

22 June 2021

Eyeopener

Mild correction

Stock markets rebound after declines
Weaker dollar, but higher UST and Bund yields
PLN gains, domestic yields slightly up
Today construction output, retail sales in Poland, interest rate decision in Hungary

On Monday the equity markets went up, correcting declines that took place after the hawkish FOMC meeting. The dollar weakened, while EM currencies gained. In the second part of the day the core market bond yields started rising: Bund +3bp to -0.17%, UST eventually +5bp to 1.48% (after clear drop of yields in the first part of the day, which then reversed). Gold price was stable, while crude oil price went up 1%. ECB president Christine Lagarde said that as the pandemic situation improves, economic outlook improves as well, but tightening monetary policy at this stage would be premature and would threaten the economic revival and inflation outlook. She estimated that the asset purchases (QE) and TLTRO will boost inflation in 2020-23 cumulatively by 1.1pp and real GDP growth by 1.8pp. Fed's James Bullard said the bank should be ready for upward inflation risks.

Industrial production in May rose 29.8% y/y, which was close to market consensus (30.4%) and more than we expected (26.8%). The data confirm that Polish manufacturing sector keeps expanding, with production volume already back on the pre-covid trend with no major signs of slowing down. It bodes well for GDP growth in 2Q21 and subsequent quarters. In the upcoming months the low statistical base effect will be waning so the annual growth rate of industry is likely to go strongly down, even though still in the expansion zone. In May Polish **PPI** rose by 6.5% y/y from 5.5% y/y in April, much faster than we (6.0%) and the market (5.8%) had expected. Previous reading was revised higher. Acceleration of producer prices was broad-based. See more in the [Economic comment](#).

MPC's Cezary Kochalski said he was not sure whether the economy is already on the permanent growth path and the MPC should not hike rates too early. However, when the monetary policy starts to be normalised, then reduction of QE should be the first move. Meanwhile, **Eryk Łon** said that due to limited upward potential for commodity prices, their annual growth rates should be going down and this is likely to translate into lower inflation pressure in Poland at the start of 2H21. **Rafał Sura** thought that even though the July projection is likely to show higher CPI and GDP paths, the risk of another wave of pandemic is an argument to wait with any changes in monetary policy until November set of NBP forecasts. For Sura, CPI path permanently above 3.5% due to demand factors would be a signal to tighten the policy. Tightening should start with end to the QE programme (Sura ensured that last QE auctions, though lower, do not mean tapering) and then to hike rates, while hike of reserve requirement rate would be only a technical issue.

Finance minister Tadeusz Kościński said that economic growth could be close to 5% this year, although for budget planning the 3.8% forecast was used. He ensured that budget has buffers for the event of the next wave of the pandemic, amid borrowing needs being financed in 73% and with PLN125.8bn cash reserve at the Ministry's accounts. In his view the central budget will see the surplus in June of above PLN9bn, similar to the one in May.

The **Supreme Court** is going to discuss FX loans issue in September according to a remark by the court's president Małgorzata Manowska.

EURUSD rose 0.6% to 1.192. Important resistance levels are 1.195 and 1.200 – we think the rate will not have enough power to breach them.

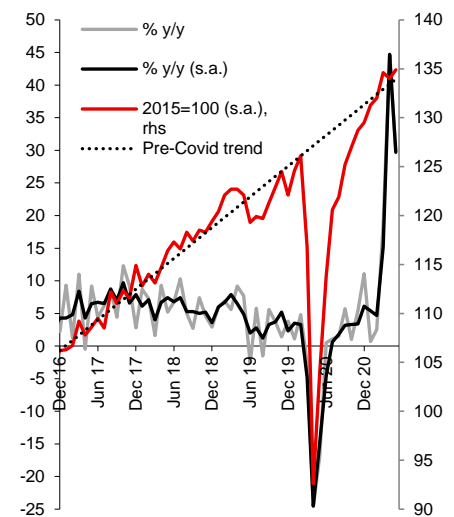
EURPLN fell to 4.528 in correctional move and thus approached the 200-day moving average (4.525). In the context of rising US interest rates and possible dollar strengthening, this testing was not successful in our view and after several days the zloty may return to weakening, we think.

