

13 August 2021

Weekly Economic Update

New set of domestic data releases

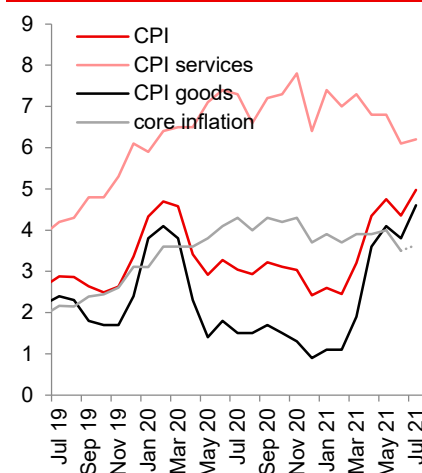
Economy next week

- After the weekend there is a plethora of monthly data regarding Polish economy in July. There will be core CPI publication (Monday, we: 3.6% y/y, market: 3.6% y/y), wages and employment (Wednesday, we: 2.0% y/y and 8.9% y/y, market 2.0% y/y and 8.8% y/y), industrial production (Thursday, we: 8.5% y/y, market: 10.6% y/y), construction output (Friday, we: 6.7% y/y, market: 7.1% y/y), retail sales (Friday, we: 5.5% y/y, market 5.1% y/y) and PPI (Thursday, we: 8.0% y/y, market 7.7% y/y). As can be seen, our forecast of industrial production are below the consensus, those for PPI and retail sales above the consensus while those for the labour market are more less in line. In sum, the data should confirm that the economy in 3Q21E continues the path of pretty quick expansion after the GDP (s.a.) returned to the pre-pandemic level already in 2Q21, which translates into improvement in the labour market. It seems that only significant surprises to the data prints would be able to move markets by much.
- Abroad the calendar is much more empty, there will be GDP data in a few European countries, in the US industrial production and retail sales (Tuesday), minutes from the latest FOMC meeting (Wednesday).
- Polish politics will remain the source of the uncertainty after the Porozumienie party left the governing coalition, while Sejm (lower house) voted in favour of the media law amendments which threaten a significant worsening of the relations with the US. Monday, 16 August is the deadline for the Polish government to reply to the European Commission what it is going to do regarding the ECJ (European Court of Justice) ruling regarding the Disciplinary Chamber of the Highest Court. Recent Jarosław Kaczyński's interview suggested that the chamber would be liquidated, which perhaps is a sign of lack of appetite for the further escalation of the conflict with the EU. At the same time, the parliament has just started its summer holiday break hence it is difficult to assess if any significant changes in Polish politics are likely before the end of August.

Markets next week

- Over the passing week the EURPLN has not changed – opened and closed in the vicinity of 4.5750. In the meantime the exchange rate temporarily traded above 4.5900 which was related to the political uncertainty (breakup of the governing coalition, stormy voting in Sejm). Despite the today's correction lower, EURPLN has no strength to push further lower which we read as PLN negative – the exchange rate has not even reached the less important 4.5450 levels not to mention the 200-day moving average at 4.5300. Next week we are not excluding the scenario of EURPLN testing (or even breaking above) the 4.60 level, especially in the situation where the US data would strengthen the dollar or the relations with either US or the EU would deteriorate further
- Bund yields has not changed in the passing week (-0.46%), the 10Y UST one has increased by only 4bp (to 1.34%), hence also the 10Y POLGB was not the most volatile bond out there (yield near 1.80%). Today's macroeconomic data proved, that the process of normalization of monetary policy is nearing which in our opinion is supporting the scenario of slowly increasing long-end yields going forward. Month-to-date bond spreads vs the German curve have widened which we read as an increase in risk premium of holding Polish assets. As a result, in the coming week we expect the 10Y bond yields to march higher toward the 1.90% level. At the front-end of the curve the FRA contracts are currently pricing more less the same amount of bp of hikes as we do (currently 20bp in November) hence we are not expecting a lot of volatility in this part of the curve. On Wednesday (18 August) here is NBP QE purchase auction scheduled. One day later (19 August) the only Ministry of Finance bond auction is scheduled, the switch auction.

