

Eyeopener

US inflation surprised to the upside

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 Dollar stronger, zloty lost for the sixth day in a row
 Core market yields up, Polish debt market steady
 Today Poland's balance of payments, industrial output in the euro zone

The main macroeconomic event on Tuesday was the June US CPI publication which significantly – by 0.5pp – beat market consensus. Inflation stood at 5.4% y/y and was higher than both the May reading (5.0%) and expectations (4.9%). Similarly, the core CPI at 4.5% was above the May one (3.8%) and expectations (4.0%). On a monthly basis the price increase stood at 0.9% m/m (vs 0.4% m/m expected). The main factors contributing to inflation were energy prices (1.5% m/m), food (0.8% m/m) and transport (3.6% m/m), of which the used cars and trucks component contributed the most (10.5% m/m). We think that the strong base effects should ease going forward from July on. Still, despite the CPI reading and several other positive data from the US (NFIB small business optimism, better than expected Q2 reports from banks JP Morgan and Goldman Sachs) the dollar strengthened while the core market yields increased.

MPC member Grażyna Ancyparowicz speaking in Biznes24 TV said that if the need arises to support the government by purchasing more bonds, as in the case of another wave of Covid-19 economic restrictions, then the asset purchases program would be unlimited. The program however would have to be brought to an end before any interest rates increase materializes. Then speaking today in the morning for PAP biznes, she said that it is hard for her to tell if the interest rates would be increased in 1Q22E, it depends mostly on the source of inflation. Ancyparowicz also underlined the importance of the November NBP inflation projection for any future decisions regarding the monetary policy.

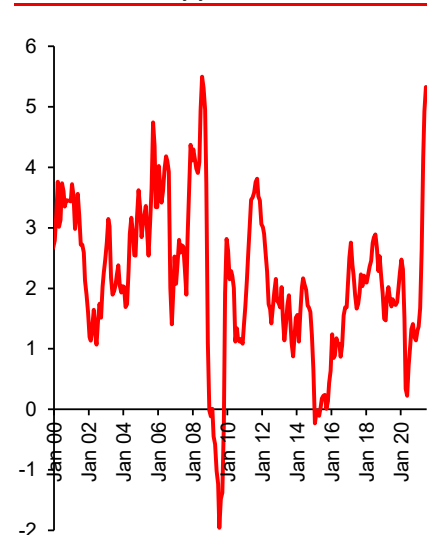
EURUSD fell on Tuesday by 0.6% mainly due to the high US CPI reading. At the close (but also today in the morning) the exchange rate traded near 1.1800 (which equals the previous week's minimum). We expect EURUSD to continue lower in the short term, the next important technical level stands at 1.1700.

EURPLN on Tuesday increased by 0.3% to 4.57. This was the 6th day in a row of zloty weakening. The lack of correction, and what's more even a slight acceleration of exchange rate increases bodes not too well for the zloty going forward. We expect it to touch 4.60 (c +0.6%) soon. The USDPLN, currently near 3.87, has the potential to get to 3.93-3.95 (c 2%).

As for the **other CEE currencies**: EURHUF has ended its 2-day long correction lower and on Tuesday it rebounded 0.4% higher to 356.8. We expect EURHUF to march towards 360.0 in the coming days. EURCZK remained unchanged at 25.65. The June CPI in Czech Republic stood at 2.8% y/y, beating expectations by 0.1pp; the May reading was at 2.9% y/y. Also in Romania the inflation surprised higher by 0.2pp to 3.9% y/y. Hence, as far as June inflation data in the region are concerned, it was only the Polish one which missed expectations (4.4% vs 4.6%). In contrast, in Russia, Hungary, Czech Republic and Romania the inflation beat expectations by, respectively: 0.1pp to 6.5% y/y; 0.5pp to 5.4% y/y; 0.1pp to 2.8% y/y and 0.2pp to 3.9% y/y. The USDRUB exchange rate has not changed much and hovered near 74.2 for most of the day.

On the domestic interest rate market 5Y yields declined to 1.22% from 1.24% (-4bp), while 2Y and 10Y were flat at 0.39% and 1.69% respectively. On the IRS curve 2- and 5Y rates declined by 2bp (to 0.71% and 1.38%, respectively), while 10Y climbed by 1bp to 1.73%. Spread to Bund is at 199bp, 10Y asset swap spread at -5bp. Let us remind that today **state-owned BGK bank is selling** FPC0328 and FPC0631 bonds worth at least PLN1.0bn. After increase in total available issuance the BGK can issue PLN39.7bn this year and already PLN27.0bn were issued this year PLN24.8bn in PLN and EURO.5bn).

