

## Eyeopener

### NBP projection supportive for rate hikes

Equity markets falling, just like bond yields  
 ECB changed inflation target to a symmetric one  
 MPC policy and statement unchanged despite upward forecast revision  
 Today, NBP governor's conference

On Thursday there were quite large declines on stock markets (EuroStoxx -2.7%, DAX -2.3%, WIG -1.8%) with investors still doubting in the strength of the post-pandemic rebound, especially that a day earlier China publicly considered monetary easing (most likely the next key Chinese economic data – 2Q GDP may be poor). 10Y UST yield dropped by another 4bp to 1.28% (3-day decline is already totalling 16bp) and Bund yield by 2bp to -0.32% (3-day decline is 12bp). In Germany the data on May export growth were slightly disappointing (0.3% m/m vs. 0.6% expected). In the USA initial jobless claims rose somewhat vs. the previous week (373k vs. 364k) but is still close to the pandemic minima.

**The ECB concluded and announced the results of the first strategic review of tools and targets** since 2003. The inflation target was changed from “below but close to 2%” to a fully symmetric 2% target in the medium term. This will allow for higher tolerance of upside deviations, which should translate now to less restrictive monetary policy. The price behaviour is still going to be measured with HICP, but it will be supplemented by a component linked to real estate prices (this can generally push inflation indicators a bit higher). The new strategy of ECB's monetary policy will enter into force at the next ECB meeting planned for 22 July.

**The Polish MPC neither changed interest rates nor any other policy parameters** at the July's meeting, despite the record-late decision announcement (18:15 CET). The official statement did not change substantially – the Council still sees the elevated inflation as “transitory”, even if the new NBP projection is challenging this view by showing CPI well above 3% in the forecasting horizon. Mid-point of NBP's inflation forecast went up to 4.1% in 2021, 3.3% in 2022, 3.4% in 2023, from previous 3.2%, 2.8%, 3.2%, correspondingly. GDP forecast was lifted as well to 5.0%, 5.4%, 5.3% respectively. There is no indication of a possible tilt to less accommodative policy in the statement. However, in our view the NBP governor's rhetoric is key in this regard (today Glapiński holds conference at 15:00 CET). And the latter has clearly changed in recent months and started preparing ground for policy shift, we reckon. Mr. Glapiński hinted recently on the necessary conditions for the tightening: forecasts showing permanently high growth and permanently high inflation, reflected in NBP staff's projections. The new NBP projection meets these conditions, but – as we see – a change in policy course requires time and now the main argument to keep “wait-and-see” approach is the risk of another Covid-19 wave in the autumn. We still believe that the MPC may start interest rate hikes in November – something the NBP governor did not exclude in the recent FT interview.

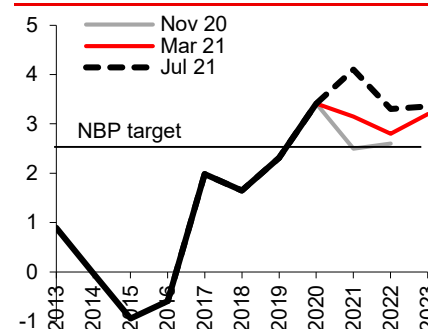
**EURUSD** rebounded upwards on Thursday after failing to break 1.18. The upward momentum accelerated after the ECB conference. The pair ended the day at 1.187, 0.6% higher than one day before.

**EURPLN** went up, in line with other currency pairs from the CEE region (by 0.3% to 4.547). In two days the pair went up by as much as 1.1%. After the MPC meeting the rate slid down a bit to 4.537.

**In the CEE region:** EURHUF climbed by 0.3% to 357.9, by 1.8% in two days. Worries about losing the EU financing (the main reason behind weaker forint) were joined on Thursday by inflation in June, which surprised to the upside (5.3% y/y vs expectations at 4.9% and May reading at 5.1%). Let us remind that the inflation target in Hungary is at 3.0% with +/- 1pp tolerance band. In the Czech Republic, the May retail sales data surprised to the upside (16.5% y/y vs forecasts at 15.7% y/y), but the korona lost 0.3% to 25.89 (2-day change at 1.5%). USDRUB was quite volatile on Thursday but eventually remained unchanged at 74.9 with 2-day change at 2.4%. After the Wednesday release of inflation data, which were above expectations (6.5% y/y vs 6.4% y/y as compared to inflation target at 4.0%) it is clearly visible that in some countries inflation is not receding despite rate hikes. In such a situation real interest rates will remain negative for longer, which will be negative for the CEE currencies, in our view.

