

28 July 2021

Eyeopener

Hungary fighting the rising price pressure

Hungary hikes rates more than expected
Zloty still close to 4.60 despite rebounding EURUSD
Longer Polish yields did not fall following core markets
Today FOMC decision

The growing declines of Chinese stock exchange caused by more restrictive government policy vs. tech giants translated to losses also on other major global equity markets and held core market yields in place. Despite the risk aversion EURUSD went up, possibly on expectations regarding today's FOMC meeting – we think no monetary policy parameter will be changed and the communication on QE tapering will remain soft. The hard data coming from the USA proved weak (industrial orders) while soft data surprised to the upside (consumers remained highly optimistic, one of the regional industrial confidence indicators rebounded).

The International Monetary Fund showed new global growth forecasts: 6% in 2021 (the same as in April forecasting round) and 4.9% in 2022 (0.5pp above the previous estimate). It was highlighted that the differences in the vaccination progress made IMF upgrade 2021 forecasts for developed economies and lower them for emerging economies, in Asia in particular. The IMF urged central banks to ignore the transitory inflation rise. The Fund also showed a new forecast for Polish GDP: 4.6% in 2021 (previously 3.5%) and 5.2% in 2022 (up from 4.5%).

According to **JLL Q2 2021 report covering six largest Polish cities**, developers sold 19.5k flats, equal to the record result from Q this year. At the same time developers added 15.8k flats to their offer, less than the number of sold flats, so the pool of flats to buy shrank to 37.8k and was the lowest since 2010. The demand surplus over supply is causing price hikes. Good labour market situation and low interest rates as well as inflow of migrant workers will keep supporting the housing demand. We think that the supply may rise somewhat in the coming quarters because the number of building permits and house starts was on the rise in recent months. However the growing construction costs and issues with labour availability will keep putting upside pressure on real estate prices.

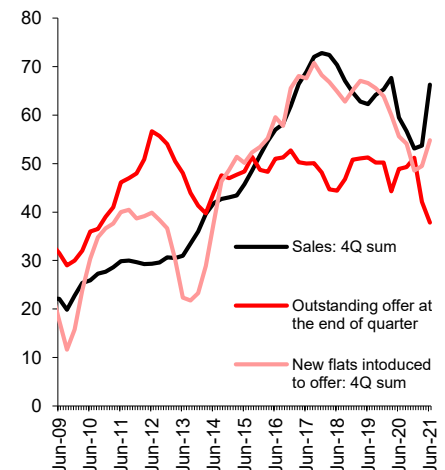
EURUSD tried on Tuesday to return below 1.18, but in the second half of the day it rebounded to 1.183. Generally market sentiment was negative, which should have sent the fx rate lower, however in our view the market saw little chance of a change in Fed's QE tapering communication to less dovish (decision due this evening) which undermined the dollar. We think the direction of the EURUSD trend has not been set yet and the data coming later this week may rather send it lower.

EURPLN stopped to drift towards 4.60 when the Hungarian central bank delivered a higher than expected rate hike. The EURPLN decline did not even reach 4.585 before investors reminded themselves that the actions of other CEE central banks are in this cycle a poor indicator of what the NBP is going to do. EURPLN closed the day at 4.595 – in the same place as on Monday.

In the CEE region the rate hike in Hungary by 30bp instead of 10-15bp, which were expected by the market, gave EURHUF an impulse to decline by 0.8% towards 359. The Czech koruna succumbed to weaker sentiments, but its depreciation was minor, to 25.70 from 25.66. The ruble continued its Monday appreciation and disregarded the swings on the EURUSD chart.

On the domestic interest rate market the 10Y bond yields remained in Monday's volatility range and repeated the scenario of going down initially and then offsetting the move. Meanwhile, 10Y UST yield fell by 6bp and Bund by 2bp. Belly and short end of the Polish curve declined (3bp to 1% and 5bp, respectively). The IRS curve remained more or less at Monday levels.

