

Eyeopener

Most of manufacturing PMIs lower in July

July PMIs showed weakening of new orders and production in many countries
 In Polish manufacturing strong pressure on supply chains and costs persists
 Zloty keeps strengthening, EURUSD did not retrace after last week's rise
 Bond yields lower globally

The July PMI included some positive elements, like the improvement in the Eurozone, including Germany (vs the preliminary readings) but also showed a negative message - deterioration in Asia. The PMI in Asian emerging markets signalled a fall in new orders and current production due to the Covid-19. The China PMI fell to 50.3 from 51.3 (vs 51.0 expected), the employment index remained high while the price pressures eased somewhat. Similar picture was seen later on in the US (the ISM manufacturing), where the employment index has increased significantly above 50.0. On Monday core market yields fell, equities mostly ended the day in green, the oil price fell by 3%.

Polish manufacturing PMI eased in July to 57.6 pts, having set an all-time high in June at 59.4. The decline was caused by lower contributions of all components but delivery times, in particular new orders and output. This did not however reduce the supply chain pressure - delivery times were record long while purchasing activity remained close to historical tops, resulting in further cost pressure. The report mentions that output expectations were still positive, but the measure was the lowest in three months partly due to delivery issues. While there remain supply-side frictions and cost pressures in Polish industry, the demand seems strong enough to warrant uninterrupted expansion.

Quarterly NBP senior loan officers survey among banks doing business in Poland showed that in 2Q there was a substantial improvement of credit demand: long term credit in case of large companies and short term credit among SMEs. It was driven by the broadly experienced rise of demand for financing of fixed assets (the indicator was the highest since 2015 and its level suggests c.15% y/y investment growth in 2Q) and for financing of stock and working capital. Demand indicators of housing loans and consumer loans were also very high in 2Q (1Q was also strong in this respect) - banks signalled that it was due to the growing appetite for durable goods purchases, improved economic situation of households. The highly stimulating factor was also, according to the survey results, the expectations about the direction in which the housing market is going. For 3Q banks expect a further solid rise of credit demand in all segments excluding mortgages, they plan to ease credit policy for SMEs and consumer loans.

MPC member Eugeniusz Gatnar said that NBP should start hiking rates, following its Czech and Hungarian counterparts, by 15bp in the first move. He assessed that the price-wage spiral has already started to build and the risk of inflation de-anchoring exists. In his opinion higher rates should help cool the consequences of higher inflation. The fact that the economy has returned back to the pre-pandemic levels allows for a cautious monetary policy normalization. Another MPC member **Grażyna Ancyparowicz** said that hiking interest rates in a hurry would be a big mistake, a policy normalisation could be considered in October or November at the earliest.

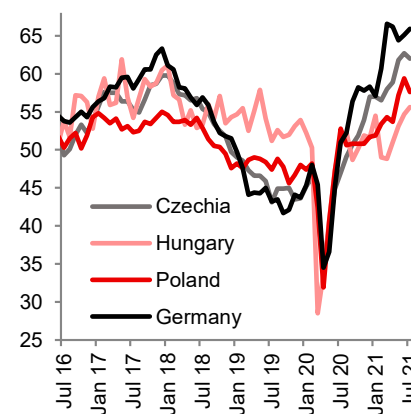
EURUSD was moving in Friday's range and ended the day at a similar level, near 1.187.

EURPLN went down after economic releases in the morning, the scale of decline was modest, but the pair spent some time below Friday's low and in our view there is still some room for a decline.

Other CEE currencies appreciated a bit. EURCZK was temporarily below July's low set last Thursday and EURHUF moved to 356.5 from 357.5, supported by a further rise of Hungarian PMI as compared to clear declines of Polish and Russian gauges and a modest one in case of Czechia. USDRUB slid below 72.9 despite weaker data and falling oil prices - this is where its decline stopped on Friday.

On the domestic interest rate market yield of 10Y bonds fell by c.4bp. The move apparently had nothing to do with rate hike expectations, as the FRA9x12 remained near 0.65%, i.e. c.20bp higher than one week before. It was more related to the decrease of core market yields: 10Y UST decreased by 6-7bp, below 1.17%, while German Bund yield dropped 2bp to -0.48%. The IRS curve decreased by c.2bp in the long end and the belly, while 2Y rate started stabilising c.20bp above last week's level.

Manufacturing PMIs



Source: Markit, Refinitiv, Santander

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FX market

Today's opening			
EURPLN	4.5585	CZKPLN	0.1787
USDPLN	3.8378	HUFPLN*	1.2645
EURUSD	1.1878	RUBPLN	0.0527
CHFPLN	4.2393	NOKPLN	0.4345
GBPPLN	5.3325	DKKPLN	0.6131
USDCNY	6.4630	SEKPLN	0.4465

*for 100HUF

Last session in the FX market						02/08/2021
	min	max	open	close	fixing	
EURPLN	4.550	4.570	4.567	4.556	4.561	
USDPLN	3.827	3.852	3.848	3.837	3.838	
EURUSD	1.186	1.190	1.187	1.187	-	

