

Eyeopener

Stronger dollar post FOMC minutes

In Poland, slightly disappointing employment growth, wages increase still high
 EURUSD at new 2021 low, EURPLN increases in the morning to 4.57
 Polish and German bond yields stable
 Today in Poland industrial output and PPI, in the US e.g. Philly FED

Stock markets were steady during the day but fell after the FOMC minutes, with S&P500 down by 1.1%. 10Y UST yields climbed by 3bp to 1.30% on Wednesday but overnight declined to 1.25%. Bund yields remained unchanged for a second day in a row (-0.48%). Yesterday EURUSD tested 1.1700 but failed to break this level. Today the attempt was successful – the rate declined by 0.3% and starts the day at 1.1670. James Bullard, one of the most hawkish FOMC members, wanted the asset purchases programmes to finish until end of 1Q22 and the first hike to be delivered in 4Q22. According to Bullard, the FOMC does not have to wait with monetary tightening until pre-pandemic employment level is reached.

Minutes from the July FOMC meeting showed that most policymakers thought that economic and financial conditions are in line with tapering of Fed purchases (currently USD120bn monthly with USD20bn in MBS). Any reduction would be proportional in case of UST na MBS. Some FOMC members thought however that tapering should start at the beginning of 2022. A few central bankers are worried that the inflation is only transitory and employment is still below pre-pandemic levels.

In July **employment in Polish corporate sector** rose by 1.8% y/y while 2.0% had been expected by the market and by us. The 2.4k monthly rise is small compared to the same month of previous years and the astonishing 20k+ rise recorded in May and June on the reopening of the economy. The average employment rise may come from either recruitment or worktime adjustments, and it seems the recovery of the latter factor is already quite advanced and thus its support to employment growth is now less important (this was already the case in June data, July breakdown will be possible after details are released on 24 August). July **wage growth** was 8.7% y/y, pretty much in line with market and our expectations (8.8-8.9%) and coming after a surprisingly strong June print of 9.8% y/y. We do not see this decline of y/y wage growth in July as a sign of easing wage pressure – it may have come from some mismatch in the months of bonus payments vs. 2020. Prolonged period of high inflation and relatively strong labour demand in the recovering economy suggest the wage pressure could be building rather than fading. We estimate 2H21 average wage growth at 9.0% y/y.

July's HICP inflation in Poland climbed to 4.7% y/y from 4.1% y/y as compared to recent high at 5.1% reached in April. July's acceleration was caused mostly by goods (jump to 4.2% y/y, highest in 9 years). Services prices rose by 6% but this was still slower than in May 2020 – April 2021 (around 9%). Core inflation rebounded to 4.0% from 3.6% but this was still one of the lowest readings since the start of the pandemic. The non-core inflation basket advanced by 5.8% y/y (4.9% y/y in June). Core tradables rose by 2.0% y/y, which is relatively high, as it is the second highest reading in at least 15 years (following 2.2% in May).

In August consumer sentiment weakened somewhat vs July, were at similar to May and June and much better than in the previous months when restrictions were still in place. There was a significant drop of current major purchases index despite some improvement in the assessment of the performance of the economy a further drop of unemployment worries and less eagerness to save.

PM Mateusz Morawiecki informed that after July the central budget is in a surplus of more than PLN30bn (compared to PLN28bn after June) and in the whole year one should expect a much smaller deficit than the planned PLN82.3bn. He also said that a bill is being prepared that would transfer extra PLN8bn to local governments for current expenses in 2022 (we signalled that the simultaneously prepared PIT reform will cause a large trough in local governments' incomes and the promised investment subsidy will cover only a small part of it).

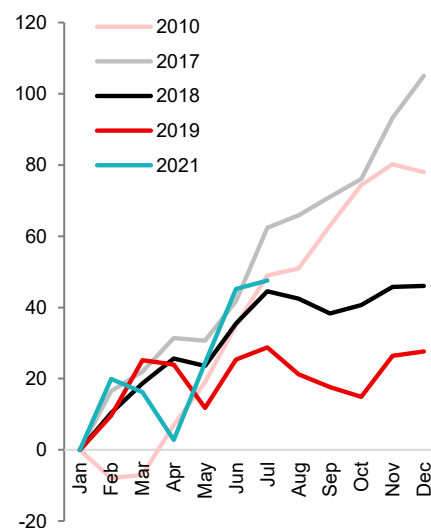
EURUSD set a new 2021 low, dropping for a while during the European session below 1.1700. The FOMC minutes released in the evening triggered another, this time successful, attempt to break the level (today opens near 1.1670).

