

11 June 2021

# Eyeopener

## US inflation up

Only temporary reaction to 5% US inflation reading  
 ECB upgrades its GDP and CPI forecasts, but sticks to accommodative policy  
 Zloty weak relative to CEE currencies, EURUSD slightly down  
 A temporary rise in core market yields, decline in Poland  
 Today speech of NBP president, US consumer confidence

The US inflation was higher than expected and reached the highest level in about 13 years (5% y/y) but the markets showed only a short-lived response. Core inflation at 3.8% y/y also beat expectations. Possibly, the market was calmed down by the fact that a large part of the inflation came from rising car prices which are considered a temporary phenomenon. The equity market started to go down but recovered quickly after the release. On the core bond markets yields were up 3bp before the data, but then declined by even more. The ECB meeting did not introduce changes to the monetary policy of the euro zone. The bank showed higher GDP growth forecasts (4.6% for 2021 instead of 4%, 4.7% in 2022 instead of 4.1% and 2023 still at 2.1%) and inflation (2021 up to 1.9% from 1.5%, 2022 up to 1.5% from 1.2% and 2023 still at 1.4%). However, it maintained a dovish tone and the declaration to buy assets at an increased pace (without changing the total size of PEPP).

The European Parliament passed a resolution to take the European Commission to the European Court of Justice for no **enforcement of the rule-of-law regulations** in member states. The EC has two weeks to convince the EP to not file a lawsuit.

The GUS report on **labour demand in 1Q21** showed the first positive y/y growth of newly created jobs in two years (by 12.4%). It was also the third quarter in a row with a y/y decline of jobs destroyed (by 41.5%). Their number, 70.2k, was the lowest of all the first quarters since at least 2009. The net jobs creation (i.e. jobs created minus jobs destroyed in the quarter) was +121.5k – much higher than a year ago (c. +50k), but far from the levels seen in first quarters of the years 2017-2019 when economic growth was strong (c. +150-170k). The report confirms positive labour market situation in the period when Covid restrictions were still in place and the third wave of the pandemic was approaching.

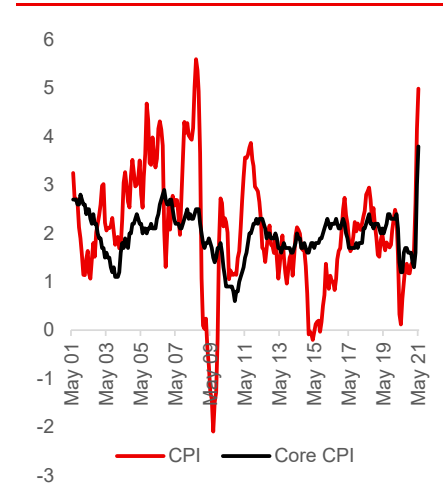
According to the Deputy Finance Minister Piotr Patkowski the current estimates of **the cost of the "Polish Deal"** fiscal programme stand at PLN34bn. On top of the previous estimates of PIT incomes decline of PLN22bn, this estimate includes tax relieves for SME worth about PLN4.5bn, investment subsidies at PLN3.0bn, housing market programme at PLN2.5bn and other smaller projects worth PLN2.0bn. The new estimate is not complete and also is not equal to the net impact on the public finance sector, as it does not take into account the increased incomes for the National Health Fund of about PLN14-15bn. It is also not known if the housing market programme includes the cost of the guarantees which do not impact the sector's financial result. It is worth noting that the new estimates by Patkowski do not confirm the earlier government officials' declarations that the decline in the local government's PIT incomes would be offset by the investment subsidy. Because the local governments receive around half of the PIT income taxes usually, one can assume that they would lose around PLN10bn; the investment subsidies of PLN3.0bn would cover just a small fraction of the gap.

According to the Ministry of Finance data the **1Q2021 public debt** in the Eurostat definition increased to PLN1390bn and 59.9% of GDP. Over the last year the debt has increased by PLN286bn in nominal terms and by 12.3pp of GDP, mostly due to government help for the corporates. We expect that the 1Q was the last quarter in which the debt significantly increased. In subsequent quarters the debt to GDP ratio will stabilise or slightly go up.

