

Eyeopener

PPI and construction output above forecast

Stock markets slightly higher, core market bonds and dollar stronger
 EURPLN stable below 4.50
 Polish bonds stronger after successful MoF auction, IRS higher
 Today, Polish retail sales and industrial output data

The equity indices barely changed on a week-on-week basis. On Friday, UST yields declined somewhat (1bp to 1.62%) as did the European ones (Bund down 2bp to -0.13%), while the dollar strengthened by 0.4%. Gold price has not changed (\$1880/oz) while the Brent oil price after initially falling 8% from the start of the week, on Friday rebounded by 3% to \$66.6/bbl. On Friday the series of PMI data was optimistic, especially in the services sectors of the US (+5.4pp to 70.1) and Eurozone, while softened in Japan (to 45.7, down almost 4pp m/m). The manufacturing PMI remained mostly at their elevated levels. In the US, for a third month in a row, the secondary market for residential real estate suffered from a lack of inventory, in the meantime the median house price has increased by 19% y/y.

MPC member Jerzy Kropiwnicki said on Friday that albeit so far the price increases have been purely a function of the supply side, there is a risk, that soon the demand side factors might join, especially where there are bottlenecks in the economy. Speaking about wages he said at the moment there are no signs of so called second round effects, but if this is really the case we will find out in about 2 months' time. He added, that if the economic rebound will prove strong and persistent then rate hikes should be considered.

April PPI came much above expectations: 5.3% y/y vs 4.9% market median and our 4.5% forecast. What is more, the previous reading was revised higher from 3.9% y/y to 4.2% (it was also a major upside surprise at the time of the release, with expectations at 3.3%). The whole upside surprise in April came from the rise of manufacturing prices, 5.0% y/y, the highest since May 2012. Our core measure of PPI, excluding mining and oil refining, moved further up to 2.3% y/y from c1.9% in March, showing that what we see in headline PPI is not just an expression of rising global commodity prices (PPI metallic ores up 60.1% y/y, coking coal and oil refining products up 70.7% y/y). The reopening of the economy thanks to removed restrictions and the rebound in international trade suggest that the peak in PPI growth may still be ahead of us. We think that in 2H21 there may already be some moderation, with an average PPI inflation around 4.6% y/y.

Construction output declined in April by 4.2% y/y, i.e. was notably better than we and the market expected (-7.6% y/y). Seasonally-adjusted data showed a rebound by 5.0% m/m and this could be a sign that construction is gaining momentum after winter. We are hoping for some recovery in investment in 2H21 and these numbers seem to be a positive sign. While civic engineering is still deep below zero (-11.1% y/y), construction of buildings and specialised works were higher than one year earlier (1.3% and 0.3%, respectively). Data from the housing market, with finished flats up by 33.6% y/y building permits up by 62.4% y/y and house starts up by 92.4% y/y, suggest that this sector could be the recovery's frontrunner.

All **sectoral business confidence indicators** rose in May. For the sixth time in a row there was a broad improvement of expectations indexes and in all sectors excluding financials and insurance the expectations component is already above the pre-pandemic level (with hotels and restaurants recording a huge m/m jump in May). The assessment of current situation also improved – and in all shown sectors (during the pandemic this is only the second time that it happened, the other case being July 2020).

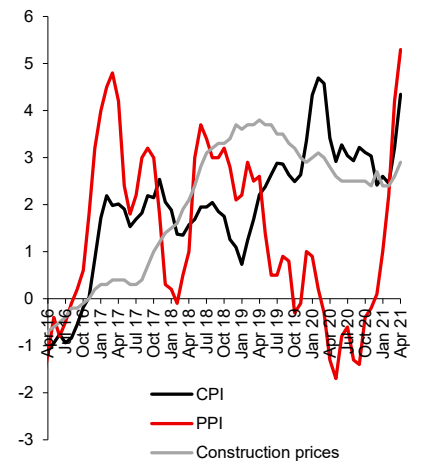
EURUSD is getting more volatile, despite that since the start of last week it rose by just 0.2% to 1.218, in the meantime it had four days with absolute daily changes of c.0.7%.

EURPLN on Friday stayed below 4.50, but its attempt to fall some more (the low was 4.488) failed. The fx rate moved below the 200-day moving average (currently at 4.517) for good, which now switches to a natural resistance level. We expect EURPLN to fall to 4.45 this week.

As regards **other CEE currencies:** on Friday EURHUF continued to go down by 0.3% (-3% since the start of the month, -2% since the start of the week) to 348.4. EURCZK declined by 0.2% to 25.46. USDRUB was stable at 73.6.

