

Weekly Economic Update

Inflation approaching 5% ?

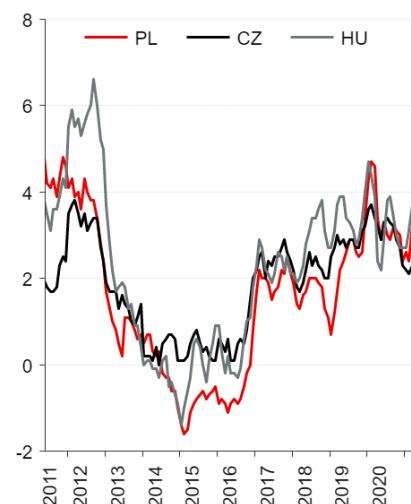
Economy next week

- At the very start of the week we will see important data releases from Poland: 1Q GDP (Monday), flash CPI inflation for May and manufacturing PMI (Tuesday). On Thursday there is market holiday in Poland.
- **GDP growth** – as we already know from the flash reading – was quite solid in 1Q21 (-1.2% y/y, +0.9% q/q s.a.) but now we will see its breakdown. We estimate that private consumption declined by 1% y/y and fixed investments by 14% y/y. We still think that the most likely scenario is sharp revival of economic activity in 2H21.
- **PMI index** for Polish manufacturing has been lagging behind the corresponding indicators for other European economies, but we keep believing that it should finally start catching up – thus we forecast it to rise to 55.0. Other business climate surveys showed that situation in manufacturing remained solid in May.
- **CPI inflation** undoubtedly has increased in May, the question is how much. Our forecast is at 4.8% y/y, market consensus at 4.9% and some forecasts start with “5”. Even if our forecast is the most accurate, it means a very high CPI jump, which is not only the result of exogenous factors, as the NBP governor would like to see it, and confirms that inflation trajectory this year and most likely also in 2022 will be way above the one anticipated by the central bank. Thus, market speculation about looming monetary policy normalisation is not likely to disappear easily.
- Apart from that, the week will be dominated by data releases abroad: in Europe on top of inflation data and PMIs we will see next GDP releases, retail sales, and the week will conclude with US non-farm payrolls data.

Markets next week

- Last week the zloty appreciated, as we had suggested, but EURPLN did not reach 4.45 but instead only 4.48. Despite theoretically supportive environment for EM risk (higher S&P500 index and oil price, Chinese yuan at record high vs USD), the zloty for some reason was lagging behind forint and koruna. Maybe PLN needs more clarity on the NBP approach to QE and interest rate outlook to perform better. In the nearest week we expect EURPLN in the range 4.47-4.50 with the risk of bigger appreciation if May inflation surprises again to the upside.
- Polish bonds weakened last week despite favourable environment (e.g. positioning, purchases before the month end, lower yields in core markets) and the reason was the result of the NBP bond purchase auction, at which the central bank did not buy any government bonds, to the surprise of many market participants. The total amount of bonds purchased in May was smaller than in April, which may signal the beginning of QE tapering. On Monday we will see the FinMin's calendar of bund issuances and NBP's plan for repurchase auctions, and on Tuesday flash CPI will be released. The risk from the core markets' yields is concentrated at the end of the week, when NFP data will be released. For global inflation expectations the crude oil price could be important, which may depend on the OPEC+ meeting (Tuesday), at which the supply will be discussed in the context of potentially higher oil supply from Iran (if the deal with the USA is accomplished). In the coming week we expect a continuation of bond yield increases (10Y towards 2.0%) and further normalisation of ASW spreads (with possibility of them moving above zero for the first time since January 2021).