Apartment supply and sales in six major Polish cities



Source: JLL, Santander

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FX market

Today's opening			
EURPLN	4.5950	CZKPLN	0.1781
USDPLN	3.8888	HUFPLN*	1.2796
EURUSD	1.1818	RUBPLN	0.0528
CHFPLN	4.2431	NOKPLN	0.4376
GBPPLN	5.3955	DKKPLN	0.6146
USDCNY	6.5058	SEKPLN	0.4510

*for 100HUF

Last session in the FX market						27.07.2021
	min	max	open	close	fixing	
EURPLN	4.583	4.599	4.593	4.594	4.595	
USDPLN	3.878	3.908	3.891	3.884	3.902	
EURUSD	1.177	1.184	1.180	1.183	-	

Interest rate market 27.07.2021

T-bonds on the interbank market**		
Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.37	0
DS0725 (5Y)	1.00	-4
DS1030 (10Y)	1.53	-1

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.32	-1	0.17	0	-0.54	0
2L	0.58	-1	0.28	-1	-0.49	0
3L	0.84	-1	0.46	-2	-0.45	0
4L	1.03	-1	0.64	-2	-0.41	-1
5L	1.17	-1	0.79	-1	-0.36	-2
8L	1.43	-1	1.10	-3	-0.18	-1
10L	1.55	-1	1.23	-5	-0.06	-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	0.21	0
3x6	0.25	-1
6x9	0.35	-1
9x12	0.47	-3
3x9	0.29	-1
6x12	0.42	-2

