

Eyeopener

Record high PMI, inflation highest in a decade

Main stock indexes up after solid macro data
 EURPLN fell after the record strong PMI reading
 Domestic bonds lost weakened similar to US bonds
 Today services PMIs from Eurozone, Germany, services ISM index in the USA

On Tuesday stock indexes gained (Euro Stoxx 50 +1.2%, SP500 +0.4%), US Treasuries yields increased (UST +4bp to 1.63% whereas Bund unchanged at -0.18%), commodities rallied further (iron ore +4%, steel +3%, oil +3.5%). The market reaction was rational given another round of positive macroeconomic data. In the Eurozone the unemployment rate fell while the May inflation has beaten expectations. Final manufacturing PMI readings in the Eurozone and in Germany showed upward revisions (by 0.3pp to 63.1 and 0.4pp to 64.4 respectively), similar to the US PMI (by 0.6pp to 62.1). In the US the May ISM manufacturing beat expectations by 0.2pp to 61.2 as did its sub-index of new orders (on the contrary, the sub-indices of prices paid and employment slightly disappointed). OPEC+ (online gathering) decided to increase the oil supply in July in line with earlier assumptions by 840k barrels per day not fearing any negative price impact because of the improving oil demand. Today German retail sales fell by over 5% m/m and disappointed.

Inflation rate in Poland rose in May to its highest in a decade, while **PMI survey** confirmed an accelerating improvement of economic growth, with persisting capacity problems and strengthening price pressures. Other economic indicators for May, to be released later this month, are very likely to look strong as well, confirming the general message that strong economic recovery is under way, and inflation persistence is probably much higher than the Polish central bank wants to admit. We see growing possibility that the MPC will shift its rhetoric towards less dovish in the coming months. The exact timing of the possible start of monetary policy normalisation is likely to be determined by the next data. Moer in [Economic comment](#).

MPC member Lukasz Hardt said that no inflation forecast available to him indicated that the CPI may fall below 3.5% by the end of 2021. That is why it would be reasonable to consider a signalling rate hike at the nearest MPC meeting on 9 June (which would pose low risk for the economy). He thinks that inflation might remain elevated also in 2022. He thinks that the NBP QE program should not be wind down yet, as it stabilizes the market. In his opinion, first the reserve requirement ratio should be increased, then interest rates should be hiked and only then QE tapered. We remind that NBP governor Glapinski had different opinion: the QE tapering should come first and only then interest rates should be increased. Hardt was positively surprised by the recent strong macroeconomic data from Poland.

EURUSD increased by 1.7% in May and started June trading with an increase as well - by 0.2% to 1.225 (it opens a bit lower this morning though).

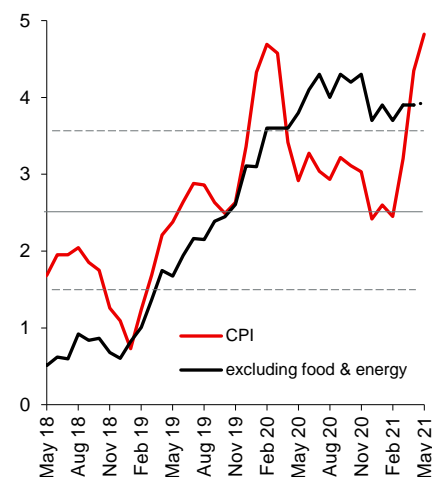
EURPLN declined by 0.1% to 4.466 as a result of the record high manufacturing PMI (which beat market expectations) and May CPI readings (which matched market expectations).

As for the **other CEE currencies**, EURHUF fell by 0.2% to 346.6. Hungarian manufacturing PMI rose m/m (to 52.8 from 50.8) but failed to impress the market expecting 54.1. What is more, the final reading of Hungarian 1Q GDP was an upside revision by 0.2pp to -2.1% y/y. EURCZK was stable yesterday at c.25.44, but this morning opens below 25.40 which means a breach of the support level that blocked the fall of the FX rate in 2H of May. EURCZK is the lowest in more than a year. Czech PMI proved very high at 61.8 pts vs 59.0 expected and the previous print of 58.9. The second estimate of Czech 1Q GDP was equal to the first one, -2.1% y/y. The ruble basket eventually went up yesterday but after a volatile two-sided trading which bodes ill for the ruble as the circumstances (oil price rising by more than 3%) seemed very positive for the currency. USDRUB close at 73.4.