**EURUSD** after dropping to 1.217 in the morning on Thursday started to be more volatile. At the end of the European session was still at 1.217 despite the fact that ECB meeting outcome and the high US CPI print should have pushed the currency pair lower. **EURPLN** was waiting for US data at 4.475, reacted to the release by a rise by c0.01, and then retreated to slightly below opening levels. **USDPLN** was performing in a similar way. Today the zloty may keep underperforming other CEE currencies if there is no visible change in rhetoric to less dovish at today's speech of NBP governor. **As regards other CEE currencies**, **USDRUB** remained in downward trend and moved below 72.0. The koruna (despite the surprising decline of inflation in May) and the forint gained versus the euro, which was not interrupted by US CPI data.

**On the Polish interest rate market** bond yields declined clearly by 6-7bp at the both ends of the curve, less in the belly. It was consistent with the direction in core debt markets, although this time the move in Poland was stronger (after previous days' reaction of the market seemed to be too small). This time, the Polish IRS curve moved visibly as well – down by 8bp, with belly lower 6bp. As a result, 10Y IRS dropped below 1.80%, which has been a very rare event since early May.

US CPI inflation, %y/y



Source: Refinitiv Datastream, Santander

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**FX market**

Today's opening			
EURPLN	4.4697	CZKPLN	0.1761
USDPLN	3.6681	HUFPLN*	1.2930
EURUSD	1.2189	RUBPLN	0.0511
CHFPLN	4.1044	NOKPLN	0.4438
GBPPLN	5.1986	DKKPLN	0.6012
USDCNY	6.3874	SEKPLN	0.4452

\*for 100HUF

Last session in the FX market						10.06.2021
	min	max	open	close	fixing	
EURPLN	4.464	4.487	4.472	4.469	4.480	
USDPLN	3.662	3.689	3.677	3.673	3.682	
EURUSD	1.214	1.219	1.216	1.217	-	

**Interest rate market** 10.06.2021

T-bonds on the interbank market**		
Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.37	-7
DS0725 (5Y)	1.26	-4
DS1030 (10Y)	1.78	-6

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

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.42	-4	0.15	0	-0.54	-1
2L	0.78	-5	0.22	-1	-0.49	-1
3L	1.04	-8	0.38	-1	-0.44	-1
4L	1.25	-8	0.59	-3	-0.38	-1
5L	1.41	-8	0.78	-4	-0.31	-2
8L	1.68	-6	1.21	-6	-0.08	-1
10L	1.80	-6	1.39	-6	0.06	-1

**WIBOR rates**

Term	%	Change (bps)
O/N	0.11	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	0.24	-1
3x6	0.32	-3
6x9	0.50	-7
9x12	0.67	-7
3x9	0.42	-2
6x12	0.61	-7

