

20 July 2021

Eyeopener

Today industrial output and PPI

Major sell-off on stock markets due to worries about coronavirus spread
 Strong declines of yields on core markets and in Poland
 Zloty again losing more than other EM currencies
 Polish labour market data above expectations
 Today house starts in the USA, in Poland industrial output and PPI

The week started with strong declines on equity markets (Nikkei -1.3%, EuroStoxx -2.6%, S&P500 -1.6%) which were assisted by initially stronger USD and significantly lower core market yields (UST -9bp to 1.21%, Bund -4bp to -0.39%). Investors' fears stem from the occurrence and spread of new Covid-19 strains which, if not brought under control in time, would risk renewed economic and social restrictions and a slowdown of economic growth. On Monday there was not too much important macroeconomic data abroad – the US NAHB housing market index printed at 80 vs 81 expected.

Labour market statistics surprised to the upside in June, with employment up by 2.8% y/y (we and market expected 2.7% y/y), and wages up by 9.8% y/y (we: 8.8% y/y, market: 9.3% y/y). In monthly terms employment increased by 21k and this was the strongest performance in June since 2007. We have to wait until Friday to see more detailed data, but clearly the economic situation is improving fast and strong balances of households will be supportive for private consumption in the upcoming quarters.

NBP governor Adam Glapiński said in an interview for DGP daily newspaper that it would be not reasonable to increase interest rates while the pandemic situation is still unclear. The discussion about adjustment of monetary policy might be started in the next quarters however the 3 conditions have to be met (Glapiński mentioned them during his previous last speech): 1) the Covid-19 situation does not hurt the economy, 2) the inflation rate stays above 3.5% (upper band of the inflation target) for good, 3) the inflation is demand-driven. **MPC member Eryk Łon** said that interest rates should not be changed before the November NBP inflation projection. If the projection would increase the inflation path even further above the July one, then the NBP should consider undertaking actions which are aimed at curbing inflation pressure. This would, however, be conditional on the "scale and persistence" of the GDP growth, one should refrain from actions that could slow the growth of the economy which barely started rebounding post the pandemic. MPC members are more and more tilting towards the hawkish side and are mentioning the probability of rate increases. In our opinion, first rate increase is possible at the November meeting.

PM Morawiecki said that after June **the central budget recorded PLN25bn surplus** vs PLN9.4bn after May. It means that in June alone the budget has had one of the best outcomes ever. The reasons partially include the payment of the NBP's profit (PLN 8.9bn), but we still have to wait for more detailed data to say more.

EURUSD on Monday opened just above 1.1800, after which it moved lower to 1.1770 as investor sentiment kept deteriorating. In the second part of the day the EURUSD moved dynamically higher to 1.1820 (unwinding of EUR-funded carry trades).

EURPLN on Monday has risen even higher (the bad performance of the zloty started on 6 July) and has broken the 4.59 level. Together with the Hungarian forint the zloty, for another day, belonged to the worst EM FX which indirectly points to the real factors behind the weakness. The risk-off sentiment on the global markets did not help either. Taking this under consideration, we reckon, EURPLN could move towards 4.70 in the coming days (+2.2%).

As for the other CEE currencies, EURHUF was stable and spend another day just slightly below the 360.0 level. Nevertheless, we expect EURHUF to increase towards 370,0 soon (+2.8%). EURCZK has apparently finished the correction lower and on Monday dynamically increased to 25.66 (+0.7%), we expect koruna to weaken further. After OPEC+ has agreed to increase the oil supply by 400k bpd the Brent price started to fall, only accelerating as global growth fears prevailed on the markets (by 4% to \$70 on Monday and even more later on, today opens at \$69.3). Only such large oil moves managed to make USDRUB move again (the pair has been stable for the previous 3 sessions) – the USDRUB increased by 0.7% to 74.7 and we expect further USDRUB increases in the near time.