On the Polish **fixed income market** bonds lost (yields up by 2-3bp) while the IRS curve moved lower in a similar scale (2bp). As a result the 10Y ASW widened (currently stays at just 2bp below zero). The spread vs Bund closed at 205bp.

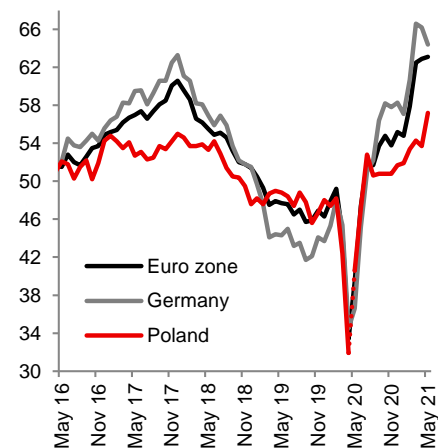
Today the government will announce which next pandemic restrictions are going to be removed before 26 June (end of school year in Poland). Tomorrow there is a public holiday in Poland.

CPI inflation in Poland vs NBP target, %/y



Source: GUS, NBP, Santander

Manufacturing PMIs



Source: Markit, Bloomberg, Santander

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FX market

Today's opening

EURPLN	4.4626	CZKPLN	0.1752
USDPLN	3.6548	HUFPLN*	1.2753
EURUSD	1.2208	RUBPLN	0.0497
CHFPLN	4.0722	NOKPLN	0.4395
GBPPLN	5.1690	DKKPLN	0.6000
USDCNY	6.3869	SEKPLN	0.4417

*for 100HUF

Last session in the FX market 01.06.2021

	min	max	open	close	fixing
EURPLN	4.458	4.481	4.478	4.461	4.475
USDPLN	3.639	3.668	3.663	3.644	3.659
EURUSD	1.221	1.225	1.222	1.224	-

Interest rate market 01.06.2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.33	2
DS0725 (5Y)	1.30	2
DS1030 (10Y)	1.88	1

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.42	1	0.15	0	-0.53	0
2L	0.80	2	0.23	1	-0.47	0
3L	1.10	1	0.43	1	-0.41	0
4L	1.33	1	0.67	1	-0.34	0
5L	1.50	0	0.88	2	-0.26	0
8L	1.78	-2	1.37	3	-0.03	-1
10L	1.89	-3	1.57	2	0.12	0

WIBOR rates

Term	%	Change (bps)
O/N	0.10	1
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	0.25	0
3x6	0.31	-3
6x9	0.49	-1
9x12	0.66	-5
3x9	0.39	-4
6x12	0.58	-5

