

12 August 2021

Eyeopener

Minority government without Porozumienie

Equities up after US Senat approved Joe Biden's fiscal package
 US Treasuries stable, dollar slightly weaker
 EURPLN fluctuating in reaction to political news
 Stable bond yields and IRS in Poland
 Today, euro zone industrial production, US new jobless claims

On Wednesday the stock indices have increased after the US Senate voted in favour of the \$3.5tn budget plan which would help in delivering Joe Biden's election promises towards reduction of poverty, healthcare etc. The US July inflation at 0.5% m/m was in line with expectations while the core inflation at 0.3% m/m slightly (by 0.1pp) missed expectations. The price pressures related to supply chain shortages and a high demand are still present, however inflation's slight moderation results from factors related to the reopening of the economy like, for example, used cars' prices. In Germany the final July HICP inflation was confirmed at 0.9% m/m. The UST yields have not changed at 1.36%, while the dollar weakened and the oil prices fell after the White House called OPEC+ for oil supply increase in order to support the economic recovery. Thomas Barkin from Richmond Fed said, that the timing of QE tapering is approaching, however he has not pointed to a specific date. Robert Kaplan from Dallas Fed said that QE tapering should start in October while the decision to do so should be made in September. Mary Daly from San Francisco Fed said that QE tapering should start before this year's end or early in 2022.

MPC member Eryk Łon said the risk of raising interest rates is currently too high and in his opinion "nothing will happen" if the MPC waits till November NBP projection and only then would consider whether to increase interest rates or not. He added, that he is not excluding any of the scenarios. According to Łon too quick interest rate hikes risk accelerating the upward trend in 10Y POLGB yields which would mean that the aim of lowering the government debt servicing cost would be undermined.

President Andrzej Duda has yesterday **removed Jarosław Gowin from the office of Deputy Prime Minister** and the Minister of Economic Development, Labour and Technology. Gowin's Porozumienie party decided to leave the governing coalition, so formally the PiS government has lost the majority in Polish parliament (before the resignation the PiS caucus had 232 members). But in practice PiS would most likely want to stay in power by luring some of the Porozumienie MPs as well as making deals with MPs from smaller parties and the independents. This is exactly what happened yesterday during the votes on amendments to the media law. The Sejm has finally passed the controversial law, but it happened after a questionable re-assumption of voting on the postponement of the session, which it had lost earlier. In our opinion, the earlier elections cannot be ruled out but are much more likely in 2022 than in 2021.

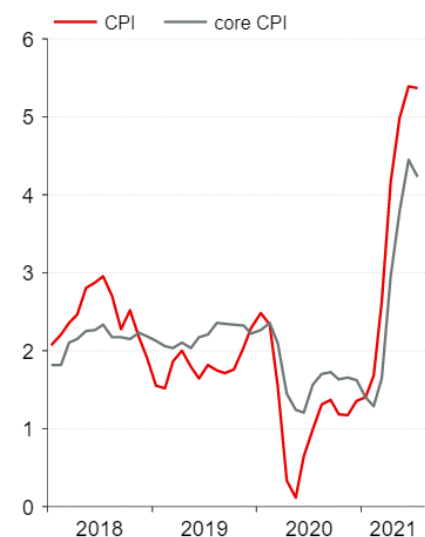
EURUSD after four days of declines rebounded slightly on Wednesday, to 1.1735. But the fact that it did not manage to reach the important level 1.1755 (multiple July low) signals lack of strength and possible continuation of decline towards 1.1620.

EURPLN after the dismissal of deputy PM Gowin rose to 4.59, but then it stabilised just above 4.58. We think the zloty will remain quite weak in the short run, given higher political risk premium, strong dollar and the perspective of Fed's monetary policy normalisation. In the longer horizon, the possibility of weakening PiS government and rising chances for change of power after the next elections could be supportive for PLN.

As for the other CEE currencies, EURHUF temporarily soared above 355.0, but finally closed the day unchanged at 354.2. Minutes from the July MNB meeting showed that the vote on rate hike by 30bp to 1.20% was unanimous. The bank continues the rate hikes cycle, taking decisive steps to secure price stability, to prevent the second round effects, and to anchor inflation expectations. EURCZK did not change at 25.40. USDRUB fell after a clear rise on Tuesday, closing at 73.80, which seems surprising given the declining crude oil price.

On the Polish fixed income market the volatility was low on Wednesday – bond curve barely moved, while IRS curve, despite morning increases by c.6bp, ended the day also almost unchanged. Spread to Bund reached 227bp. BGK sold bonds (FPC0328, FPC0631) worth PLN600m at yesterday's auction, amid demand PLN1270m. Since the start of the year BGK has already issued slightly more than PLN30bn..

US inflation, % y/y



Source: Refinitiv Datastream, Santander

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FX market

Today's opening			
EURPLN	4.5801	CZKPLN	0.1791
USDPLN	3.9008	HUFPLN*	1.2811
EURUSD	1.1740	RUBPLN	0.0531
CHFPLN	4.2302	NOKPLN	0.4394
GBPPLN	5.4078	DKKPLN	0.6122
USDCNY	6.4773	SEKPLN	0.4484

*for 100HUF

Last session in the FX market						11/08/2021
	min	max	open	close	fixing	
EURPLN	4.572	4.591	4.577	4.577	4.585	
USDPLN	3.895	3.922	3.906	3.899	3.915	
EURUSD	1.170	1.175	1.172	1.174	-	

Interest rate market 11/08/2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	0.50	0
DS0726 (5Y)	1.18	0
DS0432 (10Y)	1.82	-1