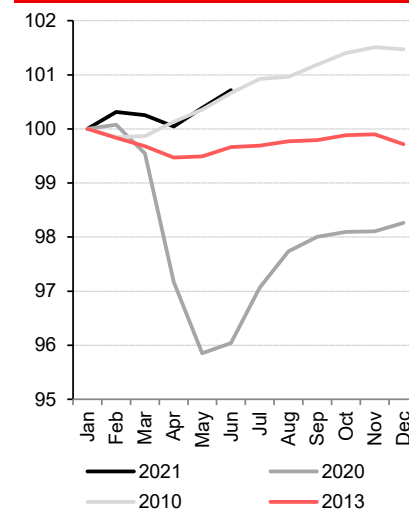
On the domestic interest market: IRS rates declined markedly (by 20bp) on Monday, following the core markets (declines by 10-13bp). Also the bond curve shifted lower (-6bp in 2Y segment, -15bp in 5-10Y segments). Such a strong and dynamic changes are probably due to closing of reflation trades, which were very popular in April and May. The Polish debt market could be supported by core market and incoming maturity of bond worth PLN11.7bn (26 July).

10Y POLGB yield, %



Source: Bloomberg, Santander

Employment in selected years, Jan = 100



Source: GUS, Santander

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FX market

Today's opening			
EURPLN	4.5993	CZKPLN	0.1788
USDPLN	3.9042	HUFPLN*	1.2640
EURUSD	1.1778	RUBPLN	0.0524
CHFPLN	4.2483	NOKPLN	0.4353
GBPPLN	5.3257	DKKPLN	0.6182
USDCNY	6.4870	SEKPLN	0.4484

*for 100HUF

Last session in the FX market						19.07.2021
	min	max	open	close	fixing	
EURPLN	4.579	4.599	4.583	4.596	4.588	
USDPLN	3.877	3.902	3.881	3.894	3.897	
EURUSD	1.176	1.182	1.181	1.181	-	

Interest rate market 19.07.2021

T-bonds on the interbank market**		
Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.37	0
DS0725 (5Y)	1.06	-15
DS1030 (10Y)	1.53	-13

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.30	-6	0.17	1	-0.53	0
2L	0.52	-19	0.29	-2	-0.47	0
3L	0.80	-20	0.47	-6	-0.43	-1
4L	0.99	-22	0.64	-7	-0.38	0
5L	1.13	-22	0.76	-8	-0.34	-2
8L	1.38	-21	1.04	-10	-0.16	-2
10L	1.48	-20	1.15	-12	-0.04	-2

WIBOR rates

Term	%	Change (bps)
O/N	0.11	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	0.21	-2
3x6	0.24	-5
6x9	0.30	-8
9x12	0.39	-17
3x9	0.29	-4
6x12	0.38	-10

