

Eyeopener

Today the ECB is to change its forward guidance

Stock market rebound continues

Domestic retail sales in line with expectations, construction output disappointed

Zubelewicz: interest rates should go up

Currencies stable, yields up

Today ECB meeting, home sales in the USA, money supply in Poland

After significant declines at the start of the week, on Wednesday the equity markets strongly rebounded, offsetting the earlier losses. S&P rebounded to 4337, above the Friday close. The 10Y UST – currently at 1.26% – is just 4bp below the Friday close, while the Bund – now at -0.41% – just 2pb. The dollar however has not weakened, what is more, during the day it reached the strongest level in July vs euro which might imply that the rebound is only of technical nature and temporary. Yesterday in the morning the South Korean export and imports data for the first 20 days of July showed material gains from already elevated levels, a sign which usually bodes well for the global economy. Today's ECB meeting belongs to one of the most important ones this year. After the recent change of the inflation target (to symmetrical around 2%) according to Ms Lagarde announcement last week, today markets will find out how the bank's forward guidance is supposed to be adjusted, what tools it is likely to use to achieve the goal.

Retail sales advanced by 8.6% y/y in June, roughly in line with forecasts (we: 7.6%, market: 9.0%). Retail sales volume is still below pre-pandemic trend, but we are positive about sales and private consumption in the months to come, as households' disposable incomes remain strong and consumer confidence is improving. **Construction output rose by 4.4% y/y in June**, below expectations (we: 7.0%, market: 6.8%). In seasonally-adjusted terms output declined by 1.5% m/m. Despite this disappointment we remain fairly positive about construction output in the months to come given full orders books of construction companies, strong growth of house starts and building permits in the housing sector and the upswing in investment. Read more in our [Economic comment](#).

MPC member Kamil Zubelewicz said in an interview for the Bloomberg agency, that the rate increase is necessary in order to stop inflation from rising. Zubelewicz does not agree with the statement present in the MPC communiqués that the (current) NBP monetary policy is stabilising inflation at the target in the medium term. He thinks the NBP anti-crisis actions should be stopped by now. Kamil Zubelewicz belongs to the current MPC hawks and we think he was one of MPC members who voted in favour of the 15bp hike in June.

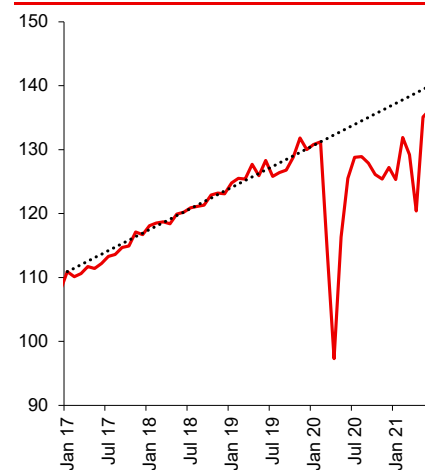
EURUSD has not changed on a daily basis (1.1790) but is lower by 0.7% month-to-date, while yesterday it has temporarily reached the monthly minimum at 1.1750. We expect the dollar to remain strong.

EURPLN has not reacted to the retail sales data, was stable for the most of the day and even tried to break above 4.6000, which in the end has not happened. EURPLN has closed at 4.5900 and today opens slightly below 4.5800. We think that the quick rebound in risk appetite after Monday falls might turn out to be temporary hence further zloty weakening in the upcoming days is probable.

As for the other CEE currencies: EURHUF moved near 360.0 and we still think that the forint should be the weakest regional currencies going forward: low real rates (-4.4%), next year budget deficit of c6% which is worrying the NBH (National Bank of Hungary), the rule-of-law and corruption conflict with the EU meant that we expect EURHUF to test the all-time high again soon (near 370.0). EURCZK remained near 25.69. We think that even if the CNB (Czech National Bank) would deliver another hike on the upcoming meeting (5 August), the hikes are already priced in hence we expect koruna to remain more under the influence of the external factors (e.g. stronger USD) than the local ones. USDRUB fell to 74.1 but we expect it soon to move towards 78.0 (high risk of further oil declines).

