

Eyeopener

Strong US labour market data

Strong US labour market data supported dollar and yields on core markets
Zloty weaker, underperforming other CEE currencies
IRS and bond yields higher
Today, data about German inflation in June

The Friday data from the US labour market turned out to be much better than expected despite the investors' worry about the impact of the new Covid-19 virus variant. Non-farm payrolls increased in July by 943k, beating expectations by 73k. Moreover, the June reading was revised higher by 88k. The unemployment rate fell to 5.4% from 5.9% a month before and beating the expectations at 5.7%. European data were not so strong – German June industrial production fell by 1.3% m/m (vs expectations of rise by 0.5% m/m) while the reading from a month before that was revised lower by 0.5%. As a result of better labour market data the US Treasuries yields increased by 5bp to 1.28%, those of German Bund by 3bp to -0.46%, the dollar strengthened by roughly 0.5%, gold price dropped by over 2% while the equity markets in the US and Europe increased. The price of crude oil has not changed much.

MPC member Eryk Łon acknowledged positive aspect of the inflation at 5.0%. In his opinion, the elevated inflation is a reflection of accelerating demand and rebounding economy (which seems at odds with NBP Glapinski's claims that higher inflation is entirely supply-driven). At the same time the elevated inflation is not dangerous for households as, in his opinion, wages manage to keep up. Mr Łon said he would be worried in case deflation occurred as this would mean the economy is not doing too well. Speaking of the timing of interest rate increases Łon would like to first wait for the impact of the fourth wave of the Covid-19 and the November NBP staff projections. As for the QE, he thinks the program should remain flexible and be adjusted depending on the economy stance. Another **MPC member Jerzy Kropiwnicki** said that taking under consideration the distribution of votes in the MPC, the interest rate hike should happen in November at the earliest, the first move should not be larger than 15bp, while the QE program should be stopped before any interest rate hike. Mr Kropiwnicki has not said explicitly if he would support the hike or not, but he said that in his opinion the latest interest rate cut in May 2020 "was very questionable". Inflation near 5% is alarming, in his view, but one should also take under consideration its persistence, structure as well as inflation expectations.

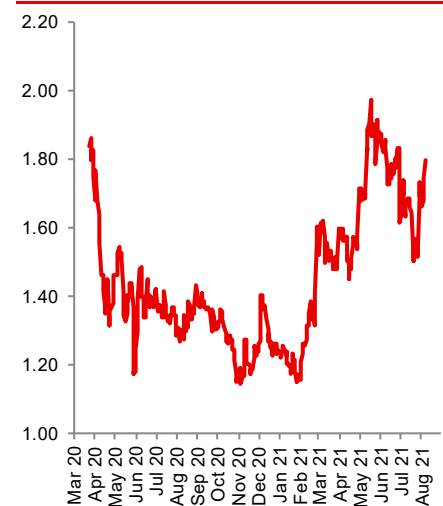
EURUSD fell on Friday to below 1.1770, more than 0.5% after the strong US labour market data. On Monday morning opens near 1.1762. The exchange rate short term direction will be determined by whether the 1.1755 level (which was a significant support in July) will hold or not.

EURPLN has increased on Friday by 0.4% to 4.5610, while USDPLN by 0.9% to 3.8750 after the better than expected US labour market data have strengthened the dollar. Zloty underperformed its CEE peers – throughout the whole previous week EURPLN barely changed while both forint and koruna strengthened. In our opinion, this week EURPLN will move towards 4.60 level as neither local factors (frictions within the ruling coalition, the potential further conflict with the EU, dovish NBP) nor the global ones (possible start of tapering discussions at the forthcoming end of August economic conference in the Jackson Hole) should not be PLN supportive in the near term.

As for the **other CEE currencies**, EURHUF and EURCZK has barely moved on Friday (353.0 and 25.40), but during the week they decreased by 1.6% and 0.4%, respectively. It was supported by interest rate hikes of the central banks, but also by strong data – June's industrial production breached forecasts in Hungary (18.6% y/y vs 17.5%) and in Czechia (11.4% y/y vs 8.5%). The ruble basked remained unchanged over the week and on Friday USDRUB rose to 73.4, mainly due to the strengthening dollar.

