

21 June 2021

## Eyeopener

### Markets are still digesting the Fed message

Stock markets down – Bullard suggested US rate hikes already in 2022  
 Stronger dollar but lower core bond market yields  
 Zloty stable, its lack of correction bodes ill for the coming days  
 Domestic bond yields and IRS rates stable, the latter saw some demand late in the session  
 Today Polish industrial output and producer prices for May

On Friday the stock markets were losing, e.g. the European indices were down by 2%, as markets were digesting the significance of the Wednesday FOMC meeting and Fed's James Bullard (who will gain voting rights next year) supported expectations for rate hikes by stating that these could be necessary at the end of 2022. Another Fed member Neel Kashkari said that rates should be flat until end of 2023. However, since the FOMC meeting and release of the dot plot the market knows that such a view is not widely accepted with the Committee. The dollar was still gaining (0.5%), but core yields kept on falling with UST down by 7bp to 1.45%, Bund yield was down by 2bp to -0.22%. The decline of Bund yields went against new data, with final German PPI in May turning out 0.8pp higher than earlier estimate (7.2% y/y). The reflation trend is strong and the markets want to know (and possibly even test) how hawkish the Fed wants to be.

Average **corporate employment** rose by 2.7% y/y in May, beating our and market forecasts at 2.5% y/y. Low base effects kept the growth rate well above zero. Year-to-date employment is already up 0.39% or 24.4k this year which is an even slightly better result than the average for the same period in the three years of strong labour market and GDP growth preceding the pandemic (2017-2019), at 0.36% and 22.0k. In m/m terms employment rose by 22k which is the best result for this month since at least 1990, but we remind our readers that May 2021 was the month when most of Covid restrictions were removed. **Wages** grew 10.1% y/y, less than the market had expected (10.5%) and pretty close to our estimate (10.2%). We think that strong base effects should allow the wage growth to remain above 10% in the months to come. Once again we got a confirmation from the monthly corporate sector data that the Polish labour market is robust and supportive for a further swift private consumption rebound after 1Q surprised positively in this respect.

**EURUSD** fell on Friday by further 0.4% to 1.187, the 3-day change since the FOMC meeting stands at -2.1%. The nearest support is at 1.178-1.800 area and this is the level EURUSD might move towards in the coming days (0.7% more to go).

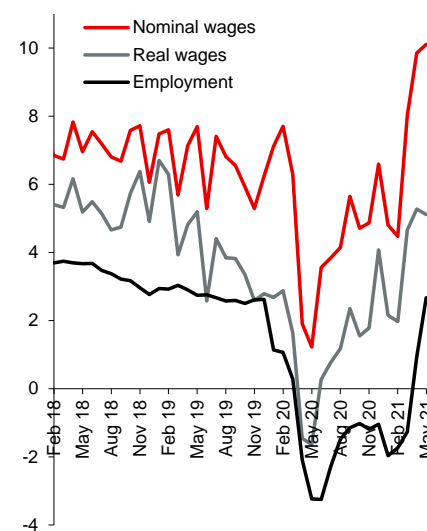
**EURPLN** tried to retrace a bit on Friday after a few days of significant increases however this was not happening easily – it closed near 4.55 – with a MTD increase of 1.6%. Even a small correction after such increases would make EURPLN declines more probable in the 1 week horizon, especially if the macroeconomic data from Poland would be stronger than market consensus (what we anticipate from most of this week's local releases). The USDPLN is especially prone to increases – and we think it could relatively easily go from the current 3.83 to 3.90 or even above.

As for the **other CEE currencies** EURHUF did not change on a daily basis (356,0). After the significant increases (2.4% since the start of June) the correction lower is due. On Tuesday the MNB (Hungarian central bank) will most likely increase interest rates by 30bp (to 0.90%). The lack of strengthening of the forint given the above can be read as slightly bearish. EURCZK has not changed on a daily basis either (25.55), is up 0.5% MTD. In the context of other CEE currencies the RUB trades in an interesting way (the RUB strengthened by 2.6% since the start of the month) and fell on Friday (USDRUB at 72.4 did not change thanks to stronger USD). We expect weaker RUB in the coming days though as the market vision of normalisation of US monetary policy prevails.

On the Polish **fixed income market** the IRS curve did not change on a daily basis by much, there were some bids seen at the end of the Friday session (5Y near 1.46%) which some market participants saw as a reaction to the James Bullard's comment (interest rate increases should be raised as early as at the end of next year while the inflation target is overshoot already). POLGBs slightly stronger e.g. 10Y at 1.76%.

