

29 July 2021

Eyeopener

FOMC does not want to scary with tapering

Fed saw progress in the economy but did not suggest tapering
 Zloty still close to 4.60
 Polish yields and IRS rates higher despite stabilisation on core markets
 Today ESI, first estimates of inflation in Germany (July) and US GDP (2Q)

Stabilisation of trading on Chinese stock market had a calming effect on European equity indices (generally stable and some managed to rise). The overall sentiment was also supported by US news that president Biden is close to securing a bipartisan deal on infrastructure package. Another factor stabilising the markets yesterday was the awaiting of evening FOMC decision – during the day 10Y UST yield was sticking close to 1.26% wondering what Fed would have to say about QE tapering. Bund yields was also quite stable, albeit intraday it managed to slip to the lowest level since February. On the pandemic front we got bad news that the spread in Japan likely requires a broader area to be covered with restrictions and good news that one of the suppliers produced a delta variant vaccine and will move to the testing phase in August.

At the FOMC meeting no policy parameters were changed, but new instruments have been introduced to the toolbox – repo operations on the domestic and foreign markets. The statement stressed that the US economy is making progress towards FOMC goals. At the press conference Fed chairman Jerome Powell seemed to be less certain about the prospects of falling inflation than during the previous events. He also said that the Covid economic impact is smaller with every wave and did not highlight risks linked to the delta variant. Apart from that he tried to soften the FOMC remarks regarding economic progress and expressed a view that full employment is still far away. There was no indication when monetary policy might be normalised in the USA. While the statement was received as hawkish, leading to stronger dollar, Powell's comment changed the way market interpreted the meeting outcome.

MPC's Eugeniusz Gatnar said that the Council should make an effort to bring inflation to 2.5% target and that the first move should be a gentle 15bp rate hike. He has already voted for such a hike in June, so this is just a signal that his views on monetary policy have not changed.

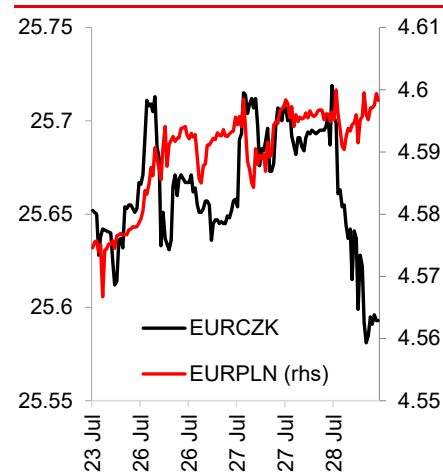
EURUSD remained near 1.18 and spent some time intraday below the level. In a broader context, relative to a basket of currencies the dollar after two days of significant losses stabilised on Wednesday and even showed some improvement. After the FOMC statement the fx rate dropped below 1.178 but this morning is already above 1.185.

EURPLN continued its attempt to break above 4.60 and the intraday downside correction was smaller than the one a day earlier.

As for the other CEE currencies, it is important to note how easily the forint gave back its Tuesday gains caused by surprisingly large rate hike. We attribute the currencies fragility to the risk that Hungary loses access to EU funds. The koruna responded in a different manner to a hawkish signal from its central bank. After the remarks by Tomas Nidetzky EURCZK dropped by 0.5%. Nidetzky said that can imagine rates being increased at every meeting until new factors appear that would stop the cycle. In his view the persistent inflation is a higher risk to the economy than the new coronavirus variants. He also sees the labour market as a source of additional inflation pressure and the central bank should in his view take advantage of the comfortable situation caused by vaccination progress and to normalise rates relatively quickly. The ruble was stronger intraday, but in the end USDRUB did not move away from the levels from the previous session.

On the domestic interest rate market the longer end of the IRS curve went up by 5bp toward 1.60%, the belly went up by 7 bp and the shorter end by 3bp. Also the yield curve shifted higher: 2Y paper went up to 0.4%, 5Y by 4bp to 1.04% while the longer end went up by 3bp. These were quite significant moves given that core markets were calm ahead of the FOMC meeting.

EURCZK and EURPLN



Source: Refinitiv, Santander

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FX market

Today's opening			
EURPLN	4.5900	CZKPLN	0.1781
USDPLN	3.8727	HUFPLN*	1.2757
EURUSD	1.1852	RUBPLN	0.0529
CHFPLN	4.2579	NOKPLN	0.4405
GBPPLN	5.3934	DKKPLN	0.6146
USDCNY	6.4736	SEKPLN	0.4512

*for 100HUF

Last session in the FX market						28.07.2021
	min	max	open	close	fixing	
EURPLN	4.588	4.601	4.596	4.595	4.596	
USDPLN	3.881	3.901	3.889	3.891	3.885	
EURUSD	1.178	1.183	1.182	1.181	-	

