

23 July 2021

## Eyeopener

### ECB rate hikes are very distant

Light optimism after the ECB meeting, which postponed expectations for rate hikes

EURUSD and Bund stable

EURPLN down by 0.8%, POLGB stable, IRS slightly up

Today PMI in manufacturing and services in Germany and euro zone, unemployment in Poland

After the ECB meeting, European stocks moved slightly higher, the euro gained vs the dollar while the Bund yield remained roughly unchanged. In the US the initial jobless claims number surprised to the upside, the new home sales growth declined.

**The ECB** has not changed its main monetary policy parameters. It left interest rates unchanged and also has not adjusted the size of any of the current programs: TLTRO, PEPP (still at EUR 1.85trn) or APP (EUR20.0bn per month). Some adjustment was applied to forward guidance. The PEPP programme was earlier supposed to end in March 2022 or when the pandemic ends. Now the PEPP is supposed to end in March 2022 at the earliest and after the pandemic ends. The APP was supposed to be finished before interest rates go up, now it was added that it might happen "shortly" before. As for interest rates the ECB Governing Council used to say that interest rates would remain unchanged or lower until forecasts will show the inflation returning to target. Current wording reads that interest rate will remain at the current or lower level until inflation reaches 2.0% well ahead of the ECB forecast horizon (currently end of 2023) and in the medium term will stabilise near this level (transitory inflation swings above the target are accepted). To conclusion is obvious: the ECB has softened its tone and the euro zone interest rates are not likely to go up for a long time.

**July business climate indicators** showed a deterioration in most economic sectors. The indicator moved lower for: manufacturing, construction, trade, but improved for: hotels and restaurants which are just slightly below the long-term average (July print was at -1.3pts, while the average equals +0.3pts). In July in all sectors saw a decline of Covid-19 fears. We have to wait for more detailed data to come, but in our opinion worse readings might result from supply chain problems and from the labour market squeeze.

**The M3 money supply** slowed in June to 7.4% y/y from 9.0% y/y in May. The slowdown was caused by lower deposit growth which fell to 5.8% y/y from 7.3% y/y. In particular, the corporate deposits fell on a m/m basis and their annual growth rate declined to 4.8% y/y from 10.6% y/y. In our opinion, this may be due to repayments of PFR loans as deposits of non-monetary financial institutions have increased markedly. We expect a further decline of the money supply growth rate in the upcoming months. As for the loan growth, it moved up to +0.3% y/y (after FX adjustment) vs -0.2% y/y in May and has turned positive for the first time since August 2020. The improvement was achieved mostly thanks to developments in the household sector: consumer credit rebounded further, while mortgages were still firm. At the same time corporate loan volumes were still declining. We expect a gradual improvement on the loan market in the nearest months.

Yesterday the government released its **draft bill on the Family Care Capital (RKO)** which is a new social benefit being part of the new political strategy Polish Deal. RKO assumes payments of PLN12k (in 12 or 24 instalments) for every second and further child aged 12-36 months. The expected cost of the project stands at PLN3.0bn per year, and it would start in 2022. We estimate the RKO would add around 0.1pp to the consumption growth in 2022.

**NBP revealed** that during June MPC meeting, 3 people voted in favour of a 15bp interest rate hike: Eugeniusz Gatnar, Kamil Zubelewicz, Lukasz Hardt. Yesterday **NBP governor Adam Glapiński** repeated during his speech in the Sejm (lower house of parliament) speech his previous words that the currently elevated inflation level is of transitory nature, and price increases are to blame on factors outside the NBP influence. According to Glapiński these factors are "fully responsible for breaching the NBP inflation target" (global commodities rally, international transport disruptions, supply chain disruptions, as well as regulatory factors like trash fees, higher current prices). Till the end of the 2021 the inflation will remain above the NBP inflation target however it will ease a bit in 2022. Glapiński also claimed that NBP "fulfils" the inflation target of 2.5% +/- 1pp. These words are pretty surprising given the fact that inflation has remained above 4.0% for a few months now and in our opinion may remain at this level for a few more quarters.

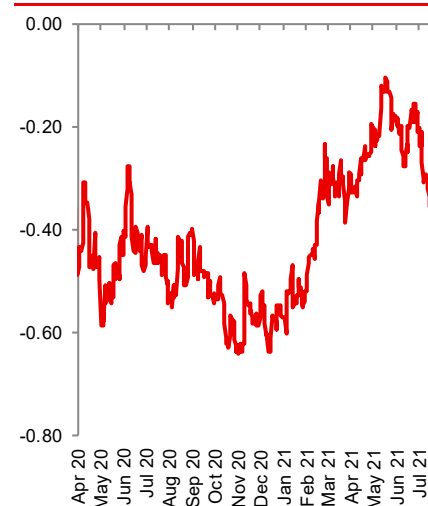
**EURUSD** was stable on daily basis (1.1800) and daily range was equal to 0.005.

After **EURPLN** failed to break 4.60 on Wednesday it has fallen to 4.563 (0.8% lower). We are however negative towards the zloty and think that such moves will be used by investors as an opportunity to open long positions.