As to the **other regional currencies**, EURHUF declined by 0.6% to 353.4 - not only the global factors but also local confidence and sentiment indicators improved a bit. EURCZK fell 0.3% to 25.52. USDRUB as the only one in the region increased to above 73.0 alongside increasing oil prices, which is not typical.

On the Polish **fixed income market** the IRS curve slightly increased at the front end and the belly (2Y +3bp to 0.87%, 5Y +3bp to 1.49%) while it remained stable at the long end (10Y at 1.84%). The bond curve moved slightly higher. The spread vs Bund narrowed to 193bp.

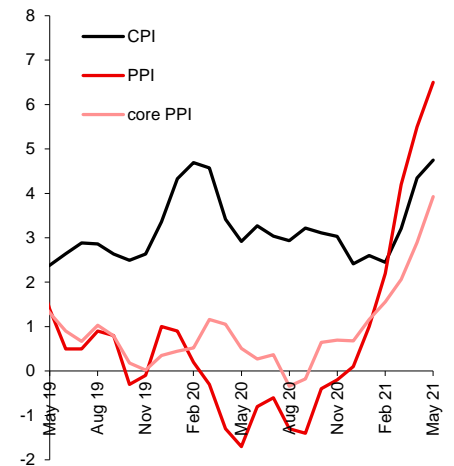
Today in Poland there are construction output and retail sales data. We expect decent readings above the current market consensus which would confirm the economic rebound after restrictions have been lifted. According to market consensus the NBH will hike the interest rate at today's meeting to 0.90% from 0.60%.

Industrial output, % y/y



Source: GUS, Santander

Inflation measures in Poland, % y/y



Source: GUS, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website: [santander.pl/en/economic-analysis](https://www.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	4.5300	CZKPLN	0.1771
USDPLN	3.8088	HUFPLN*	1.2691
EURUSD	1.1894	RUBPLN	0.0521
CHFPLN	4.1367	NOKPLN	0.4425
GBPPLN	5.2935	DKKPLN	0.6090
USDCNY	6.4691	SEKPLN	0.4449

*for 100HUF

Last session in the FX market						21.06.2021
	min	max	open	close	fixing	
EURPLN	4.516	4.552	4.550	4.527	4.544	
USDPLN	3.798	3.838	3.835	3.802	3.821	
EURUSD	1.185	1.192	1.187	1.191	-	

Interest rate market 21.06.2021

T-bonds on the interbank market**		
Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.39	3
DS0725 (5Y)	1.33	2
DS1030 (10Y)	1.76	0

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.46	3	0.18	0	-0.53	0
2L	0.87	3	0.33	3	-0.46	1
3L	1.14	2	0.54	1	-0.39	1
4L	1.34	2	0.76	1	-0.32	1
5L	1.48	2	0.93	2	-0.24	2
8L	1.73	1	1.29	4	-0.03	2
10L	1.84	0	1.44	5	0.11	3

WIBOR rates

Term	%	Change (bps)
O/N	0.09	-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	0
3x6	0.33	1
6x9	0.55	4
9x12	0.76	6
3x9	0.42	1
6x12	0.65	3