EURPLN at first dropped to 4.5550 despite slightly weaker than expected local data, but this morning it is already seen around 4.5700.

As for the other CEE currencies: EURCZK did not move much despite CNB governor's words that there will be a discussion to use larger steps than 25bp during the current monetary policy tightening cycle. The forint got stronger (EURHUF down to 350.3, but a rebound this morning to 351.5). No rise of oil price (Brent down to US\$67/barrel) and the further appreciation of the dollar sent USDRUB to 74.0 (which means +0.6% in two days).

On the Polish fixed income market this was a quiet session (bond curve unchanged, the middle and the long end of the IRS curve down by 1bp). NBP ran a QE operation, buying PLN1.05bn with just PLN2.1bn papers offered by market participants (NBP bought almost only government bonds). Today there is a switch auction (DS1021, PS0422, OK0722 to be accepted, OK0423, PS1026, WZ1126, WZ1131, DS0432 to be offered).

Average employment in the corporate sector, change (k) vs. January, in years of strong performance before the pandemic (2017-2019) and in the post-GFC year (2010)



Source: GUS, Santander

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FX market

Today's opening			
EURPLN	4.5711	CZKPLN	0.1791
USDPLN	3.9147	HUFPLN*	1.2877
EURUSD	1.1676	RUBPLN	0.0529
CHFPLN	4.2288	NOKPLN	0.4371
GBPPLN	5.3619	DKKPLN	0.6122
USDCNY	6.4956	SEKPLN	0.4460

*for 100HUF

Last session in the FX market						18/08/2021
	min	max	open	close	fixing	
EURPLN	4.551	4.565	4.559	4.557	4.555	
USDPLN	3.882	3.899	3.891	3.894	3.886	
EURUSD	1.169	1.173	1.172	1.170	-	

Interest rate market 18/08/2021

T-bonds on the interbank market**		
Benchmark (term)	%	Change (bps)
DS1023 (2Y)	0.46	0
DS0726 (5Y)	1.09	-1
DS0432 (10Y)	1.72	0

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	0.86	0	0.31	1	-0.50	-1
3L	1.09	-1	0.53	1	-0.46	0
4L	1.26	-1	0.71	1	-0.42	0
5L	1.38	-1	0.85	0	-0.38	-1
8L	1.56	-2	1.13	0	-0.22	0
10L	1.66	-2	1.27	0	-0.11	-1

WIBOR rates

Term	%	Change (bps)
O/N	0.11	2
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	0.34	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.24	0
3x6	0.41	0
6x9	0.60	-1
9x12	0.85	2
3x9	0.48	-1
6x12	0.71	-1

