

Eyeopener

Decent Q1 GDP growth, markets price in hikes

Stock indices rebound

Polish GDP fell in Q1 by 1.2% y/y, April CPI confirmed at 4.3% y/y

Zloty stronger vs the dollar, the FRA pricing in even higher probability of hikes

Today in Poland core CPI

Friday saw extension of positive trends in equity and bond markets, initiated on Thursday. The main stock indices rose over 1% and 10Y Treasury yields returned below 1.65%. The calming down of reflationary worries was supported by weaker US data: retail sales did not rise m/m (vs. expected +1%) and Michigan consumer confidence index fell clearly, against forecasted slight rise (amid still elevated inflationary expectations). Despite moods improvement, the spread of euro zone peripheral bond yields vs Bund kept widening. In the FX market emerging markets currencies were trimming recent losses.

On Saturday **PiS presented its „Polish Deal” programme**. It assumes a tax cut for low earners (tax free revenue up to PLN30k, threshold for higher PIT tax rate elevated to PLN120k from PLN85k currently), but a hike for high earners. Public health care spending is to be stepped up to 7% of GDP in 6 years' time. The programme also assumes looser mortgage loans conditions, e.g. public guarantee for the debtor's own contribution up to 100k for 20-40 age cohorts, and partial payment of mortgage loans for multi-children families (up to 160k). Deputy finance minister said that net effect of tax changes for the budget is about -PLN7.5bn.

Poland's **GDP** fell -1.2% y/y in 1Q21, according to flash estimate, vs. market consensus at -1.3% y/y. Seasonally adjusted GDP growth reached +0.9% q/q and -1.7% y/y. This is a decent result, in our view, given that the economy was still struggling with the pandemic restrictions at the start of the year. We expect a major revival in economic activity in 2H21. Our GDP growth forecast for the whole 2021 is at 4.6%.

April **CPI** was confirmed at 4.3% y/y. Rise vs 3.2% in March was mostly driven by a surge in fuel prices, but there were several other upward contributors: food, clothing and footwear, furniture. We are estimating core inflation (due for release on Monday 17 May) at 3.6-3.7% y/y, i.e. slightly lower than 3.9% y/y recorded in March. In our view CPI is likely to climb further in May but then is likely to ease somewhat, but to remain above the NBP target for at least a few quarters. More in [Economic Comment](#).

MPC member **Eryk Łon** still wants to keep rates unchanged until the end of the MPC term. He also expressed support for permanent asset purchases by NBP with some adjustment of the scale depending on economic situation.

EURUSD after the Thursday stabilisation, on Friday reversed the whole Wednesday decline, moving from 1.207 to 1.214, USD weakness was accompanied by rising prices of metals, oil.

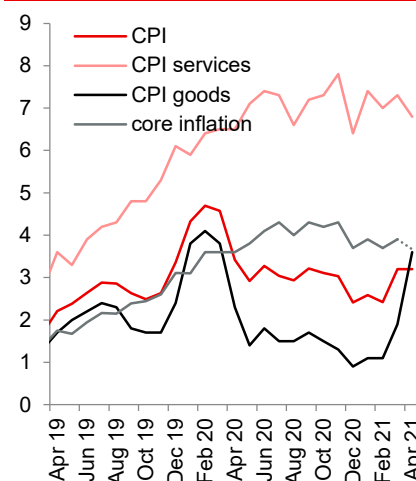
EURPLN came to a halt before reaching 4.54, after which the exchange rate returned a bit below 4.53. This week we expect the zloty to strengthen towards 4.50 vs the euro or even lower, noting that there is an important technical level on the way, the 200-day moving average, which might slow down the move.

Other CEE currencies also took advantage of the more quiet global market and closed the session stronger than a day earlier (the forint by 0.5% vs the euro). The ruble failed to hold on to the intraday gains and by the end of the session returned to 74.0.

On the domestic interest rate market after the abrupt rise of yields and IRS rates on the long end in the previous days, on Friday this segment of the market looked calm. The upside move was still seen on the short end. 2Y IRS rate was up by 5bp, similar to FRA rates, even the quite short ones like 3x6. This shows a growing conviction of the market that soon the MPC will have to hike rates. In the nearest future we do not exclude some correction, especially if, in line with what we expect, the data coming this week do not fuel inflation expectations further. The Bund spread remained above 200bp.

