

Eyeopener

Three conditions to tighten

Thursday moves reversed

NBP president named three conditions that could encourage the MPC to start tightening Zloty weak compared to other CEE currencies, higher yields in the shorter and longer end
Today details of NBP forecasts

At the end of the week stock market rebounded after Thursday falls, while core market yields went up (10Y UST again at 1.35%, Bund above -0.30%). EURUSD stopped falling. People's Bank of China cut the reserve requirement rate by 0.5pp and assured that this move would not create too much liquidity in the system, it is rather a sign of cautious approach to monetary policy. The macroeconomic data out of Europe missed expectations (May industrial production data from the UK and Italy).

During the [Friday speech](#) the NBP governor Adam Glapiński clearly formulated three conditions that must be met in order to trigger monetary policy normalisation: 1) MPC must be sure that Covid-19 will no longer cause a major economic disruption, 2) Inflation must be persistently above the upper end of the NBP's target (3.5%), 3) Inflation must be demand-driven, amid strong labour market and closing output gap. After those conditions are met, the MPC will "immediately" mull tightening. He also reiterated that the QE must be terminated before a rate hike (or at least at the same time, not later). He repeated that currently there are no reasons for monetary policy reaction as the elevated inflation is caused by base effects and factors beyond monetary policy influence. The economic outlook is positive but the uncertainty remains high due to potential new waves of Covid-19, and there is absolutely no way the economy could be overheating. The Fed and ECB policy are still important guidelines for the NBP but they remain in accommodative stance. Overall, the speech was consistent with our earlier observation that the language of the NBP governor has changed since May and opens the door for policy normalisation in future. The main question is now the possible timing of the policy normalisation. We stick to the view that the MPC policy will be strongly data-driven. November still cannot be ruled out, in our view, if the 4th Covid wave proves irrelevant for economic activity and economic boom continues (which we think is the base case), but it would also require further increase of NBP's inflation forecasts (towards our current ones), based on more upbeat labour market expectations (also quite likely).

[Minutes of the June MPC](#) meeting showed that a 15bp rate hike was voted. This was the first attempt to raise main rates since the pandemic started, as earlier motions concerned the reserve requirement rate. Central bankers also reformulated the sentence saying how long should rates remain unchanged according to most MPC members – instead of "in the coming months" it reads now: "in the near future".

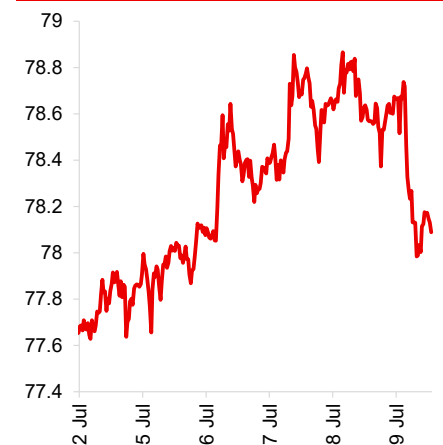
EURUSD after significantly increasing to 1.185 on Thursday, on Friday continued the move and reached 1.186. As a result the declines which took place in the previous week were offset completely. In theory, recent event and data point to a lower EURUSD (some missed expectations in Europe, while the data from the US still positive, increase in Covid-19 cases in some Eurozone countries, the ECB inflation target update).

EURPLN tried to break above 4.55 for a second day in a row. The fact that the MPC voted in June for a rate hike did not impact the EURPLN. The last days of the previous week were not too good for CEE currencies due to the risk of cutting Hungary off the EU funds on lack of rule of law basis. In our opinion in the near term the factor will still be present that is why we do not expect significantly stronger zloty. If the US economic data remains strong while the Eurozone ones keep underperforming then the zloty might be under pressure.

As for the **other CEE currencies**: the forint after having lost quite a bit last week, on Friday corrected lower by 0.5% to 355.5. Similar situation in the koruna (EURCZK down 0.4% to 25.75). In the case of the rouble the correction vs the USD was as high as 1% (to 74.25).

