

27 May 2021

## Eyeopener

### Inflation expectations at 2-year low

Inflation expectations lower, labour market in decent shape  
 Stable equity markets in US, slight declines in Europe  
 EURPLN rebounded up, but not exceeded 4.50  
 IRS and bond yields sharply up after small NBP buyback auction  
 Today, US pending home sales, durable goods

On Wednesday European stocks were in red, while in the US S&P500 barely changed and technological Nasdaq slightly increased. Dollar gained 0.3% which likely will top a depreciation trend for a couple of days or so. UST yields tried to move higher after four consecutive days of falls, but without a success - 10Y closed unchanged at 1.55%. Bund yields however continued to fall - by 4bp - to -0.21% after ECB's Fabio Pangetta said the winding down of the pandemic PEPP program should be a function of increasing trend in inflation and the inflation at the ECB target, which at the moment is not happening. So far the ECB has communicated that the PEPP might end in March 2022. Markets read the comment as dovish and as a signal that on the nearest ECB meeting on 10 June there would be no discussions about tapering. Wednesday was relatively empty as far as macroeconomic data are concerned.

**Unemployment rate** in Poland stood at 6.3% as expected. The April decline in **employment in the corporate sector** by 13k took place mainly in retail trade (-5k), manufacturing (-4k) and administration (-3k). The total number of employed in April has increased by 6k, of which 5k in the manufacturing; in trade it declined by 1k, while in the administration by 2k. Overall, this means that the fall of average employment in April was temporary to a large extent and resulted from the pandemic-related restrictions (childcare, sick leaves, reduction of vacancies), while the companies were hiring in most of the sectors, which might imply an increase in employment in the months to come.

In May **Polish consumers' inflation expectations** gauge dropped significantly, from 35.1 pts to 30.2 pts – the lowest level in two years. A quite striking result at the time when CPI inflation has been accelerating faster than expected and way above the target (to 4.3% y/y in April from 3.2% in March and 2.4% in February). Given the historical correlation of inflation expectations and actual inflation we expected the former to jump up by 10-15 pts instead of collapsing. This surprisingly low reading comes at the time when some MPC members are expressing worries that the high profile of CPI may de-anchor inflation expectations. Such data may – at least in the short run – strengthen the NBP's dovish rhetoric and could be used by the NBP governor Glapiński as an argument that his view about no need to tighten monetary policy soon is fully justified. On the other hand, after the surprising result of the NBP bond purchase auction yesterday (see below) it is not so certain if the NBP governor will be indeed willing to use this argument, as the reduction of scale of bond purchases could be interpreted (based on Mr. Glapiński's own words at the last press conference) as a preparation for interest rate hikes.

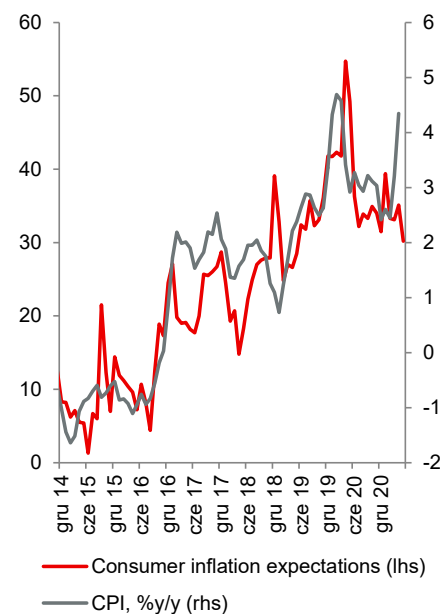
**EURUSD** on Wednesday decreased somewhat (by 0.2% to 1.2235) and this morning was still showing some downside momentum. In the previous few weeks the exchange rate was rising and the month-to-date rise is now c.1.7%.

**EURPLN** rebounded yesterday after a streak of daily declines and reached 4.50 (from 4.48). Still, at the end of the day the FX rate was at 4.492 (+0.3%).

When it comes to the **other CEE currencies**, EURHUF did not move much on Wednesday, but its increased volatility was hard to miss (the daily range was 348.5-351.5). The exchange rate rose by 0.7% in two days. Despite hawkish NBH rhetoric, much is already priced in and in the coming days EURHUF may be heading higher for technical reasons. EURCZK was unchanged at 25.42, USDRUB stayed at 73.5.

