

2 August 2021

Eyeopener

Inflation at five percent

German GDP growth below forecast, euro zone inflation above forecast
 Polish inflation unexpectedly jumped to 5%, zloty gained further
 Polish yield curve stable, core yields slightly lower
 Today, manufacturing PMIs and ISM

On Friday the markets received a lot of important data to digest and the global macro picture stemming from these releases initially led to moderate stock market declines and lower bond yields on core markets. The first estimate of 2Q German GDP disappointed: the rebound was 1.5% q/q instead of 2% and the 1Q reading was revised lower (to -2.1% from -1.8%). At the same time the 2Q growth estimate for the whole Eurozone exceeded market expectations (2.0% q/q vs 1.5%). The flash Eurozone HICP print beat market expectations (a rise from 1.9% y/y to 2.2% instead of to 2.0%). In the afternoon a slightly weaker-than-expected US core PCE deflator for June was added to the data mix, as well as a strong rebound in July Chicago PMI. Oil price rose further with Brent reaching US\$75.5/barrel. We think the start of this week will still be the time of market adjustments to the news flow from the second part of the past week (which also included a disappointing first estimate of 2Q US GDP). This can be read from the Friday volatility of EURUSD, which attacked 1.19 only to sink later below the opening level.

Flash CPI inflation rose to 5.0% y/y in July, beating market expectations. The range of forecasts by local analysts was quite wide, 4.2-5.0% with median at 4.7%. We estimated it at 4.6%. The last time inflation was so high was in 2001 (and in one month in 2011). The surprise came mostly from core components of inflation. Our rough estimate based on the limited information of the flash release points to core inflation rise from 3.5% to 3.6-3.7% y/y instead of the expected second decline in a row. Food inflation was also much stronger in July than we had thought. Given that the fresh July NBP projection has 3Q21 CPI average at 4.6% y/y and core inflation at 3.5%, the reading should also come as an upside surprise for the central bankers. There is no MPC rate-setting meeting scheduled in August, and when deciding on rates in early September the Council will also have data on 2Q GDP. The view of the MPC has already started evolving towards less dovish in recent months but many members seem to prefer to wait for the November projection to see the impact of the upcoming Covid wave before deciding on policy changes.

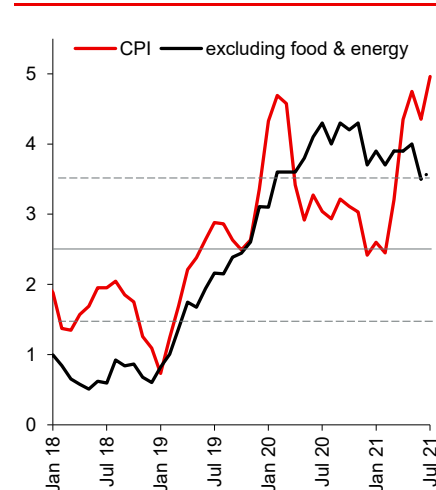
MPC member Łukasz Hardt wrote in a [column](#) in Rzeczpospolita daily about false – in his view – arguments used to justify the view that the current inflationary environment does not require a monetary policy reaction. Hardt is one out of three MPC members who voted for an interest rate hike in June and in his view – as he laid out in the article – the MPC “should start a gradual normalisation of its policy as soon as possible”.

Last week **EURUSD** climbed by 0.7% and even tried to break 1.19. In our view this week the rate will try to reverse this move, but solid US labour market data are necessary to do that (this week's calendar is full of data covering this issue).

EURPLN continued the Thursday's decline and reached 4.56, but ended the day higher by 0.005. The domestic currency was supported by surprisingly high inflation. At the start of the week the global environment seems to be more positive for the zloty than on week ago, so we are expecting EURPLN to go down, but it may have too little time to fall below 4.53 after which it might target 4.60 again provided that the US data prove strong. **Other CEE currencies** were stable: EURCZK still at 25.5, EURHUF at 357.5. Another downward move was delivered by USDRUB as it fell to 73.

