

Eyeopener

NBP forecasts support policy normalisation

Stock markets slightly up, 2Q21 earnings season in the USA
 Stable yields on the core markets, lower in Poland
 Zloty losing for the fifth day in a row
 Today inflation in the USA, in Czechia (flash) and in Germany (final)

Equity markets gained a bit, the 10Y UST and Bund yields have not changed (at 1.35% and -0.30%). The dollar gained a little, while gold and oil prices went down.

Last week the ECB has changed the inflation target from below, but close to 2% to symmetrical 2% which enables the bank to tolerate transitory deviations of HICP above 2%, the change was interpreted by markets as dovish. On Monday **the ECB president Christine Lagarde** said that at the nearest ECB meeting (22 July) the forward guidance would be adjusted as well; the current one assumes purchasing government bonds as long as necessary as well as keeping interest rates at the current low level as long as inflation outlook converges with the inflation target for good. At the moment it is unclear how the new forward guidance will look like. President Lagarde said that the favourable financing conditions should remain in place while the pandemic bond purchase programme PEPP (expires in March 2022) would be modified.

On Monday NBP published its new inflation projection. Forecasts of GDP growth and inflation were lifted higher. The higher GDP growth in 2021 results from the quicker than expected rebound of economic activity in 1Q21, while the GDP growth in 2022-2023 also thanks to the money coming from the EU recovery fund (NBP assumes this program alone would add 0.4pp to GDP growth in each of the two years). The demand gap should be closed already in 3Q21E and in subsequent quarters it will grow more positive. The lifting of the inflation path in 2021 resulted from higher than expected demand recovery and higher forecasts of the core inflation, but in general the inflation is being influenced by a plethora of factors with different characteristics: supply chain disruptions, telecommunication costs, energy, food. The impact of the temporary factors will fade out in the years to come, while inflation will start to be supported by improving growth outlook in Poland and the costs of production which would feed into the CPI with a lag, together with further rise of energy costs CO2 emission permits. In our opinion, the most important part of the new inflation projection is that CPI remains above the inflation target of 2.5% in the whole forecast horizon (till end of 2023), while at the very end of the horizon (4Q23E) it is expected on average 3.5%, with the probability of ending up even higher estimated at 50%. Moreover, as the demand gap is closed, the inflation will be increasingly more driven by demand factors. Such NBP forecasts support normalisation of the monetary policy.

EURUSD opened at 1.1880 while during the day it fell to 1.1850 and rebounded a bit in the afternoon. Today the publication of June inflation data in the US (at 14:30 Warsaw time) may be an important factor determining the currency pair.

On Monday **EURPLN** climbed for the fifth day in a row by 0.2% to 4.5550. Since the start of July the pair went up by 0.8%. The pair is only about PLN0.01 below June's peak at 4.5640, to we could expect some consolidation at this level ahead of important US inflation data: market expectations are at 4.9% y/y as compared to 5.0% y/y one month earlier: a major upward deviation could support the dollar and undermine EM currencies, including the zloty.

In the CEE region, EURHUF went down by 0.2% to 355.10 amid lower liquidity. Since the start of the month the pair went up by 1.3% and after a slight correction, which is occurring right now, we are expecting the forint to weaken further in the upcoming days and weeks. EURCZK declined by 0.1% to 25.70 (increase since the start of the month is 0.8%). Today Czech inflation in June is due for release (expectations at 2.7% y/y and the previous reading was at 2.9%), while last week inflation in Russia and Hungary surprised to the upside by 0.1pp and 0.4pp, respectively. USDRUB climbed by 0.3% to 74.50 and ended a 1-day long correction.

On the domestic interest rate market the IRS curve went down with the shorter end lower by 5-7bp and longer by 2-3bp. 5Y bond yield declined to 1.25% from 1.28%, by 3bp while 10Y was stable at 1.67%. Spread to Bund increased for another day in a row and reached 198bp. Asset swap spread widened to -4bp in the 10Y segment. On Wednesday 14 July the state-owned **BGK bank will hold bond auction**, offering FPC0328 and FPC0631 worth at least PLN1.0bn. After increase in total available issuance the BGK can issue PLN39.7bn this year and already PLN24.8bn were issued this year.

Central path from NBP inflation projection, %.
 Changes vs previous March projection in parentheses, pp

	2021	2022	2023
PKB	5,0 (+0,9)	5,4 (+0,0)	5,3 (-0,1)
CPI	4,2 (+1,1)	3,3 (+0,5)	3,4 (+0,2)
CPI core	3,6 (+0,9)	3,2 (+0,6)	3,5 (+0,2)

Źródło: NBP, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website: santander.pl/en/economic-analysis
 Piotr Bielski +48 22 534 18 87
 Marcin Luziński +48 22 534 18 85
 Wojciech Mazurkiewicz +48 22 534 18 86
 Grzegorz Ogonek +48 22 534 18 84

FX market

Today's opening			
EURPLN	4.5547	CZKPLN	0.1772
USDPLN	3.8407	HUFPLN*	1.2681
EURUSD	1.1859	RUBPLN	0.0517
CHFPLN	4.1965	NOKPLN	0.4415
GBPPLN	5.3303	DKKPLN	0.6124
USDCNY	6.4666	SEKPLN	0.4469

*for 100HUF

Last session in the FX market						12.07.2021
	min	max	open	close	fixing	
EURPLN	4.511	4.560	4.548	4.551	4.556	
USDPLN	3.819	3.850	3.832	3.838	3.838	
EURUSD	1.183	1.188	1.187	1.186	-	