On the domestic interest rate market IRS rates were following rising bond yields in the core markets, IRS curve moved up between 5bp at the short end (2Y to 0.91%) and 7bp at the long end (10Y to 1.71%). Local bond yields increased as well, but only in the belly (5Y to 1.13%, by 3bp) and long end of the curve (10Y to 1.80%, by 5bp). This week we expect to see further rise of yields towards 1.85%-1.90% and widening of asset swap spread (10Y to +15bp, by 5bp). Spread to Bund reached 225bp and has remained in the upward trend, we expect it to widen further in the near and medium run.

10Y POLGB yield, %



Source: Refinitiv Datastream, 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 Luzziński +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	4.5707	CZKPLN	0.1791
USDPLN	3.8865	HUFPLN*	1.2802
EURUSD	1.1763	RUBPLN	0.0529
CHFPLN	4.2468	NOKPLN	0.4377
GBPPLN	5.3919	DKKPLN	0.6122
USDCNY	6.4739	SEKPLN	0.4489

*for 100HUF

Last session in the FX market 06/08/2021

	min	max	open	close	fixing
EURPLN	4.542	4.573	4.547	4.571	4.550
USDPLN	3.839	3.889	3.845	3.887	3.852
EURUSD	1.175	1.183	1.182	1.176	-

Interest rate market 06/08/2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	0.49	1
DS0726 (5Y)	1.16	5
DS0432 (10Y)	1.81	6

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.53	1	0.16	0	-0.54	0
2L	0.90	3	0.30	2	-0.50	0
3L	1.16	5	0.52	2	-0.46	1
4L	1.32	4	0.71	4	-0.41	2
5L	1.44	5	0.85	5	-0.36	3
8L	1.63	8	1.17	6	-0.19	4
10L	1.71	3	1.31	8	-0.07	4

WIBOR rates

Term	%	Change (bps)
O/N	0.08	-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	0.28	1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.24	-1
3x6	0.43	1
6x9	0.64	1
9x12	0.86	6
3x9	0.53	2
6x12	0.75	2

