

Eyeopener

Downside bond yield correction continues

Gains on global stock markets, lower core market yields
 EURPLN steady near 4.48
 IRS curve down by c.3bp, domestic bond yields marginally lower
 Today NBP QE auction, unemployment rate

On Tuesday stock indices slightly gained, technology stocks were doing pretty well. The dollar initially was losing ground but rebounded in the second part of the day. Nevertheless dollar is close to its weakest point in May (down 2% from the start of the month). Core market yields were slowly marching lower for the 4th day in a row. The total decline is already 7bp for German Bund (closed at -0.17%) and 10bp for the UST (closed at 1.57%). Oil price has not changed (Brent at \$65.8 per barrel) but industrial metals gained around 1-2%.

In Germany the **IFO index** increased vs the previous month (102.9pts vs 99.5) and also beat expectations (at 101.0), while the second German Q1 GDP reading was slightly worse than the first one (-3.1% vs -3.0%/y). In the US the Case-Shiller house price index increased by 13.3%/y which was yet another month with a m/m increase and an upside surprise. US consumer confidence (Conference Board) declined but only very slightly, while the Richmond Fed manufacturing index increased despite the expectations of a fall.

M3 money supply rose by 11.2% y/y in April and decelerated from 14.4% much more than we (11.8%) and the market (12.4%) had expected. Annual growth rate was dragged lower by the high statistical base (at the start of pandemic the money supply was increased by sizeable issuances of PFR and BGK bonds) plus the annual change in EURPLN exchange rate was negative for the first time since the start of the pandemic. Still, for the first time since January 2020 the total loan growth (corrected for FX changes) went up: to -1.4% y/y from -2.1% y/y with loans for households up to 3% y/y from 2.5% and corporate loans up to -8% from -9.4%. Growth rate of PLN mortgage loans remained slightly below 10% y/y, while the value of FX mortgage loans shrank by more than 10% y/y (the fastest pace in three years). We are expecting to see the M3 growth rate in a downward trend this year.

MPC member Eryk Lon said that the observed rise of inflation in Poland is temporary and we should be back to the NBP's target (2.5%) in 2022. While the inflation is temporary, his reasoning goes, then it does not make sense to fight it with interest rate increases because this might negatively impact consumer confidence.

Another **MPC member Lukasz Hardt** was commenting on inflation in a slightly different tone. He said that none of the current forecasts he came across showed a fall below 3.5% before the end of 2021 and the current elevated levels of inflation are not temporary. He suggested that in the "near time" a small interest rate hike (by 15bp to 0.25%) should be considered. This could help anchor increasing inflation expectations, in his opinion (today one of inflation expectations for May is published in Poland). He said that a significant interest rate hike would not be desirable, however. Hardt disagreed with Glapinski's words in that the potential interest rate hikes should be preceded with the taper of the QE programme.

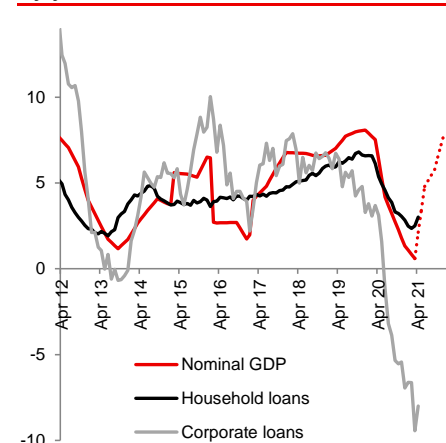
EURUSD rose on Tuesday to 1.225 from 1.220 and thus broke through the previous peaks from 19 and 21 May, which suggests the move may be continued in the coming days.

EURPLN did not change and for the better part of the day was hovering near 4.48. In the coming days the decline may be continued – we expect EURPLN to reach 4.45 by the end of the week.

Among **other CEE currencies**, EURHUF in the day of NBH interest rate decision (no change at 0.6%) soared by 0.4% to 348.7, which is one of the biggest corrections since the forint has started appreciating at the end of April. Hungarian business climate indicators improved in May, markets expect monetary policy tightening at the NBH meeting in June. These made the yesterday forint weakness look counter-intuitive. EURCZK has been fluctuating near 25.42. USDRUB has decreased slightly to 73.35.

On the **domestic interest rate market** Tuesday was another day of declines – the IRS curve lowered by c.3bp and only late in the session it stabilised. The downside correction was also continued by bonds but – similar to the previous day – their descent was smaller than that of IRS rates, e.g. 5Y only down by 1bp to 1.17% and 10Y by 2bp to 1.78%. Today's NBP bond auction will be important for the market. We think that if the total size bought at the auction is similar to the early May operation (c.PLN8bn) or larger then the event may potentially lower yields by another 5-8bp. If the auction size is smaller, e.g. PLN4-5bn, then 10Y yield may stay close to 1.80% until the end of the week. The Bund spread was 194bp.