On the **domestic interest rate market** in the first part of the day the IRS rates and bond yields were going down strongly after words of ECB Pangetta. At some point the IRS curve was 8bp lower than one day before. The market volatility increased after the second NBP auction of the month. NBP did not bought any T-bonds but only BGK bonds worth PLN2bn. Earlier the central bank suggested it was willing to buy up to PLN5bn. In May NBP bought bonds worth PLN7.9bn at the first auction and PLN2.0bn at the second, totalling PLN9.9bn, less than in April when PLN10.5bn were bought. The market was clearly taken by surprise by the fact that NBP did not purchase T-bonds and reacted with a major rise of IRS rates and bond yields. At the end of the day 5Y paper was by 5bp higher at 1.22%, 10% 6bp higher at 1.85%. Spread to Bund was at 206bp. 10Y asset swap spread widened and headed towards zero again (9bp).

#### Consumer inflation expectations vs actual inflation



Source: GUS, Santander

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### FX market

Today's opening			
EURPLN	4.4991	CZKPLN	0.1749
USDPLN	3.6893	HUFPLN*	1.2845
EURUSD	1.2197	RUBPLN	0.0502
CHFPLN	4.1125	NOKPLN	0.4405
GBPPLN	5.2054	DKKPLN	0.6051
USDCNY	6.3820	SEKPLN	0.4436

\*for 100HUF

Last session in the FX market						26/05/2021
	min	max	open	close	fixing	
EURPLN	4.478	4.501	4.479	4.495	4.491	
USDPLN	3.651	3.687	3.653	3.684	3.669	
EURUSD	1.220	1.226	1.226	1.220	-	

### Interest rate market 26/05/2021

#### T-bonds on the interbank market\*\*

Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.24	7
DS0725 (5Y)	1.25	6
DS1030 (10Y)	1.86	7

#### IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.42	1	0.15	-1	-0.53	0
2L	0.79	1	0.22	1	-0.47	0
3L	1.11	-1	0.41	0	-0.42	-1
4L	1.35	-1	0.64	1	-0.35	-1
5L	1.52	-1	0.85	1	-0.28	-2
8L	1.82	-1	1.33	2	-0.05	-3
10L	1.95	-1	1.53	2	0.10	-3

#### WIBOR rates

Term	%	Change (bps)
O/N	0.10	0
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	0
3x6	0.30	-2
6x9	0.49	3
9x12	0.67	2
3x9	0.40	-1
6x12	0.61	1