On the domestic interest rate market the high inflation print helped FRA rates to bounce up again (9x12 +9bp to 0.65%). Bond yield curve fell the impact as well, but the yield increases did not hold until the end of the day. The room for yield rise could be capped by weaker German GDP and lower core market yields (UST curve lower 2-3bp). Overall, domestic bond yields could be quite stable and only the stronger US data could push them up at the long end. Lower end and the belly of the IRS curve rose 3-4bp, so in two days by c.12bp in total. According to the released plans, on August 11 the **BGK** will offer covid bonds FPC0631 (supply has not been declared yet), one week later the **NBP** will enter the market with bond purchase (QE), and on August 18 the **Ministry of Finance** will hold a bond switching auction (purchase of DS1021, PS0422 i OK0722, sale of OK0423, PS1026, WZ1126, WZ1131 i DS0432).

CPI inflation in Poland, %y/y



Source: GUS, NBP, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website: [santander.pl/en/economic-analysis](https://www.santander.pl/en/economic-analysis)
 Piotr Bielski +48 22 534 18 87
 Marcin Luziński +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	4.5667	CZKPLN	0.1781
USDPLN	3.8487	HUFPLN*	1.2657
EURUSD	1.1870	RUBPLN	0.0526
CHFPLN	4.2447	NOKPLN	0.4399
GBPPLN	5.3477	DKKPLN	0.6146
USDCNY	6.4639	SEKPLN	0.4499

*for 100HUF

Last session in the FX market						30/07/2021
	min	max	open	close	fixing	
EURPLN	4.554	4.579	4.569	4.565	4.573	
USDPLN	3.831	3.853	3.846	3.848	3.841	
EURUSD	1.185	1.191	1.188	1.186	-	

Interest rate market 30/07/2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.45	1
DS0725 (5Y)	1.08	-1
DS1030 (10Y)	1.71	-2

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.43	5	0.15	-1	-0.54	0
2L	0.77	8	0.26	-2	-0.49	-1
3L	1.02	5	0.46	-2	-0.46	-1
4L	1.22	5	0.63	-4	-0.41	-1
5L	1.37	4	0.77	-4	-0.36	-1
8L	1.58	0	1.09	-5	-0.19	-2
10L	1.68	1	1.24	-5	-0.07	-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	0.23	1
3x6	0.33	5
6x9	0.50	7
9x12	0.67	9
3x9	0.44	11
6x12	0.64	12

