

18 May 2021

Eyeopener

POLGBs sell-off continues

Markets generally quiet, decent moves on the Polish fixed income market
 EURPLN unchanged on a daily basis, forint gained as hikes being priced in
 POLGB yields and IRS much higher
 Today preliminary Q1 GDP data out of Eurozone and Hungary

The start of the week was calm on many financial markets. Main stock indices were stable. US bond yields did not differ much from the Friday's levels, in Germany yields moved within range set by the two previous sessions. Dollar was somewhat weaker, but it was hardly visible in EURUSD. Commodity prices rose again, including crude oil and gold. The calm was not disturbed by the Empire Fed index, which was close to expectations. Although its components describing costs and own producer prices were at their highest on record (since 2000), the recurring affirmations from Fed that higher inflation is transitory and in general it is a signal of economic recovery (Clarida, Bostic) kept markets on hold. The calm was not seen in Polish debt market, which sold off again. EURPLN was volatile during the session, although finally did not move much vs. previous close.

Core inflation excluding food and energy, remained in April at 3.9% y/y despite the fact that after the GUS CPI release the market and we estimated that it fell slightly. Already one third of the year has passed and we still do not have any sign of the downward trend in core inflation that we had expected still in autumn, on the back of the significant decline of domestic demand and the resulting negative output gap. Other three measures of core inflation rose in y/y terms. CPI excluding administered prices jumped from 2.6% y/y to 4.0% - the last time it went above 4% was in late 2011. We still assume that CPI ex food and energy will start to fall at some point in 2021, possibly withdrawing below 3%, however in 2022 we see it rising again (our current forecast of its average 2022 level is 3.5%).

Referring to the core inflation data, **MPC member Eugeniusz Gatnar** stressed that the particularly strong rise was seen in the measure excluding administered prices which means that "it is not entirely true that refuse collection and other house maintenance services are the factors pushing inflation higher" (the high impact on CPI of refuse collection has often been mentioned recently by NBP governor Adam Glapiński to highlight that inflation rise is based on factors independent of monetary policy). Gatnar repeated his view that a quick signal in the form of a 10-15bp rate hike might be useful now as inflation is still rising.

EURUSD spent to Monday session around 1.215, where it was headed on Friday. Today the rate climbed even more - to 1.218.

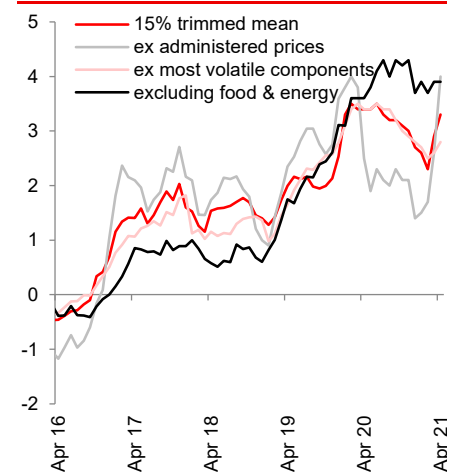
EURPLN saw a quite volatile session as it was moving between 4.52 and 4.54, but eventually it stayed close to Friday level (4.53). The market was affected by high core inflation reading and by the weekend presentation of PiS economic programme, but was underperforming the forint and the koruna.

On the CEE market: the Czech koruna continued its gradual appreciation versus the euro and EURCZK went down to 25.4 (the pair went down by almost 2% since the early May peak). Meanwhile, the forint appreciated versus the euro by over 1% (EURHUF down below 253 from over 355) in reaction to probable rate hike at the upcoming meeting. Rate hike was suggested by deputy MNB president Barnabas Virag who also said that the bank is going to respond to the inflation risk. USDRUB remained close to 74.

On the domestic interest rate market The domestic interest rate market witnessed a continuation of bond sell-off. While core markets were steady (10Y Treasuries) or retreating to Thursday level (Bund +1,5bp), Polish bond yields climbed by over 10bp and the 10Y paper even temporarily broke 2.00%. The IRS curve saw a bear flattener, with 2Y contract up by 5bp, 5Y by 7bp and 10Y by 2bp.

This today.

Core CPI measures in Poland, % y/y



Source: NBP, 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 Luzziński +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	4.5306	CZKPLN	0.1780
USDPLN	3.7189	HUFPLN*	1.2911
EURUSD	1.2180	RUBPLN	0.0505
CHFPLN	4.1314	NOKPLN	0.4515
GBPPLN	5.2709	DKKPLN	0.6091
USDCNY	6.4257	SEKPLN	0.4476

*for 100HUF

Last session in the FX market						17.05.2021
	min	max	open	close	fixing	
EURPLN	4.516	4.544	4.527	4.534	4.530	
USDPLN	3.719	3.742	3.732	3.730	3.729	
EURUSD	1.212	1.217	1.213	1.215	-	

Interest rate market

17.05.2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.25	8
DS0725 (5Y)	1.43	10
DS1030 (10Y)	1.99	9

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.46	2	0.18	-1	-0.54	-1
2L	0.89	7	0.26	0	-0.46	1
3L	1.19	7	0.44	0	-0.39	1
4L	1.42	7	0.68	1	-0.31	1
5L	1.58	6	0.91	2	-0.23	0
8L	1.85	3	1.39	1	0.02	1
10L	1.96	2	1.59	1	0.17	2

