

Eyeopener

Inflation below expectations

Polish inflation in June increased by less than expected, core inflation down as well
 Dollar stronger, zloty weaker
 POLGB yields and IRS significantly lower
 Today PMI manufacturing in Poland, Eurozone and the US

On Wednesday bond yields on the core markets were falling, the dollar kept strengthening. Equities in Europe were losing and in the US stock process did not change much. US data were better than European: ADP report showed higher than expected employment rise in June, pending home sales were also well above forecast. In the euro zone inflation rate retraced 0.1pp, as expected, to 1.9% y/y. Also in Poland inflation rate peaked in May.

CPI inflation fell to 4.4% y/y in June, according to flash data, from 4.7% y/y in May. Our forecast was 4.5%, market consensus 4.6%. Food prices rose 0.1% m/m, energy prices were unchanged, while fuel price rose 0.9% m/m. According to our estimate it implies core inflation ex food and energy at 3.6-3.7% y/y, down from 4.0% in May. Polish inflation missed expectations for the first time in several months, but it remains at elevated level and according to our forecasts CPI growth is likely to stabilise above 4% in the following months. Core inflation may decline a bit further in the nearest months due to base effects in some services, but we think that overall it is also likely to remain elevated. Slightly lower June inflation will be probably argument for the MPC that “wait and see” approach is appropriate and they should not hurry with any policy changes. But in the medium run, we think that the potential strong rebound of demand amid opening economy, tightening labour market, supply-side bottlenecks and ultra-accommodative policy mix will favour building inflationary pressure and increase arguments for monetary policy normalisation.

MPC's Kamil Zubelewicz said that only the increase of NBP reference rate to 2.5% could help to stabilise inflation near the target. Amid the current mild policy stance the rate is more likely to return to 1.5%, which does not warrant stabilising inflation in the medium run, in his view. He thinks a “signalling” rate hike would make sense, while the strategy of “waiting out inflation” implies the risk of its higher persistence. According to Zubelewicz, the idea to end asset purchases before the rate hike (which is the NBP Management Board's competence) is a dangerous precedent, in violation of the institutional order. Zubelewicz is against the central bank's efforts to weaken the zloty, and is concerned about housing market situation. **Eugeniusz Gatnar**, referring to June's inflation print said that even though it did not exceed expectations, it should be still the reason of concern.

The NBP released revised data on balance of payments in 4Q20 and 1Q21. In 4Q20, the current account balance went down by EUR433mn, mostly due to revision of primary incomes. More considerable changes were applied to 1Q21 data: the current account went down by almost EUR3bn, with services balance down by EUR1.4bn (mainly weaker exports), primary incomes balance down by EUR2.3bn and goods balance up by EUR0.9bn (exports up, imports down). Thus, this revision has shown that the rebound in goods trade in 1Q21 was stronger than previously estimated, while trade in services was even weaker than thought. Strong revision in primary balance happened due to higher estimate of corporates with foreign owners: reinvested profits outflows was the highest since comparable data are released.

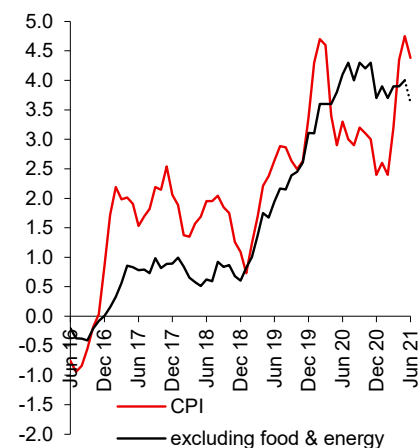
EURUSD fell to 1.184 and is currently testing the level set after the FOMC meeting. If it breaks it, this means a potential fall to 1.176.

EURPLN rose again, this time to 4.525. The attempt to strengthen the zloty yesterday morning failed amid stronger dollar and weaker-than-expected Polish CPI print.

As for **other CEE currencies**, the koruna and the forint proved more resistant than the zloty to the decline of EURUSD. EURCZK remained near 25.5, EURHUF moved between 351 and 352. The ruble showed a further limited depreciation and USDRUB is opening this morning around 73.2.