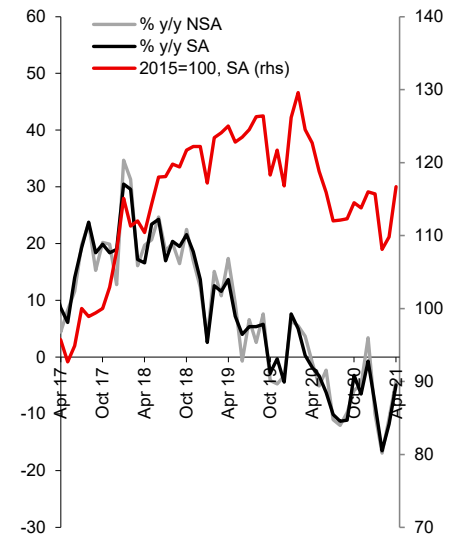
On the **domestic interest rate market** bonds gained slightly: 5Y by 2bp to 1.21% and 10Y by 3bp to 1.87%, while Finance Ministry bond auction was strong (OK0423, PS1026, DS1030, WZ1131 and WZ1126). Already 71% of this year's financing needs were covered. Total sales amounted to PLN4bn amid demand at PLN7.9bn. This stood in contrast to IRS rates, which went up (5Y by 1bp to 1.62% and 10Y by 2bp to 2.05%), so the asset swap spread narrowed to -0.18% and spread versus Bund remained close to 200bp. Today the state-owned BGK bank is to offer FPC0631 bonds worth at least PLN1.0bn. Maturity of OK5021 paper is near (PLN5.5bn).

Polish price indexes, %/y



Source: GUS, Santander

Construction output



Source: GUS, Santander

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FX market

Today's opening			
EURPLN	4.4916	CZKPLN	0.1763
USDPLN	3.6874	HUFPLN*	1.2874
EURUSD	1.2186	RUBPLN	0.0501
CHFPLN	4.1064	NOKPLN	0.4404
GBPPLN	5.2173	DKKPLN	0.6041
USDCNY	6.4338	SEKPLN	0.4431

*for 100HUF

Last session in the FX market						21/05/2021
	min	max	open	close	fixing	
EURPLN	4.484	4.504	4.493	4.496	4.496	
USDPLN	3.669	3.696	3.673	3.692	3.678	
EURUSD	1.217	1.224	1.223	1.218	-	

Interest rate market 21/05/2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.19	1
DS0725 (5Y)	1.22	-3
DS1030 (10Y)	1.87	-3

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.44	-1	0.17	0	-0.53	0
2L	0.86	-2	0.25	-1	-0.47	-1
3L	1.19	-1	0.44	1	-0.40	-1
4L	1.44	0	0.69	1	-0.32	-2
5L	1.62	1	0.90	0	-0.23	-2
8L	1.91	2	1.38	-1	0.02	-2
10L	2.04	1	1.58	0	0.16	-2

WIBOR rates

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

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.26	1
3x6	0.34	-2
6x9	0.52	2
9x12	0.71	-2
3x9	0.43	0
6x12	0.64	0