Interest rate market 12.07.2021

T-bonds on the interbank market**		
Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.38	-6
DS0725 (5Y)	1.29	-2
DS1030 (10Y)	1.70	2

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.36	-4	0.17	0	-0.53	0
2L	0.73	-6	0.30	1	-0.47	0
3L	1.03	-6	0.51	-1	-0.42	0
4L	1.26	-4	0.71	0	-0.36	1
5L	1.40	-4	0.87	0	-0.30	1
8L	1.63	-2	1.20	0	-0.11	0
10L	1.72	-1	1.35	-1	0.03	-1

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	0.21	-2
3x6	0.27	-3
6x9	0.39	-5
9x12	0.58	-7
3x9	0.32	-4
6x12	0.50	-6

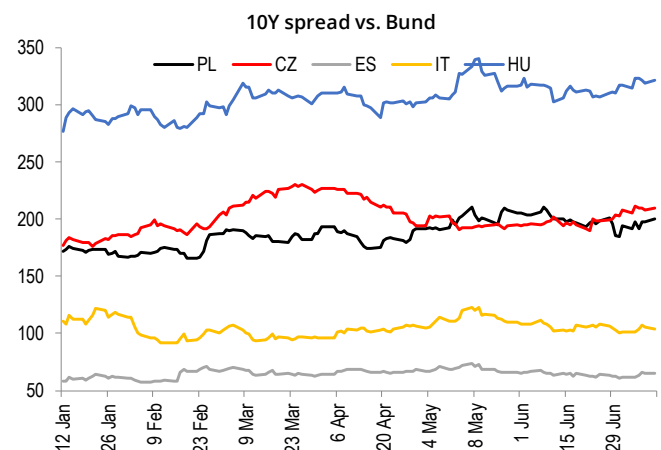
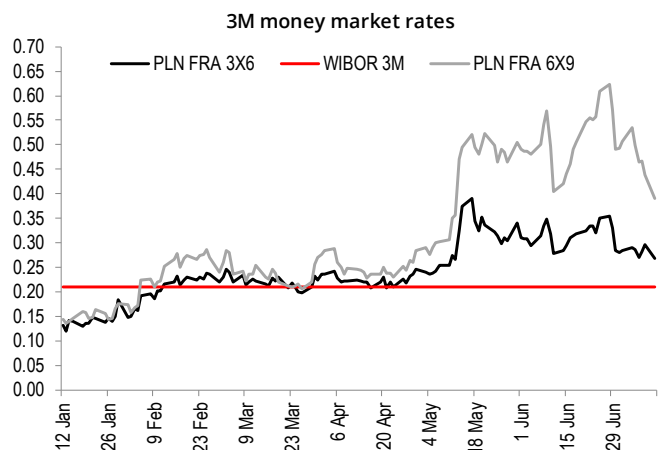
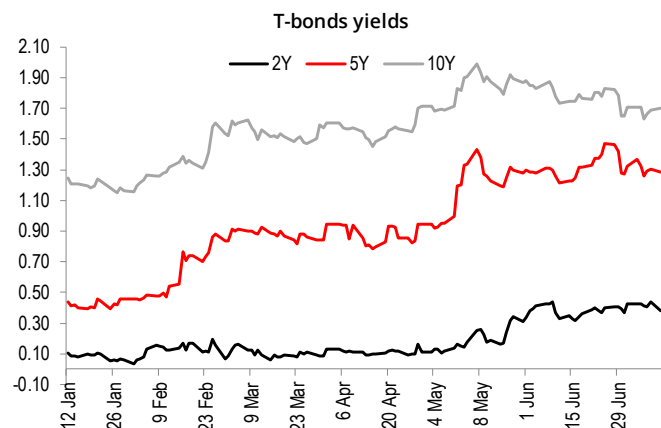
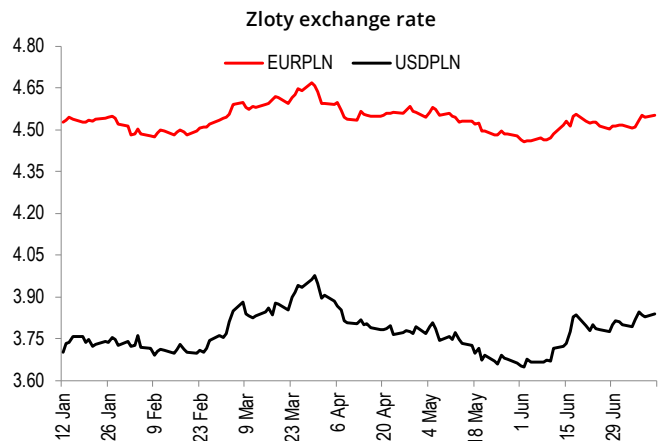
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	46	0	200	3
France	9	0	35	0
Hungary	55	0	321	2
Spain	30	1	65	0
Italy	44	0	104	-2
Portugal	21	0	62	-1
Ireland	12	0	40	0
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	- 1740
14:00	PL	Trade Balance	May	€mn	1015	831	- 1289
14:00	PL	Exports	May	€mn	23000	22801	- 23386
14:00	PL	Imports	May	€mn	21482	21970	- 22097
THURSDAY (15 July)							
10:00	PL	CPI	Jun	% y/y	4.4	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	- 4.0
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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Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@santander.pl, http://www.santander.pl.