

Eyeopener

Czechia continues hiking rates

CNB raised interest rates for the second month in a row
 Ziobro: EU membership increasingly costly, not at all costs
 EURUSD and EURPLN fairly stable, other CEE currencies stronger
 Bond yields slightly lower at the long end of the curve
 Today US labour market data

The day before the release of US labour market report, which in our view has market-moving potential, core market bonds were getting cheaper and stock indexes were performing rather well in Europe and the USA. EURUSD was quietly waiting for the data coming this afternoon. Apart from that, the Bank of England did not change interest rates and did not decide for QE tapering. According to its forecasts the inflation may reach 4% in late 2021 which might encourage some monetary policy adjustment. The bank informed that it wants to move to reducing asset purchases once the main interest rate is raised to 0.50% (currently at 0.10%), while earlier 1.50% had been pointed indicated as the threshold.

According to **MPC's Łukasz Hardt** the conditions for monetary policy normalisation are already met and the economic outlook presented in the July NBP projection was calling for a monetary policy response. He repeated that the normalisation of monetary policy should start with a reserve requirement rate hike, but most of the Council was of a different view and rejected the motion (in April and May) as well as the motion to raise rates by 15bp in June supported by Hardt. In his view the QE programme can remain active when interest rate hikes start. This goes against the view of NBP governor Adam Glapiński, who considers it a necessity to end QE purchases before the MPC can move to hiking rates.

Justice minister Zbigniew Ziobro (who is also the leader of the coalition party Solidarna Polska) said in an interview with Rzeczpospolita daily that "Poland cannot yield to the blackmail of EU carried out by the CJEU". He added that the Poland's EU membership is getting increasingly expensive and it should not be "at all costs". Also, Ziobro suggested that if government accepts the CJEU ruling on the judiciary system, it may threaten the stability of the ruling coalition, and that Solidarna Polska will not support the government's Polish Deal programme unconditionally, in particular as regards the energy policy.

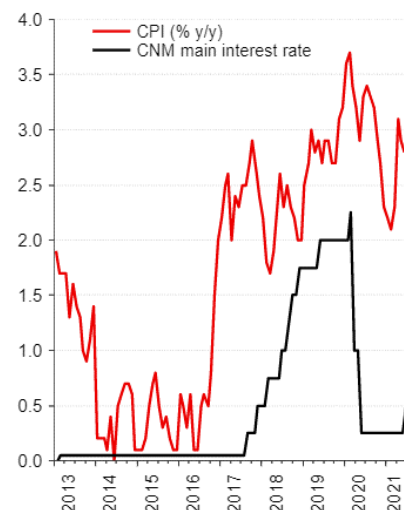
EURUSD has spent Thursday in the vicinity of 1.184. The weaker-than-expected morning data about German production (-1.3% m/m) made falls more likely. This direction might be strengthened by today's likely strong US labour market data, however, other labour market data have not pointed unilaterally to either direction (ADP report surprised to the downside while the employment indices within the ISM significantly moved higher).

EURPLN after reaching its 100-day moving average did not manage to print a new daily low (which it managed to do for previous 5 consecutive sessions). In our opinion, there is a risk that the recent EURPLN fall might be reversed soon which could be supported by my recent euro-sceptic comments of justice minister Zbigniew Ziobro. In the case of a dollar strengthening the EURPLN might target 4.60 soon.

As for the **other CEE currencies**, they outperformed the zloty yesterday. EURCZK moved to 25.40 from 25.45 while EURHUF to 353.7 from 354.5. The CNB increased the reference rate to 0.75%, by 25bp – in line with market expectations (lombard rate moved up to 1.75%, by 50bp, while the deposit rate remained unchanged at 0.05%). The CNB increased the GDP forecasts in 2021 to 3.5% from 1.2% (for 2022 moved to 4.1% from 4.3%) and the inflation ones in 2021 to 3.0% from 2.7% (for 2022 to 2.8% from 2.4% previously). The CNB governor Jiri Rusnok announced that interest rates might be increased +25bp on each of the remaining CNB meetings this year which would not dampen growth but should help bring the inflation towards the inflation target in 2022. He added that on yesterday's meeting some of the members were more keen for a 50bp hike. In the Czech Republic the retail sales data beat expectations. USDRUB remained near 73.1.

On the domestic interest rate market the FRA rates went up by 2-4bp, similarly to IRS contracts up to 4 years (the longer end was stable). The belly and longer end of the yield curve went down by 2bp.

Inflation and main policy rate in Czechia



Source: Refinitiv Datastream, Santander

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FX market

Today's opening			
EURPLN	4.5476	CZKPLN	0.1788
USDPLN	3.8460	HUFPLN*	1.2708
EURUSD	1.1826	RUBPLN	0.0526
CHFPLN	4.2354	NOKPLN	0.4354
GBPPLN	5.3511	DKKPLN	0.6114
USDCNY	6.4626	SEKPLN	0.4457

*for 100HUF

Last session in the FX market						05/08/2021
	min	max	open	close	fixing	
EURPLN	4.535	4.560	4.547	4.545	4.556	
USDPLN	3.832	3.855	3.842	3.840	3.849	
EURUSD	1.183	1.186	1.183	1.184	-	

Interest rate market 05/08/2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	0.49	0
DS0726 (5Y)	1.12	1
DS0432 (10Y)	1.75	-1

