

10 June 2021

Eyeopener

MPC's stoic calm

Market preparing for US inflation data
 Monetary policy in Poland unchanged
 EURPLN up after the MPC decision and statement
 Decline of bond yields on core markets and in Poland
 Today ECB meeting, US and Czech inflation

Wednesday passed on equity markets without large moves, with Europe ending the day mostly in red (a reason for this might be a new Covid wave building in the UK despite the high level of vaccination of the country compared to the rest of Europe). The approaching key US data release regarding May inflation (today at 14:30 CET) caused some agitation on the debt and FX markets. In the first half of the day bonds strengthened significantly and the dollar weakened, however later there was a turn and a move that offset most of the earlier changes. Similar to the Polish May inflation release, the market is considering if it is possible that the US inflation could have risen in May to or above 5% y/y (from 4.2% in April, with median of market expectations at 4.7%). Oil price this time deviated up from the US\$71.5/barrel level around which it has stabilised since the start of June, and intraday it was temporarily even a dollar higher.

Polish Monetary Policy Council kept interest rates unchanged. Contrary to our expectations, the post-meeting statement included no hints about a possible change in policy bias to less dovish. Instead, it emphasised that the factors behind recent inflation rise were temporary and/or behind the monetary policy control. Moreover, the *Monetary policy guidelines* allow for temporary deviation from the inflation target. The statement again included the statement stating that the NBP monetary policy is stabilising the inflation at the target, which was dropped one month ago (according to president Glapiński due to lack of space in the statement; but this time the MPC had no problem with extending the statement beyond two pages). The MPC reiterated the pledge that QE will be maintained, and FX interventions cannot be ruled out. As always, the Friday's conference of Governor Glapiński may be more interesting. But after such statement we would not expect a hawkish tilt in his rhetoric. In our view, the market will be seeing the MPC as falling behind the curve. We do not rule out that the MPC bias will change before the year end as data will confirm a positive economic scenario and lack of major impact of autumn pandemic wave.

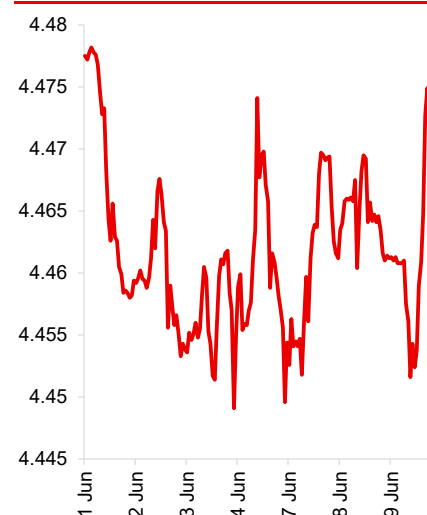
For the better part of Wednesday **EURUSD** remained within the range from Tuesday. EURUSD was similarly nervous as the core bonds - after briefly jumping above 1.22 it then returned to the opening level.

EURPLN was yesterday under influence of local factors. It started with the increasingly strong feeling that the MPC meeting would bring a change to the communication and a start to fight inflation - thanks to which the EURPLN dropped to below 4.45. When the communique showed the lack of change to the monetary policy, the EURPLN shot to 4.475. It is difficult to assume that the upcoming Friday's press conference of NBP president Glapiński will support the zloty (since the MPC communique has not). The zloty might now become vulnerable to a high print of the CPI in the US today.

As to the other CEE currencies it was the forint which performed well which - not like zloty - has received support from its central bank. NBH governor announced a change to the monetary policy stance and possible hikes in Hungary as soon as in June. He also said that if the inflation remained elevated for too long it would risk the economic rebound, while fighting the inflation is one of the main duties of the NBH. On top of that the May minutes showed that there was unanimity to agree on the proactive tightening of the monetary policy in order to contain the inflation risks. EURHUF moved back to 346.5 from 348.8 and possibly could move even lower if markets expected even higher CPI in May (which they did not). EURCZK mostly resided near 25.4. USDRUB was falling for another day and is at its lowest since July 2020 (at 72.1).

On the domestic interest rate market bonds strengthened copying the move on the core markets. In general the move of domestic bonds looked limited, given that it discounted the lack of change in the MPC statement, including the lack of signal about QE tapering - which however does not help us understand the recent NBP actions in this field (no government bonds were bought at the last May auction, the number of scheduled auctions was lowered to one in June). Domestic yields fell by 2-4bp, the most on the long end (10Y down to 1.83%). 10Y UST yield dropped by more than 3bp to 1.50% but during the day it was even 2.5bp lower. 10Y Bund was down in yield by 2bp but temporarily the decline reached 4bp. The moves of the Polish IRS curve were smaller than the that of yields.