Inflation in Poland, % y/y



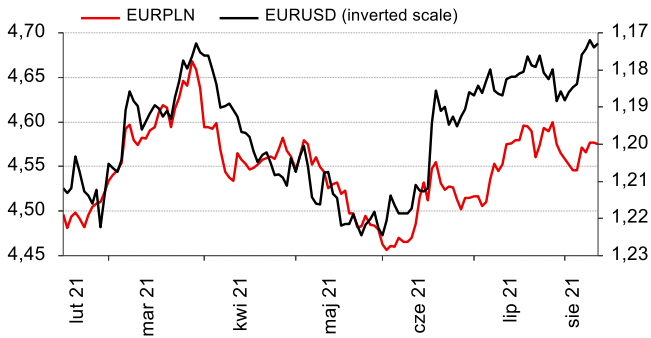
Source: GUS, NBP, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website: www.santander.pl/en/economic-analysis
 Piotr Bielski +48 22 534 18 87
 Marcin Luzziński +48 22 534 18 85
 Grzegorz Ogonek +48 22 534 18 84
 Wojciech Mazurkiewicz +48 22 534 18 86

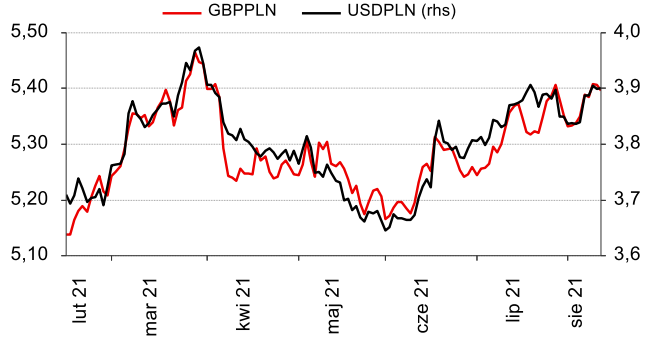
FX and FI markets

EURPLN and EURUSD



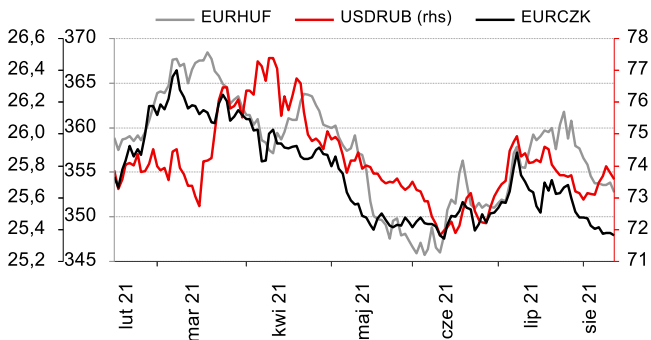
Source: Refinitiv Datastream, Santander Bank Polska

GBPPLN and USDPLN



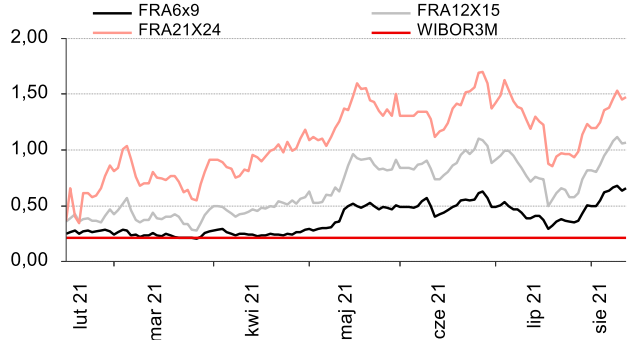
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



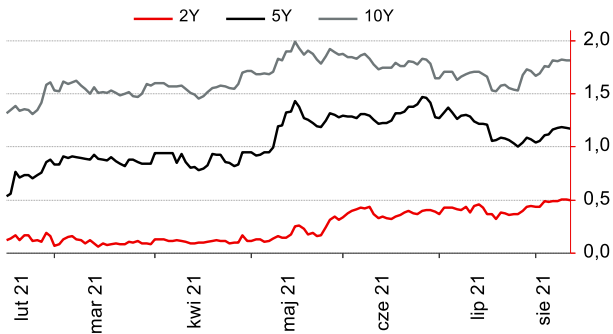
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