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.53	6	0.16	1	-0.54	1
2L	0.88	9	0.28	2	-0.50	0
3L	1.10	8	0.50	4	-0.47	0
4L	1.27	8	0.67	5	-0.43	1
5L	1.39	6	0.81	5	-0.39	0
8L	1.55	3	1.10	5	-0.23	0
10L	1.68	5	1.23	4	-0.11	1

WIBOR rates

Term	%	Change (bps)
O/N	0.09	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	0.27	1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.25	3
3x6	0.43	4
6x9	0.62	7
9x12	0.80	7
3x9	0.50	4
6x12	0.73	8

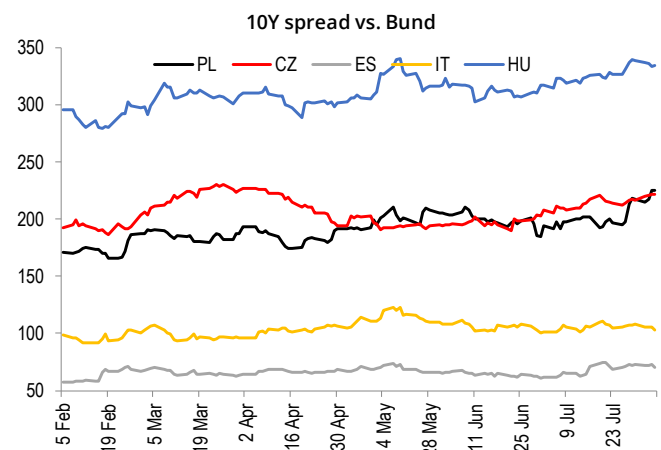
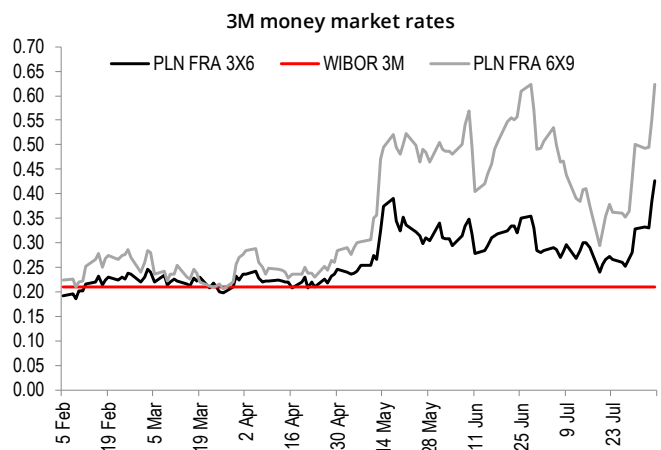
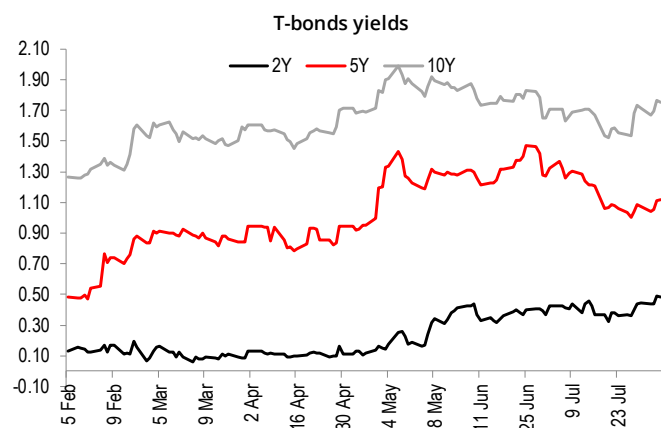
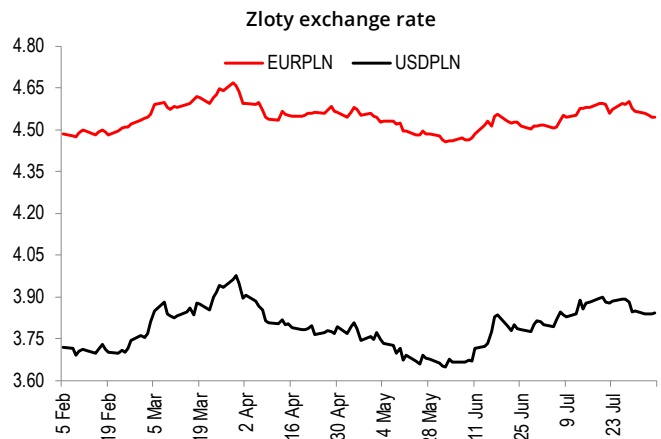
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	46	0	225	-1
France	9	0	34	-1
Hungary	55	0	335	1
Spain	30	0	71	-3
Italy	43	0	103	-3
Portugal	20	0	60	-3
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 (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	-	61.8	57.5
10:00	EZ	PMI services	Jul	pts	60.4	-	59.8	58.3
14:15	US	ADP employment change	Jul	k	600	-	330	692
16:00	US	ISM non-manufacturing	Jul	pts	60.2	-	64.1	60.1
THURSDAY (5 August)								
8:00	DE	Factory orders	Jun	%m/m	2.0	-	4.1	-3.2
14:30	CZ	Central bank rate decision		%	0.75	-	0.75	0.50
14:30	US	Trade balance	Jun	USDbn	-71.5	-	-75.7	-71.2
14:30	US	Initial Jobless Claims	week	k	384	-	385	400
FRIDAY (6 August)								
8:00	DE	Industrial output	Jun	%m/m	0.9	-1.3	-	-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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