On the Polish fixed income market the long end of the bond curve increased towards 1.70%, the belly remained near 1.30%, the 2Y bond yield was 4bp higher than on Thursday. The IRS curve was more stable. The local data should be of less importance for markets, while the global one more important: especially the inflation trends, the dynamics of the economic recovery and the difference of the GDP growth rate in the US and Europe. Weaker data could support the thesis of slower growth with high inflation (stagflation), which would support lower yields. **The Ministry of Finance** on Friday switch auction bought PLN5.25bn of bonds while sold PLN5.47bn of bonds of which PLN3.7bn were floating rate notes.

PLNHUF



Source: Refinitiv Datastream, Santander

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FX market

Today's opening			
EURPLN	4.5467	CZKPLN	0.1763
USDPLN	3.8331	HUFPLN*	1.2666
EURUSD	1.1862	RUBPLN	0.0515
CHFPLN	4.1884	NOKPLN	0.4403
GBPPLN	5.3211	DKKPLN	0.6114
USDCNY	6.4714	SEKPLN	0.4460

*for 100HUF

Last session in the FX market						09.07.2021
	min	max	open	close	fixing	
EURPLN	4.533	4.552	4.539	4.545	4.547	
USDPLN	3.827	3.846	3.837	3.833	3.843	
EURUSD	1.182	1.187	1.183	1.186	-	

Interest rate market 09.07.2021

T-bonds on the interbank market**		
Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.44	4
DS0725 (5Y)	1.31	1
DS1030 (10Y)	1.69	2

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.40	-1	0.17	1	-0.53	0
2L	0.79	-3	0.30	1	-0.47	0
3L	1.10	-1	0.52	4	-0.41	1
4L	1.30	1	0.71	5	-0.36	1
5L	1.44	2	0.87	5	-0.30	1
8L	1.65	2	1.21	7	-0.10	2
10L	1.73	2	1.35	8	0.03	2

WIBOR rates

Term	%	Change (bps)
O/N	0.10	0
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	0.24	1
3x6	0.30	1
6x9	0.44	-3
9x12	0.65	-3
3x9	0.36	1
6x12	0.57	-2