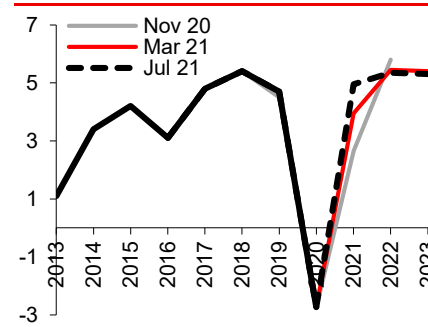
On the **domestic interest rate market**, the IRS curve fell somewhat at the start of the Thursday session, but rebounded in the second part of the day, erasing the move. Local bond yields rose on the long end by 4bp to 1.66% which, with yields falling in Germany, led to Bund spread widening to 198bp. 10Y ASW widened to -5bp. Today the Ministry of Finance will hold a switch auction buying PS0721, DS1021, PS0422 and offering OK0423, PS1026, WZ1126, WZ1131, DS0423 series.

#### NBP's CPI forecasts (central path)



Source: NBP, GUS, Santander

#### NBP's GDP growth forecasts (central path)



Source: NBP, GUS, Santander

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**FX market**

Today's opening			
EURPLN	4.5365	CZKPLN	0.1751
USDPLN	3.8343	HUFPLN*	1.2575
EURUSD	1.1833	RUBPLN	0.0514
CHFPLN	4.1841	NOKPLN	0.4364
GBPPLN	5.2793	DKKPLN	0.6101
USDCNY	6.4880	SEKPLN	0.4454

\*for 100HUF

Last session in the FX market						08/07/2021
	min	max	open	close	fixing	
EURPLN	4.528	4.553	4.534	4.543	4.541	
USDPLN	3.829	3.852	3.843	3.838	3.841	
EURUSD	1.179	1.187	1.179	1.184	-	

**Interest rate market** 08/07/2021

**T-bonds on the interbank market\*\***

Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.41	-1
DS0725 (5Y)	1.29	3
DS1030 (10Y)	1.67	4

**IRS on the interbank market\*\***

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.41	-1	0.17	1	-0.53	0
2L	0.82	-4	0.28	-1	-0.47	0
3L	1.10	-2	0.48	-3	-0.43	-1
4L	1.29	-2	0.66	-3	-0.37	1
5L	1.42	-1	0.82	-3	-0.32	-1
8L	1.63	-1	1.14	-2	-0.13	-1
10L	1.71	-1	1.27	-1	0.01	-1

**WIBOR rates**

Term	%	Change (bps)
O/N	0.10	-1
T/N	0.11	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	0.23	1
3x6	0.28	1
6x9	0.47	0
9x12	0.68	-3
3x9	0.34	-3
6x12	0.58	-1

