

Eyeopener

Inflation tad lower yet still very high

Equity markets and core market bond yields slightly higher, awaiting Fed
 Final CPI in May revised down slightly to 4.7% y/y
 Government proposed to hike minimum wage to PLN3000
 Today, Polish core inflation, FOMC meeting

On Tuesday markets were already awaiting the today's FOMC meeting. Major stock markets went slightly up, the dollar gained a bit. After the somewhat higher-than-expected May PPI in USA (+0.2pp), higher industrial output and lower retail sales bond yields in USA and Germany climbed by 1-2bp. Higher prices were also seen on crude oil (Brent +1% up to \$73.5 per barrel) and industrial metals.

Final June's CPI reading showed 4.7% y/y, a notch lower than the flash estimate. Rise from 4.3% recorded in May was mostly due to higher annual growth of fuel and food prices, yet it seems price growth is also gaining momentum in sectors, which have finally emerged from lockdowns in May, as restaurants and hotels (+0.9% m/m) or recreation and culture (+0.4% m/m). We are estimating June's core inflation at 4.0% y/y. In our view, June's may have set this year's peak in inflation, but CPI is likely to remain above 4% mark in the following months of the year and is unlikely to drop visibly also in 2022. See more in the [Economic comment](#).

Deputy finance minister Piotr Patkowski said that inflation rate in May (4.7% y/y) and in June (flash release on 30 June) will be the highest prints this year and the Ministry is expecting inflation to go down to 3.1% y/y in the following months. He added that economy overheating due to government programmes (demand higher than supply) is the main risk in the medium term. According to Patkowski, this risk has not materialised yet, but the Ministry is eyeing the situation.

MPC member Eugeniusz Gatnar said that the quarterly inflation forecast currently shows 4.8% level in Q4 of 2021, but the monthly inflation data may breach 5.0% as soon as in June as it is the first month when all sectors of the economy are open. **Łukasz Hardt** said that interest rates should start being "slightly normalized" already right now (he meant signalling 15bp hike, of which, we remind, NBP's Glapinski is not a great fan). The lack of the action from the central bank here and now creates, in his view, risks of inflation expectations de-anchoring, higher inflation in 2022 ("we risk strongly higher inflation level next year") and the need to increase interest rates later but at a greater scale.

The government proposed an **increase of the minimum wage** in 2022 to PLN 3000 from current 2800 (+7.1%). This would be a lower increase than the average wage growth in the corporate sector predicted by us (+9.5%). At the same time, the government is preparing a tax reform, which is supposed to significantly decrease tax wedge for the low earners. As a result, purchasing power of that group would increase significantly – well above the increase implied by the pure minimum wage increase.

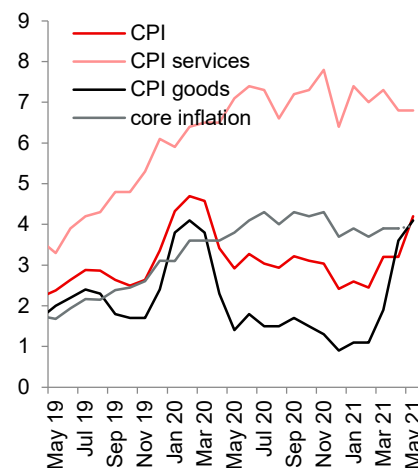
EURUSD opened and closed at 1.212 however during the day the range stood at 50pips (1.210-1.215). Increasing volatility suggests that in the short-term the dollar might gain even more and move towards 1.200.

EURPLN on Tuesday rose by only 0.1% to 4.526, which sent the month-to-date move to +1.1%, and counting from the Friday conference of NBP governor Glapiński (so in three working days) already 1.2%. Observing the ease with which the FX rate crossed the 200-day moving average (4.523) from below, we suggest caution ahead of today's FOMC meeting – in case of any hawkish signal the zloty would be under pressure.

Of the **other CEE currencies**, EURHUF rose by another 0.4% to 351.6, and c.1% in month-to-date terms. The forint is recently correlated with the zloty which suggests that the reason for the recent weakness is on at least the regional level rather than being only local. EURCZK did not change much (25.45). The ruble basket stabilised at 79.0 and USDRUB rose to 72.2 thanks to the stronger dollar and despite the rising oil price. After the market close the Russian 1Q GDP was revised higher, from -1% to -0.7% y/y which gave the ruble some support.