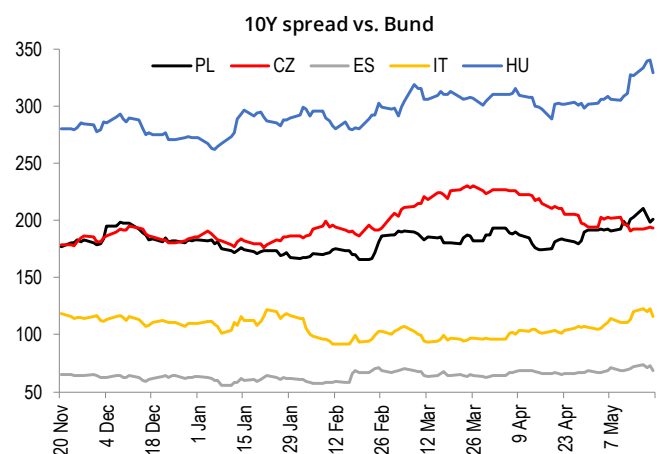
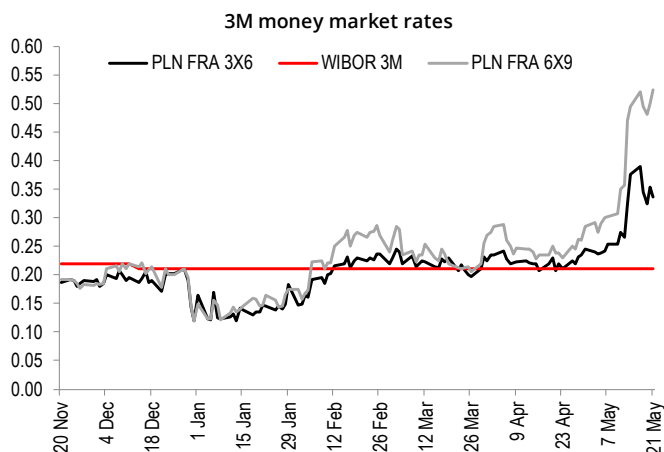
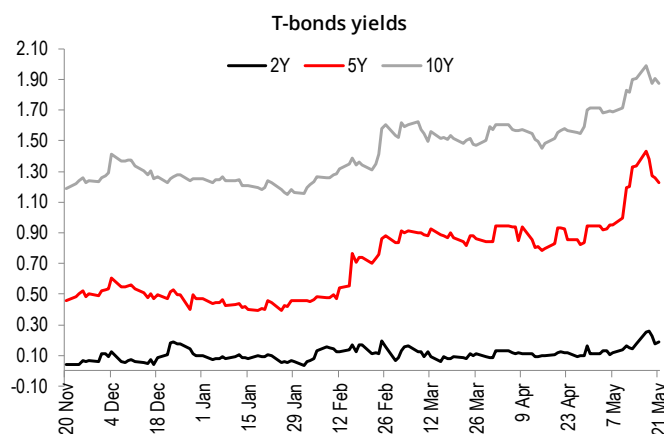
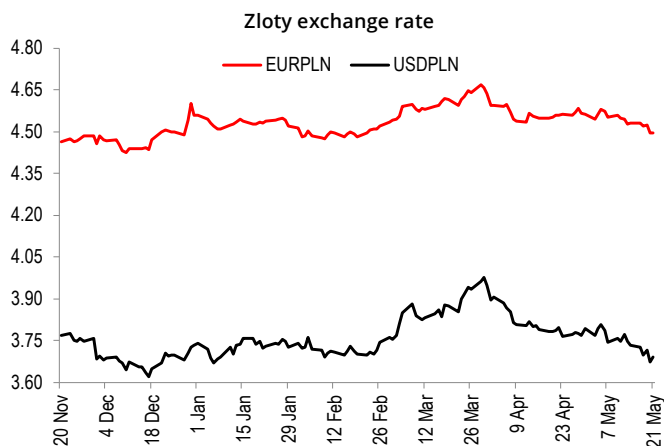
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	37	0	201	3
France	10	0	38	-2
Hungary	64	0	329	-11
Spain	37	-1	69	-4
Italy	49	-1	116	-7
Portugal	22	-1	69	-4
Ireland	11	0	41	-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 (21 May)							
09:30	DE	Germany Manufacturing PMI	May	pts	65.9	64.0	66.4
09:30	DE	Markit Germany Services PMI	May	pts	52.0	52.8	49.9
10:00	EZ	Eurozone Manufacturing PMI	May	pts	62.5	62.8	62.9
10:00	EZ	Eurozone Services PMI	May	pts	52.5	55.1	50.5
10:00	PL	Construction Output	Apr	% y/y	-7.6	-7.6	-4.2
10:00	PL	PPI	Apr	% y/y	4.9	4.5	5.3
16:00	US	Existing Home Sales	Apr	% m/m	1.1	-2.7	-3.7
MONDAY (24 May)							
10:00	PL	Sold Industrial Output	Apr	% y/y	45.0	43.6	-
10:00	PL	Retail Sales Real	Apr	% y/y	28.5	21.4	-
TUESDAY (25 May)							
08:00	DE	GDP WDA	1Q	% y/y	-3.0	-	-3.0
10:00	DE	IFO Business Climate	May	pts	98.0	-	96.8
14:00	HU	Central Bank Rate Decision	May/21	%	0.6	-	0.6
14:00	PL	Money Supply M3	Apr	% y/y	12.4	11.8	-
16:00	US	Consumer Conference Board	May	pts	120.0	-	121.7
16:00	US	New Home Sales	Apr	% m/m	-6.46	-	20.7
WEDNESDAY (26 May)							
10:00	PL	Unemployment Rate	Apr	%	6.3	6.3	-
THURSDAY (27 May)							
14:30	US	Durable Goods Orders	Apr	% m/m	0.8	-	1.0
14:30	US	GDP Annualized	1Q	% Q/Q	6.4	-	6.4
14:30	US	Initial Jobless Claims		k	450.0	-	473.0
16:00	US	Pending Home Sales	Apr	% m/m	1.2	-	1.92
FRIDAY (28 May)							
11:00	EZ	ESI	May	pct.	113.1	-	110.3
14:30	US	Personal Spending	Apr	% m/m	0.4	-	4.2
14:30	US	Personal Income	Apr	% m/m	-15.0	-	21.1
14:30	US	PCE Deflator SA	Apr	% m/m	0.6	-	0.5
16:00	US	Michigan index	May	pts	83.0	-	82.8

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

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