

Eyeopener

Fed signals earlier possible rate hike

Equities, dollar and bond yields stable ahead of the FOMC meeting
 Fed signalled first rate hike in 2023, debt markets weakening after the meeting
 Core inflation rising, not only due to base effects
 Today euro zone inflation, US new jobless claims

On Wednesday, ahead of the FOMC meeting the stock markets were stable, 10Y UST yield was oscillating around 1.50% and Bund's at -0.24%. Only energy commodities continued to go up. US housing market data did not deviate from expectations, but the new set of May inflation data again surprised to the upside: in the UK by 0.3pp, in Canada by 0.1pp and PPI in Czechia by 0.5pp.

FOMC kept interest rates unchanged but signalled the first interest rate hike is possible already in 2023, earlier than indicated before. The Fed chair Jerome Powell was quite optimistic about the economic outlook and he pointed to higher inflation risks (yet the official statement still assessed that its rise was mainly due to transitory factors). Powell said that the FOMC is likely to consider QE tapering at the upcoming meetings, but such a decision will be communicated early enough not to surprise the markets.

Main core inflation measure (CPI ex prices of food and energy) rose in May to 4.0% y/y, in line with our estimate. Two other measures increased as well (CPI ex administered prices to 4.4% y/y, its highest since 2011), while one remained unchanged (15% trimmed mean at 3.3%). While to some extent the pickup in y/y growth rates is affected by low base effects, it should be noted that it does not explain the whole story: 4-month moving average m/m growth rates of all four core inflation measures are currently at (or near) the highest levels in at least a decade. We predict core inflation to slow down only gently in the nearest months, and then start re-accelerating again as the economy keeps reviving and supply bottlenecks persist.

After May the **central budget surplus** amounted to PLN9.35bn, i.e. by PLN0.2bn more than in April. Budget revenues rose by 25.5% y/y in May with indirect taxes up by 37% y/y, PIT higher by 9.2% y/y but CIT down by 27.4%. As compared to May 2019, total incomes were higher by 4.6%, with PIT up by 9%, CIT up by 9.9% and indirect taxes down by 5%. Spending decreased in May by 5.9% y/y and by 1.6% as compared to 2019. This was possible thanks to lower debt servicing cost and EU spending, while subsidy to Social Security Fund amounted to PLN4.88 (+16.3% y/y, but the annual target in this sector is only at 10.5%), after four months of payments by around PLN0.35bn. The faster-than-expected GDP and inflation growth are supportive for tax revenues, which could help the budget remain in surplus even until November, in our view, especially given that in June a payment from NBP at PLN8.9bn was booked. The end-year result will depend on the government's decision whether to put next year's spending into this year. It seems, however, that the deficit could be lower than PLN82.3bn planned in the budget act.

EURUSD was very stable ahead of the FOMC meeting. It stayed around 1.21. After the hawkish signal from the Fed, the dollar strengthened significantly and this morning was already near 1.199.

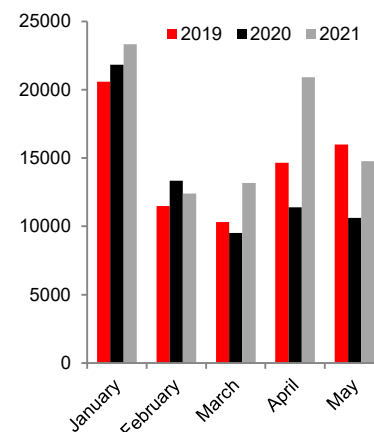
EURPLN on Wednesday attempted the second (failed) attack on 4.53 from below, and in the second part of the day it pulled back to 4.51. This morning the FX rate is close to 4.525. The signal of a possibly quicker policy normalisation by the Fed and the EURUSD decline are negative impulses for EM currencies, so the possibility of further zloty weakness should be taken into account, at least in the short term.

As for the **other CEE currencies**, EURHUF declined and spent some time at 351, but at the market close it was back at 352, unchanged on the day. EURCZK was slowly moving higher and reached 25.48. The ruble basket declined (i.e. the ruble got stronger) and USDRUB closed below 72.0 during the Biden-Putin meeting.

On the **domestic interest rate market** IRS saw a limited activity, yet the curve moved up by 3-5bp, similarly to FRA. Bond yields were stable, with the spread to Bund at 198bp. Today since the early morning debt markets in USA and euro zone are selling off and the similar trend should be expected in the Polish market after the hawkish Fed signal.

At the one and only repurchase auction in June, **NBP bought bonds** worth slightly more than PLN2bn (amid offered PLN5.6bn and earlier announced maximum amount PLN10bn). It included government bonds worth PLN1.7bn (mainly PS1024, DS0726, PS1026 and DS1030, plus lower sizes of PS0123, DS0725 oraz DS0727), and BGK bonds worth PLN0.4bn (mainly FPC0630, but also FPC0328). Overall, the NBP has already bought almost PLN136bn in its QE programme, including POLGBs worth PLN76bn, BGK worth PLN40bn and PFR worth PLN20bn.

