

9 June 2021

Eyeopener

What is MPC's take on higher inflation?

Main stock indices stable, so is the dollar
Lower core yields
Conservative macro assumptions for 2022 budget
EURPLN and POLGBs stable ahead of today's MPC meeting
Today MPC decision, May inflation in Hungary

On Tuesday equity markets were not volatile – European indices were declining slightly, while US markets slightly rising. Dollar basket did not change, while 10Y UST yield decreased to 1.53% (-3bp) and Bund yield to -0.22% (-2bp). Brent oil price fell to \$71.1/barrel. The final reading of euro zone GDP was revised up vs the previous reading (similarly as earlier in Japan). ZEW expectations index did not meet expectations in euro zone and in Germany, but the overall conclusion is that most of the sectors are likely to see a major improvement in the coming months. US trade balance narrowed for the first time in a long time due to accelerating exports: in April the deficit reached \$68.9bn, vs \$74.4bn in March.

The Government Information Centre released on Tuesday **macroeconomic assumptions to the 2022 budget**. The government assumes GDP growth in 2022 at 4.3% and this year's growth at 3.8%. Inflation is expected at 2.8% in 2022 vs. 3.1% in 2021. These forecasts seem highly conservative – in our view GDP growth will be close to 5% and inflation close to 4% both this year and next. This suggests that a budget built on the presented assumptions should have a broad safety margin when it comes to the possibility of positive deviations of tax revenues from the plan. The government forecasts do not take into consideration the potential impact of the recently presented "Polish Deal" economic strategy of the ruling coalition, but in our view this impact on the macroeconomic scenario will be moderate. Yesterday the **NBP transferred PLN8.9bn of 2020 profit** to the government account.

According to Eurostat **in 1Q21 employment in Poland** rose by 0.2% y/y (and 0.5% q/q) when looking at the number of the employed and by 3.7% y/y (+2.7% q/q) if expressed in hours worked.

On Tuesday the volatility of **EURUSD** was very low, after opening near 1.22 the pair moved towards 1.218 towards the end of the day. Since the start of June the EURUSD has declined by a total of 0.4%.

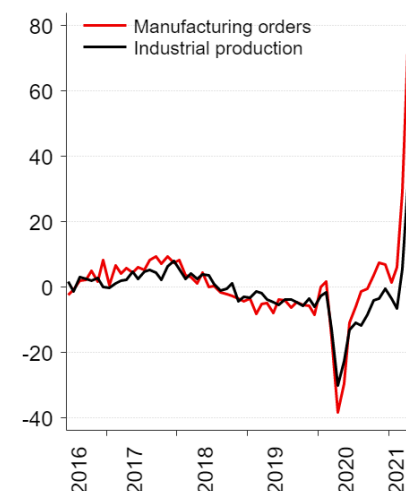
EURPLN MTD declined by 0.3% to 4.467. From early May by 2.0%. On Tuesday at the low volatility hovered between 4.46-4.47 in expectations of Wednesday's MPC meeting. What we expect there is a only small probability of interest rate change. On the Wednesday meeting we expect a slight change to MPC's rhetoric towards more hawkish one.

As for the other CEE currencies: EURHUF has significantly (+0.7%) increased to 348.7 because of the pair being slightly oversold after the 4% move lower from early May as well as worse than expected April industrial production. EURCZK has not changed (25.44) despite the April retail sales were below the market consensus. The rouble basket broke below a very important support level (80.0) and closed the day at 79.6 (-0.5%). It is tempting to think that the move was a delayed reaction to Monday's May inflation prints (both CPI and core CPI increased to 6.0% y/y, beating expectations by 0.2pp and 0.3pp; the CBR targets inflation at 4.0%). USDRUB closed at 72.43.

In the Polish interest rate market: bond market, especially in the belly and long end of the curve, was quite stable and – just like the Polish currency – was already in a standby mode, ahead of today's MPC meeting. 10Y bond yield was hovering near 1.85% and 5Y near 1.30%. Short end of the curve saw a minor increase in yields (1-2bp). IRS curve remained stable for most of the time, but in the afternoon it moved down by 1-2bp, following core debt markets. FRA rates were rising (by 2-3bp) ahead of the MPC meeting, amid some clients transactions.

Today the MPC meeting takes place, at which the Council will have opportunity to respond to the latest economic data (including higher inflation). We think the meeting will end with a slight change of the tone of the official press release towards less dovish, but without a major shift in monetary policy (yet).

Industrial orders and production in Germany, % y/y



Source: Refinitiv Datastream, Santander

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FX market

Today's opening

EURPLN	4.4609	CZKPLN	0.1738
USDPLN	3.6634	HUFPLN*	1.2805
EURUSD	1.2180	RUBPLN	0.0507
CHFPLN	4.0843	NOKPLN	0.4435
GBPPLN	5.1835	DKKPLN	0.5999
USDCNY	6.3940	SEKPLN	0.4429

*for 100HUF

Last session in the FX market

08.06.2021

	min	max	open	close	fixing
EURPLN	4.460	4.474	4.467	4.464	4.467
USDPLN	3.659	3.674	3.667	3.666	3.669
EURUSD	1.216	1.219	1.218	1.218	-

Interest rate market 08.06.2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.42	-1
DS0725 (5Y)	1.31	0
DS1030 (10Y)	1.88	1

IRS on the interbank market**

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	0.45	0.15	-0.53
2L	0.83	0.22	-0.47
3L	1.13	0.41	-0.42
4L	1.35	0.63	-0.35
5L	1.50	0.84	-0.27
8L	1.77	1.32	-0.04
10L	1.89	1.49	0.10

WIBOR rates

Term	%	Change (bps)
O/N	0.10	3
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	1
3x6	0.34	2
6x9	0.54	4
9x12	0.72	3
3x9	0.43	3
6x12	0.66	5

