

16 July 2021

Eyeopener

Core inflation lowest in more than a year?

Stock markets in red, mixed data from the USA
 Bond yields down, zloty still losing
 CPI inflation in Poland confirmed at 4.4%
 Today data on domestic core inflation, HICP inflation in the euro zone, US retail sales

On Thursday the European exchanges flashed red: the EuroStoxx index fell by 0.6% and is already down 1.3% MTD. The dollar slightly gained, while the core market yields kept falling: UST to 1.32% (from 1.42% on Tuesday), Bund to -0.33% (from -0.29% 2 days ago). The oil price and gold have not changed by much. After Jerome Powell said that it is still a long way to go before the FOMC's objectives are met, James Bullard said the opposite: that the central bank should already start tapering, because in his opinion the objectives have already been met. During the second hearing yesterday, Jerome Powell said that Fed is not happy with the inflation increase and is monitoring whether the phenomenon is transitory and would act if it turns out to last longer than expected. Italian Ignazio Visco from the ECB said that it is important not to stop monetary support for the economy too early. The June industrial production in the USA missed expectations because of the weak data from automotive sector. The local Fed's manufacturing indices moved in opposite directions: NY Empire surprised to the upside and grew month on month, while the Philadelphia one missed expectations and also fell on a m/m basis. The weekly initial jobless claims number slightly fell to 360k from 386k week ago (revised higher).

The June CPI was confirmed at 4.4% y/y. The decline vs the May print (4.7% y/y) results mainly from the changes in transport and telecommunications prices. We estimate that the core CPI declined to 3.5-3.6% y/y and was likely the lowest in one year. The detailed data on inflation will be published by NBP today. In our opinion the CPI has peaked this year in May, while will remain near 4.5% in the coming months which should be becoming less and less convenient for the MPC as the time passes. Read more in our [Economic comment](#).

According to IUNG-PIB (state research institute for soil science) **agricultural drought** is already present in 15 voivodships in Poland (out of 16). If the lack of water impacts negatively the harvest, this will definitely push food prices higher (especially those of vegetables and fruits) in the 2H21 and 2022.

MPC member Cezary Kochalski said that MPC expects that the economic growth in the coming years would equal ~5%. He added that the inflation remains under control, however added that the current readings are too high vs the inflation target (2.5% +/- 1pp). Cezary Kochalski also spoke about green transformation, said that the NBP in theory might help in this respect, however this would require "more concrete projects", while it is the government and the fiscal policy which would have to be in the driving seat.

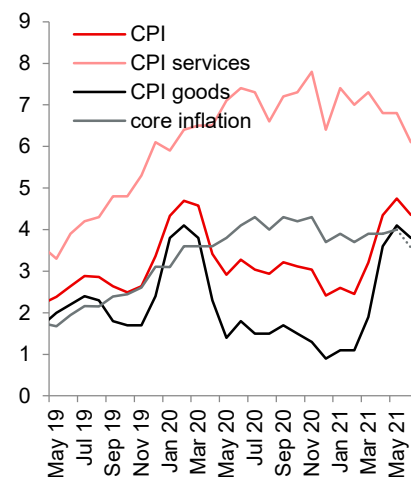
EURUSD with low volatility declined slightly to below 1.1820.

EURPLN remained elevated at c4.58 and its MTD increase equals 1.3%. The mix of the most dovish central bank in the CEE region with the escalating rule of law discussions with the EU result in a situation that even given the dovish Fed (which is not guaranteed forever) the prospects for the zloty do not look too bright. We expect EURPLN moving gradually to 4.65 (+1.5%) in the coming days.

As regards the CEE region currencies: the forint was the only currency globally behaving worse than the zloty in last three days. EURHUF was oscillating around 359.0 and in our view risk of losing EU funds could even push the rate to 370.0 (+2.7%). EURCZK remained close to 25.55. The ruble basket was stable for the second day on a row (but it remained above technically important level at 80.0). USDRUB ended the day at 74.1 and – as oil prices – did not react to OPEC+ agreement.

On the **domestic interest rate market** the IRS curve declined slightly in the belly and the longer end, with 5Y rate down by 2bp to 1.40%, 10Y rate down by 3bp to 1.74%, while 2Y rate was stable at 0.75%. Bond yields also declined: 5Y by 2bp to 1.18% and 10Y by 3bp to 1.66%. Asset swap spread was stable in the 10Y segment (-8bp), while 5Y declined to -22bp (6bp below level recorded in early July). Spread to Bund remained at 199bp.

CPI inflation – main categories, % y/y



Source: GUS, Santander

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FX market

Today's opening			
EURPLN	4.5733	CZKPLN	0.1788
USDPLN	3.8735	HUFPLN*	1.2622
EURUSD	1.1810	RUBPLN	0.0521
CHFPLN	4.2171	NOKPLN	0.4392
GBPPLN	5.3546	DKKPLN	0.6146
USDCNY	6.4651	SEKPLN	0.4469

*for 100HUF

Last session in the FX market						15.07.2021
	min	max	open	close	fixing	
EURPLN	4.565	4.581	4.578	4.578	4.578	
USDPLN	3.857	3.879	3.869	3.877	3.863	
EURUSD	1.180	1.185	1.183	1.180	-	

Interest rate market 15.07.2021

T-bonds on the interbank market**		
Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.43	-3
DS0725 (5Y)	1.22	0
DS1030 (10Y)	1.69	-2