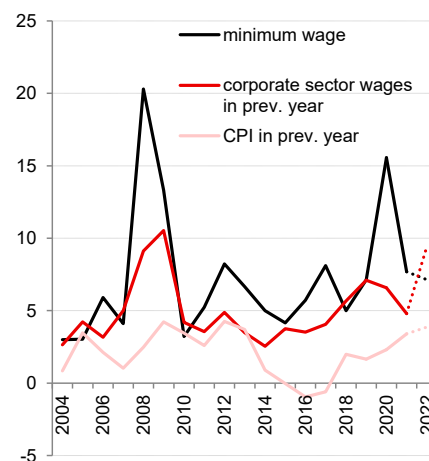
On the **domestic interest rate market**, after several days of higher volatility the market activity decreased significantly. FRA contracts did not change (e.g. 9x12 at 0.59%), nor IRS contracts (e.g. 5Y at 1.32%). Bond yields were also stable (10Y at 1.73%) which meant a marginal narrowing of the 10Y Bund spread to 196bp as yields rose somewhat in Germany. Today NBP bond-buying auction may shed some light on NBP's plans for its QE program. However the highlight of the day will be the evening FOMC meeting accompanied by a publication of new macroeconomic forecasts.

Inflation measures, % y/y



Source: GUS, NBP, Santander

Minimum wage vs. average corporate wage, %y/y



Źródło: GUS, MRPI, Santander

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FX market

Today's opening			
EURPLN	4.5286	CZKPLN	0.1776
USDPLN	3.7356	HUFPLN*	1.2872
EURUSD	1.2125	RUBPLN	0.0518
CHFPLN	4.1559	NOKPLN	0.4484
GBPPLN	5.2625	DKKPLN	0.6090
USDCNY	6.4003	SEKPLN	0.4481

*for 100HUF

Last session in the FX market						15/06/2021
	min	max	open	close	fixing	
EURPLN	4.493	4.533	4.522	4.530	4.531	
USDPLN	3.718	3.741	3.729	3.739	3.735	
EURUSD	1.210	1.215	1.212	1.212	-	

Interest rate market 15/06/2021

T-bonds on the interbank market**		
Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.33	-1
DS0725 (5Y)	1.22	0
DS1030 (10Y)	1.75	0

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.39	1	0.16	1	-0.53	0
2L	0.74	3	0.25	1	-0.48	1
3L	1.00	3	0.43	0	-0.42	1
4L	1.20	4	0.65	0	-0.36	0
5L	1.35	4	0.84	0	-0.28	1
8L	1.64	4	1.28	1	-0.05	1
10L	1.78	3	1.45	0	0.10	1

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	0.24	1
3x6	0.30	1
6x9	0.44	2
9x12	0.62	3
3x9	0.29	-2
6x12	0.53	-4