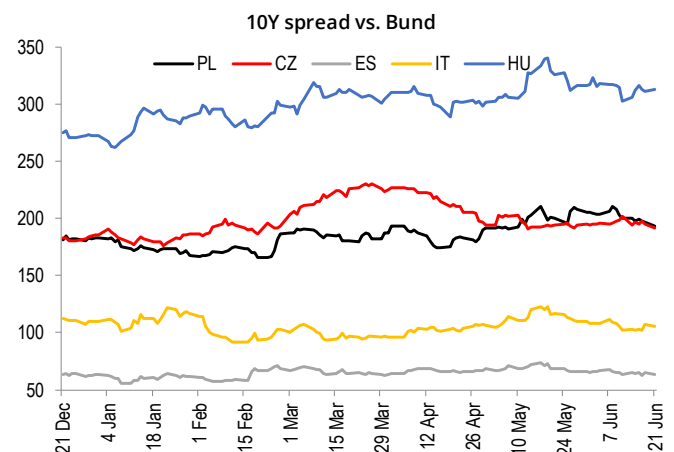
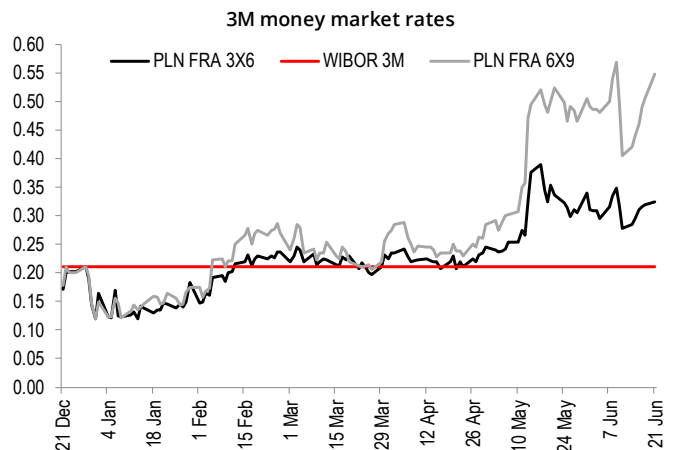
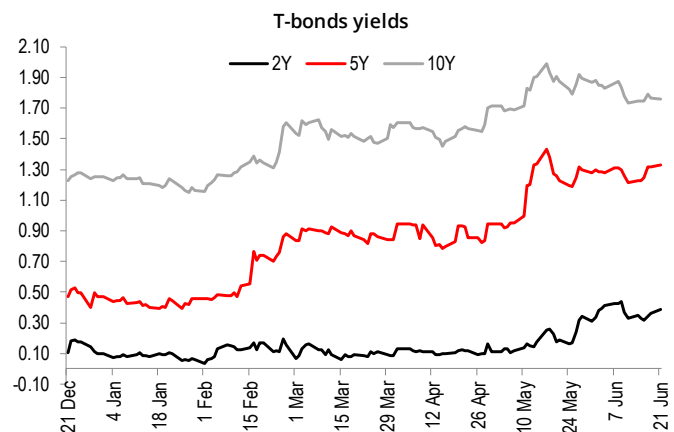
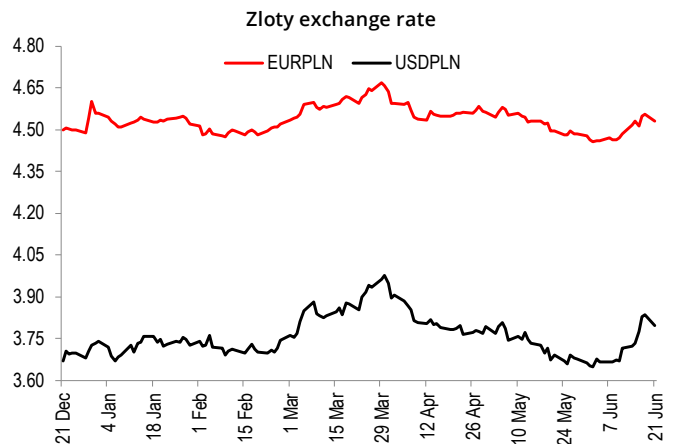
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	47	0	194	-3
France	10	0	34	-2
Hungary	64	0	312	1
Spain	34	-1	63	-2
Italy	45	-1	105	-2
Portugal	21	-1	61	-3
Ireland	11	0	38	-2
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 (18 June)								
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
MONDAY (21 June)								
10:00	PL	Sold Industrial Output	May	% y/y	30.4	26.8	29.8	44.5
10:00	PL	PPI	May	% y/y	5.8	6.0	6.5	5.3
TUESDAY (22 June)								
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
WEDNESDAY (23 June)								
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
THURSDAY (24 June)								
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
FRIDAY (25 June)								
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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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.