Inflation rates in CEE, % y/y



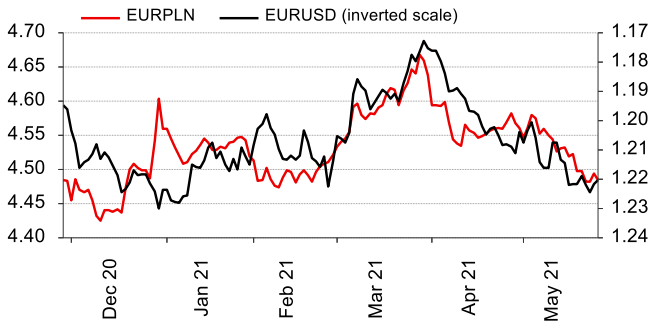
Source: Refinitiv Datastream, Santander

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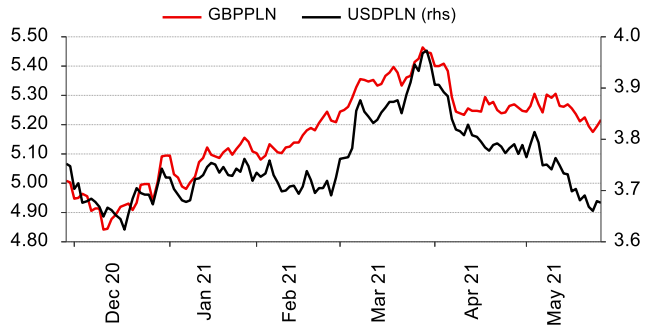
FX and FI markets

EURPLN and EURUSD



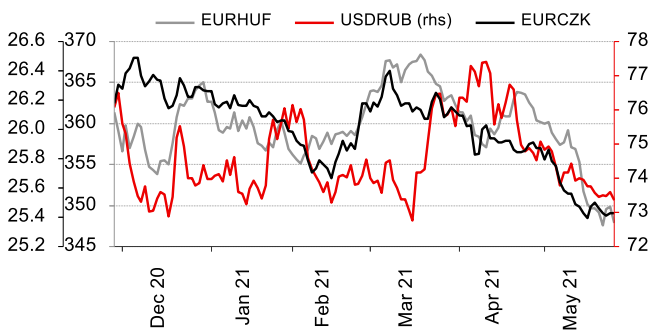
Source: Refinitiv Datastream, Santander Bank Polska

GBPPLN and USDPLN



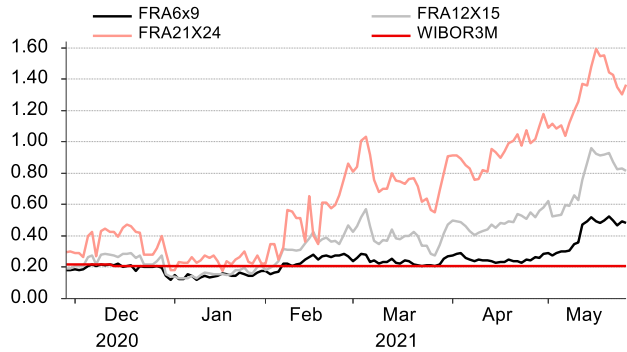
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



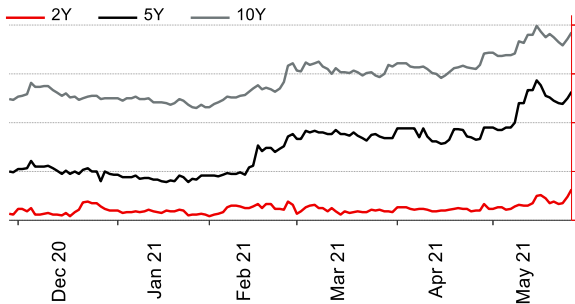
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



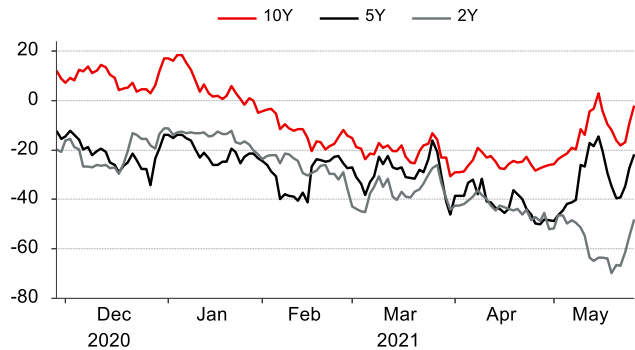
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