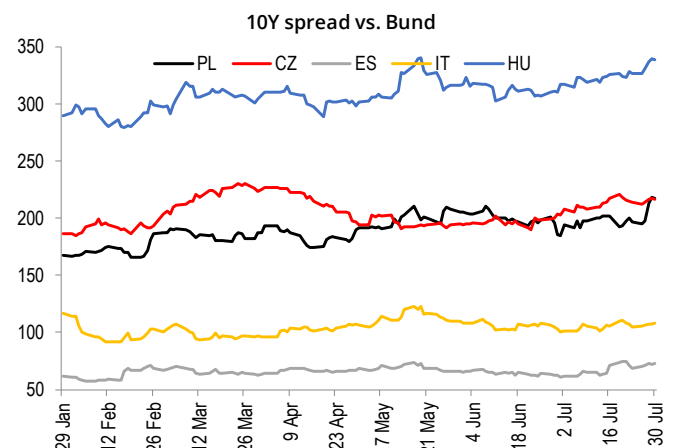
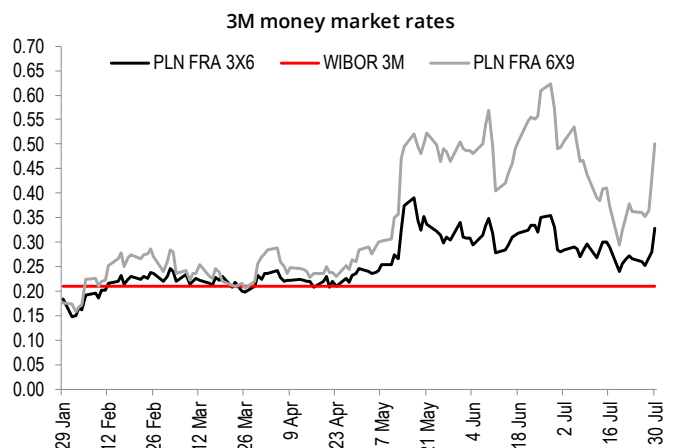
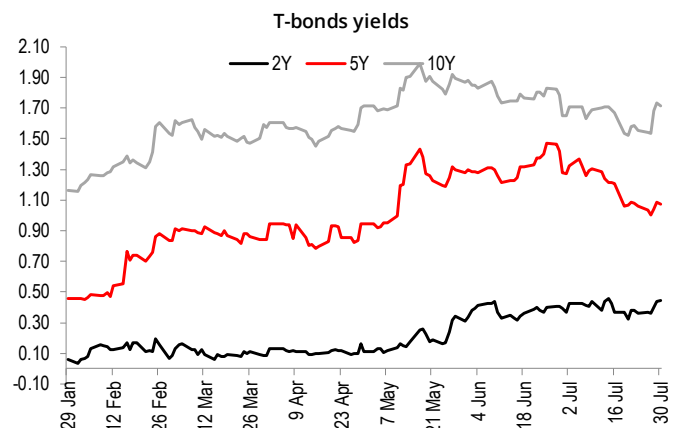
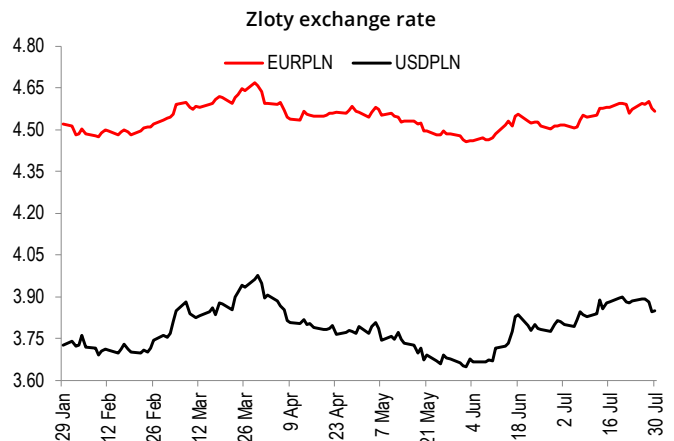
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	46	0	217	-1
France	9	0	36	0
Hungary	55	0	339	0
Spain	30	0	73	1
Italy	44	0	109	1
Portugal	21	0	64	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 (30 July)								
09:00	CZ	GDP SA	2Q	% y/y	8.9	7.8	-2.4	
10:00	PL	CPI	Jul	% y/y	4.7	4.6	5.0	4.4
10:00	DE	GDP WDA	2Q	% y/y	9.6	9.2	-3.1	
11:00	EZ	Flash HICP	Jul	% y/y	2.0	2.2	1.9	
11:00	EZ	GDP SA	2Q	% y/y	13.2	13.7	-1.3	
11:00	EZ	Unemployment Rate	Jun	%	7.9	7.7	8.0	
14:30	US	Personal Spending	Jun	% m/m	0.6	1.0	-0.1	
14:30	US	Personal Income	Jun	% m/m	-0.5	0.1	-2.2	
14:30	US	PCE Deflator SA	Jun	% m/m	0.6	0.5	0.5	
16:00	US	Michigan index	Jul	pts	80.8	81.2	80.8	
MONDAY (2 August)								
8:00	DE	Retail sales, constant prices	Jun	%m/m	2.0	-	4.2	4.6
9:00	PL	PMI manufacturing	Jul	pts	59.0	59.0	-	59.4
9:55	DE	PMI manufacturing	Jul	pts	65.6	-	-	65.1
10:00	EZ	PMI manufacturing	Jul	pts	62.6	-	-	63.4
16:00	US	ISM manufacturing	Jul	pts	60.5	-	-	60.6
TUESDAY (3 August)								
No key events								
WEDNESDAY (4 August)								
9:55	DE	PMI services	Jul	pts	62.2	-	-	57.5
10:00	EZ	PMI services	Jul	pts	60.4	-	-	58.3
14:15	US	ADP employment change	Jul	k	600	-	-	692
16:00	US	ISM non-manufacturing	Jul	pts	60.2	-	-	60.1
THURSDAY (5 August)								
8:00	DE	Factory orders	Jun	%m/m	2.0	-	-	-3.7
14:30	CZ	Central bank rate decision		%		-	-	0.50%
14:30	US	Trade balance	Jun	USDbn	-71.5	-	-	-71.2
14:30	US	Initial Jobless Claims	week	k		-	-	400
FRIDAY (6 August)								
8:00	DE	Industrial output	Jun	%m/m	0.9	-	-	-0.3
9:00	CZ	Industrial output	Jun	%y/y		-	-	25.3
9:00	HU	Industrial output	Jun	%y/y		-	-	39.1
14:30	US	Non-farm payrolls	Jul	k	926	-	-	850
14:30	US	Unemployment Rate	Jul	%	5.7	-	-	5.9

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.