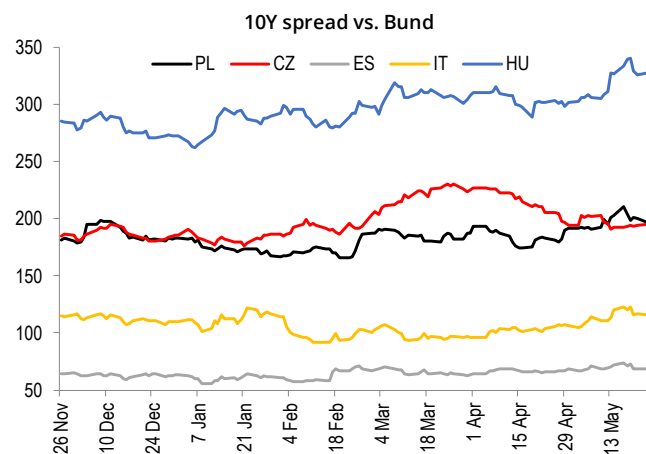
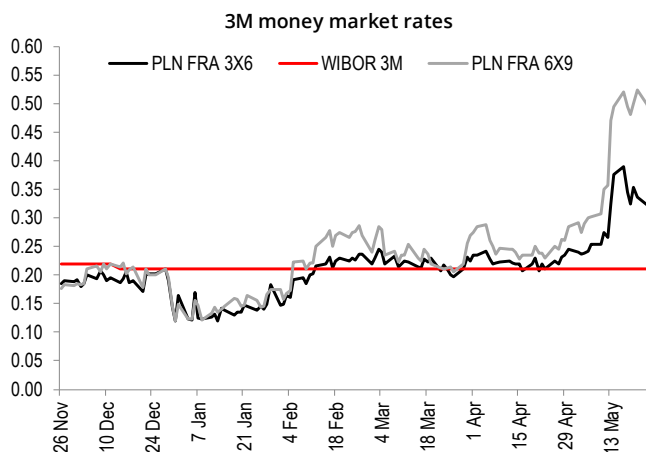
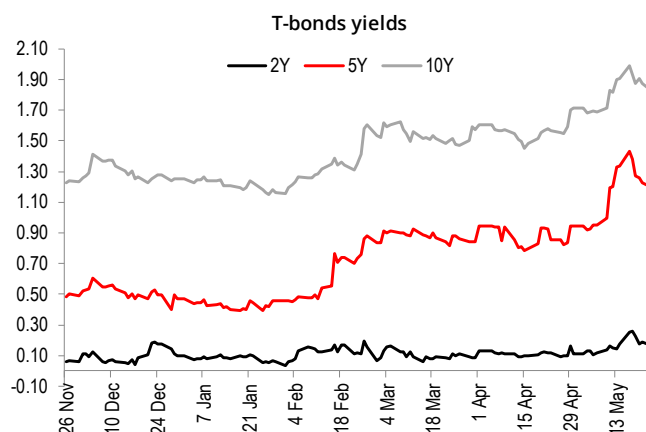
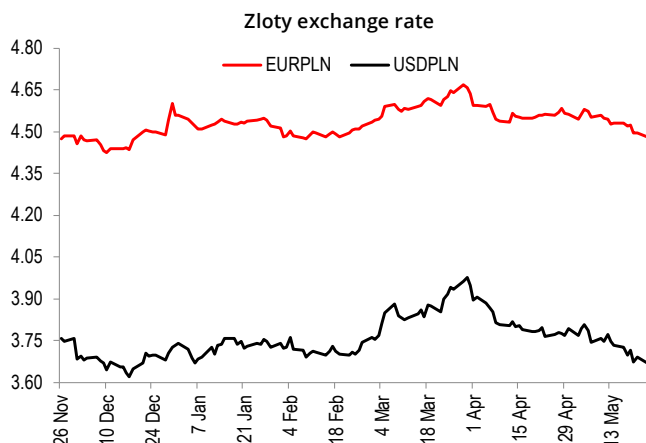
#### Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	37	0	206	11
France	10	0	36	-1
Hungary	64	0	312	-8
Spain	36	-1	66	-1
Italy	48	-1	113	0
Portugal	21	0	66	-1
Ireland	11	0	40	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		
<b>FRIDAY (21 May)</b>							
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
<b>10:00</b>	<b>PL</b>	<b>Construction Output</b>	<b>Apr</b>	<b>% y/y</b>	<b>-7.6</b>	<b>-7.6</b>	<b>-4.2</b>
<b>10:00</b>	<b>PL</b>	<b>PPI</b>	<b>Apr</b>	<b>% y/y</b>	<b>4.9</b>	<b>4.5</b>	<b>5.3</b>
16:00	US	Existing Home Sales	Apr	% m/m	1.1	-2.7	-3.7
<b>MONDAY (24 May)</b>							
<b>10:00</b>	<b>PL</b>	<b>Sold Industrial Output</b>	<b>Apr</b>	<b>% y/y</b>	<b>45.0</b>	<b>43.6</b>	<b>44.5</b>
<b>10:00</b>	<b>PL</b>	<b>Retail Sales Real</b>	<b>Apr</b>	<b>% y/y</b>	<b>28.5</b>	<b>21.4</b>	<b>21.1</b>
<b>TUESDAY (25 May)</b>							
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
<b>14:00</b>	<b>PL</b>	<b>Money Supply M3</b>	<b>Apr</b>	<b>% y/y</b>	<b>12.4</b>	<b>11.8</b>	<b>11.2</b>
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
<b>WEDNESDAY (26 May)</b>							
<b>10:00</b>	<b>PL</b>	<b>Unemployment Rate</b>	<b>Apr</b>	<b>%</b>	<b>6.3</b>	<b>6.3</b>	<b>6.4</b>
<b>THURSDAY (27 May)</b>							
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
<b>FRIDAY (28 May)</b>							
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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