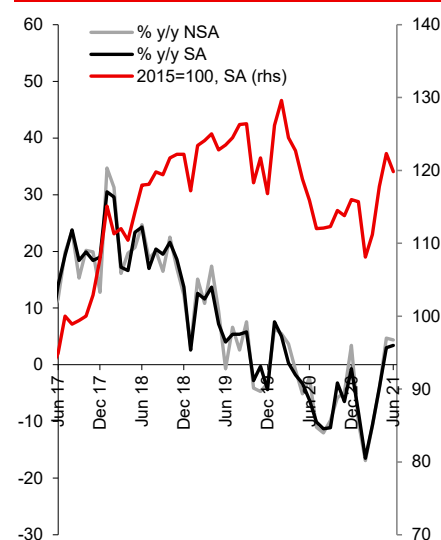
On the domestic interest rate market IRS rates and bond yields climbed following core market. The yield curve shifted up by 3-5bp in 2Y and 10Y segments, while the belly (5Y) was stable. The IRS curve moved upwards and steepened (2Y +3bp, 5Y +7bp, 10Y +8bp). 10Y ASW spread narrowed from +7bp recorded yesterday, but still remained on the positive side (+5bp). Spread to Bund widened to 195bp. The Finance Ministry informed that at the upcoming auction on 23 July it will offer bonds worth PLN4.0-6.5bn (as compared to earlier information at PLN4.0-8.0bn) with series: OK0423, PS1026, DS0432 (fixed coupon) and WZ1126, WZ1131 (floaters).

Retail sales – seasonally-adjusted volumes and pre-pandemic trend



Source: GUS, Santander

Construction and assembly output



Source: GUS, Santander

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FX market

Today's opening			
EURPLN	4.5757	CZKPLN	0.1778
USDPLN	3.8781	HUFPLN*	1.2638
EURUSD	1.1797	RUBPLN	0.0526
CHFPLN	4.2262	NOKPLN	0.4362
GBPPLN	5.3232	DKKPLN	0.6149
USDCNY	6.4655	SEKPLN	0.4460

*for 100HUF

Last session in the FX market						21.07.2021
	min	max	open	close	fixing	
EURPLN	4.582	4.601	4.593	4.586	4.598	
USDPLN	3.886	3.915	3.903	3.887	3.904	
EURUSD	1.175	1.180	1.177	1.180	-	

Interest rate market 21.07.2021

T-bonds on the interbank market**		
Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.38	6
DS0725 (5Y)	1.09	2
DS1030 (10Y)	1.58	6

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.33	2	0.18	0	-0.52	0
2L	0.60	4	0.29	-2	-0.47	0
3L	0.85	7	0.49	3	-0.43	0
4L	1.03	6	0.65	3	-0.38	1
5L	1.16	8	0.81	6	-0.33	2
8L	1.42	8	1.14	9	-0.15	3
10L	1.52	8	1.28	8	-0.03	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	0.21	0
3x6	0.27	1
6x9	0.36	3
9x12	0.49	6
3x9	0.31	1
6x12	0.42	4