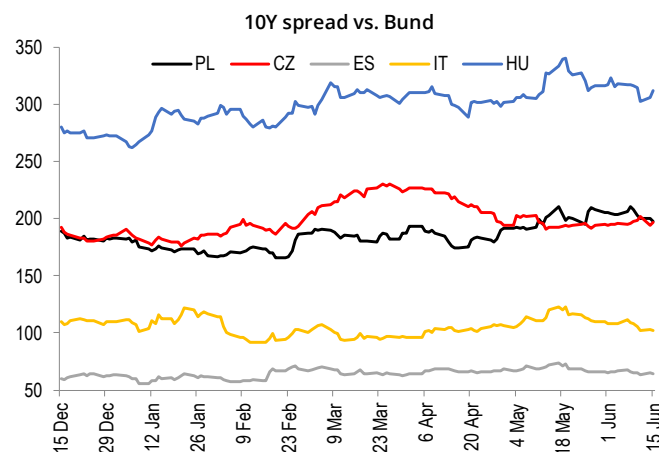
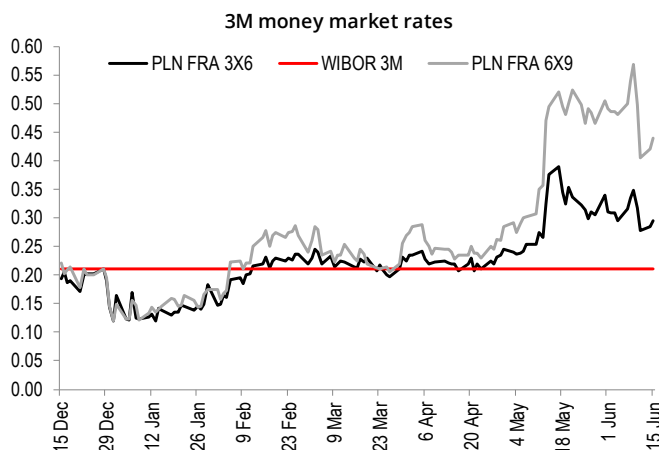
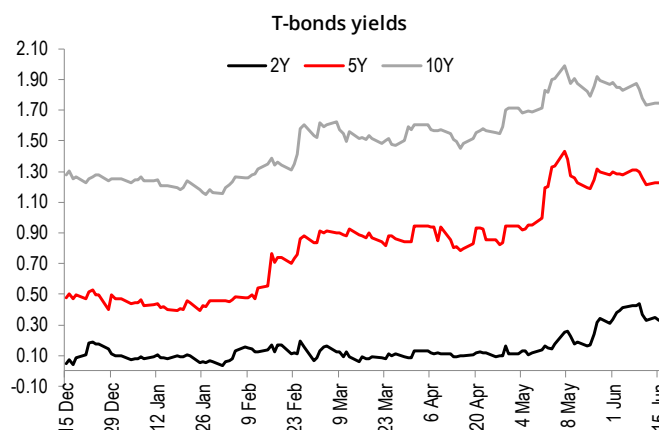
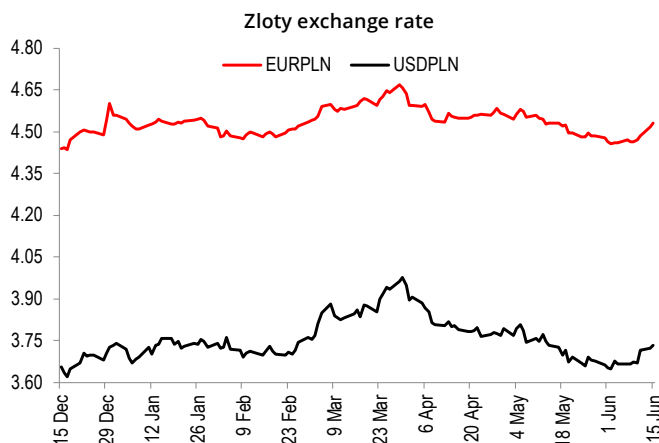
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	46	0	198	-3
France	10	0	38	0
Hungary	64	0	312	6
Spain	34	0	65	0
Italy	44	0	102	-1
Portugal	20	0	63	-1
Ireland	11	0	41	-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 (11 June)							
16:00	US	Michigan index	Jun	pts	84.4	86,4	82.9
MONDAY (14 June)							
11:00	EZ	Industrial Production SA	Apr	% m/m	0.4	0.8	0.1
14:00	PL	Current Account Balance	Apr	€mn	1215.0	1720.7	1740.0
14:00	PL	Trade Balance	Apr	€mn	512.0	712.0	1289.0
14:00	PL	Exports	Apr	€mn	22750.0	22782.0	24427.0
14:00	PL	Imports	Apr	€mn	22133.0	22065.0	22097
TUESDAY (15 June)							
08:00	DE	HICP	May	% m/m	0.3	0.3	0.3
10:00	PL	CPI	May	% y/y	4.8	4.8	4.7
14:30	US	Retail Sales Advance	May	% m/m	-0.8	-1.3	0.0
15:15	US	Industrial Production	May	% m/m	0.6	0.8	0.6
WEDNESDAY (16 June)							
14:00	PL	CPI Core	May	% y/y	4.1	4.0	-
14:30	US	Housing Starts	May	% m/m	5.2	-	-9.5
20:00	US	FOMC decision	Jun/21		0.25	-	0.25
THURSDAY (17 June)							
11:00	EZ	HICP	May	% y/y	2.0	-	2.0
14:30	US	Initial Jobless Claims	Jun/21	k	370.0	-	376.0
14:30	US	Index Philly Fed	Jun		30.5	-	31.5
FRIDAY (18 June)							
10:00	PL	Employment in corporate sector	May	% y/y	2.5	2.5	-
10:00	PL	Average Gross Wages	May	% y/y	10.5	10.2	-

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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