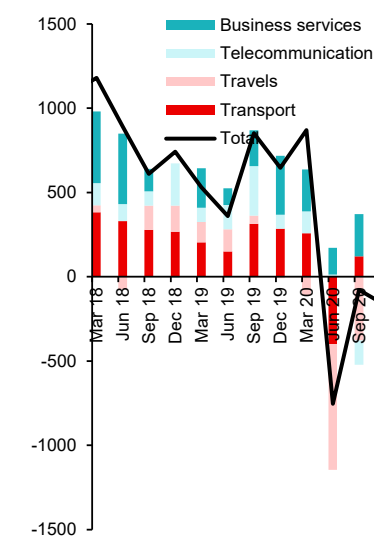
At the domestic **interest rate market** there was a substantial fall of local bond yields. 10Y paper stopped strengthening only at 1.65% after a c.13bp decline. 5Y dropped in yield by c.16bp, below 1.30%, but the short end was lower only intraday, and eventually returned close to previous day's 0.40%. In the background of these large declines the core market yields were also going down on the long end and the belly – UST and Bund yields down 1-4bp. The whole Polish IRS curve shifted lower by 10-15bp. **BGK** sold Covid bonds worth PLN1.57bn and announced two auctions in July (on the 14th and 28th). **The Ministry of Finance** plans an auction on 23 July (with indicative supply PLN4-8bn) and a switch auction on 9 July. In the whole 3Q there may be 1-2 ordinary auctions with total supply PLN4-13bn. On 16 July **NBP** will hold its QE auction.

Inflation in Poland, %/y



Source: GUS, NBP, Santander

C/A services: change of balance, EURm y/y



Source: NBP, Santander

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FX market

Today's opening			
EURPLN	4.5186	CZKPLN	0.1770
USDPLN	3.8167	HUFPLN*	1.2728
EURUSD	1.1841	RUBPLN	0.0522
CHFPLN	4.1208	NOKPLN	0.4422
GBPPLN	5.2693	DKKPLN	0.6077
USDCNY	6.4645	SEKPLN	0.4451

*for 100HUF

Last session in the FX market						30/06/2021
	min	max	open	close	fixing	
EURPLN	4.504	4.522	4.517	4.518	4.521	
USDPLN	3.787	3.817	3.795	3.814	3.804	
EURUSD	1.184	1.191	1.190	1.185	-	

Interest rate market 30/06/2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.39	-2
DS0725 (5Y)	1.28	-14
DS1030 (10Y)	1.65	-13

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.41	-7	0.18	0	-0.53	0
2L	0.82	-14	0.33	1	-0.46	-1
3L	1.11	-13	0.56	0	-0.40	-1
4L	1.29	-13	0.78	1	-0.33	-1
5L	1.43	-11	0.95	0	-0.25	-1
8L	1.66	-9	1.29	0	-0.03	-1
10L	1.76	-8	1.43	0	0.10	-1

WIBOR rates

Term	%	Change (bps)
O/N	0.09	0
T/N	0.10	1
SW	0.10	0
2W	0.16	0
1M	0.18	1
3M	0.21	0
6M	0.25	0
1Y	0.26	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.22	-2
3x6	0.28	-5
6x9	0.49	-8
9x12	0.69	-12
3x9	0.35	-8
6x12	0.58	-14

