

# Weekly Economic Update

## Monetary policy vs. inflation

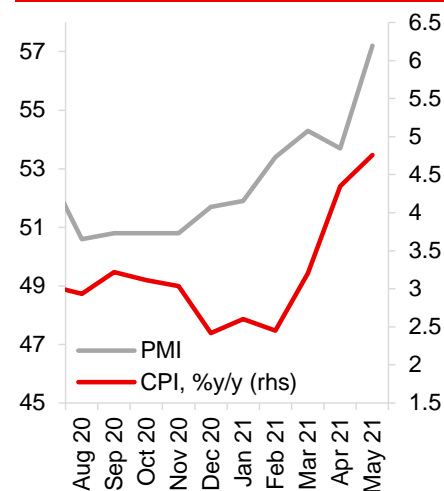
### Economy next week

- When it comes to local events, in the coming week the focus will be on the central bank's reaction to the recent strong signals from the economy. On **Wednesday the MPC meets** (we expect no interest rate changes, the main one to stay at 0.10% and no reserve requirement ratio change) and the **possible Friday video conference of NBP governor Adam Glapiński** (no official confirmation as we are writing this).
- Since 11 May when surprisingly high April CPI readings popped out in Czechia and Hungary and triggered significant rise of market rates in the CEE region, governor Glapiński had no opportunity to communicate his view. We wonder how the recent very positive Polish macro data (1Q GDP with surprisingly strong domestic demand, CPI inflation hitting 4.8% y/y in May and record high manufacturing PMI) and further easing of pandemic restrictions affected his view. In early May he was against rate hikes and supported a continuation of NBP QE program at an increased scale of asset purchases. However, back then he also pointed out that the MPC will act without any delay if it reaches a conclusion the time to act has come. Recently several members said a signal should be sent that the central bank is not tolerating the inflation running much above the target. **In our view there may be a gentle shift towards less dovish monetary policy at the meeting** rather than a very visible change of rhetoric.
- Abroad, out of the many data releases and events of the coming week we feel that **US CPI and preliminary report on US consumer confidence by University of Michigan** may have the most market-moving potential. If these prove strong, the Fed will get more stimuli to prepare for QE tapering – especially if additionally the today's US labour market report confirms the rebound of employment seen in the ADP report. In Europe we will track **German ZEW index** (for June) and the developments in German industrial orders and output (data for April). The **ECB will hold a meeting with updated economic projections**.
- We will also see **CPI inflation in Czechia and Hungary** – these will be quite important readings given the already announced view by their central banks that some rise of interest rates is required this year (Hungarian central bank will discuss such move already at the meeting on 22 June).

### Markets next week

- EURPLN continues the decline started on 5 May and since then the FX rate declined by 2.7% already (counting to 4.467). At the same time the zloty has been performing visibly worse than the forint (by 2-2.5%) which we link to the more clear communication of fight with elevated inflation in Hungary than in Poland. This means that the potential for PLN strengthening is still present. The problem is that it may find it difficult to materialise if today's US labour market data are surprisingly strong (upon high reading of ADP employment – a proxy to today's NFP – on Thursday the zloty had to abandon the attempt to break 4.45 from above). The appreciation of the zloty may be restarted by the NBP communication, but we feel that even with only subtle signs of MPC's and Adam Glapiński's withdrawal from the dovish rhetoric the market may consider the monetary policy tightening only a matter of time and send yields higher and the zloty stronger. **In the coming weeks we expect EURPLN to decline to around 4.40, with some delay in reaching the level possible if the US data prove strong.**
- Government bond yields are staying at elevated levels, which can be justified by the recent strong local data flow. One has to bear in mind that earlier narrowing of 10Y ASW was not due to fiscal condition, but due to the QE purchases coupled with limited POLGB supply. Analogously, the current widening of the ASW should not be seen as an expression of worse fiscal position or higher credit risk of Poland, but by changing expectations regarding the NBP QE (tapering). **In the coming days we expect 10Y government bond yield to reach 1.90% and the ASW to widen further** (we think its return to +5 to +10bp is likely).

