

# Weekly Economic Update

## Strong end of May

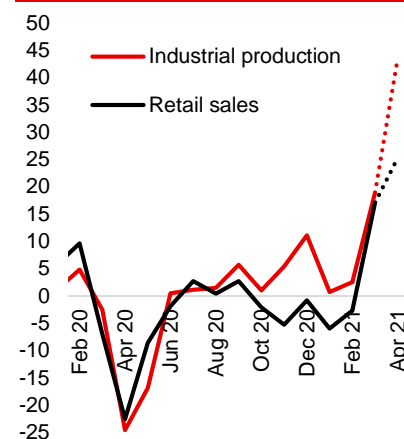
### Economy next week

- In the final days of May, awaiting the full reopening of restaurants, clubs, sport and cultural facilities (29/05), we will see quite a number of new data releases: in Poland they will include April's industrial production and retail sales (Monday), M3 money supply (Tuesday), unemployment plus the monthly Statistical Bulletin with bunch of detailed indicators (Wednesday). Abroad, important releases include several economic climate indicators for May (German Ifo, European ESI, US Conference Board), plus April's data about real activity, including German retail sales, US durable goods, consumer spending and housing market.
- On Tuesday the Hungarian central bank (MNB) holds the regular meeting. Its vice-president has recently suggested that rate hike already in June cannot be ruled out (inflation rate in Hungary spiked to 5.2% y/y in April). The money market is pricing-in a 10bp interest rate increase in one month horizon. Even if there is no change in policy next week, the MNB's communication regarding the policy outlook will be important.
- Data about Polish industrial output and retail sales will show spectacular annual growth rates in April due to very low base (production above 40% y/y, sales above 20% y/y). Our forecasts are below market consensus, but we think the difference is not significant enough to change the overall optimistic message, as we think the numbers will confirm a gradual recovery of economic activity already in 2Q. The pace of recovery will accelerate strongly, in our view, in the second year-half.

### Markets next week

- In the short-term the zloty should be supported by four factors: (1) noticeably higher market interest rates which (similarly to other CEE countries) increase the alternative cost of shorts and discourage such a behaviour; (2) another postponement of the High Court ruling regarding the CHF-mortgages (this time with no specific date) which decreases the risk premium associated with the event; (3) freshly announced New Deal program will be slightly pro-growth and pro-inflationary; (4) increasing EURUSD. In the coming week we expect EURPLN to decline to 4.45.
- The last week of May is likely to become positive for POLGBs. Polish government bonds should strengthen not only from technical reasons - as a natural, healthy correction after the sizeable and abrupt sell-off which has been taken place since mid-April (which translates to nice entry points for fresh investors). Other factors should remain supportive as well: it is last week of the month (demand related to the bank tax), on Wednesday 26 May there is the second one (of 2 scheduled for May) NBP purchase auction (we estimate the purchase to amount at least PLN 5.0bn), there is a redemption of the OK0521 bond (PLN 5.5bn) and on top of that the coupons from the floating rate bonds (WZ) are being paid (PLN 0.2bn, roughly). We expect to see 1.80% on 10Y POLGBs before the end of May.

### Industrial production and retail sales, % y/y



Source: GUS, Santander

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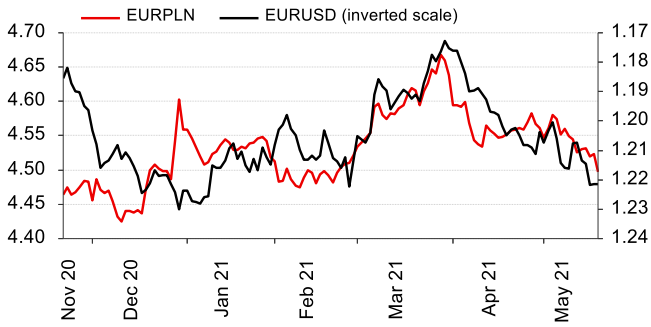
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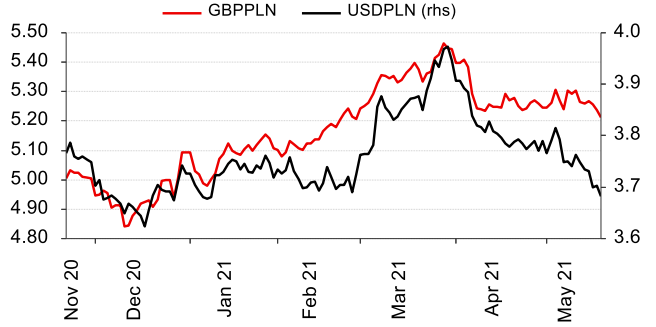
## FX and FI markets

### EURPLN and EURUSD



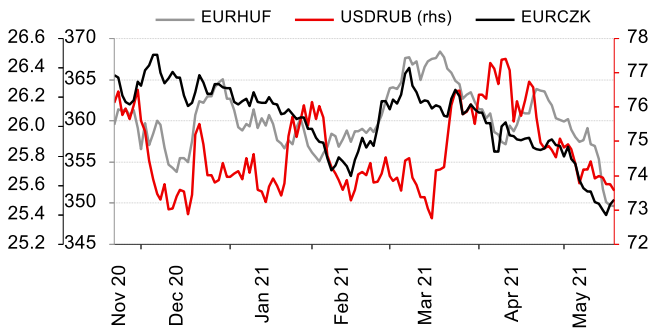
Source: Refinitiv Datastream, Santander Bank Polska