**In the CEE region:** EURHUF fell by 0.7% (to 357.60), EURCZK declined by 0.3% (25.63). USDRUB went down by 0.2% to (73.80).

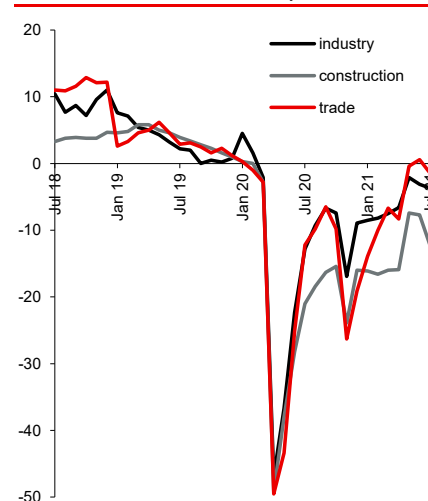
**On the domestic interest rate market** the bond curve was stable (5Y at 1.06%, 10Y at 1.57%), while the IRS curve climbed by 2-4bp (5Y to 1.18%, 10Y to 1.55%).

10Y German bond yield, %



Source: Bloomberg, Santander

Business climate indicators, pts



Source: GUS, 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 Luzziński +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	4.5627	CZKPLN	0.1777
USDPLN	3.8772	HUFPLN*	1.2628
EURUSD	1.1767	RUBPLN	0.0526
CHFPLN	4.2125	NOKPLN	0.4377
GBPPLN	5.3299	DKKPLN	0.6133
USDCNY	6.4748	SEKPLN	0.4459

\*for 100HUF

Last session in the FX market						22.07.2021
	min	max	open	close	fixing	
EURPLN	4.556	4.579	4.573	4.566	4.577	
USDPLN	3.853	3.886	3.877	3.880	3.880	
EURUSD	1.176	1.183	1.180	1.177	-	

**Interest rate market** 22.07.2021

T-bonds on the interbank market**		
Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.38	0
DS0725 (5Y)	1.08	-1
DS1030 (10Y)	1.59	0

**IRS on the interbank market\*\***

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.33	0	0.17	-1	-0.53	-1
2L	0.60	1	0.28	-1	-0.48	-1
3L	0.86	1	0.48	-1	-0.44	-1
4L	1.04	1	0.66	0	-0.40	-2
5L	1.17	1	0.80	-1	-0.35	-2
8L	1.43	1	1.12	-2	-0.18	-3
10L	1.54	2	1.28	-1	-0.06	-3

**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	0.21	0
3x6	0.27	1
6x9	0.38	2
9x12	0.52	3
3x9	0.32	1
6x12	0.44	2

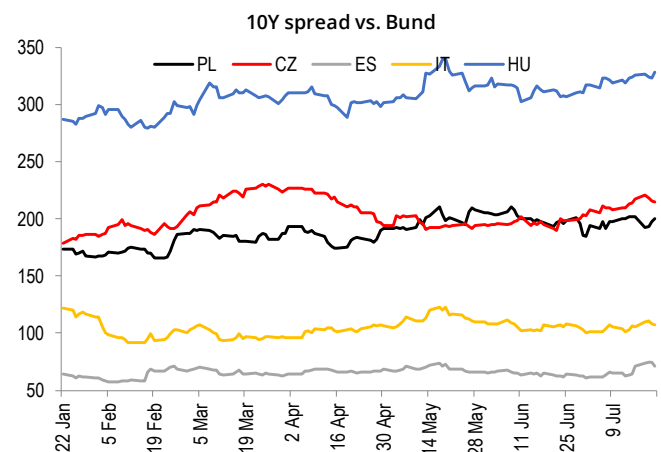
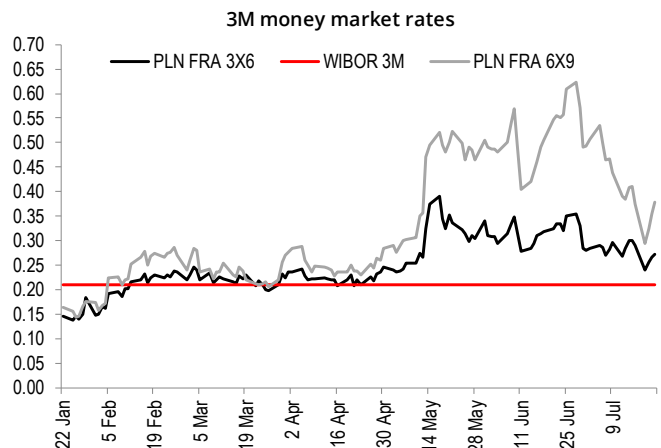
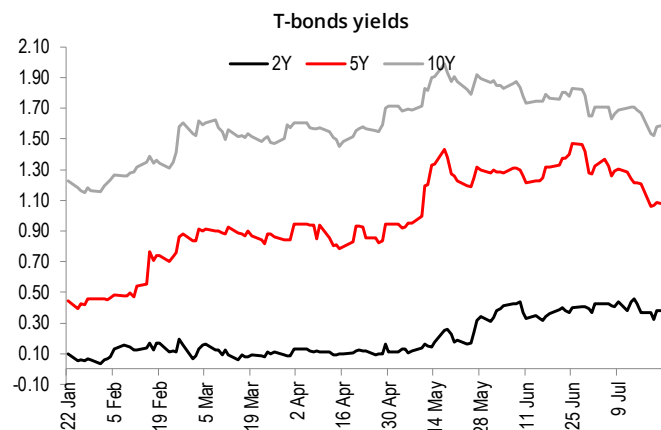
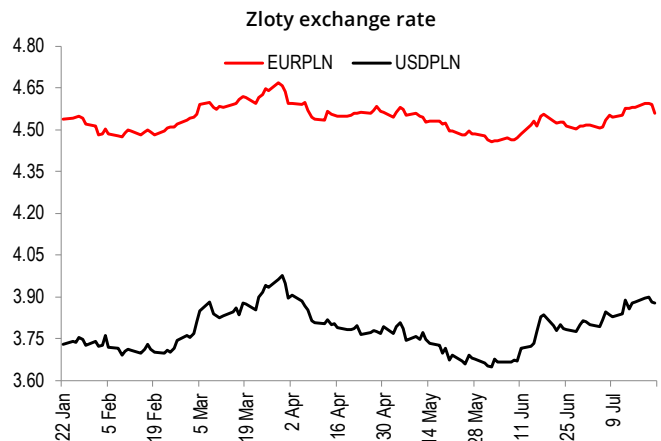
**Measures of fiscal risk**