VAT revenues by month, PLNmn



Source: Finance Ministry, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website: santander.pl/en/economic-analysis
 Piotr Bielski +48 22 534 18 87
 Marcin Luzziński +48 22 534 18 85
 Wojciech Mazurkiewicz +48 22 534 18 86
 Grzegorz Ogonek +48 22 534 18 84

FX market

Today's opening			
EURPLN	4.5261	CZKPLN	0.1772
USDPLN	3.7751	HUFPLN*	1.2848
EURUSD	1.1987	RUBPLN	0.0520
CHFPLN	4.1453	NOKPLN	0.4443
GBPPLN	5.2775	DKKPLN	0.6082
USDCNY	6.4258	SEKPLN	0.4452

*for 100HUF

Last session in the FX market						16/06/2021
	min	max	open	close	fixing	
EURPLN	4.503	4.532	4.523	4.508	4.529	
USDPLN	3.715	3.738	3.729	3.720	3.734	
EURUSD	1.211	1.213	1.213	1.212	-	

Interest rate market 16/06/2021

T-bonds on the interbank market**		
Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.32	-1
DS0725 (5Y)	1.25	2
DS1030 (10Y)	1.75	0

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.41	1	0.16	1	-0.53	0
2L	0.76	3	0.28	4	-0.48	0
3L	1.03	2	0.50	7	-0.42	0
4L	1.23	3	0.75	10	-0.36	0
5L	1.39	3	0.96	12	-0.26	2
8L	1.67	3	1.37	9	-0.05	0
10L	1.81	3	1.54	8	0.12	2

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	0
3x6	0.31	2
6x9	0.46	2
9x12	0.64	2
3x9	0.37	8
6x12	0.59	5

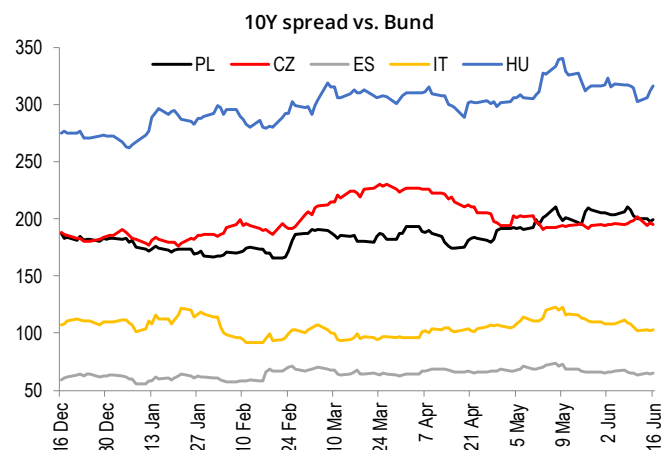
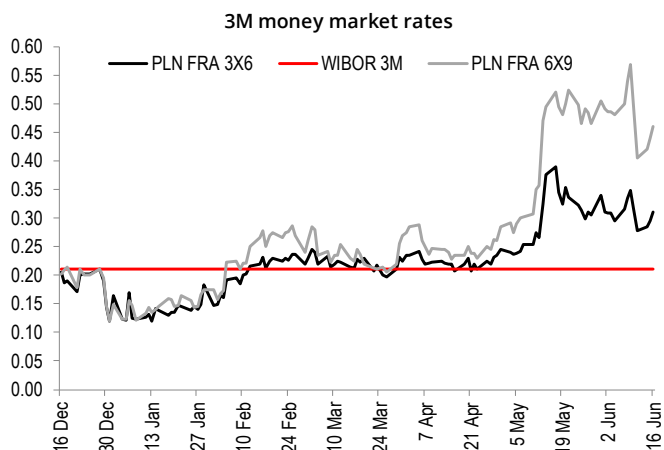
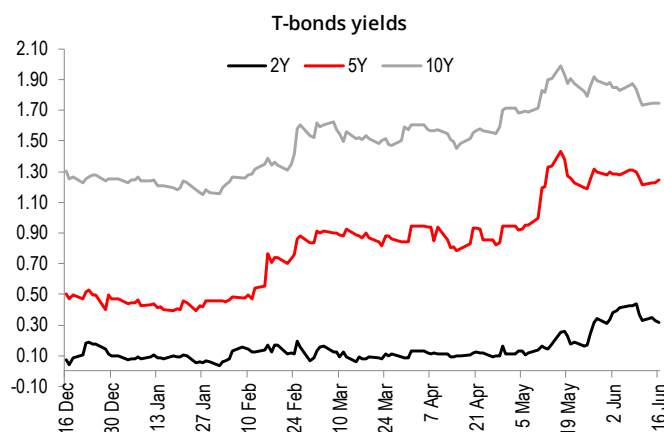
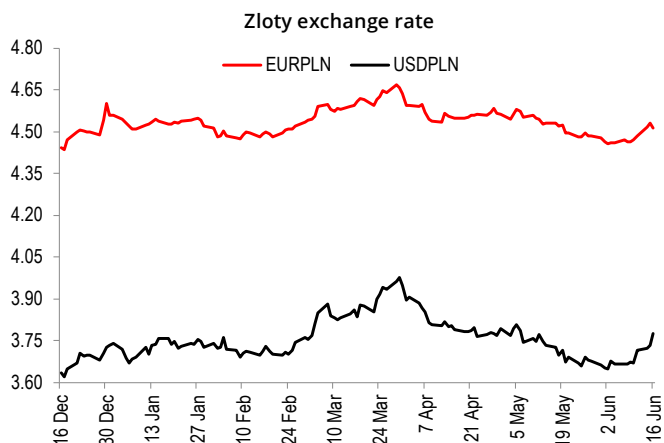
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	46	0	200	2
France	10	0	39	1
Hungary	64	0	316	4
Spain	34	0	65	0
Italy	43	0	103	1
Portugal	20	0	63	0
Ireland	11	0	42	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	4.0
14:30	US	Housing Starts	May	% m/m	3.9	3.6	-9.5
20:00	US	FOMC decision	Jun/21		0.25	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

This publication has been prepared by Santander Bank Polska S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Santander Bank Polska S.A. its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Santander Bank Polska S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Santander Bank Polska S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@santander.pl, http://www.santander.pl.