This week, still today the April core inflation data. Despite the fact that we already know the details of the headline CPI print, the range of economic forecasts is pretty wide (from 3.7% y/y to 3.9% y/y). Our forecast is close to the lower band of the range. On Thursday April we will get data on wages (the growth rate might be close to 10%, but due to low base) and employment, and on Friday about construction production (we are likely to see another month with negative growth rate as weather was less supportive in 2021 and statistical base from 2020 was still high) and PPI (with another strong rise of y/y growth). The agenda also includes May sentiment indexes from GUS: on Thursday the consumer survey, on Friday the business confidence measures. Abroad, market will focus on 1Q2021 GDP in Europe, flash May PMIs for manufacturing and services, US housing market data and FOMC minutes.

CPI and selected components, % y/y



Source: GUS, Santander

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FX market

Today's opening			
EURPLN	4.5186	CZKPLN	0.1773
USDPLN	3.7233	HUFPLN*	1.2607
EURUSD	1.2140	RUBPLN	0.0504
CHFPLN	4.1282	NOKPLN	0.4517
GBPPLN	5.2508	DKKPLN	0.6077
USDCNY	6.4370	SEKPLN	0.4461

*for 100HUF

Last session in the FX market						14.05.2021
	min	max	open	close	fixing	
EURPLN	4.517	4.540	4.524	4.527	4.532	
USDPLN	3.723	3.749	3.741	3.729	3.737	
EURUSD	1.208	1.215	1.209	1.214	-	

Interest rate market 14.05.2021

T-bonds on the interbank market**		
Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.18	3
DS0725 (5Y)	1.33	0
DS1030 (10Y)	1.90	1

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.44	4	0.18	0	-0.53	0
2L	0.83	4	0.26	1	-0.47	0
3L	1.13	5	0.44	0	-0.40	0
4L	1.35	3	0.67	0	-0.32	-1
5L	1.52	2	0.89	-1	-0.23	0
8L	1.82	3	1.38	-2	0.01	-1
10L	1.94	0	1.58	-1	0.15	-1

WIBOR rates

Term	%	Change (bps)
O/N	0.10	0
T/N	0.10	0
SW	0.11	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	0.28	3
3x6	0.38	5
6x9	0.50	3
9x12	0.68	7
3x9	0.46	7
6x12	0.66	8

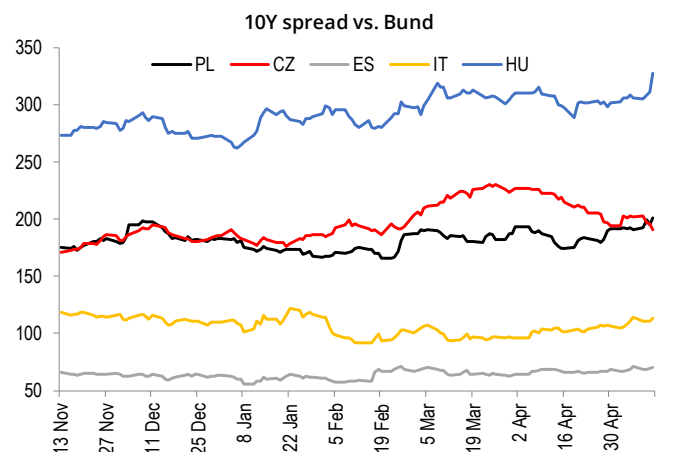
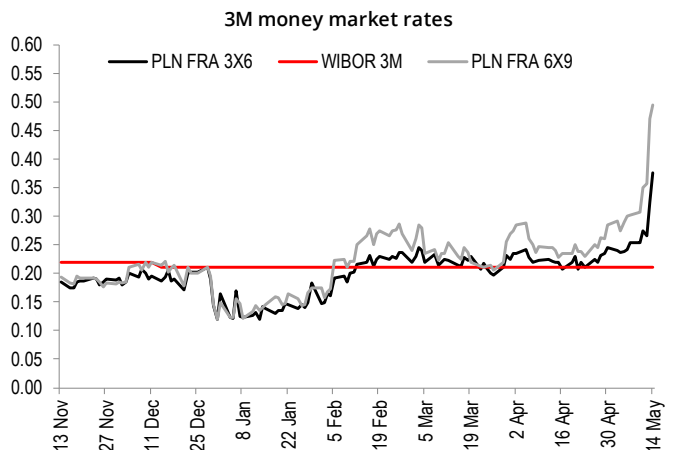
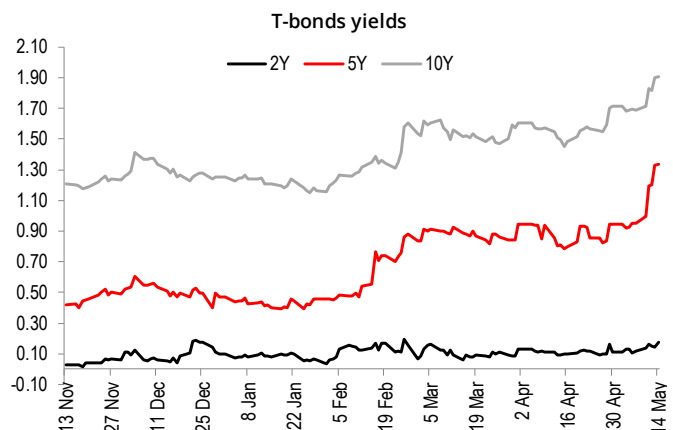
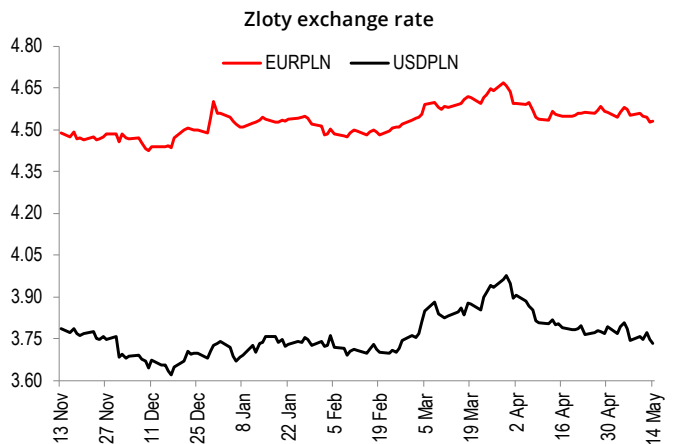
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	37	0	201	6
France	10	0	39	0
Hungary	64	0	327	16
Spain	38	1	71	1
Italy	51	1	113	2
Portugal	24	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