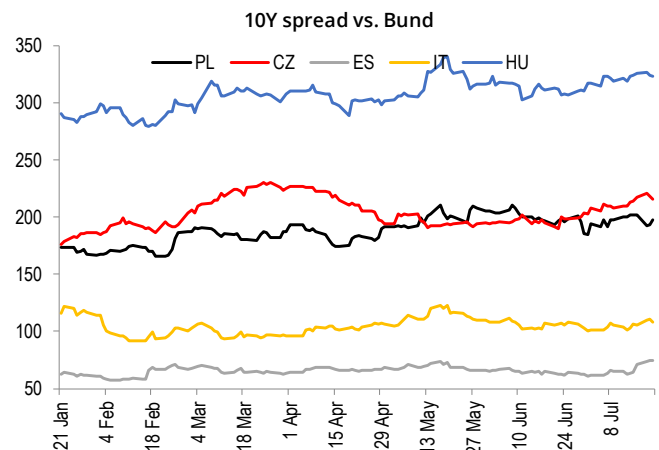
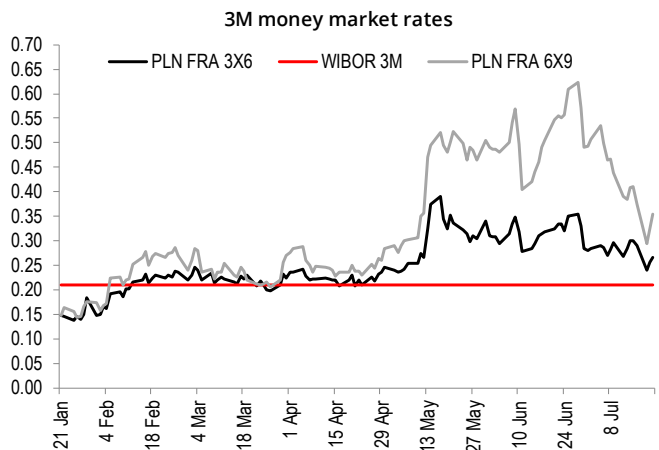
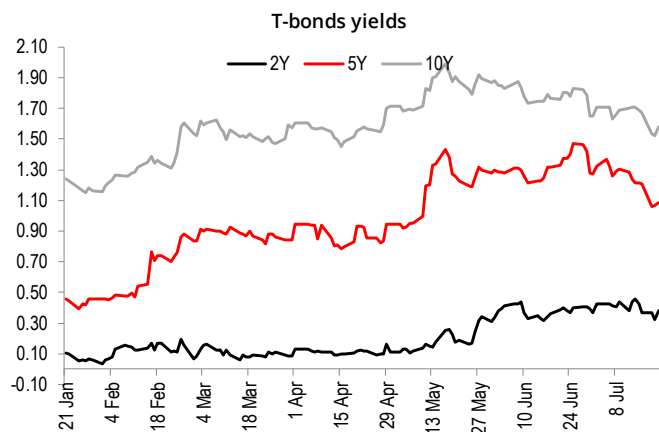
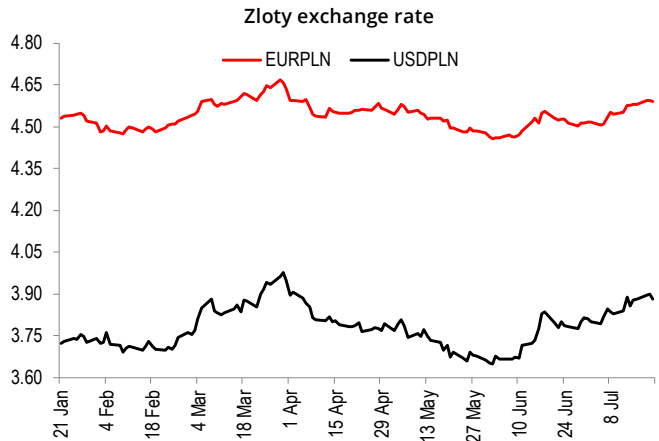
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	46	0	197	4
France	10	0	35	-1
Hungary	55	0	323	-1
Spain	31	0	74	-1
Italy	45	0	109	-2
Portugal	21	0	65	-1
Ireland	11	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		
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	18.4	29.8
10:00	PL	PPI	Jun	% y/y	6.8	7.0	7.0	6.5
14:30	US	Housing Starts	Jun	% m/m	1.2		6.3	3.6
WEDNESDAY (21 July)								
10:00	PL	Construction Output	Jun	% y/y	6.8	7.0	4.4	4.7
10:00	PL	Retail Sales Real	Jun	% y/y	9.2	7.6	8.6	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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