**This week** we will get to see many Polish macro data (**today** PPI might be shown surging to 6% and industrial output will probably confirm the ongoing economic rebound). Moreover, there will be a few important releases abroad (preliminary June PMI, German IFO, in the US real estate data, durables, personal income and spending, PCE price index) as well as central bank meetings in Hungary (MNB), Czechia (CNB) and the UK (BoE).

#### Employment and wages in corporate sector, % y/y



Source: GUS, Santander

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**FX market**

**Today's opening**

EURPLN	4.5500	CZKPLN	0.1774
USDPLN	3.8347	HUFPLN*	1.2778
EURUSD	1.1867	RUBPLN	0.0525
CHFPLN	4.1509	NOKPLN	0.4416
GBPPLN	5.2914	DKKPLN	0.6114
USDCNY	6.4645	SEKPLN	0.4446

\*for 100HUF

**Last session in the FX market**

**18/06/2021**

	min	max	open	close	fixing
EURPLN	4.537	4.558	4.557	4.552	4.550
USDPLN	3.811	3.845	3.827	3.836	3.820
EURUSD	1.185	1.193	1.191	1.187	-

**Interest rate market 18/06/2021**

**T-bonds on the interbank market\*\***

Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.36	2
DS0725 (5Y)	1.31	0
DS1030 (10Y)	1.76	-3

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

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.43	1	0.18	1	-0.53	0
2L	0.84	2	0.30	2	-0.47	0
3L	1.12	3	0.54	2	-0.40	1
4L	1.32	2	0.75	0	-0.33	1
5L	1.46	2	0.91	-2	-0.26	1
8L	1.72	0	1.25	-7	-0.05	0
10L	1.84	0	1.39	-8	0.08	-2

**WIBOR rates**

Term	%	Change (bps)
O/N	0.10	-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	0
6x9	0.50	1
9x12	0.70	2
3x9	0.41	1
6x12	0.63	0

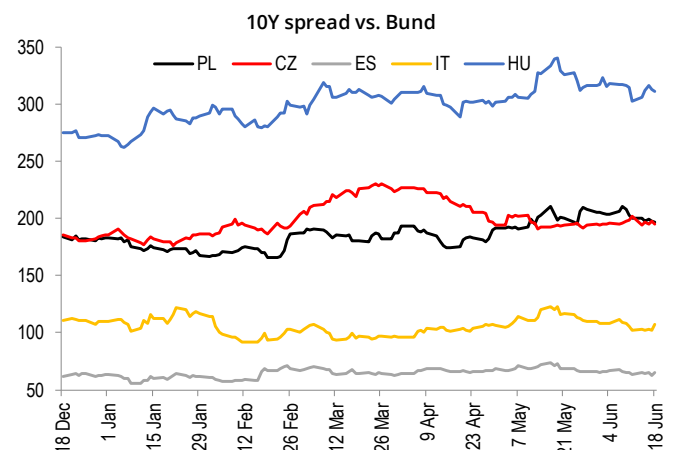
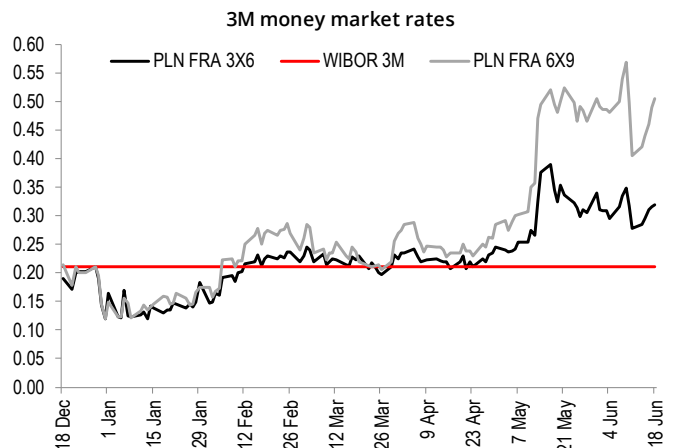
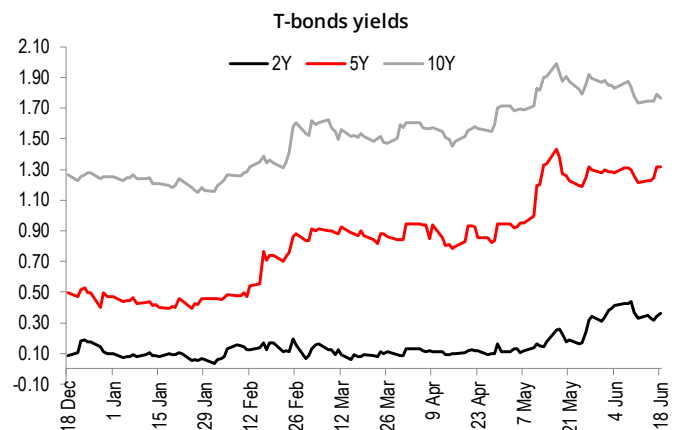
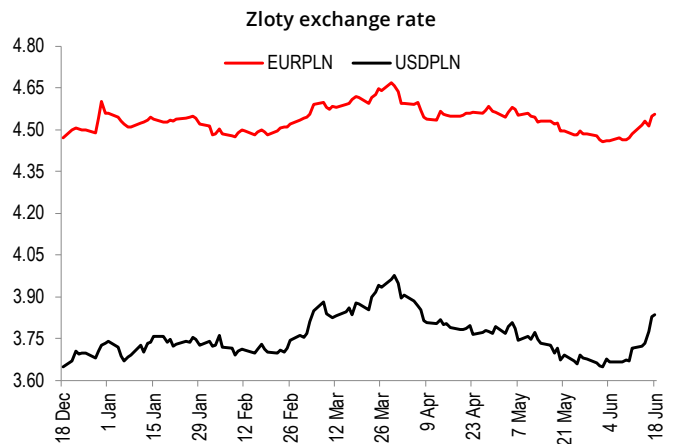
**Measures of fiscal risk**