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	47	0	200	3
France	9	0	34	-1
Hungary	55	0	328	5
Spain	31	0	72	-3
Italy	44	0	107	-2
Portugal	21	0	63	-2
Ireland	11	0	39	-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		
<b>FRIDAY (16 July)</b>								
11:00	EZ	HICP	Jun	% y/y	1.9		1.9	1.9
<b>14:00</b>	<b>PL</b>	<b>CPI Core</b>	<b>Jun</b>	<b>% y/y</b>	<b>3.6</b>	<b>3.6</b>	<b>3.5</b>	<b>4.0</b>
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
<b>MONDAY (19 July)</b>								
<b>10:00</b>	<b>PL</b>	<b>Employment in corporate sector</b>	<b>Jun</b>	<b>% y/y</b>	<b>2.7</b>	<b>2.7</b>	<b>2.8</b>	<b>2.7</b>
<b>10:00</b>	<b>PL</b>	<b>Average Gross Wages</b>	<b>Jun</b>	<b>% y/y</b>	<b>9.2</b>	<b>8.8</b>	<b>9.8</b>	<b>10.1</b>
<b>TUESDAY (20 July)</b>								
<b>10:00</b>	<b>PL</b>	<b>Sold Industrial Output</b>	<b>Jun</b>	<b>% y/y</b>	<b>18.0</b>	<b>19.0</b>	<b>18.4</b>	<b>29.8</b>
<b>10:00</b>	<b>PL</b>	<b>PPI</b>	<b>Jun</b>	<b>% y/y</b>	<b>6.8</b>	<b>7.0</b>	<b>7.0</b>	<b>6.5</b>
14:30	US	Housing Starts	Jun	% m/m	1.2		6.3	3.6
<b>WEDNESDAY (21 July)</b>								
<b>10:00</b>	<b>PL</b>	<b>Construction Output</b>	<b>Jun</b>	<b>% y/y</b>	<b>6.8</b>	<b>7.0</b>	<b>4.4</b>	<b>4.7</b>
<b>10:00</b>	<b>PL</b>	<b>Retail Sales Real</b>	<b>Jun</b>	<b>% y/y</b>	<b>9.2</b>	<b>7.6</b>	<b>8.6</b>	<b>13.9</b>
<b>THURSDAY (22 July)</b>								
13:45	EZ	ECB Main Refinancing Rate	Jul/21	%	0.0		0.0	0.0
<b>14:00</b>	<b>PL</b>	<b>Money Supply M3</b>	<b>Jun</b>	<b>% y/y</b>	<b>7.5</b>	<b>7.9</b>	<b>7.4</b>	<b>9.0</b>
14:30	US	Initial Jobless Claims		k	350.0		419.0	360.0
16:00	US	Existing Home Sales	Jun	% m/m	1.7		1.4	-1.2
<b>FRIDAY (23 July)</b>								
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
<b>10:00</b>	<b>PL</b>	<b>Unemployment Rate</b>	<b>Jun</b>	<b>%</b>	<b>6.0</b>	<b>6.0</b>	<b>-</b>	<b>6.1</b>

Source: Santander Bank Polska, Bloomberg, Parkiet

\* in the case of a revision the data is updated

This publication has been prepared by Santander Bank Polska S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Santander Bank Polska S.A. its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Santander Bank Polska S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Santander Bank Polska S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

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.