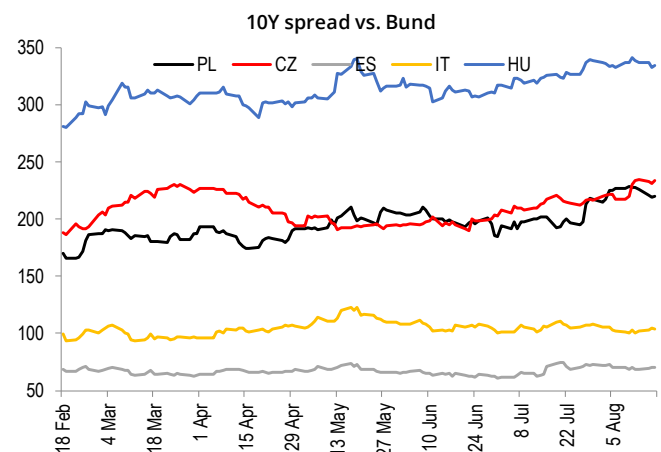
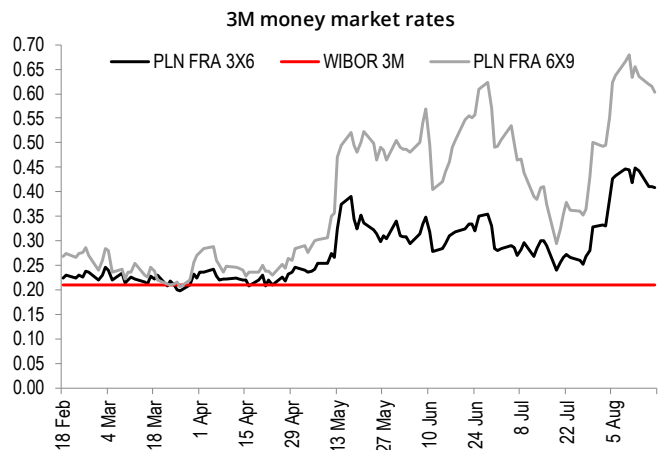
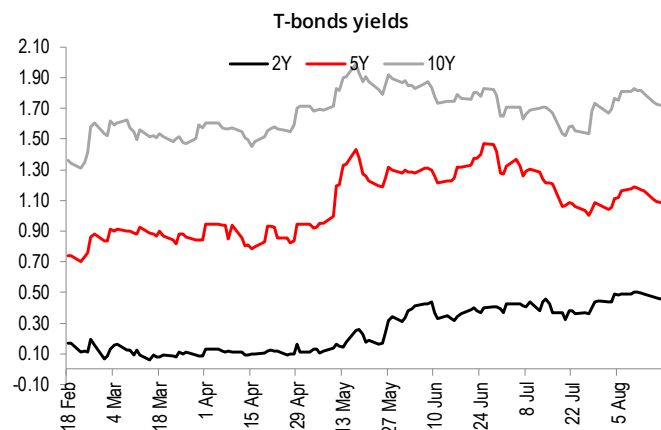
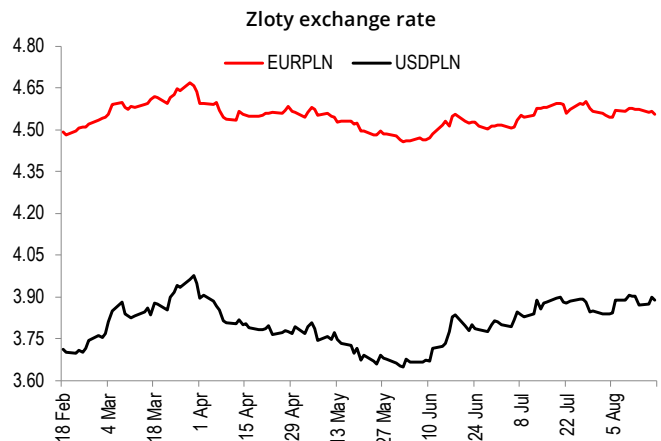
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	46	0	220	1
France	9	0	35	0
Hungary	55	0	334	1
Spain	30	0	70	0
Italy	43	0	104	-1
Portugal	21	0	59	-1
Ireland	11	0	39	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 (13 August)							
10:00	PL	CPI	Jul	% y/y	5.0	5.0	5.0
10:00	PL	GDP	2Q	% y/y	10.7	10.6	10.9
14:00	PL	Current Account Balance	Jun	€mn	456	76	281
14:00	PL	Trade Balance	Jun	€mn	848	869	761
14:00	PL	Exports	Jun	€mn	23783	24038	23680
14:00	PL	Imports	Jun	€mn	22908	23169	22919
16:00	US	Michigan index	Aug	pts	81.2		70.2
MONDAY (16 August)							
14:00	PL	CPI Core	Jul	% y/y	3.6	3.6	3.7
TUESDAY (17 August)							
09:00	HU	GDP	2Q	% y/y	16.0		17.9
11:00	EZ	GDP SA	2Q	% y/y	13.7		13.6
14:30	US	Retail Sales Advance	Jul	% m/m	-0.2		-1.1
15:15	US	Industrial Production	Jul	% m/m	0.5		0.9
WEDNESDAY (18 August)							
10:00	PL	Employment in corporate sector	Jul	% y/y	2.0	2.0	1.8
10:00	PL	Average Gross Wages	Jul	% y/y	8.8	8.9	8.7
11:00	EZ	HICP	Jul	% y/y	2.2		2.2
14:30	US	Housing Starts	Jul	% m/m	-2.2		-7.0
20:00	US	FOMC Meeting Minutes	Jul/21				
THURSDAY (19 August)							
10:00	PL	Sold Industrial Output	Jul	% y/y	10.6	8.5	-
10:00	PL	PPI	Jul	% y/y	7.7	8.0	-
14:30	US	Initial Jobless Claims		k			-
14:30	US	Index Philly Fed	Aug		24.2		-
FRIDAY (20 August)							
10:00	PL	Construction Output	Jul	% y/y	7.1	6.7	-
10:00	PL	Retail Sales Real	Jul	% y/y	5.1	5.5	-

Source: Santander Bank Polska, Bloomberg, Parkiet
* in the case of a revision the data is updated

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