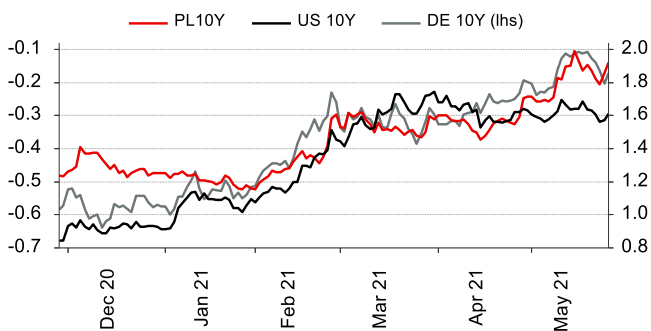
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



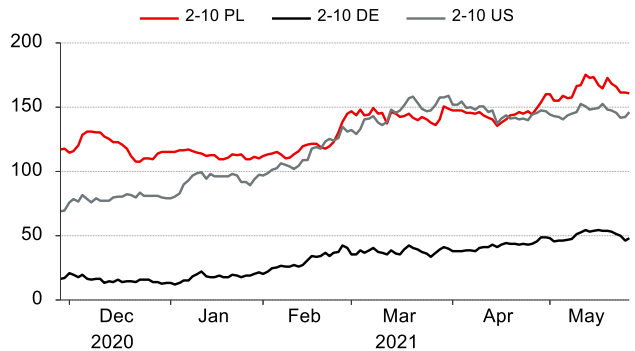
Source: Refinitiv Datastream, Santander Bank Polska

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	
MONDAY (31 May)						
	DE	Retail Sales	Apr	% m/m	-2.2	7.7
10:00	PL	GDP	1Q	% y/y	-1.2	-2.7
10:00	PL	Private consumption	1Q	% y/y	-1.2	-3.2
10:00	PL	Fixed investments	1Q	% y/y	-7.4	-15.4
14:00	DE	HICP	May	% m/m	0.3	0.5
TUESDAY (1 June)						
09:00	CZ	GDP SA	1Q	% y/y	-2.1	-2.1
09:00	PL	Poland Manufacturing PMI	May	pts	54.5	53.7
09:00	HU	GDP	1Q	% y/y	-2.3	-2.3
09:55	DE	Germany Manufacturing PMI (Final)	May	pts	64.0	64.0
10:00	EZ	Eurozone Manufacturing PMI	May	pts	62.8	62.8
10:00	PL	CPI	May	% y/y	4.9	4.3
11:00	EZ	Flash HICP	May	% y/y	1.9	1.6
11:00	EZ	Unemployment Rate	Apr	%	8.1	8.1
16:00	US	ISM manufacturing	May	pts	61.0	60.7
THURSDAY (3 June)						
03:45	CN	Caixin China PMI Services	May	pts	56.0	56.3
09:55	DE	Markit Germany Services PMI (Final)	May	pts	52.8	52.8
10:00	EZ	Eurozone Services PMI	May	pts	55.1	55.1
14:15	US	ADP report	May	k	700.0	742.2
14:30	US	Initial Jobless Claims		k		406.0
16:00	US	ISM services	May	pts	63.0	62.7
FRIDAY (4 June)						
11:00	EZ	Retail Sales	Apr	% m/m	-1.7	2.7
14:30	US	Durable Goods Orders	Apr	% m/m		-1.3
14:30	US	Change in Nonfarm Payrolls	May	k	663.0	266.0
14:30	US	Unemployment Rate	May	%	5.9	6.1
16:00	US	Factory Orders	Apr	% m/m	0.5	1.1

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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