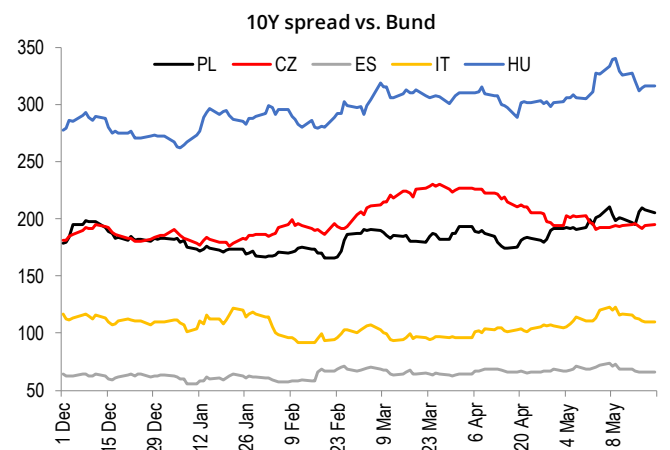
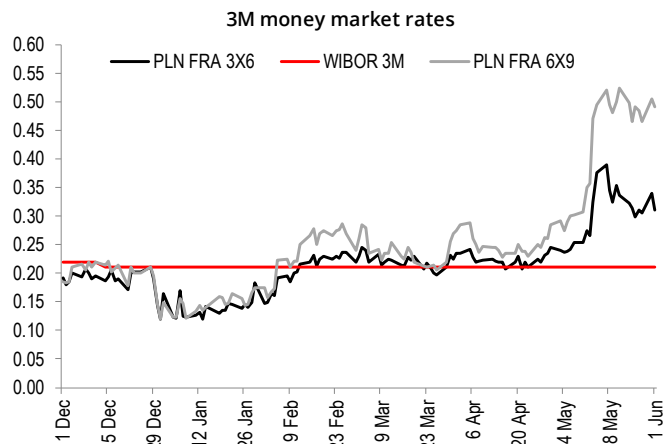
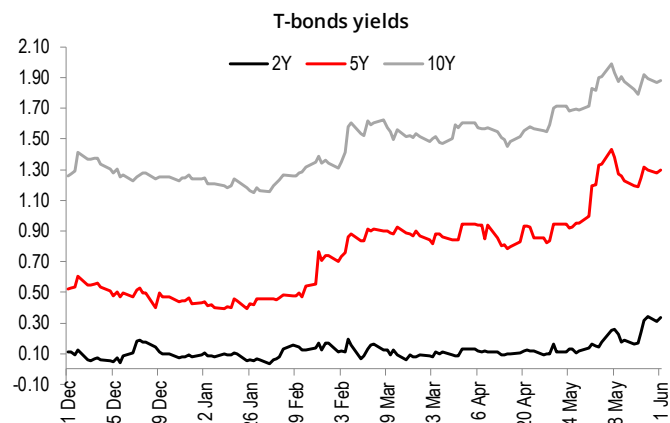
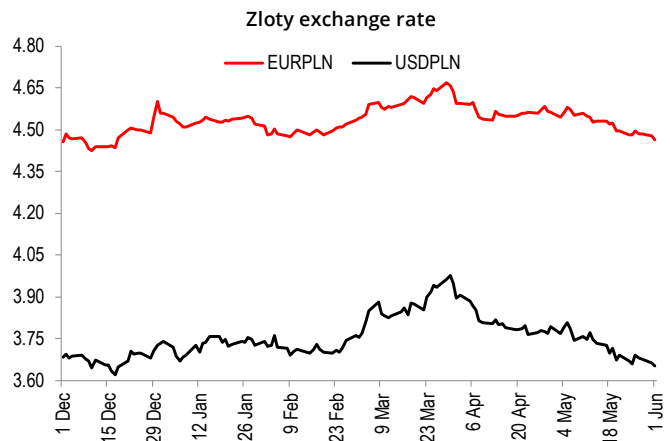
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	46	0	205	-3
France	10	0	36	0
Hungary	64	0	316	0
Spain	35	-1	66	-1
Italy	45	-1	110	0
Portugal	20	-1	65	0
Ireland	11	0	39	-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 (28 May)							
11:00	EZ	ESI	May	pct.	112.1	114.5	110.3
14:30	US	Personal Spending	Apr	% m/m	0.5	0.5	4.2
14:30	US	Personal Income	Apr	% m/m	-14.2	-13.1	21.1
14:30	US	PCE Deflator SA	Apr	% m/m	0.6	0.6	0.5
16:00	US	Michigan index	May	pts	83.0	82.9	82.8
MONDAY (31 May)							
10:00	PL	GDP	1Q	% y/y	-1.2	-1.2	-0.9
14:00	DE	HICP	May	% m/m	0.3	0.3	0.5
TUESDAY (1 June)							
09:00	CZ	GDP SA	1Q	% y/y	-2.1	-2.1	-2.1
09:00	PL	Poland Manufacturing PMI	May	pts	54.5	55.0	57.2
09:00	HU	GDP	1Q	% y/y	-2.3	-2.1	-2.3
09:55	DE	Germany Manufacturing PMI	May	pts	64.0	64.4	64.0
10:00	EZ	Eurozone Manufacturing PMI	May	pts	62.8	63.1	62.8
10:00	PL	CPI	May	% y/y	4.9	4.8	4.8
11:00	EZ	Flash HICP	May	% y/y	1.9	2.0	1.6
11:00	EZ	Unemployment Rate	Apr	%	8.1	8.0	8.1
16:00	US	ISM manufacturing	May	pts	61.0	61.2	60.7
THURSDAY (3 June)							
03:45	CN	Caixin China PMI Services	May	pts	56.0	-	56.3
09:55	DE	Markit Germany Services PMI	May	pts	52.8	-	52.8
10:00	EZ	Eurozone Services PMI	May	pts	55.1	-	55.1
14:15	US	ADP report	May	k	700.0	-	742.2
14:30	US	Initial Jobless Claims		k		-	406.0
16:00	US	ISM services	May	pts	63.0	-	62.7
FRIDAY (4 June)							
11:00	EZ	Retail Sales	Apr	% m/m	-1.7	-	2.7
14:30	US	Durable Goods Orders		% m/m		-	-1.3
14:30	US	Change in Nonfarm Payrolls	May	k	663.0	-	266.0
14:30	US	Unemployment Rate	May	%	5.9	-	6.1
16:00	US	Factory Orders	Apr	% m/m	0.5	-	1.1

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

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