### GBPPLN and USDPLN



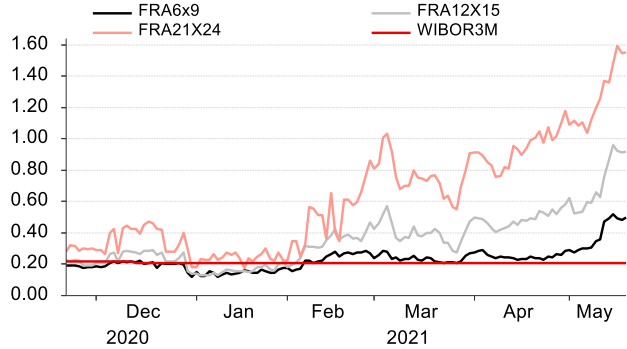
Source: Refinitiv Datastream, Santander Bank Polska

### EURCZK, EURHUF and USDRUB



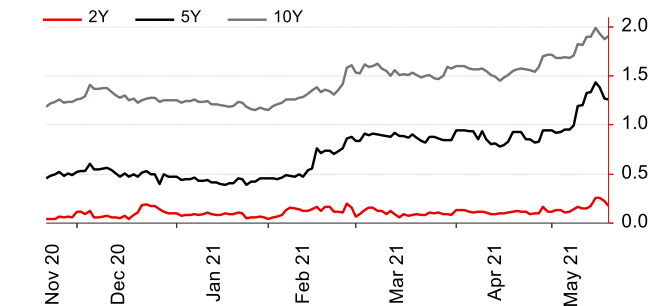
Source: Refinitiv Datastream, Santander Bank Polska

### PLN FRA and WIBOR3M



Source: Refinitiv Datastream, Santander Bank Polska

### Polish bond yields



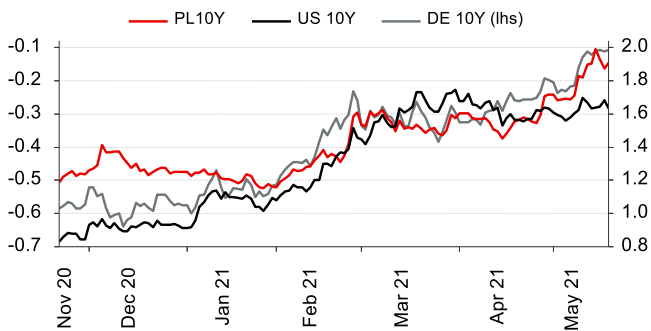
Source: Refinitiv Datastream, Santander Bank Polska

### Asset swap spreads



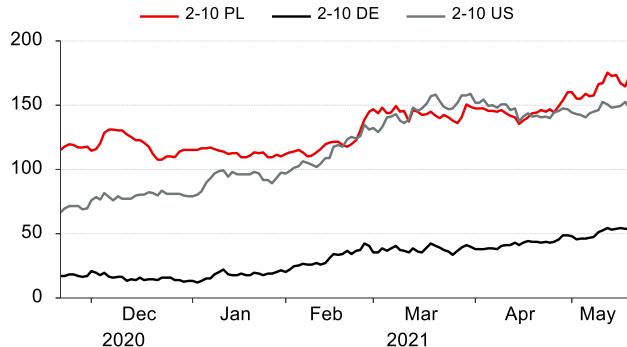
Source: Refinitiv Datastream, Santander Bank Polska

### 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		
<b>MONDAY (24 May)</b>							
10:00	PL	Sold Industrial Output	Apr	% y/y	45.0	43.6	18.9
10:00	PL	Retail Sales Real	Apr	% y/y	28.5	21.4	17.1
<b>TUESDAY (25 May)</b>							
08:00	DE	GDP WDA	1Q	% y/y	-3.0		-3.0
10:00	DE	IFO Business Climate	May	pts	98.0		96.8
14:00	HU	Central Bank Rate Decision	May/21	%	0.6		0.6
14:00	PL	Money Supply M3	Apr	% y/y	12.4	11.8	14.4
16:00	US	Consumer Conference Board	May	pts	120.0		121.7
16:00	US	New Home Sales	Apr	% m/m	-6.46		20.7
<b>WEDNESDAY (26 May)</b>							
10:00	PL	Unemployment Rate	Apr	%	6.3	6.3	6.4
<b>THURSDAY (27 May)</b>							
14:30	US	Durable Goods Orders	Apr	% m/m	0.8		1.0
14:30	US	GDP Annualized (Second)	1Q	% Q/Q	6.4		6.4
14:30	US	Initial Jobless Claims		k	450.0		444.0
16:00	US	Pending Home Sales	Apr	% m/m	1.2		1.9
<b>FRIDAY (28 May)</b>							
11:00	EZ	ESI	May	pct.	113.1		110.3
14:30	US	Personal Spending	Apr	% m/m	0.4		4.2
14:30	US	Personal Income	Apr	% m/m	-15.0		21.1
14:30	US	PCE Deflator SA	Apr	% m/m	0.6		0.5
16:00	US	Michigan index (Final)	May	pts	83.0		82.8

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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