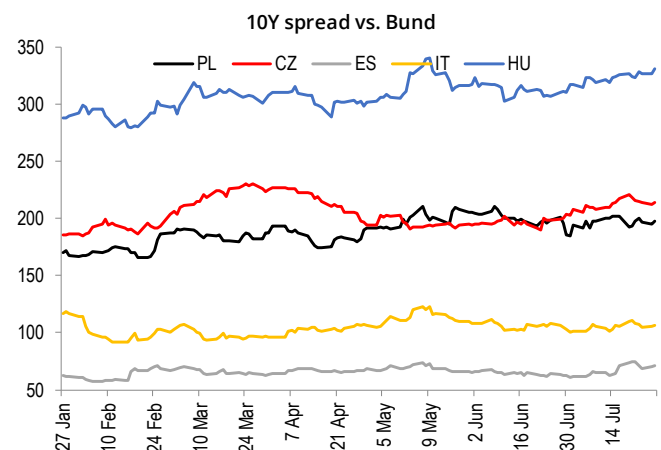
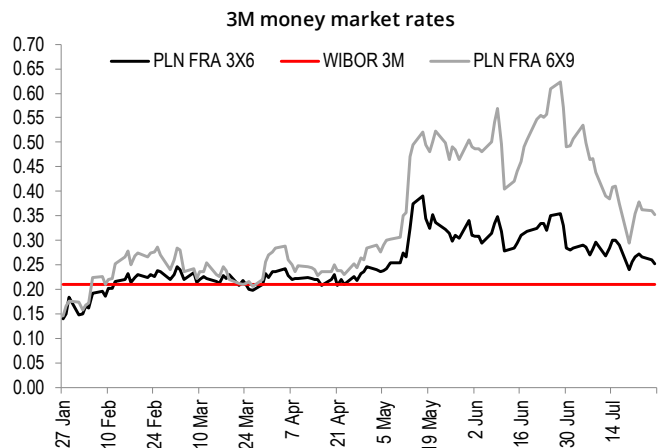
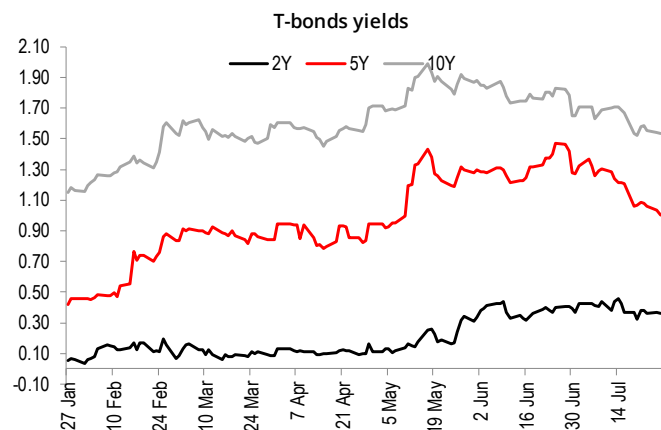
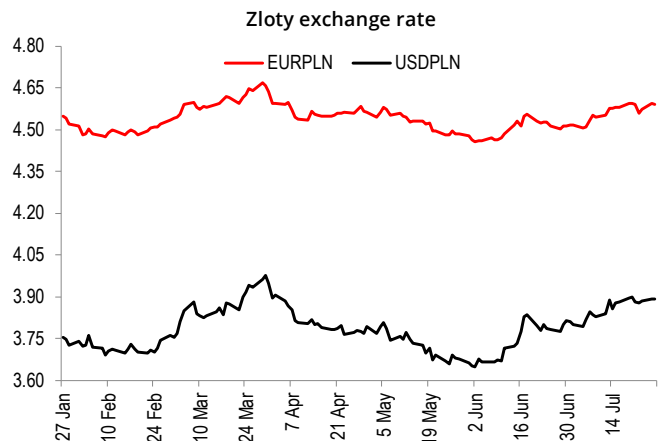
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	46	0	197	2
France	9	0	35	1
Hungary	55	0	331	5
Spain	30	0	71	1
Italy	44	0	106	1
Portugal	21	0	64	1
Ireland	11	0	40	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		
FRIDAY (23 July)								
09:30	DE	Germany Manufacturing PMI	Jul	pts	64.1		65.6	65.1
09:30	DE	Markit Germany Services PMI	Jul	pts	59.5		62.2	57.5
10:00	EZ	Eurozone Manufacturing PMI	Jul	pts	62.5		62.6	63.4
10:00	EZ	Eurozone Services PMI	Jul	pts	59.3		60.4	58.3
10:00	PL	Unemployment Rate	Jun	%	6.0	6.0	5.9	6.1
MONDAY (26 July)								
10:00	DE	Ifo Business Climate	Jul	pts	102.4		100.8	101.7
16:00	US	New Home Sales	Jun	% m/m	4.0		-6.6	-7.8
TUESDAY (27 July)								
14:00	HU	Central Bank Rate Decision	Jul/21	%	1.0		1.2	0.9
14:30	US	Durable Goods Orders	Jun	% m/m	2.1		0.8	3.2
16:00	US	Consumer Conference Board	Jul	pts	124.0		129.1	128.9
WEDNESDAY (28 July)								
20:00	US	FOMC decision	Jul/21		0.25		-	0.25
THURSDAY (29 July)								
11:00	EZ	ESI	Jul	pct.	118.5		-	117.9
14:00	DE	HICP	Jul	% m/m	0.45		-	0.4
14:30	US	GDP Annualized	2Q	% Q/Q	8.5		-	6.4
14:30	US	Initial Jobless Claims	Jul/21	k	377.5		-	419.0
16:00	US	Pending Home Sales	Jun	% m/m	0.75		-	8.0
FRIDAY (30 July)								
09:00	CZ	GDP SA	2Q	% y/y	8.85		-	-2.4
10:00	PL	CPI	Jul	% y/y	4.7	4.6	-	4.4
10:00	DE	GDP WDA	2Q	% y/y	9.6		-	-3.1
11:00	EZ	Flash HICP	Jul	% y/y	2.0		-	1.9
11:00	EZ	GDP SA	2Q	% y/y	13.2		-	-1.3
11:00	EZ	Unemployment Rate	Jun	%	7.9		-	7.9
14:30	US	Personal Spending	Jun	% m/m	0.6		-	0.0
14:30	US	Personal Income	Jun	% m/m	-0.5		-	-2.0
14:30	US	PCE Deflator SA	Jun	% m/m	0.6		-	0.4
16:00	US	Michigan index	Jul	pts	80.8		-	80.8

Source: Santander Bank Polska, Bloomberg, Parkiet
* in the case of a revision the data is updated

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