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	SANTANDER		
FRIDAY (14 May)								
10:00	PL	CPI	Apr	% y/y	4.3	4.3	4.3	4.3
10:00	PL	GDP	1Q	% y/y	-1.4	-0.5	-1.2	-2.7
14:00	PL	Current Account Balance	Mar	€mn	1589	1654	938	1585
14:00	PL	Trade Balance	Mar	€mn	930	1017	589	771
14:00	PL	Exports	Mar	€mn	24161	24642	24427	21258
14:00	PL	Imports	Mar	€mn	23064	23625	23838	20487
14:30	US	Retail Sales Advance	Apr	% m/m	1.0		0.0	9.7
15:15	US	Industrial Production	Apr	% m/m	0.9		0.7	1.4
16:00	US	Michigan index	May	pts	90.2		82.8	88.3
MONDAY (17 May)								
14:00	PL	CPI Core	Apr	% y/y	3.8	3.6	-	3.9
TUESDAY (18 May)								
09:00	HU	GDP	1Q	% y/y	-3.7		-	-3.6
11:00	EZ	GDP SA	1Q	% y/y	-1.8		-	-1.8
14:30	US	Housing Starts	Apr	% m/m	-2.0		-	19.4
WEDNESDAY (19 May)								
11:00	EZ	HICP	Apr	% y/y	1.6		-	1.3
20:00	US	FOMC Meeting Minutes	Apr/21					
THURSDAY (20 May)								
10:00	PL	Consumer confidence						
10:00	PL	Employment in corporate sector	Apr	% y/y	1.1	1.1	-	-1.3
10:00	PL	Average Gross Wages	Apr	% y/y	9.9	9.9	-	8.0
14:30	US	Initial Jobless Claims		k			-	473.0
14:30	US	Index Philly Fed	May		43.2		-	50.2
FRIDAY (21 May)								
09:30	DE	Germany Manufacturing PMI	May	pts	66.0		-	66.4
09:30	DE	Markit Germany Services PMI	May	pts	52.0		-	49.9
10:00	EZ	Eurozone Manufacturing PMI	May	pts	62.3		-	62.9
10:00	EZ	Eurozone Services PMI	May	pts	52.0		-	50.5
10:00	PL	Business confidence						
10:00	PL	Construction Output	Apr	% y/y	-7.6	-7.6	-	-10.8
10:00	PL	PPI	Apr	% y/y	4.9	-4.5	-	3.9
16:00	US	Existing Home Sales	Apr	% m/m	0.8		-	-3.7

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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