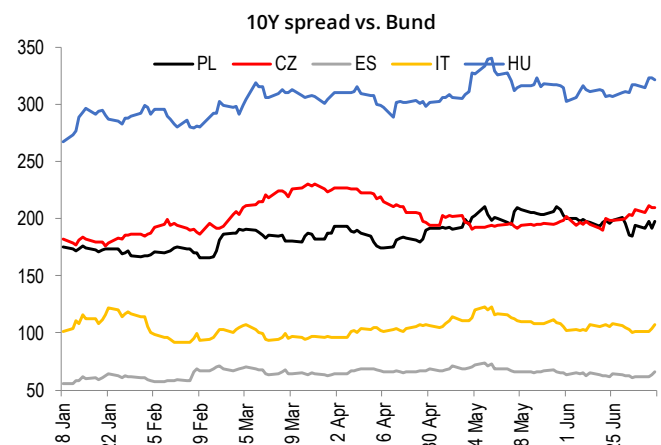
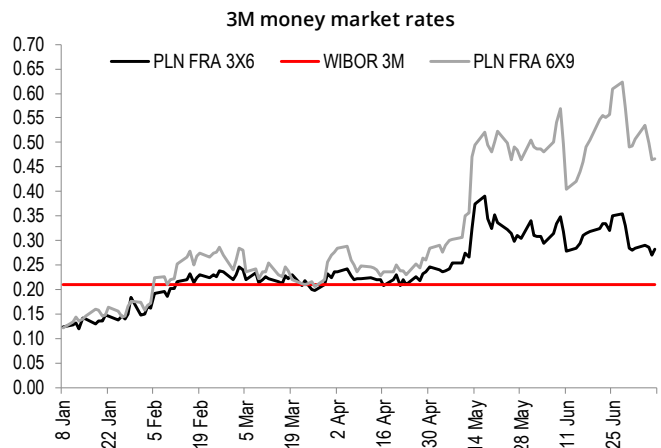
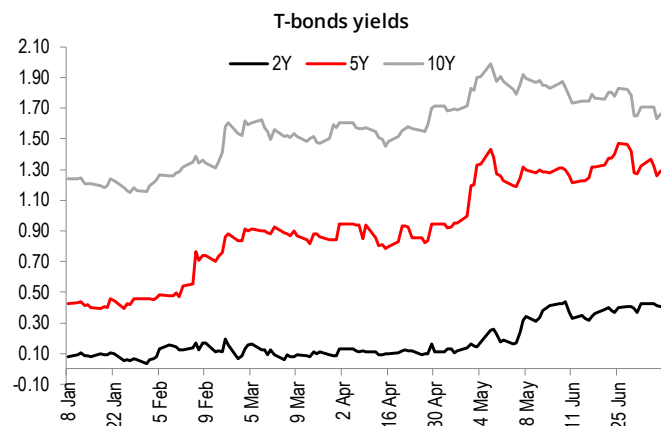
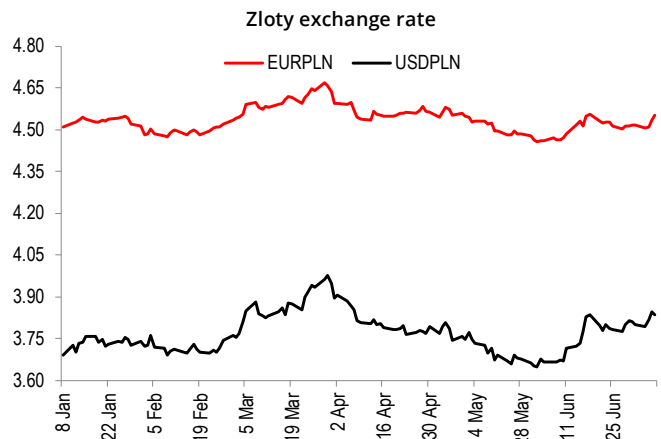
**Measures of fiscal risk**

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	47	0	198	6
France	9	0	35	2
Hungary	55	0	321	-2
Spain	30	0	66	3
Italy	43	0	107	4
Portugal	21	0	64	3
Ireland	12	0	40	3
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		
<b>FRIDAY (2 July)</b>							
14:30	US	Change in Nonfarm Payrolls	Jun	k	720.0	850.0	583.0
14:30	US	Unemployment Rate	Jun	%	5.6	5.9	5.8
16:00	US	Durable Goods Orders	May	% m/m	2.3	2.3	2.3
16:00	US	Factory Orders	May	% m/m	1.6	1.7	-0.1
<b>MONDAY (5 July)</b>							
03:45	CN	Caixin China PMI Services	Jun	pts	54.9	50.3	55.1
09:55	DE	Markit Germany Services PMI	Jun	pts	58.1	57.5	58.1
10:00	EZ	Eurozone Services PMI	Jun	pts	58.0	58.3	58.0
<b>TUESDAY (6 July)</b>							
08:00	DE	Factory Orders	May	% m/m	1.0	-3.7	-0.2
11:00	DE	ZEW Survey Current Situation	Jul	pts	5.5	21.9	-9.1
11:00	EZ	Retail Sales	May	% m/m	4.4	4.6	-3.9
16:00	US	ISM services	Jun	pts	63.8	60.1	64.0
<b>WEDNESDAY (7 July)</b>							
08:00	DE	Industrial Production SA	May	% m/m	0.5	-0.3	-0.3
09:00	CZ	Industrial Production	May	% y/y	34.9	32.3	55.1
09:00	HU	Industrial Production SA	May	% y/y	39.6	40.2	59.2
20:00	US	FOMC Meeting Minutes	Jun/21		-	-	-
<b>THURSDAY (8 July)</b>							
	<b>PL</b>	<b>MPC decision</b>		<b>%</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>
08:00	DE	Exports SA	May	% m/m	0.6	0.3	0.2
09:00	HU	CPI	Jun	% y/y	-	5.3	5.1
14:30	US	Initial Jobless Claims		k	-	373	411

Source: Santander Bank Polska, Bloomberg, Parkiet

\* in the case of a revision the data is updated

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