WIBOR rates

Term	%	Change (bps)
O/N	0.10	0
T/N	0.10	0
SW	0.10	-1
2W	0.16	0
1M	0.18	0
3M	0.21	0
6M	0.25	1
1Y	0.26	1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.27	-1
3x6	0.39	1
6x9	0.52	2
9x12	0.73	5
3x9	0.50	3
6x12	0.69	3

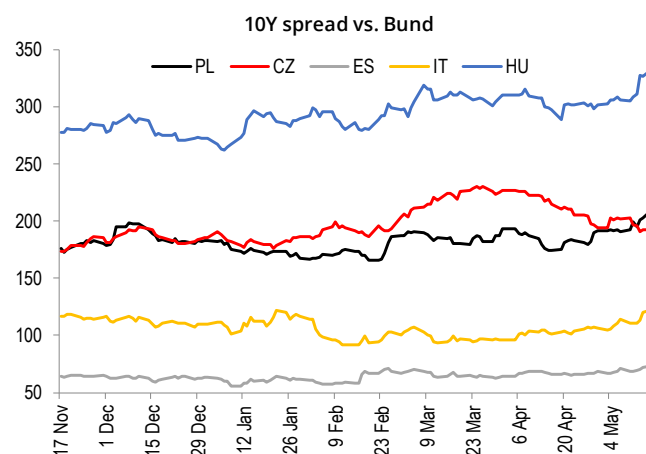
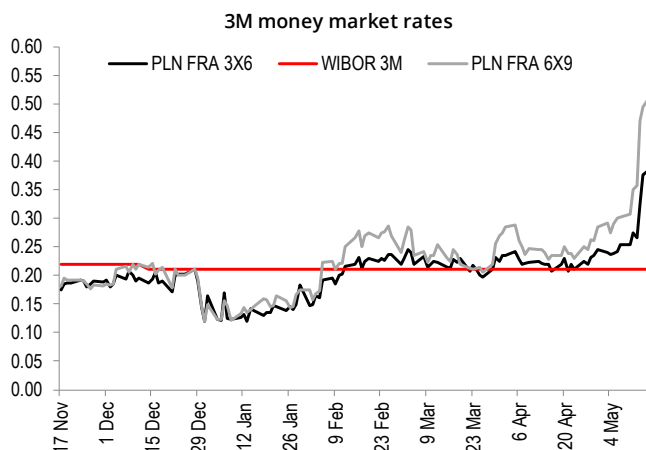
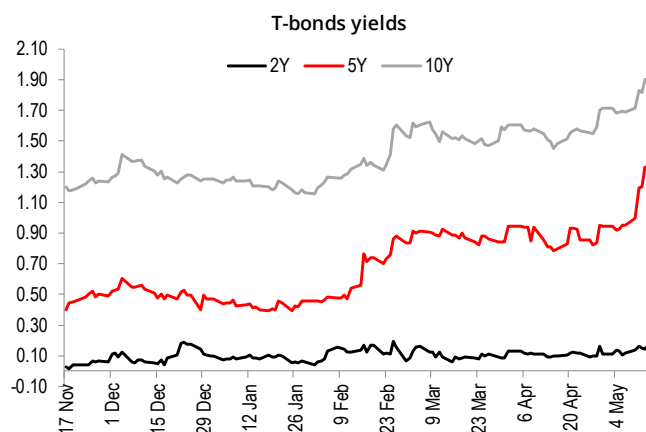
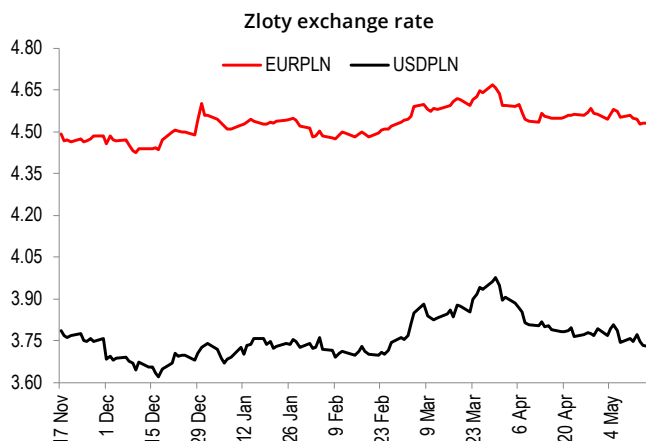
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	37	0	210	8
France	10	0	40	1
Hungary	64	0	333	7
Spain	38	0	73	2
Italy	51	1	123	3
Portugal	23	-1	74	1
Ireland	11	0	44	2
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
10:00	PL	GDP	1Q	% y/y	-1.4	-0.5	-1.2
14:00	PL	Current Account Balance	Mar	€mn	1589	1654	938
14:00	PL	Trade Balance	Mar	€mn	930	1017	589
14:00	PL	Exports	Mar	€mn	24161	24642	24427
14:00	PL	Imports	Mar	€mn	23064	23625	23838
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	3.7	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	-
10:00	PL	Average Gross Wages	Apr	% y/y	9.9	9.9	-
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	-
10:00	PL	PPI	Apr	% y/y	4.9	4.5	-
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

This publication has been prepared by Santander Bank Polska S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Santander Bank Polska S.A. its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Santander Bank Polska S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Santander Bank Polska S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

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.