

25 June 2021

Weekly Economic Update

Hot start of the summer holidays

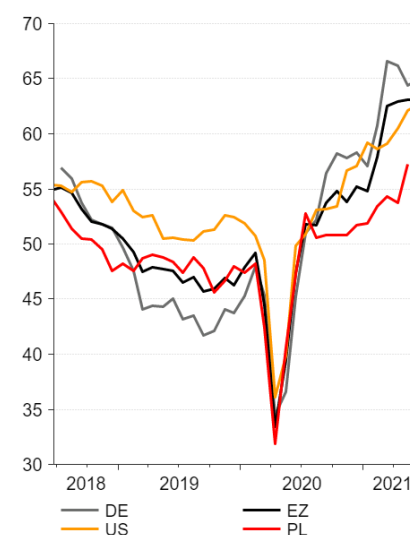
Economy next week

- In the first week of summer holidays the economic calendar will not be extremely busy, but we will see some data releases important from the market perspective. In Poland we will get June flash CPI (Wednesday) and manufacturing PMI (Thursday). Abroad, apart from final PMIs there will be inflation data in Europe, ESI sentiment indicators, and the week will finish with US labour market report.
- **Our CPI forecast is at 4.5% y/y** – slightly below the May print of 4.7% and below the market consensus at 4.6%. Our forecast is based on assumptions of a moderate growth of food prices (0.3% m/m) and fuels (1.0% m/m), which will be more than offset by the high statistical base effect in some services (transport, communication, recreation, education). The data confirming that CPI has peaked in May would not change our view that inflation in Poland is to stay above 4% for the rest of the year and will remain significantly higher than the NBP target also in 2022.
- **As for the PMI manufacturing we expect it to retain its elevated level** (our forecast 57.5; consensus 56.9) as a function of still decent business cycle indicators in the global manufacturing sector (the indices for Germany and the Eurozone still at the record levels above 60 pts) and reviving global trade.
- July might turn out to be an interesting month as far as the Polish politics is concerned. The recent changes in the Polish parliament (the ruling PiS formally losing majority in the Sejm), the ruling party's congress planned for 3 July, the scheduled for even later opinion of the Constitutional Court whether the European law has priority over the Polish law (on 13-14 July) and the Court of Justice of the European Union ruling regarding the Polish rule of law (15 July). All those are possible reasons for the perception of political risk in Poland. At the moment, it is hard to say, however, how it will play out for the financial market.

Markets next week

- In the coming week the key issue for the FX market will be the behaviour of the dollar in the face of important June US data concentrated in the second part of the week (manufacturing ISM on Thursday, non-farm payrolls on Friday) as well as some European readings (European Commission's ESI indexes and German inflation on Tuesday, Eurozone inflation on Wednesday). For EUR/USD a key thing to watch will be how it performs around two important technical levels: 1.1950 (double top from August 2020) and 1.2000 (triple top from August and September 2017). We think these resistance levels will be hard to breach and as a consequence the dollar behaviour will be negative for EM FX this week. When it comes to local factors for EUR/PLN, the Wednesday CPI release seems to be a key event. The market sees it at 4.6% y/y, we say 4.5% - if the reading is lower, as we expect, it will be another argument for weaker zloty. In the coming week **if data come in line with expectations EUR/PLN may again test and stick around the 200-day moving average (4.52-5.53)**.
- Bond yields in the core markets have stabilised at the long end of the curve after the June FOMC meeting: 10Y Bund near -0.18%, 10Y UST just below 1.50%. After the signals about possible earlier rate hikes in the US, market focused on the belly of the curve watching whether 5Y yield can reach 1.0% (from the current 0.91%). We think **the move could be continued in the nearest week, which would have negative impact on the Polish debt market – especially in the belly of the curve**. Lower CPI print could dampen this move a bit. On Wednesday there will be the second of two BGK bond auctions planned for June, where the bank will offer bonds: FPC0328, FPC0631, FPC0733, FPC1140. At the first auction BGK sold bonds worth less than PLN2bn amid demand at PLN2.4bn.