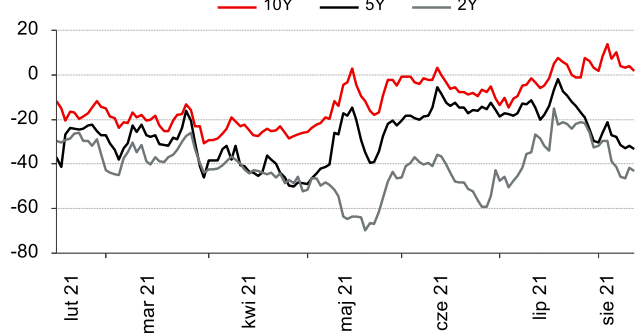
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



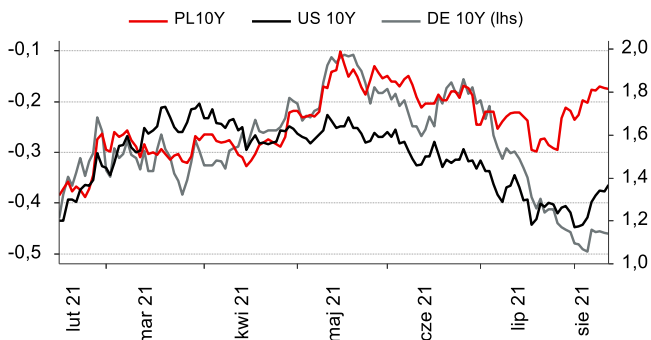
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



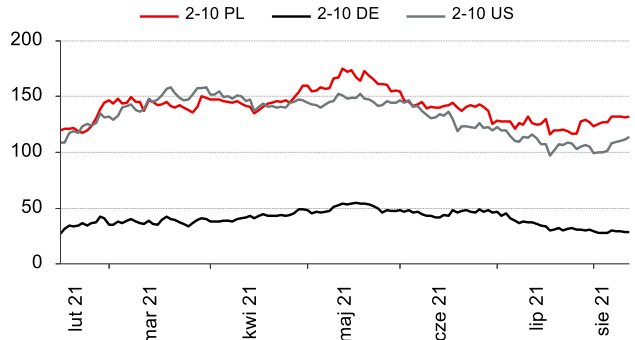
Source: Refinitiv Datastream, Santander Bank Polska

10Y bond yields



Source: Refinitiv Datastream, Santander Bank Polska

Steepness of yield curves



Source: Refinitiv Datastream, Santander Bank Polska

Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE	
				MARKET	SANTANDER		
MONDAY (16 August)							
14:00	PL	CPI Core	Jul	% y/y	3.6	3.6	3.5
TUESDAY (17 August)							
09:00	HU	GDP	2Q	% y/y	0.0		-2.1
11:00	EZ	GDP SA	2Q	% y/y	13.7		13.7
14:30	US	Retail Sales Advance	Jul	% m/m	-0.2		0.6
15:15	US	Industrial Production	Jul	% m/m	0.5		0.4
WEDNESDAY (18 August)							
10:00	PL	Employment in corporate sector	Jul	% y/y	2.0	2.0	2.8
10:00	PL	Average Gross Wages	Jul	% y/y	8.8	8.9	9.8
11:00	EZ	HICP	Jul	% y/y	2.2		2.2
14:30	US	Housing Starts	Jul	% m/m	-2.2		6.3
20:00	US	FOMC Meeting Minutes	Jul/21				
THURSDAY (19 August)							
10:00	PL	Sold Industrial Output	Jul	% y/y	10.6	8.5	18.4
10:00	PL	PPI	Jul	% y/y	7.7	8.0	7.0
14:30	US	Initial Jobless Claims		k			375.0
14:30	US	Index Philly Fed	Aug		24.2		21.9
FRIDAY (20 August)							
10:00	PL	Construction Output	Jul	% y/y	7.1	6.7	4.4
10:00	PL	Retail Sales Real	Jul	% y/y	5.1	5.5	8.6

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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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.