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.53	-3	0.16	-1	-0.54	-1
2L	0.92	-5	0.30	-2	-0.50	0
3L	1.20	-3	0.52	-5	-0.46	0
4L	1.38	-2	0.73	-4	-0.42	-1
5L	1.50	-1	0.89	-2	-0.38	-1
8L	1.68	-3	1.20	-2	-0.22	-1
10L	1.78	-1	1.34	-2	-0.10	-1

WIBOR rates

Term	%	Change (bps)
O/N	0.10	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	0.31	1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.22	-4
3x6	0.42	-3
6x9	0.63	-5
9x12	0.86	-6
3x9	0.46	-6
6x12	0.71	-9

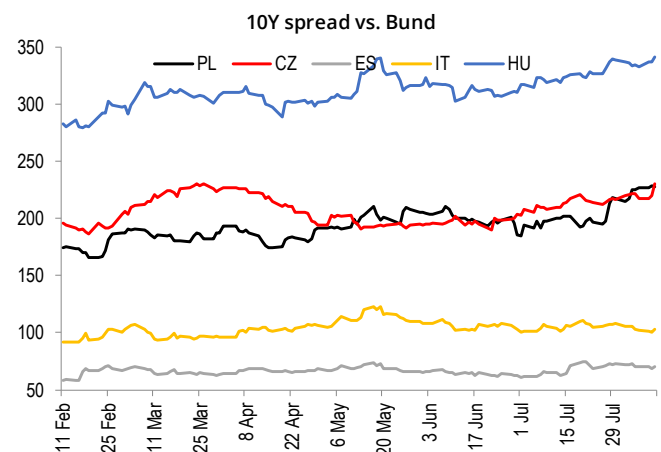
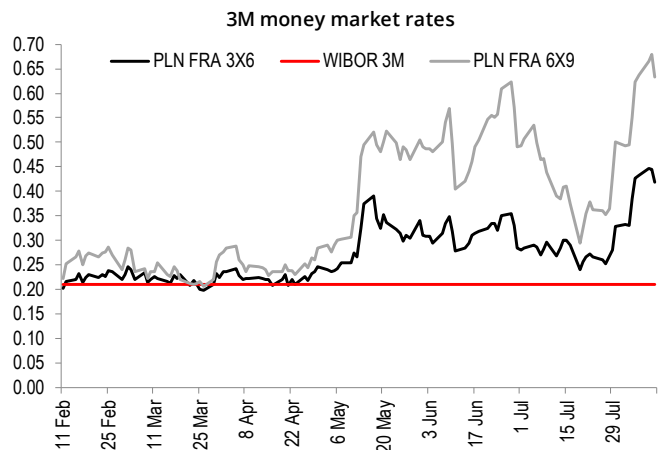
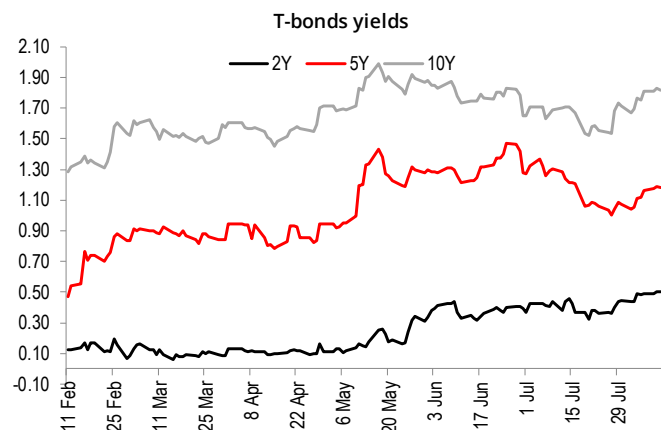
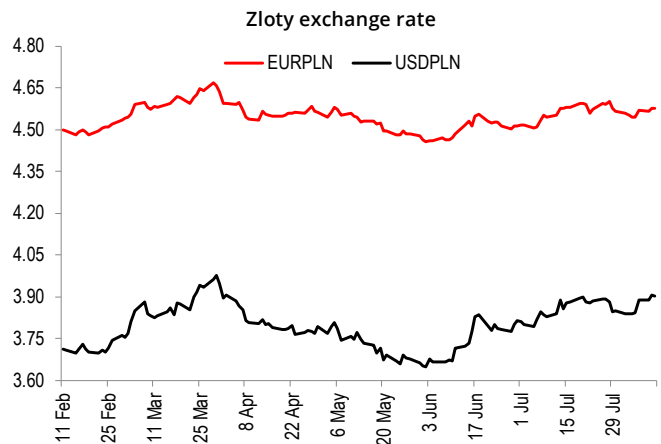
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	46	0	228	0
France	9	0	34	1
Hungary	55	0	341	4
Spain	30	0	70	1
Italy	43	0	103	2
Portugal	21	0	59	2
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 (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	1.3	0.3	
TUESDAY (10 August)								
09:00	CZ	CPI	Jul	% y/y	2.9	3.4	2.8	
09:00	HU	CPI	Jul	% y/y	4.8	4.6	5.3	
11:00	DE	ZEW Survey Current Situation	Aug	pts	31.0	29.3	21.9	
WEDNESDAY (11 August)								
08:00	DE	HICP	Jul	% m/m	0.5	0.5	0.5	
14:30	US	CPI	Jul	% m/m	0.5	0.5	0.9	
THURSDAY (12 August)								
11:00	EZ	Industrial Production SA	Jun	% m/m	-0.2	-	-1.0	
14:30	US	Initial Jobless Claims		k	375.0	-	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

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