:00	CZ	CPI	Apr	% y/y	2.7		3.1	2.3
09:00	HU	CPI	Apr	% y/y	4.8		5.1	3.7
11:00	DE	ZEW Survey Current Situation	May	pts	-41.6		-40.1	-48.8
			WEDNESDAY (12 May)					
08:00	DE	HICP	Apr	% m/m	0.5		0.5	0.5
11:00	EZ	Industrial Production SA	Mar	% m/m	1.0		0.1	-1.0
14:30	US	CPI	Apr	% m/m	0.2		-0.8	0.6
			THURSDAY (13 May)					
14:30	US	Initial Jobless Claims		k	490,0		473,0	498,0
			FRIDAY (14 May)					
10:00	**PL**	**CPI**	**Apr**	**% y/y**	**4.3**	**4.3**	**-**	**3.2**
10:00	**PL**	**GDP**	**1Q**	**% y/y**	**-1.3**	**-1.0**	**-**	**-2.8**
14:00	**PL**	**Current Account Balance**	**Mar**	**€mn**	**1589.0**	**1654.0**	**-**	**1619.0**
14:00	**PL**	**Trade Balance**	**Mar**	**€mn**	**930.0**	**1017.0**	**-**	**883.0**
14:00	**PL**	**Exports**	**Mar**	**€mn**	**24161.0**	**24642,0**	**-**	**21322.0**
14:00	**PL**	**Imports**	**Mar**	**€mn**	**23064.0**	**23625,0**	**-**	**20439.0**
14:30	US	Retail Sales Advance	Apr	% m/m	1.1		-	9.8
15:15	US	Industrial Production	Apr	% m/m	1.3		-	1.4
16:00	US	Michigan index	May	pts	90.1		-	88.3

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

Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division. Economic Analysis Department. al. Jana Pawła II 17. 00-854 Warsaw. Poland. phone +48 22 534 18 87. email ekonomia@santander.pl. http://www.santander.pl.