

Eyeopener

Strong dollar bad for CEE currencies

Equity markets slightly lower
Stronger dollar weakens zloty and other CEE currencies
Higher core market yields pushing Polish bond yields and IRS up
Today, Polish data on corporate wages and employment

On Thursday markets were able to fully react to Wednesday's FOMC meeting, where central bankers decided to signal rate hikes already in 2023 (earlier the Committee communicated no hikes are coming until at least 2024). Market expectations about dollar deposit rates jumped by 16bp at the end of 2023, 10Y UST by 7bp to 1.55%, and Bund by 7bp to -0.18%; the dollar gained by 0.4% (1.4% in 2 days). The rising yields were accompanied by falling inflation expectations, so the 10Y real interest rate climbed markedly (15-20bp), bringing lower the stock market (SP500 -1% since start of Wednesday) and precious metals (gold -4% to \$1785 per ounce, silver -5% to \$26.3 per ounce). The final reading of May inflation in the euro zone did not surprise (2.0% y/y). Meanwhile, US initial jobless claims climbed for the first time since April (to 412k from 376k one month before), which was interpreted as a one-off disturbance on an improving US labour market. Interest rates were changed neither by CBRT (bank of Turkey, 19%) nor by SNB (bank of Switzerland, -0.75%). The latter interpreted the rising inflation as transitory and promised to use currency interventions should the frank gain too much.

The **HICP inflation in Poland** fell in May to 4.6% y/y from 5.1%. The fall resulted from a statistical effect related to a significant rise of financial services prices in May 2020. The y/y dynamic of this sub-category fell to 4% from 46%, which took almost 1pp off HICP inflation. On the other hand, the contribution of goods prices increased by 0.25pp (goods prices inflation at 3.9%/y/y is the highest in 8.5 years) and contribution of other services also rose. The core HICP fell to 4.1%/y/y from 5.2% however its part related to "tradables" increased by 2.2%/y/y which is the highest in 14 years.

At the MPC meeting in May three of the MPC members (Gatnar, Hardt, Zubelewicz) voted in favour of the increase in the reserve requirement ratio to 3.5% (from the current 0.1%). Also, Monitor Polski published MPC's resolution which implies that the MPC communique will be presented only by NBP governor himself, without the help of two other MPC members. It looks like formal authorisation of change implemented already since the start of this year. It is not clear if the NBP governor conferences would return to the day of the MPC decision or weather the journalist would be allowed to ask questions in real time.

MPC's Jerzy Kropiwnicki said that the key issue to worry for the MPC is the economic growth and how to restore GDP to 2019 level (we think it will happen before the end of 2021), preserve solid growth and these are the prerequisites to consider what to do with inflation. In his view a large part of the current inflation (some 2pp out of 4.7%) comes from supply side factors. **Cezary Kochalski** said it is still too early for a potential discussion about the timing of monetary policy normalisation in Poland (ending QE, tightening the policy). His arguments were CPI forecasts which show its decline in 2022 and uncertainty about the economic outlook. He said he is not a big fan of one-off rate hike, a signal that would not mean a start of a series of rate hikes, as it will not change significantly the financing conditions in the economy.

Jerzy Żyżyński is convinced that inflation in Poland is "getting weaker" and will be back to the target when the economic situation normalises.

EURUSD fell on Thursday by 0.6% to 1.193 with two-day change already at -1.7%. Today in the morning the pair is testing 1.90. The decline was quite rapid so we think a rebound and return towards 200-day moving average at 1.20 is possible in the upcoming days.

EURPLN similar to most other EM currencies did not react positively to the Wednesday US events. It moved from 4.51 before FOMC to 4.545 and closed at 4.55 (+0.6%). USDPLN rose on Thursday by 1.2% to 3.81 (by 2.2% in two days and 4% MTD).

As for the **other CEE FX**, EURHUF rose +0.7% to 354.4 (up 2.1% from the start of June). EURCZK was more stable (25.49). The ruble basket made the third attempt this week to fall below 78.5 (RUB appreciation). In our view it may fail as the stronger dollar should push USDRUB higher (now around 72.2) to 73.5.

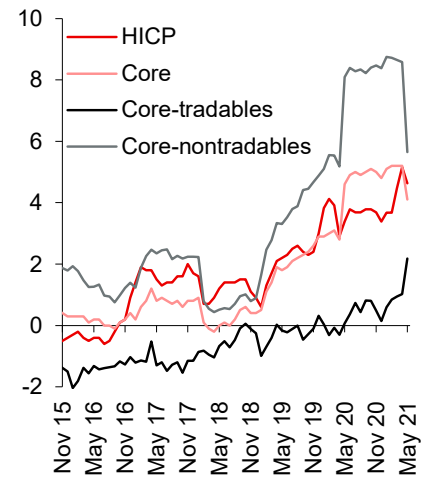
On the **domestic interest rate market** the sentiment was similar to core markets. IRS curve rose, the most on the short end (6-7bp vs +4bp on the long end). FRAs also rose. Government bonds were losing, their yields rose by 3bp at 10Y (1.79%) and 6bp at 5Y (1.29%). Bund spread was 197bp.