### Polish Manufacturing PMI and CPI inflation



Source: GUS, Markit, Santander

### PLNHUF, 4 Jan 2021 = 100



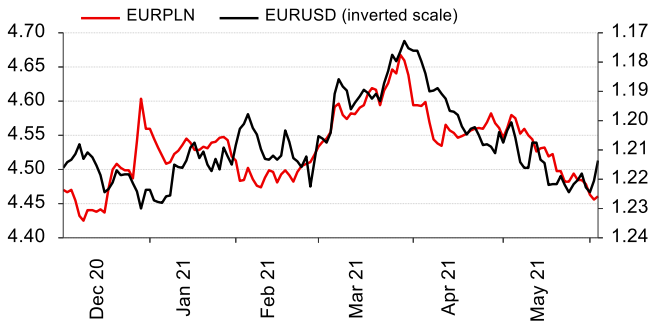
Source: Bloomberg, Santander

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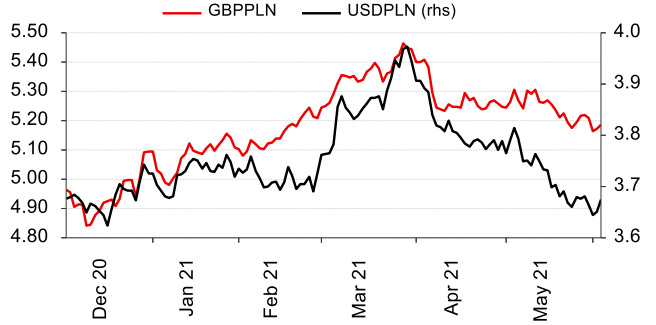
FX and FI markets

EURPLN and EURUSD



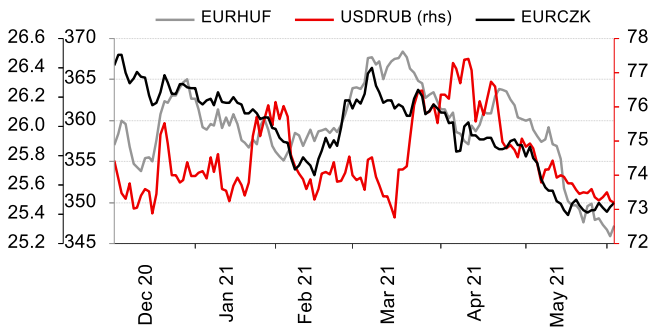
Source: Refinitiv Datastream, Santander Bank Polska

GBPPLN and USDPLN



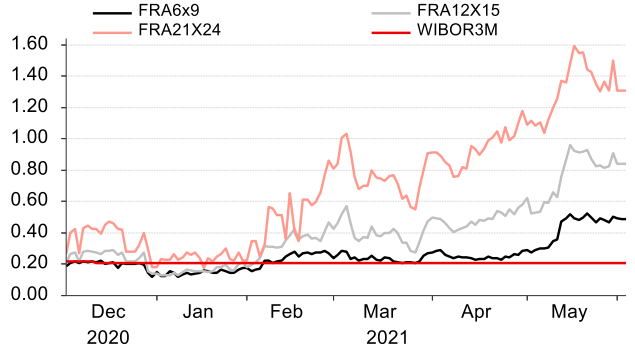
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



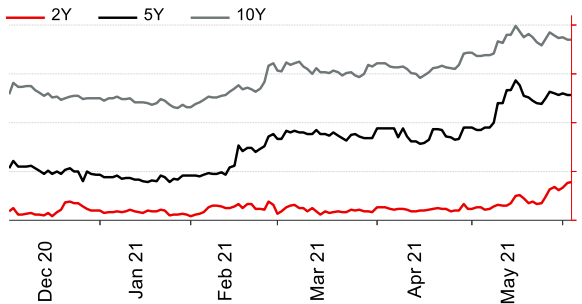
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