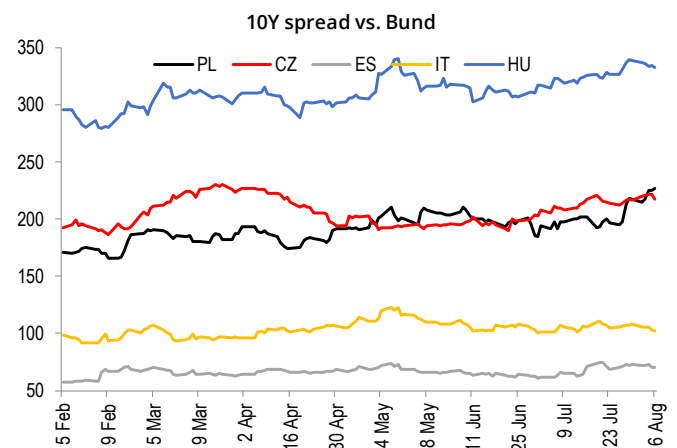
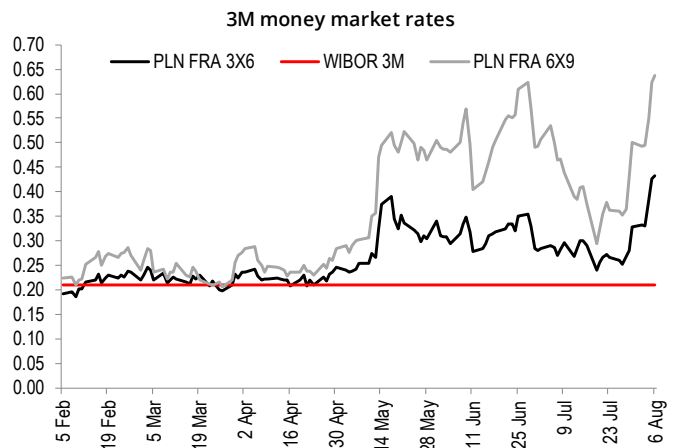
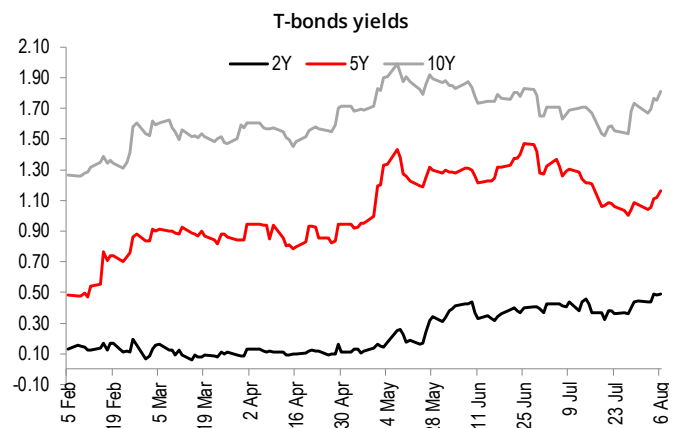
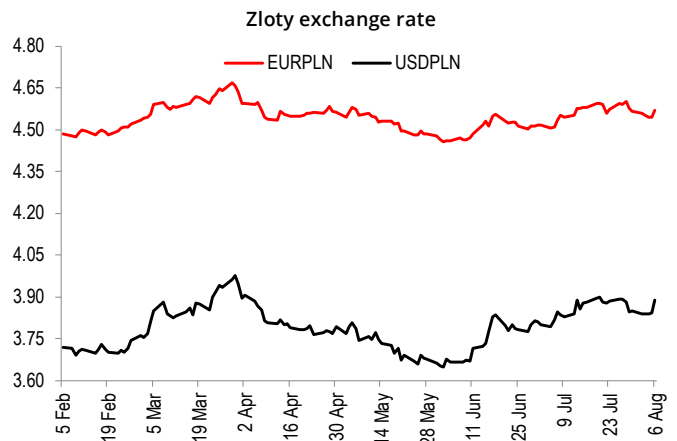
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	46	0	227	2
France	9	0	34	-1
Hungary	55	0	332	-2
Spain	30	0	70	-1
Italy	43	0	102	0
Portugal	20	0	59	-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 (6 August)							
08:00	DE	Industrial Production SA	Jun	% m/m	0.5	-1.3	-0.8
09:00	CZ	Industrial Production	Jun	% y/y	8.3	11.4	32.3
09:00	HU	Industrial Production SA	Jun	% y/y	17.5	18.6	39.9
14:30	US	Change in Nonfarm Payrolls	Jul	k	870.0	943.0	938.0
14:30	US	Unemployment Rate	Jul	%	5.7	5.4	5.9
MONDAY (9 August)							
08:00	DE	Exports SA	Jun	% m/m	-	-	0.3
TUESDAY (10 August)							
09:00	CZ	CPI	Jul	% y/y	2.85	-	2.8
09:00	HU	CPI	Jul	% y/y	4.8	-	5.3
11:00	DE	ZEW Survey Current Situation	Aug	pts	-	-	21.9
WEDNESDAY (11 August)							
08:00	DE	HICP	Jul	% m/m	-	-	0.5
14:30	US	CPI	Jul	% m/m	0.5	-	0.9
THURSDAY (12 August)							
11:00	EZ	Industrial Production SA	Jun	% m/m	0.0	-	-1.0
14:30	US	Initial Jobless Claims		k	383.0	-	400.0
FRIDAY (13 August)							
10:00	PL	CPI	Jul	% y/y	-	5.0	4.4
10:00	PL	GDP	2Q	% y/y	10.8	10.4	-0.9
14:00	PL	Current Account Balance	Jun	€mn	-96.0	76.0	60.0
14:00	PL	Trade Balance	Jun	€mn	801.0	869.0	185.0
14:00	PL	Exports	Jun	€mn	23783.0	24038.0	22636.0
14:00	PL	Imports	Jun	€mn	22908.0	23169.0	22451.0
16:00	US	Michigan index	Aug	pts	81.2	-	81.2

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.