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.38	0	0.17	0	-0.53	0
2L	0.74	0	0.31	0	-0.46	0
3L	1.04	0	0.53	0	-0.42	0
4L	1.25	-1	0.71	-2	-0.37	-1
5L	1.40	-2	0.84	-3	-0.32	-1
8L	1.63	-4	1.15	-4	-0.14	-2
10L	1.73	-3	1.27	-6	0.00	-2

WIBOR rates

Term	%	Change (bps)
O/N	0.10	0
T/N	0.10	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	0.22	0
3x6	0.30	0
6x9	0.41	0
9x12	0.58	0
3x9	0.35	1
6x12	0.53	1

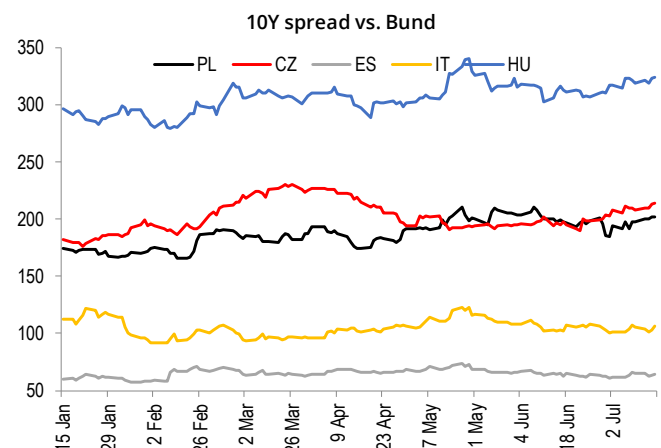
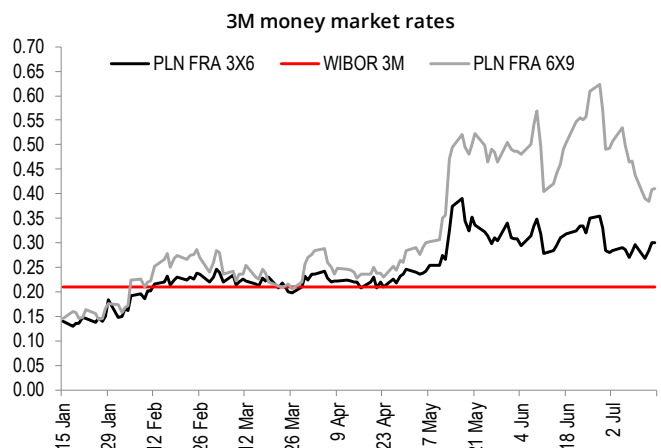
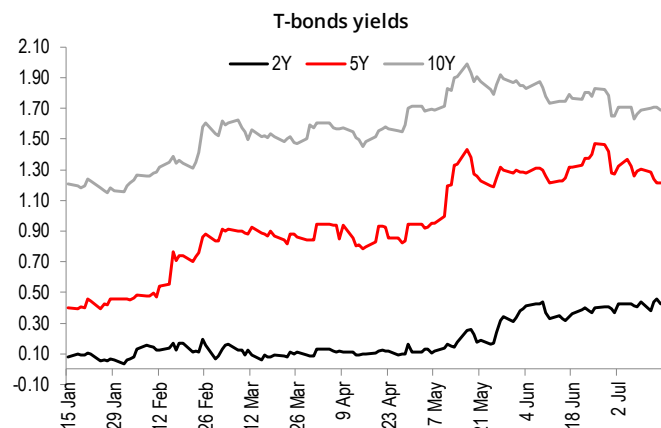
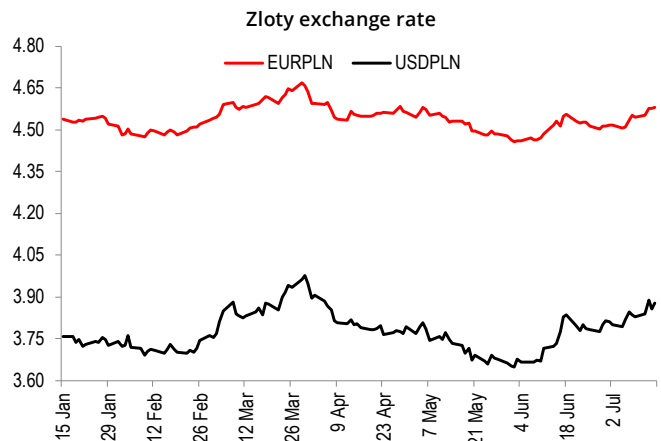
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	46	0	202	0
France	9	0	34	1
Hungary	55	0	324	1
Spain	30	0	64	1
Italy	43	0	106	3
Portugal	21	0	62	1
Ireland	12	0	37	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	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	-0.3	-1.0	0.8
14:00	PL	Current Account Balance	May	€mn	1317	1061	60
14:00	PL	Trade Balance	May	€mn	1015	831	185
14:00	PL	Exports	May	€mn	23000	22801	22636
14:00	PL	Imports	May	€mn	21482	21970	22451
THURSDAY (15 July)							
10:00	PL	CPI	Jun	% y/y	4.4	4.4	4.4
14:30	US	Initial Jobless Claims		k	350	360	383
14:30	US	Index Philly Fed	Jul		28.0	21.9	30.7
15:15	US	Industrial Production	Jun	% m/m	0.6	0.4	0.8
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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