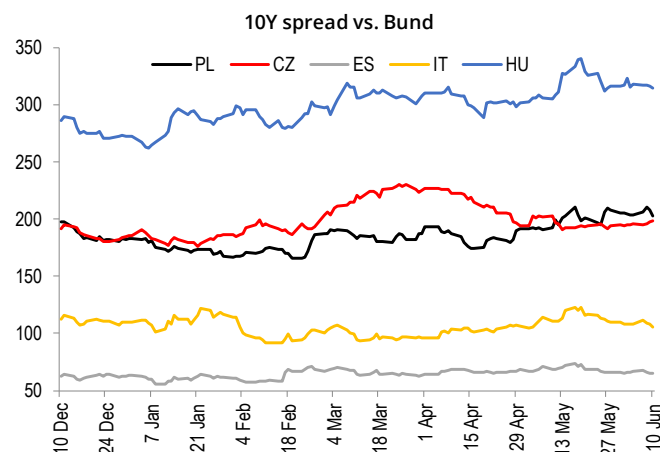
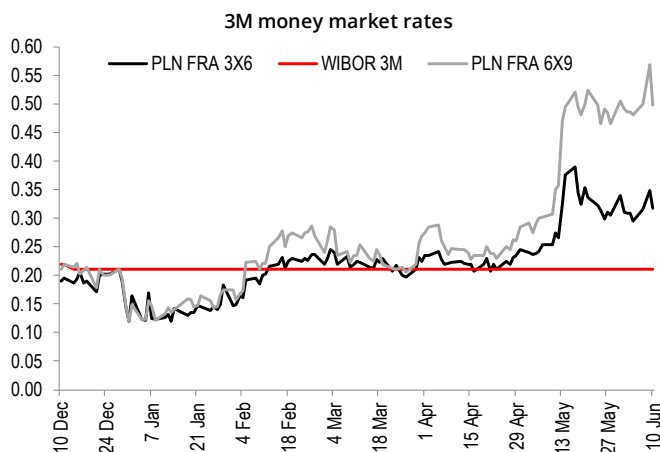
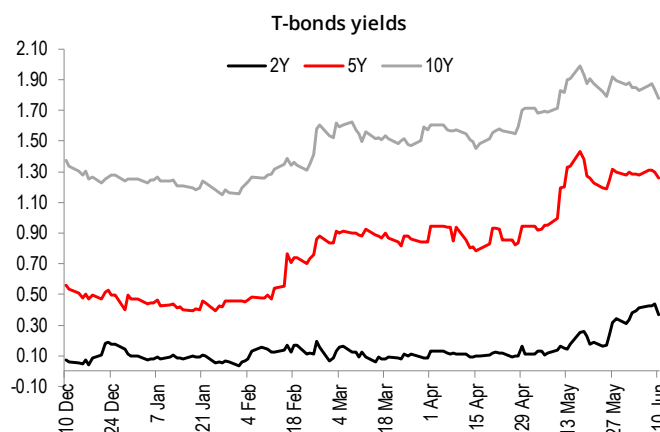
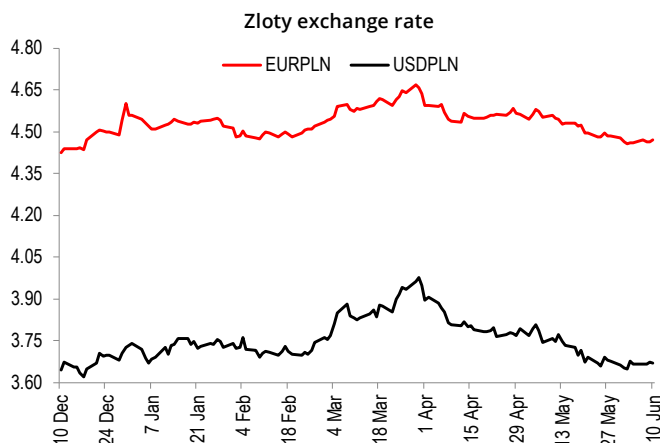
**Measures of fiscal risk**

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	47	0	203	-6
France	10	0	37	1
Hungary	64	0	315	-1
Spain	35	-1	65	-1
Italy	44	-1	105	-3
Portugal	20	0	65	-4
Ireland	11	0	40	-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		
<b>FRIDAY (4 June)</b>							
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
<b>MONDAY (7 June)</b>							
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
<b>TUESDAY (8 June)</b>							
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
<b>WEDNESDAY (9 June)</b>							
	<b>PL</b>	<b>MPC decision</b>		<b>%</b>	<b>0.10</b>	<b>0.10</b>	<b>0.10</b>
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
<b>THURSDAY (10 June)</b>							
09:00	CZ	CPI	May	% y/y	3.2	2.9	3.1
13:45	EZ	ECB Main Refinancing Rate	Jun/21	%	0.0	0.0	0.0
14:30	US	CPI	May	% m/m	0.4	0.6	0.8
14:30	US	Initial Jobless Claims		k	388	376	385
<b>FRIDAY (11 June)</b>							
<b>15:00</b>	<b>PL</b>	<b>NBP governor's video conference</b>					
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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