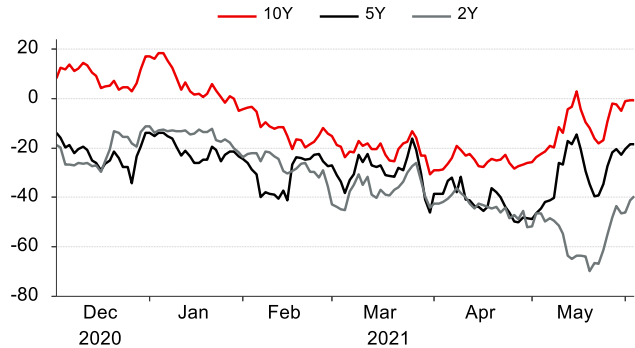
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



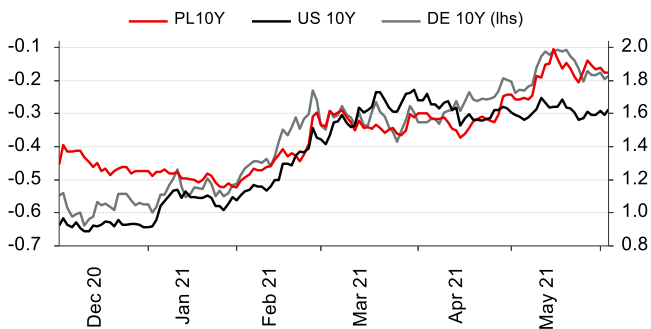
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



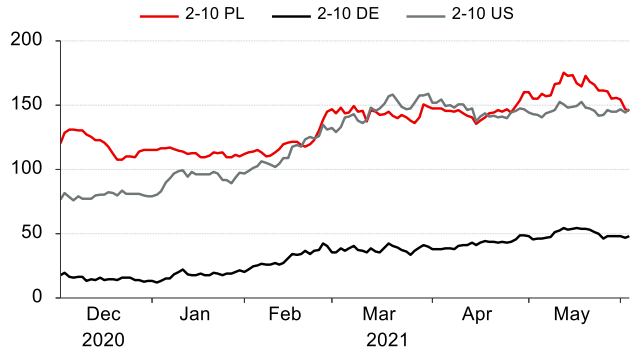
Source: Refinitiv Datastream, Santander Bank Polska

10Y bond yields



Source: Refinitiv Datastream, Santander Bank Polska

Steepness of yield curves



Source: Refinitiv Datastream, Santander Bank Polska

## Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE
				MARKET	SANTANDER	
<b>MONDAY (7 June)</b>						
08:00	DE	Factory Orders	Apr	% m/m	1.5	3.0
09:00	CZ	Industrial Production	Apr	% y/y	52.5	18.2
<b>TUESDAY (8 June)</b>						
08:00	DE	Industrial Production SA	Apr	% m/m	0.7	2.5
09:00	HU	Industrial Production SA	Apr	% y/y	-	16.2
11:00	EZ	GDP SA	1Q	% y/y	-1.8	-1.8
11:00	DE	ZEW Survey Current Situation	Jun	pts	-28.3	-40.1
<b>WEDNESDAY (9 June)</b>						
	<b>PL</b>	<b>MPC decision</b>		<b>%</b>	<b>0.1</b>	<b>0.1</b>
08:00	DE	Exports SA	Apr	% m/m	0.8	1.3
09:00	HU	CPI	May	% y/y	5.2	5.1
<b>THURSDAY (10 June)</b>						
09:00	CZ	CPI	May	% y/y	-	3.1
13:45	EZ	ECB Main Refinancing Rate	Jun/21	%	0.0	0.0
14:30	US	CPI	May	% m/m	0.4	0.8
14:30	US	Initial Jobless Claims		k	388.0	406.0
<b>FRIDAY (11 June)</b>						
16:00	US	Michigan index	Jun	pts	83.3	82.9

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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