Measures of fiscal risk

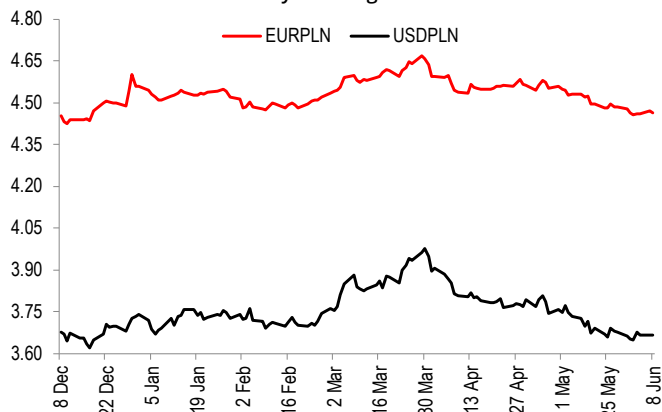
Country	CDS 5Y USD	10Y spread*
	Level	Level
	Change (bps)	Change (bps)
Poland	47	210
France	10	37
Hungary	64	317
Spain	35	66
Italy	46	109
Portugal	21	66
Ireland	11	40
Germany	9	-

* 10Y treasury bonds over 10Y Bunds

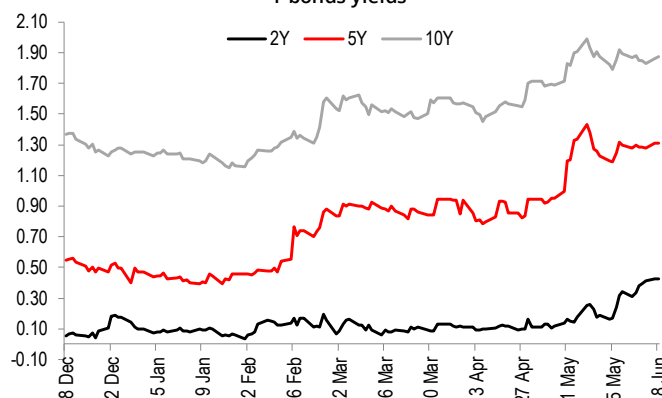
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

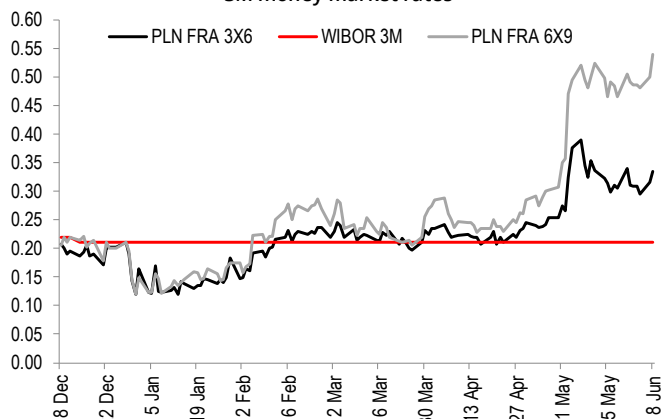
Zloty exchange rate



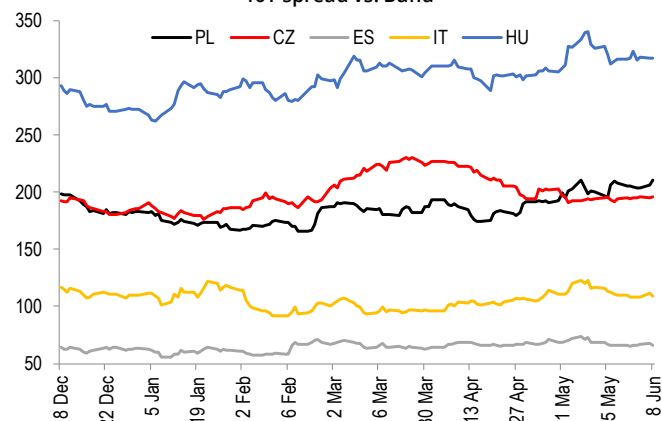
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	SANTANDER			
FRIDAY (4 June)								
11:00	EZ	Retail Sales	Apr	% m/m	-1.5	-3.1	2.7	
14:30	US	Change in Nonfarm Payrolls	May	k	652.5	559	266.0	
14:30	US	Unemployment Rate	May	%	5.9	5.8	6.1	
16:00	US	Durable Goods Orders	Apr	% m/m	-1.3	-1.3	-1.3	
16:00	US	Factory Orders	Apr	% m/m	-0.3	-0.6	1.1	
MONDAY (7 June)								
08:00	DE	Factory Orders	Apr	% m/m	1.5	-0.5	3.9	
09:00	CZ	Industrial Production	Apr	% y/y	52.5	55.1	14.1	
TUESDAY (8 June)								
08:00	DE	Industrial Production SA	Apr	% m/m	0.7	-1.0	2.5	
09:00	HU	Industrial Production SA	Apr	% y/y	68.9	59.2	16.2	
11:00	EZ	GDP SA	1Q	% y/y	-1.8	-1.3	-1.8	
11:00	DE	ZEW Survey Current Situation	Jun	pts	-28.0	-9.1	-40.1	
WEDNESDAY (9 June)								
	PL	MPC decision		%	0.10	0.10	-	0.10
08:00	DE	Exports SA	Apr	% m/m	0.8	-	1.3	
09:00	HU	CPI	May	% y/y	5.2	-	5.1	
THURSDAY (10 June)								
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	
FRIDAY (11 June)								
16:00	US	Michigan index	Jun	pts	83.25	-	82.9	

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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