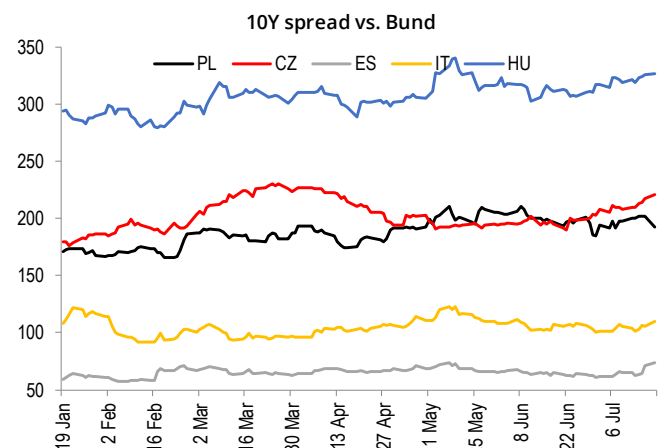
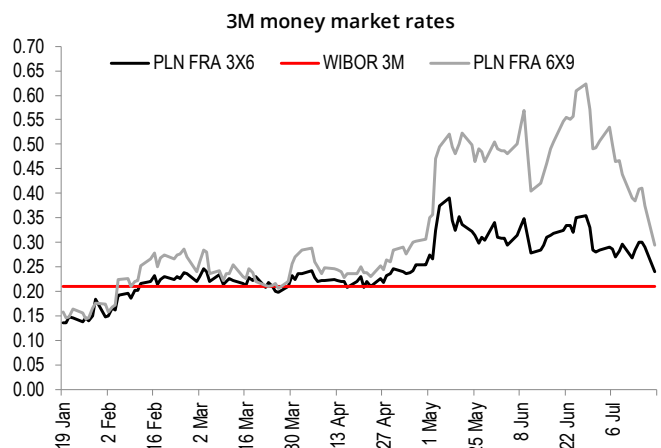
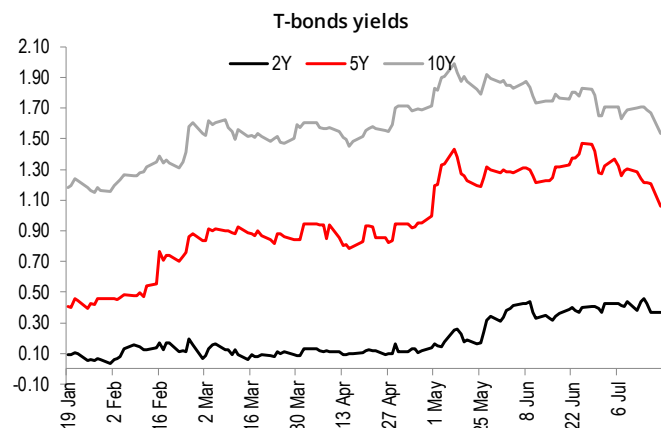
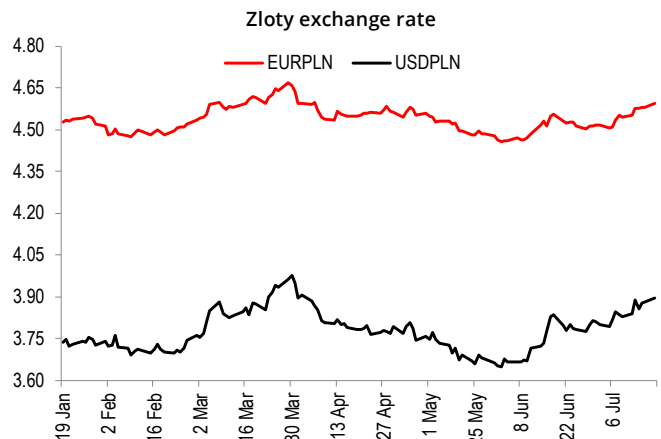
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	47	0	192	-10
France	9	0	35	1
Hungary	55	0	327	1
Spain	31	1	74	3
Italy	45	1	110	5
Portugal	21	0	64	0
Ireland	12	0	39	2
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		
FRIDAY (16 July)								
11:00	EZ	HICP	Jun	% y/y	1.9		1.9	1.9
14:00	PL	CPI Core	Jun	% y/y	3.6	3.6	3.5	4.0
14:30	US	Retail Sales Advance	Jun	% m/m	-0.3		0.6	-1.7
16:00	US	Michigan index	Jul	pts	86.5		80.8	85.5
MONDAY (19 July)								
10:00	PL	Employment in corporate sector	Jun	% y/y	2.7	2.7	2.8	2.7
10:00	PL	Average Gross Wages	Jun	% y/y	9.2	8.8	9.8	10.1
TUESDAY (20 July)								
10:00	PL	Sold Industrial Output	Jun	% y/y	18.0	19.0	-	29.8
10:00	PL	PPI	Jun	% y/y	6.8	7.0	-	6.5
14:30	US	Housing Starts	Jun	% m/m	1.2		-	3.6
WEDNESDAY (21 July)								
10:00	PL	Construction Output	Jun	% y/y	6.8	7.0	-	4.7
10:00	PL	Retail Sales Real	Jun	% y/y	9.0	7.6	-	13.9
THURSDAY (22 July)								
13:45	EZ	ECB Main Refinancing Rate	Jul/21	%	0.0		-	0.0
14:00	PL	Money Supply M3	Jun	% y/y	7.5	7.9	-	9.0
14:30	US	Initial Jobless Claims		k			-	360.0
16:00	US	Existing Home Sales	Jun	% m/m	2.6		-	-0.9
FRIDAY (23 July)								
09:30	DE	Germany Manufacturing PMI	Jul	pts	64.6		-	65.1
09:30	DE	Markit Germany Services PMI	Jul	pts	60.0		-	57.5
10:00	EZ	Eurozone Manufacturing PMI	Jul	pts	62.5		-	63.4
10:00	EZ	Eurozone Services PMI	Jul	pts	60.0		-	58.3
10:00	PL	Unemployment Rate	Jun	%	6.0	6.0	-	6.1

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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