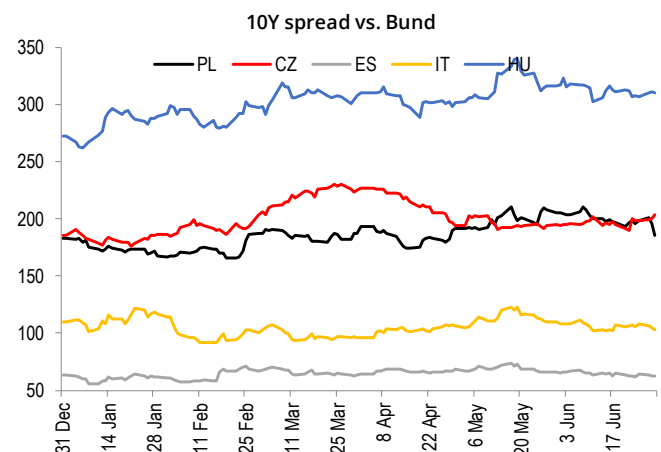
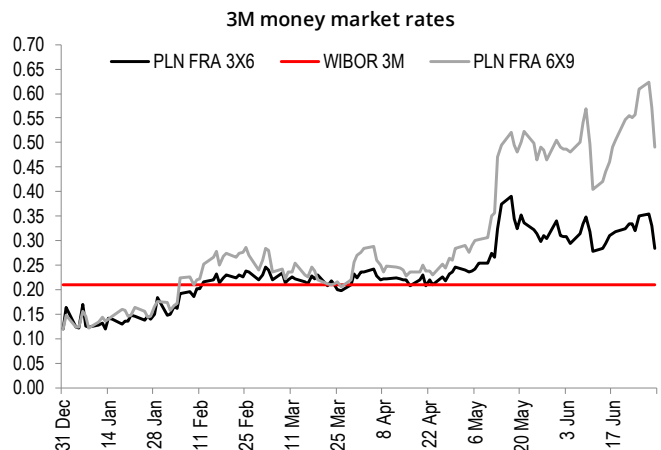
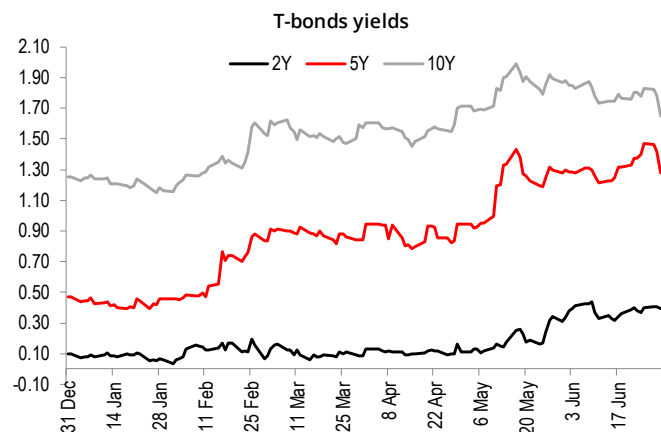
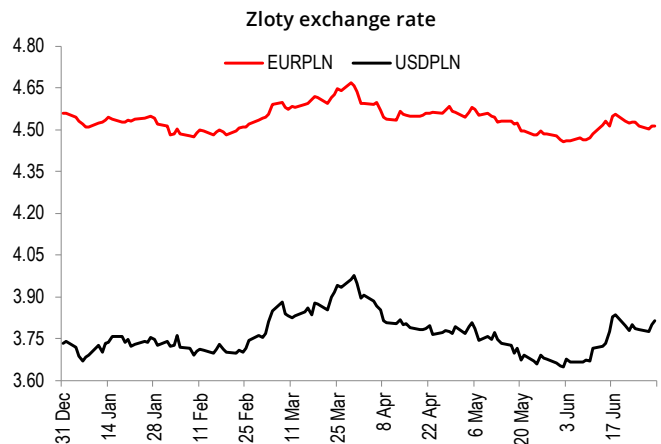
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	47	0	185	-10
France	10	0	34	0
Hungary	64	0	310	-1
Spain	31	-1	63	0
Italy	43	-1	103	-2
Portugal	20	-1	61	-1
Ireland	12	0	37	-1
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 (25 June)							
14:30	US	Personal Spending	May	% m/m	0.4	0.0	0.5
14:30	US	Personal Income	May	% m/m	-2.5	-2.0	-13.1
14:30	US	PCE Deflator SA	May	% m/m	0.5	0.4	0.6
16:00	US	Michigan index	Jun	pts	86.5	85.5	86.4
TUESDAY (29 June)							
09:00	CZ	GDP SA	1Q	% y/y	-2.1	-2.4	-2.1
11:00	EZ	ESI	Jun	pct.	116.0	117.9	114.5
14:00	DE	HICP	Jun	% m/m	0.3	0.4	0.3
16:00	US	Consumer Conference Board	Jun	pts	118.5	127.3	117.2
WEDNESDAY (30 June)							
10:00	PL	CPI	Jun	% y/y	4.6	4.5	4.4
11:00	EZ	Flash HICP	Jun	% y/y	1.9	1.9	2.0
14:15	US	ADP report	Jun	k	530.0	692	886
16:00	US	Pending Home Sales	May	% m/m	-1.0	8.0	-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	-	64.4
08:00	DE	Retail Sales	May	% m/m	4.6	4.2	-6.8
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
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	-	559
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, Bloomberg, Parkiet
* in the case of a revision the data is updated

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