Interest rate market 02/08/2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
WS0922 (2Y)	0.44	-1
DS0725 (5Y)	1.04	-3
DS1030 (10Y)	1.67	-4

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.43	0	0.15	1	-0.54	0
2L	0.76	-2	0.25	-1	-0.50	0
3L	1.01	0	0.43	-3	-0.47	-1
4L	1.21	-2	0.60	-3	-0.42	0
5L	1.35	-3	0.74	-3	-0.38	-1
8L	1.55	-4	1.06	-4	-0.21	-1
10L	1.66	-3	1.20	-4	-0.09	-2

WIBOR rates

Term	%	Change (bps)
O/N	0.09	-1
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	0
3x6	0.33	0
6x9	0.49	-1
9x12	0.68	0
3x9	0.43	-2
6x12	0.60	-4

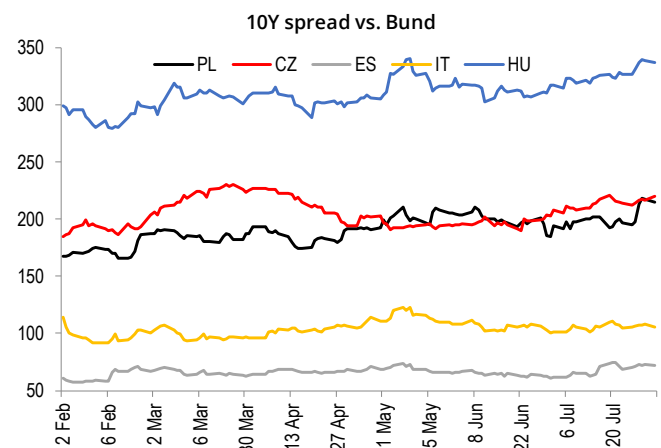
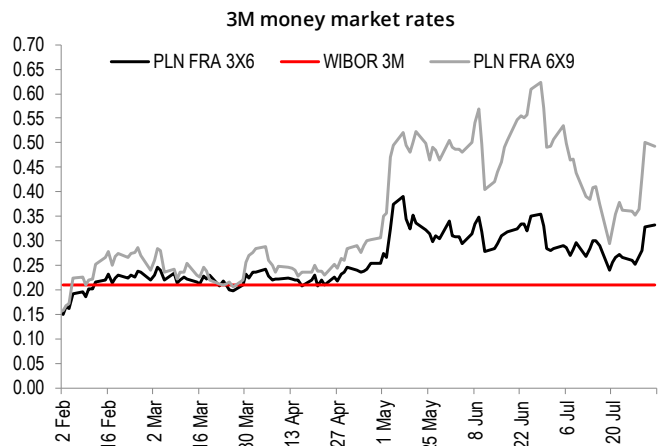
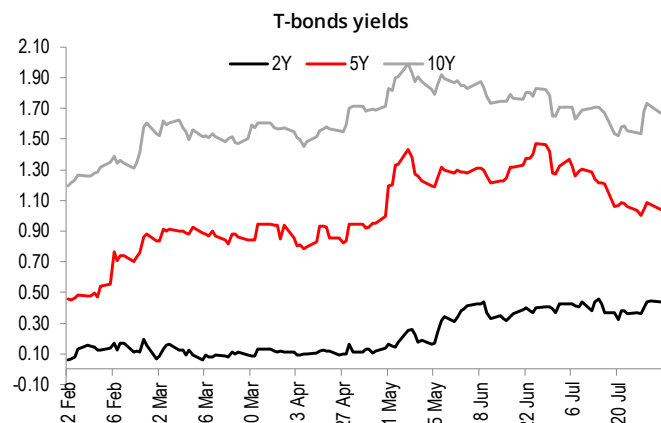
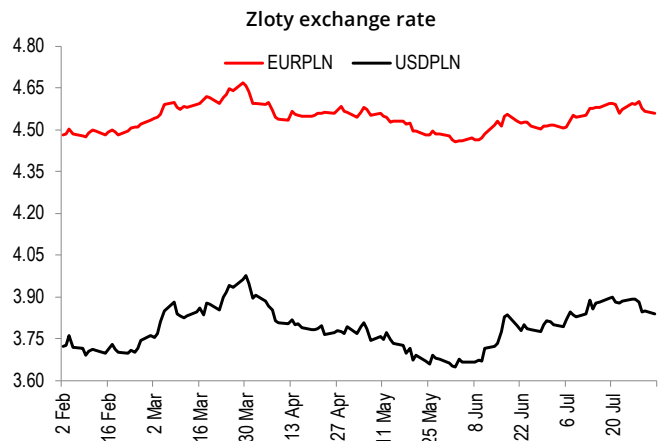
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	47	0	215	-2
France	9	0	35	-1
Hungary	55	0	337	-2
Spain	30	0	72	-1
Italy	43	0	106	-3
Portugal	21	0	62	-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		
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	57.6	59.4
9:55	DE	PMI manufacturing	Jul	pts	65.6	-	65.9	65.1
10:00	EZ	PMI manufacturing	Jul	pts	62.6	-	62.8	63.4
16:00	US	ISM manufacturing	Jul	pts	60.5	-	59.5	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

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