USDPLN Exchange Rate



Source: Bloomberg, Santander

Polish HICP inflation and main components, % y/y



Source: Eurostat, Santander

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FX market

Today's opening

EURPLN	4.5459	CZKPLN	0.1777
USDPLN	3.8212	HUFPLN*	1.2780
EURUSD	1.1903	RUBPLN	0.0528
CHFPLN	4.1582	NOKPLN	0.4464
GBPPLN	5.3004	DKKPLN	0.6113
USDCNY	6.4435	SEKPLN	0.4461

*for 100HUF

Last session in the FX market 17/06/2021

	min	max	open	close	fixing
EURPLN	4.520	4.553	4.526	4.551	4.531
USDPLN	3.766	3.822	3.769	3.821	3.793
EURUSD	1.190	1.201	1.200	1.191	-

Interest rate market 17/06/2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.34	2
DS0725 (5Y)	1.32	7
DS1030 (10Y)	1.79	4

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.43	2	0.17	0	-0.53	0
2L	0.82	6	0.28	0	-0.47	1
3L	1.09	7	0.52	1	-0.41	1
4L	1.29	6	0.75	0	-0.34	2
5L	1.44	5	0.93	-3	-0.27	-1
8L	1.72	4	1.32	-5	-0.05	0
10L	1.85	4	1.46	-8	0.09	-3

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	1
6x9	0.49	3
9x12	0.68	4
3x9	0.40	2
6x12	0.62	4

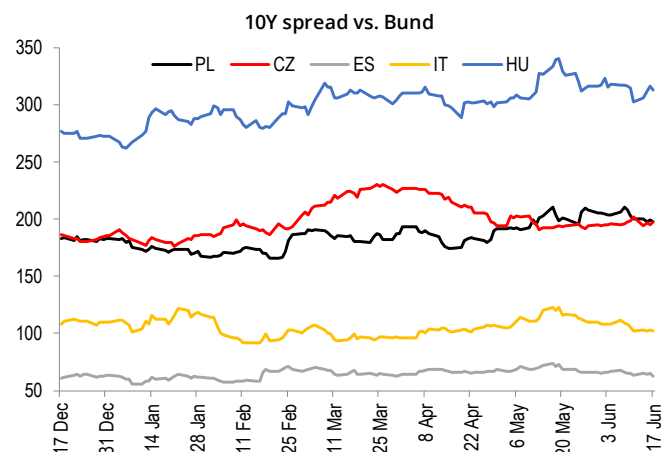
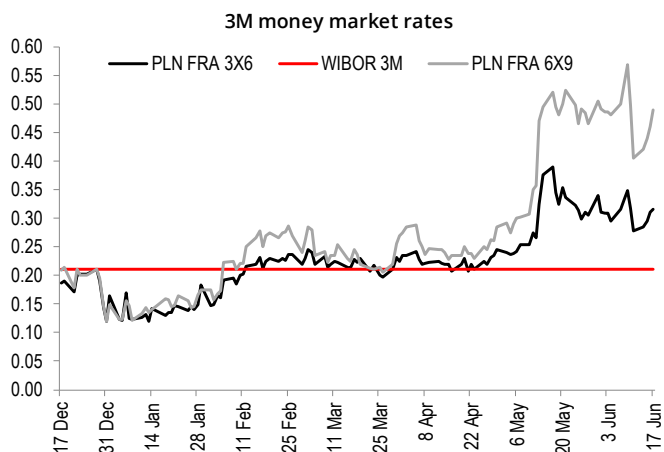
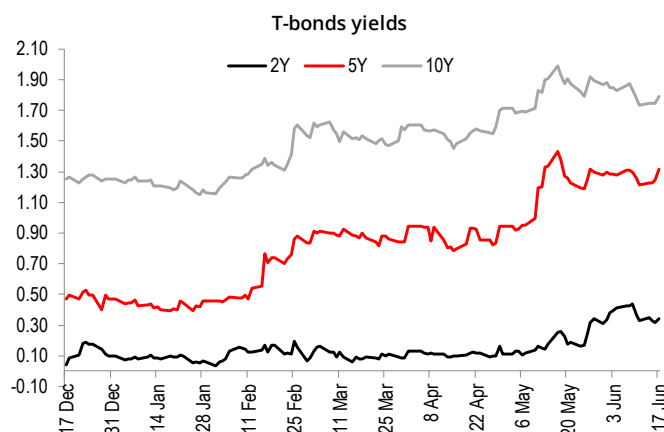
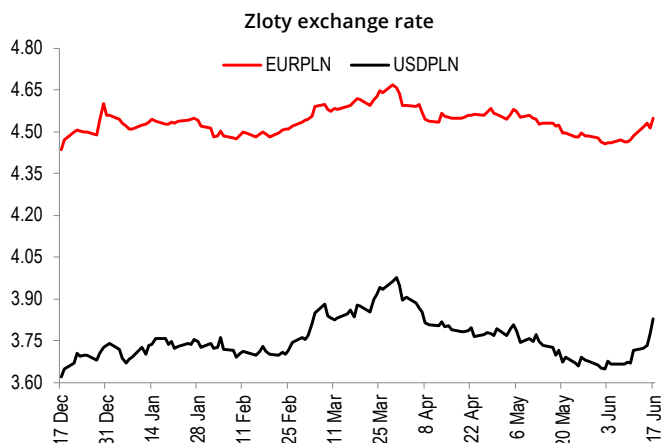
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	47	0	198	-2
France	10	0	35	-4
Hungary	64	0	313	-3
Spain	34	1	63	-2
Italy	44	1	102	-1
Portugal	21	0	60	-3
Ireland	11	0	38	-4
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	23838.0
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	4.8
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	2.0
14:30	US	Initial Jobless Claims	Jun/21	k	360.0	412.0	376.0
14:30	US	Index Philly Fed	Jun		31.0	30.7	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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