EURPLN



Source: Refinitiv Datastream, Santander

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FX market

Today's opening			
EURPLN	4.4710	CZKPLN	0.1758
USDPLN	3.6745	HUFPLN*	1.2904
EURUSD	1.2171	RUBPLN	0.0509
CHFPLN	4.1013	NOKPLN	0.4427
GBPPLN	5.1838	DKKPLN	0.6012
USDCNY	6.3833	SEKPLN	0.4441

*for 100HUF

Last session in the FX market						09.06.2021
	min	max	open	close	fixing	
EURPLN	4.449	4.477	4.461	4.472	4.454	
USDPLN	3.648	3.674	3.661	3.671	3.655	
EURUSD	1.217	1.222	1.218	1.218	-	

Interest rate market 09.06.2021

T-bonds on the interbank market**		
Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.44	2
DS0725 (5Y)	1.30	-1
DS1030 (10Y)	1.83	-4

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.47	2	0.15	0	-0.53	0
2L	0.84	1	0.23	1	-0.48	-1
3L	1.12	0	0.40	-1	-0.43	-1
4L	1.33	-1	0.61	-2	-0.37	-2
5L	1.48	-2	0.82	-2	-0.29	-2
8L	1.74	-3	1.27	-4	-0.07	-3
10L	1.86	-3	1.46	-4	0.07	-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	0.25	0
3x6	0.35	1
6x9	0.57	3
9x12	0.74	3
3x9	0.43	0
6x12	0.68	2

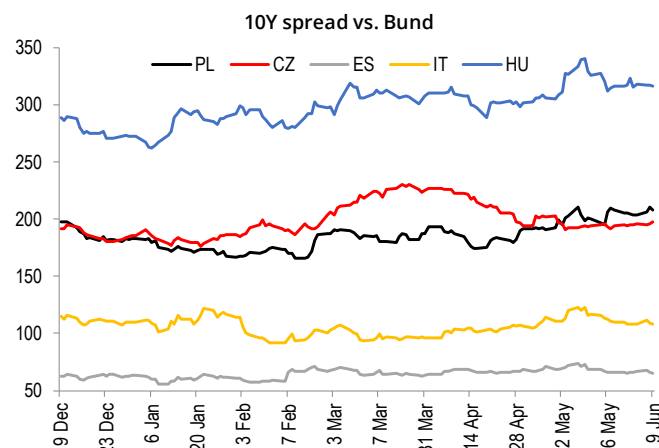
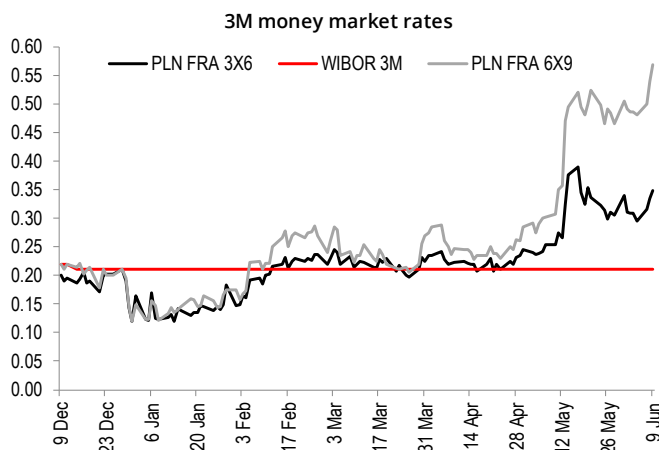
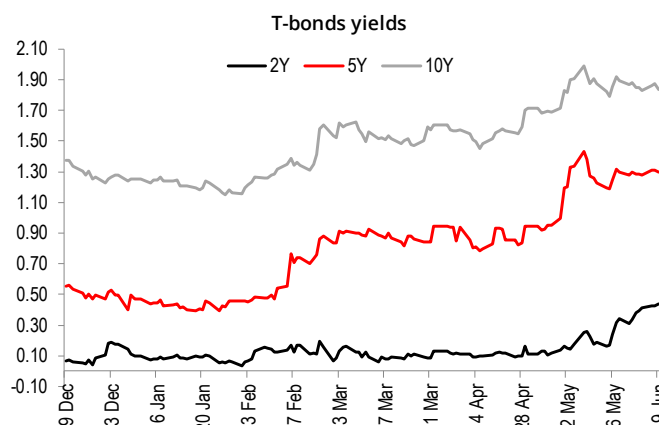
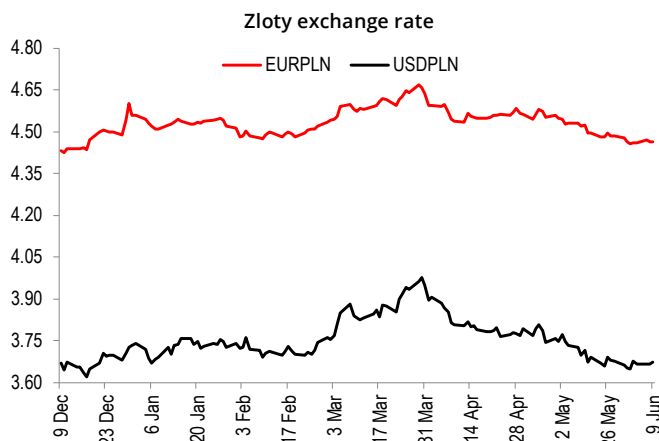
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	47	0	208	-2
France	10	0	37	0
Hungary	64	0	316	-2
Spain	35	0	65	-1
Italy	44	-1	108	-1
Portugal	20	0	68	2
Ireland	11	0	41	1
Germany	8	-1	-	-

* 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 (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	0.3	1.3
09:00	HU	CPI	May	% y/y	5.2	5.1	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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