Manufacturing PMI, pts.



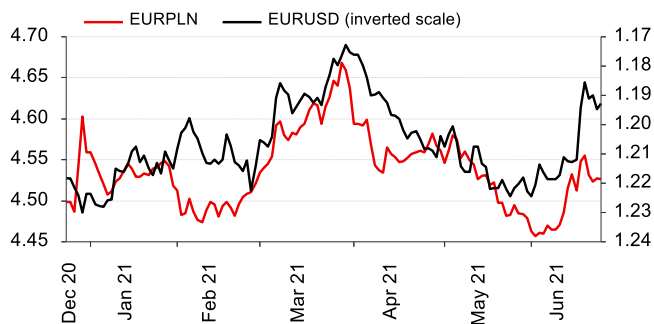
Source: Refinitiv Datastream, Santander

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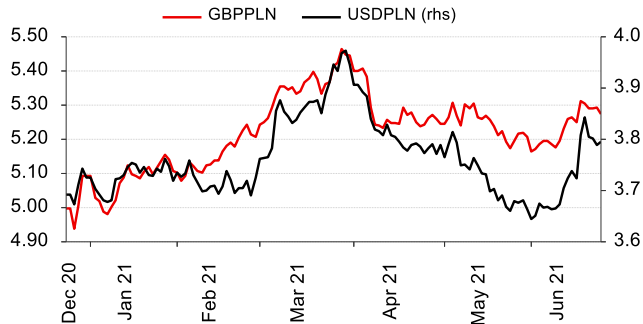
FX and FI markets

EURPLN and EURUSD



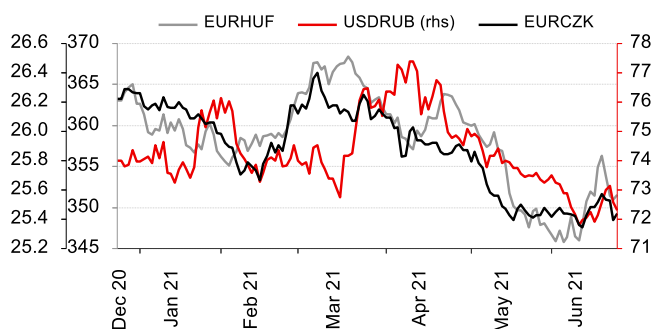
Source: Refinitiv Datastream, Santander Bank Polska

GBPPLN and USDPLN



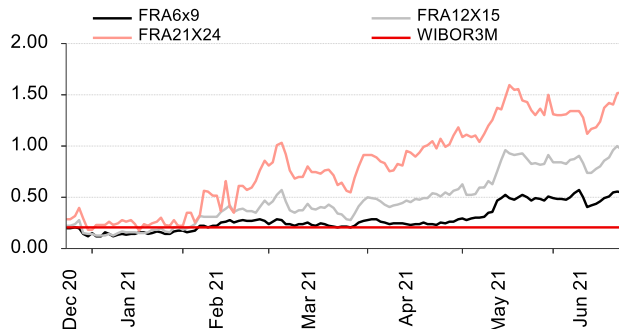
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EURCZK, EURHUF and USDRUB



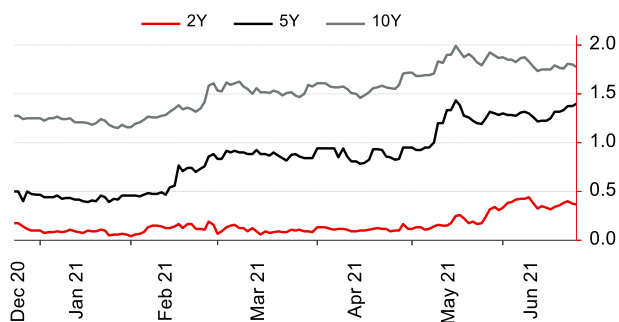
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