Interest rate market 28.07.2021

T-bonds on the interbank market**		
Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.40	3
DS0725 (5Y)	1.04	4
DS1030 (10Y)	1.68	15

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.34	2	0.16	0	-0.54	-1
2L	0.61	4	0.28	1	-0.49	0
3L	0.87	3	0.48	2	-0.45	0
4L	1.08	5	0.65	1	-0.42	-1
5L	1.24	7	0.78	-1	-0.37	-1
8L	1.48	6	1.11	1	-0.19	-1
10L	1.60	6	1.24	0	-0.07	-1

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	2
6x9	0.36	1
9x12	0.49	2
3x9	0.33	3
6x12	0.46	4

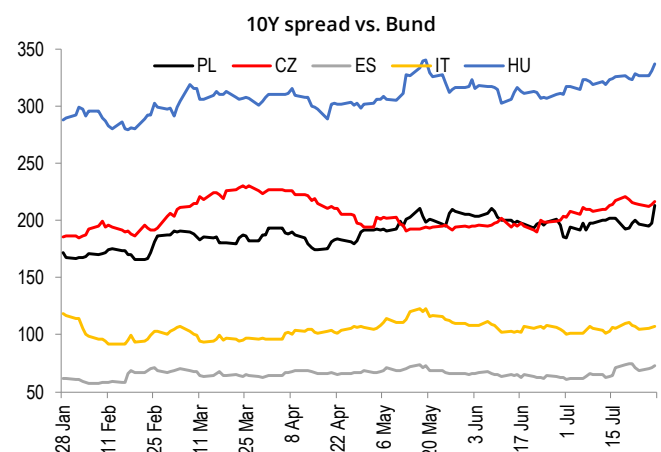
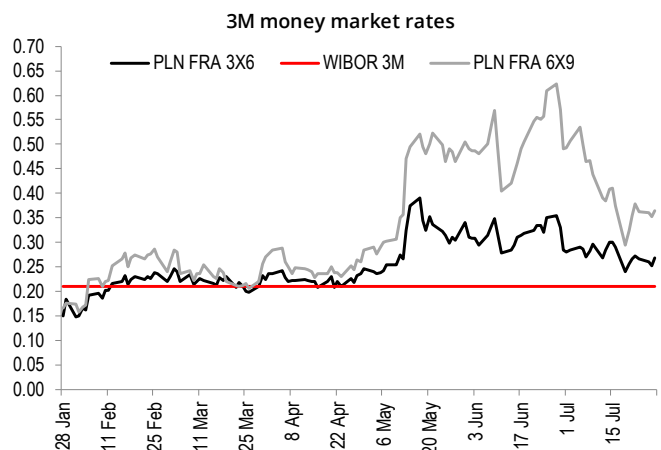
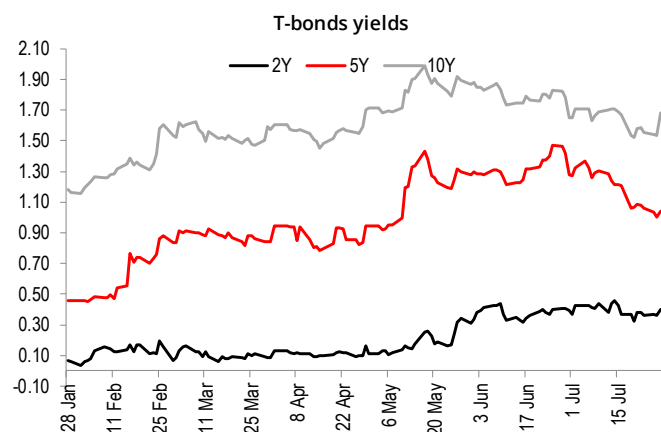
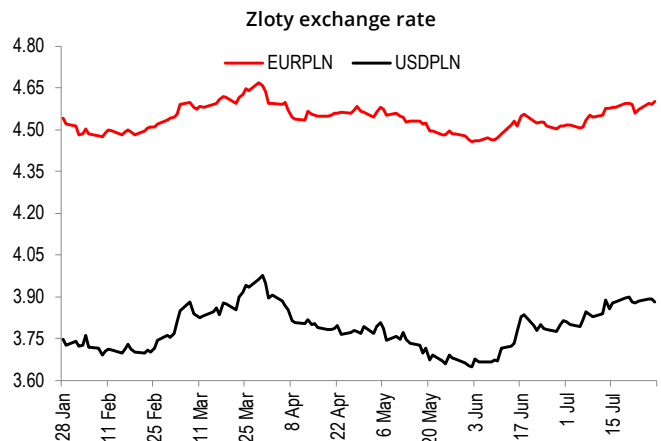
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	46	0	213	15
France	9	0	36	1
Hungary	55	0	337	6
Spain	30	0	72	1
Italy	44	0	107	0
Portugal	21	0	64	0
Ireland	11	0	41	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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