US CPI inflation, % y/y



Źródło: Fred, Santander

USDPLN exchange rate



Źródło: NBP, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website: [santander.pl/en/economic-analysis](https://www.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	4.5700	CZKPLN	0.1780
USDPLN	3.8765	HUFPLN*	1.2680
EURUSD	1.1792	RUBPLN	0.0522
CHFPLN	4.2228	NOKPLN	0.4418
GBPPLN	5.3626	DKKPLN	0.6144
USDCNY	6.4728	SEKPLN	0.4481

*for 100HUF

Last session in the FX market						13.07.2021
	min	max	open	close	fixing	
EURPLN	4.551	4.580	4.551	4.574	4.566	
USDPLN	3.835	3.879	3.836	3.873	3.853	
EURUSD	1.179	1.187	1.186	1.181	-	

Interest rate market 13.07.2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.44	6
DS0725 (5Y)	1.24	-4
DS1030 (10Y)	1.71	0

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.36	0	0.18	0	-0.53	0
2L	0.71	-2	0.33	3	-0.46	1
3L	1.01	-2	0.56	5	-0.41	1
4L	1.24	-2	0.76	5	-0.34	2
5L	1.39	-1	0.92	5	-0.28	2
8L	1.64	1	1.25	5	-0.08	3
10L	1.74	2	1.40	5	0.05	3

WIBOR rates

Term	%	Change (bps)
O/N	0.10	0
T/N	0.10	-1
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	0.22	1
3x6	0.29	2
6x9	0.39	0
9x12	0.55	-3
3x9	0.36	4
6x12	0.49	-1

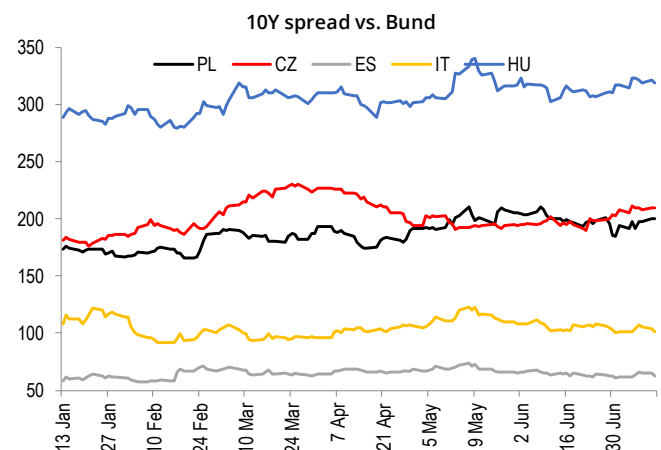
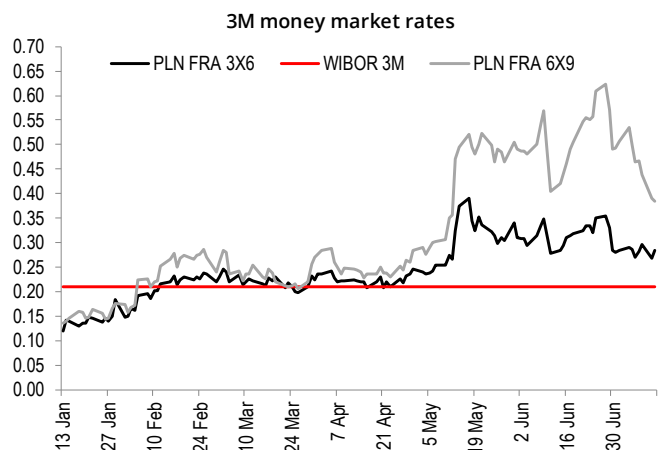
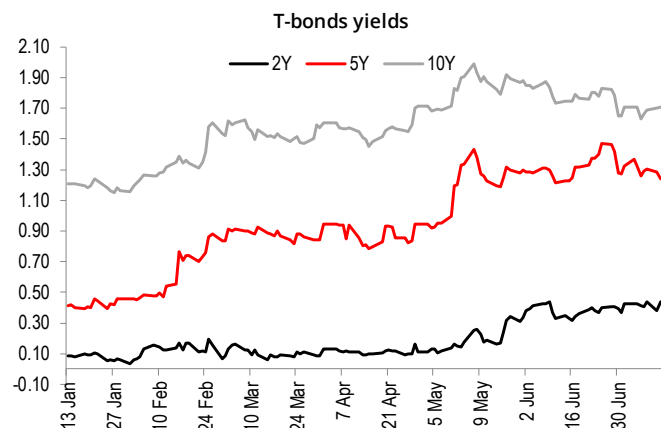
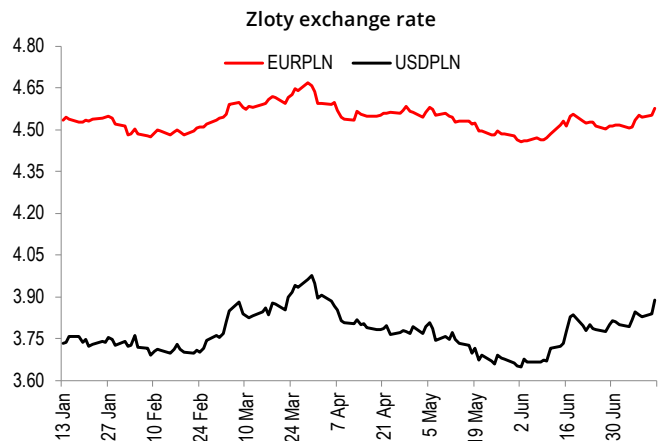
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	46	0	201	0
France	9	0	33	-1
Hungary	55	0	319	-2
Spain	30	0	62	-2
Italy	43	-1	101	-3
Portugal	21	0	60	-2
Ireland	11	0	38	-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	0.4	0.4
09:00	CZ	CPI	Jun	% y/y	2.7	2.8	2.9
14:30	US	CPI	Jun	% m/m	0.5	0.9	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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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.