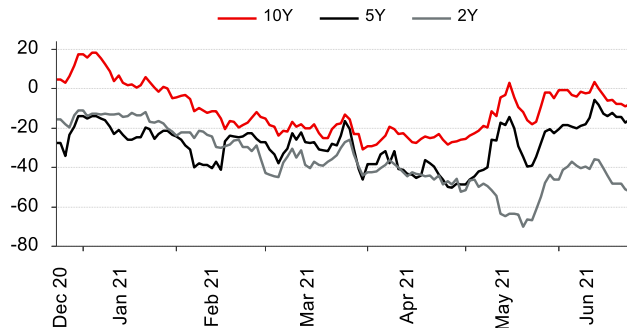
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



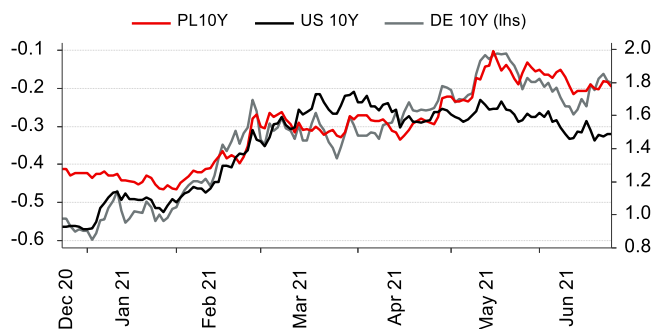
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



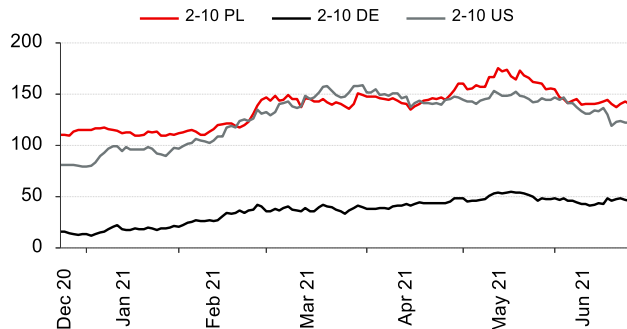
Source: Refinitiv Datastream, Santander Bank Polska

10Y bond yields



Source: Refinitiv Datastream, Santander Bank Polska

Steepness of yield curves



Source: Refinitiv Datastream, Santander Bank Polska

Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE
				MARKET	SANTANDER	
TUESDAY (29 June)						
09:00	CZ	GDP SA	1Q	% y/y	-2.1	-2.1
11:00	EZ	ESI	Jun	pct.	116.0	114.5
14:00	DE	HICP	Jun	% m/m	0.3	0.3
16:00	US	Consumer Conference Board	Jun	pts	118.5	117.2
WEDNESDAY (30 June)						
10:00	PL	CPI	Jun	% y/y	4.6	4.5
11:00	EZ	Flash HICP	Jun	% y/y	1.9	2.0
14:15	US	ADP report	Jun	k	530.0	978.2
16:00	US	Pending Home Sales	May	% m/m	-1.0	-4.4
THURSDAY (1 July)						
09:00	PL	Poland Manufacturing PMI	Jun	pts	57.1	57.5
09:55	DE	Germany Manufacturing PMI	Jun	pts	64.9	64.9
10:00	EZ	Eurozone Manufacturing PMI	Jun	pts	63.1	63.1
11:00	EZ	Unemployment Rate	May	%	8.0	8.0
14:30	US	Initial Jobless Claims		k		412.0
16:00	US	ISM manufacturing	Jun	pts	61.0	61.2
FRIDAY (2 July)						
14:30	US	Durable Goods Orders		% m/m	2.8	-1.3
14:30	US	Change in Nonfarm Payrolls	Jun	k	695.0	559.0
14:30	US	Unemployment Rate	Jun	%	5.7	5.8
16:00	US	Factory Orders	May	% m/m	1.3	-0.6

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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