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	47	0	197	-1
France	10	0	36	1
Hungary	64	0	311	-1
Spain	35	1	65	3
Italy	46	2	107	6
Portugal	22	1	64	3
Ireland	11	0	41	3
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 (18 June)</b>								
10:00	PL	Employment in corporate sector	May	% y/y	2.5	2.5	2.7	0.9
10:00	PL	Average Gross Wages	May	% y/y	10.5	10.2	10.1	9.9
<b>MONDAY (21 June)</b>								
10:00	PL	Sold Industrial Output	May	% y/y	30.4	26.8	-	44.5
10:00	PL	PPI	May	% y/y	5.8	6.0	-	5.3
<b>TUESDAY (22 June)</b>								
10:00	PL	Construction Output	May	% y/y	1.5	2.7	-	-4.2
10:00	PL	Retail Sales Real	May	% y/y	11.4	12.8	-	21.1
14:00	HU	Central Bank Rate Decision	Jun/21	%	0.9	-	-	0.6
16:00	US	Existing Home Sales	May	% m/m	-2.2	-	-	-2.7
<b>WEDNESDAY (23 June)</b>								
09:30	DE	Germany Manufacturing PMI	Jun	pts	63.2	-	-	64.4
09:30	DE	Markit Germany Services PMI	Jun	pts	55.3	-	-	52.8
10:00	EZ	Eurozone Manufacturing PMI	Jun	pts	62.2	-	-	63.1
10:00	EZ	Eurozone Services PMI	Jun	pts	57.5	-	-	55.2
14:30	CZ	Central Bank Rate Decision	Jun/21		0.50	-	-	0.25
16:00	US	New Home Sales	May	% m/m	1.4	-	-	-5.9
<b>THURSDAY (24 June)</b>								
10:00	DE	IFO Business Climate	Jun	pts	100.0	-	-	99.2
10:00	PL	Unemployment Rate	May	%	6.1	6.1	-	6.3
14:00	PL	Money Supply M3	May	% y/y	9.1	8.7	-	11.2
14:30	US	Durable Goods Orders	May	% m/m	3.0	-	-	-1.3
14:30	US	GDP Annualized	1Q	% Q/Q	6.4	-	-	6.4
14:30	US	Initial Jobless Claims		k	-	-	-	412.0
<b>FRIDAY (25 June)</b>								
14:30	US	Personal Spending	May	% m/m	0.3	-	-	0.5
14:30	US	Personal Income	May	% m/m	-2.7	-	-	-13.1
14:30	US	PCE Deflator SA	May	% m/m	0.6	-	-	0.6
16:00	US	Michigan index	Jun	pts	86.8	-	-	86.4

Source: Santander Bank Polska, Bloomberg, Parkiet  
\* in the case of a revision the data is updated

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