Credit vs nominal GDP (12M rolling sum), %y/y



Source: NBP, GUS, Santander

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FX market

Today's opening			
EURPLN	4.4785	CZKPLN	0.1759
USDPLN	3.6550	HUFPLN*	1.2836
EURUSD	1.2252	RUBPLN	0.0499
CHFPLN	4.0836	NOKPLN	0.4411
GBPPLN	5.1715	DKKPLN	0.6021
USDCNY	6.3947	SEKPLN	0.4428

*for 100HUF

Last session in the FX market						25/05/2021
	min	max	open	close	fixing	
EURPLN	4.477	4.486	4.480	4.483	4.481	
USDPLN	3.652	3.667	3.664	3.666	3.655	
EURUSD	1.222	1.227	1.223	1.223	-	

Interest rate market 25/05/2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.17	1
DS0725 (5Y)	1.19	-1
DS1030 (10Y)	1.79	-4

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.41	-3	0.16	0	-0.53	0
2L	0.79	-5	0.22	-1	-0.47	0
3L	1.12	-5	0.41	-2	-0.41	-1
4L	1.36	-5	0.63	-4	-0.34	-1
5L	1.54	-6	0.84	-4	-0.26	-2
8L	1.83	-5	1.31	-5	-0.02	-3
10L	1.96	-5	1.51	-5	0.12	-3

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	0.24	-1
3x6	0.31	-1
6x9	0.47	-3
9x12	0.65	-3
3x9	0.42	1
6x12	0.60	-4

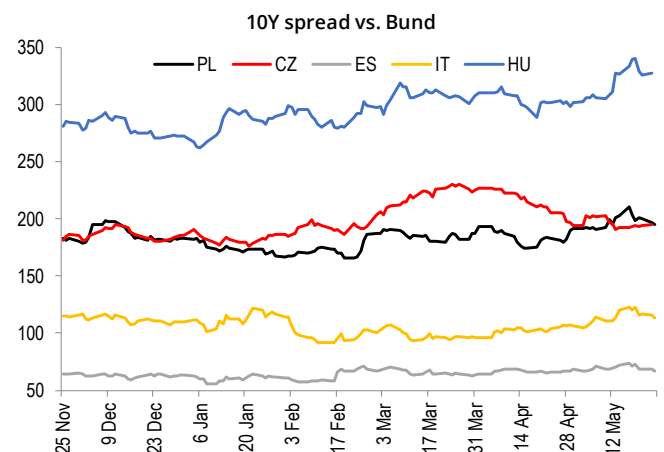
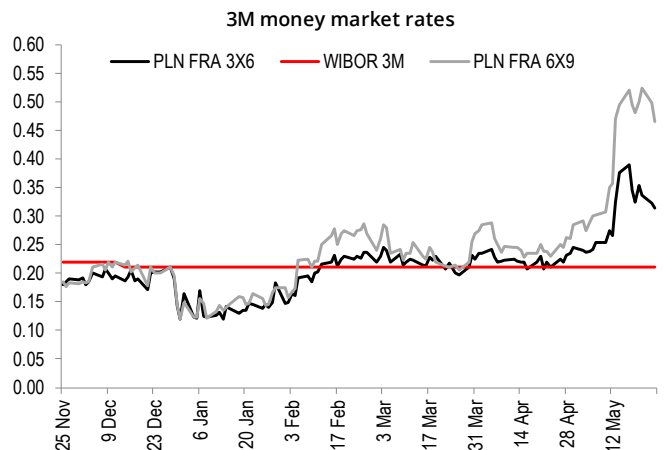
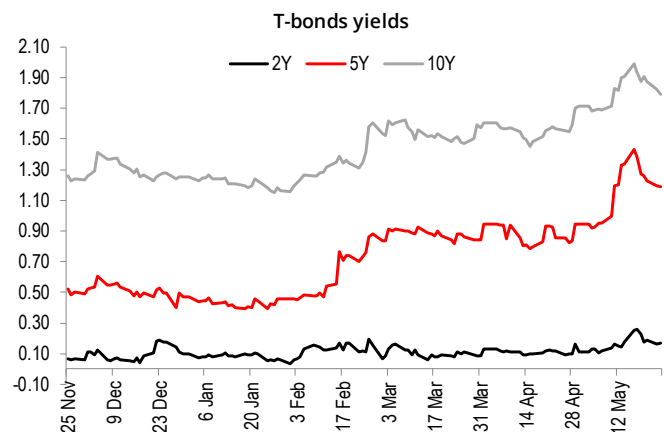
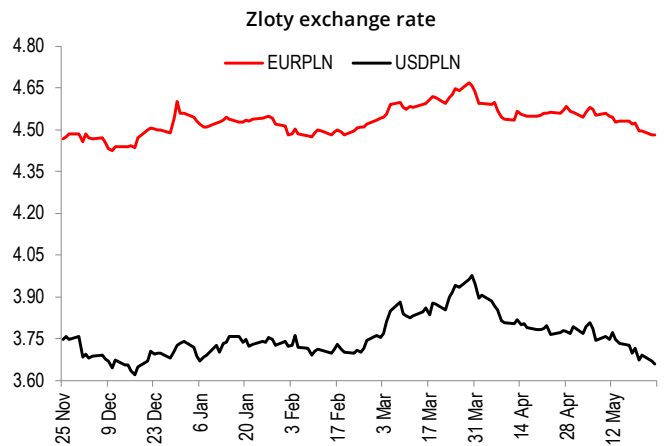
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	37	0	195	-1
France	10	0	37	-1
Hungary	64	0	0	-327
Spain	37	0	67	-2
Italy	48	-2	113	-3
Portugal	22	-1	67	-2
Ireland	11	0	40	-1
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	44.5
10:00	PL	Retail Sales Real	Apr	% y/y	28.5	21.4	21.1
TUESDAY (25 May)							
08:00	DE	GDP WDA	1Q	% y/y	-3.0	-3.1	-3.0
10:00	DE	Ifo Business Climate	May	pts	101.0	102.9	99.5
14:00	HU	Central Bank Rate Decision	May/21	%	0.6	0.6	0.6
14:00	PL	Money Supply M3	Apr	% y/y	12.4	11.8	11.2
16:00	US	Consumer Conference Board	May	pts	120.0	117.2	121.7
16:00	US	New Home Sales	Apr	% m/m	-6.5	-5.9	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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