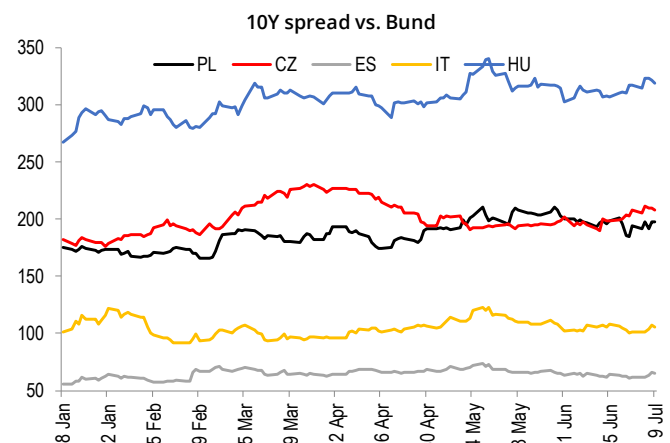
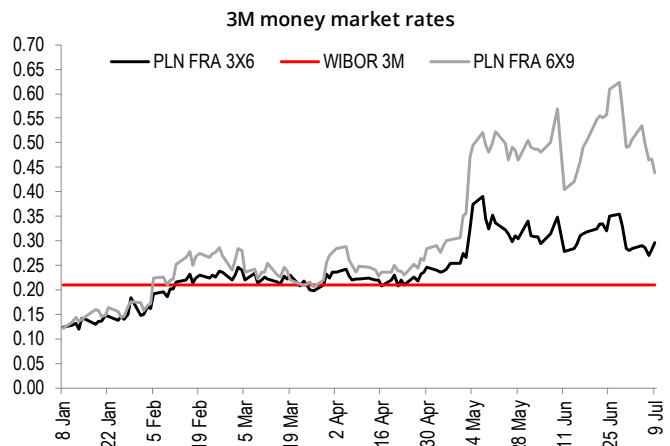
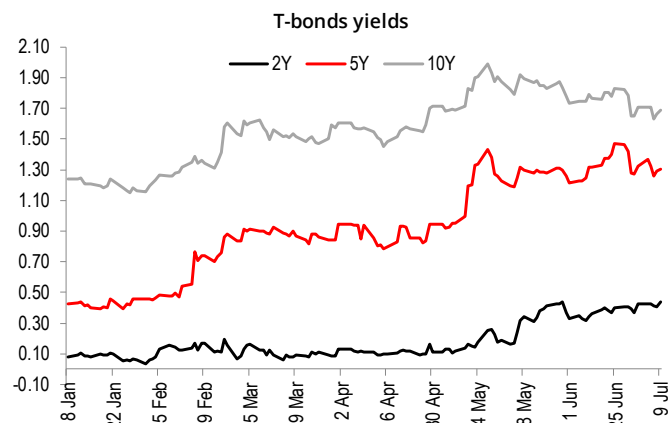
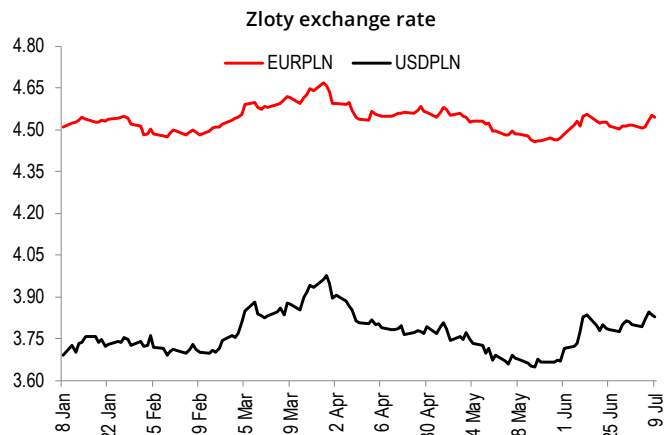
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	46	0	198	0
France	9	0	35	0
Hungary	55	0	319	-2
Spain	30	0	65	-1
Italy	44	1	106	-2
Portugal	21	0	63	0
Ireland	11	0	39	-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		
MONDAY (12 July)							
11:00	PL	NBP Staff forecasts					
TUESDAY (13 July)							
08:00	DE	HICP	Jun	% m/m	-	-	0.4
09:00	CZ	CPI	Jun	% y/y	2.7	-	2.9
14:30	US	CPI	Jun	% m/m	0.5	-	0.6
WEDNESDAY (14 July)							
11:00	EZ	Industrial Production SA	May	% m/m	-	-	0.8
14:00	PL	Current Account Balance	May	€mn	1317	1061	-
14:00	PL	Trade Balance	May	€mn	1015	831	-
14:00	PL	Exports	May	€mn	23000	22801	-
14:00	PL	Imports	May	€mn	21482	21970	-
THURSDAY (15 July)							
10:00	PL	CPI	Jun	% y/y	4.4	4.4	-
14:30	US	Initial Jobless Claims		k	350	-	364
14:30	US	Index Philly Fed	Jul		29.4	-	30.7
15:15	US	Industrial Production	Jun	% m/m	0.6	-	0.85
FRIDAY (16 July)							
11:00	EZ	HICP	Jun	% y/y	-	-	1.9
14:00	PL	CPI Core	Jun	% y/y	3.7	3.6	-
14:30	US	Retail Sales Advance	Jun	% m/m	-0.05	-	-1.3
16:00	US	Michigan index	Jul	pts	86.5	-	85.5

Source: Santander Bank Polska, Bloomberg, Parkiet
* in the case of a revision the data is updated

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