

27 August 2021

Eyeopener

Eyes on Fed governor's speech

MPC rejected the rate hike motion in July
 Small market volatility ahead of the Jackson Hole symposium
 EURUSD and EURPLN without major changes
 Bond yields in Poland rose more than in the core markets
 Today Jay Powell's speech, US data releases

Markets remained in a wait-and-see mode before today's Fed Jerome Powell speech during a virtual conference in Jackson Hole. The market volatility was subdued while liquidity lowered. The situation has not even changed after the news about the blast near the Kabul airport in Afghanistan. Core market yields slightly increased. What's interesting, with stable equity indices the VIX gained 1pp to 18%. Before today's Powell speech, yesterday there were three hawkish comments from the FOMC members. Esther George from Kansas City Fed underscored her readiness to talk about taper rather "sooner or later". St. Louis Fed's James Bullard said the Fed should start taper and do it in aggressive way in order to tame inflation. Robert Kaplan from Dallas Fed wished that tapering be announced already in September 2021. The second reading of US 2Q21 GDP stood at 6.6% and was 0.1pp above the preliminary reading. Initial jobless claims stood at 353k, just 3k above expectations. Both the GDP dynamics and the labour market data point to the fact that the post pandemic US economy is doing pretty well despite fears related to the spread of the Delta variant of Covid-19 virus.

ECB minutes showed that in July central bankers were rather focused on the then important topic of the change to ECB's forward guidance and not on the tapering of bond purchases (the discussion about the latter should be expected at the nearest ECB meeting on 9 September). Despite the fact that the document states that back in July the ECB still treated the inflation as transitory, recent comment from ECB's Luis de Guindos (who announced upgrade of economic forecast higher at the September meeting) make it likely that the ECB reasoning about inflation has changed since then.

According to the **MPC minutes**, in July the Council rejected motions to hike the main interest rate by 15bp, to raise the mandatory reserve requirement to 3.5% and to lower the interest on mandatory reserve to 0.01% from 0.1%. The first two motions were supported by E.Gatnar, Ł.Hardt i K.Zubelewicz, while the reduction of interest on reserve was also backed by J.Kropiwnicki. Majority of MPC members believed that the elevated inflation results mainly from factors which are transitory and beyond the monetary policy control, that demand-side factors did not contribute much to price increases, and that inflation will decrease next year. They also shared the view that price growth below wage growth will help to limit wage pressure (which seems to be odd theory: by analogy, would lower wage growth lead to higher wage pressure?). High pace of wage growth did not worry the rate setters as it was not exceeding productivity growth. Lots of emphasis was put on the uncertainty about further development of Covid-19 pandemic and its impact on economic growth. The minutes de facto (although not literally) confirmed three conditions formulated by NBP president Głapiński to consider policy normalisation: (1) conviction that the pandemic will not derail economic recovery, (2) forecasts showing persistent breach of the upper end of the inflation target, (3) inflation being generated by demand-side factors, amid strong labour market. We still think there are high chances that all those conditions will be fulfilled by November. The first one seems to be the most uncertain.

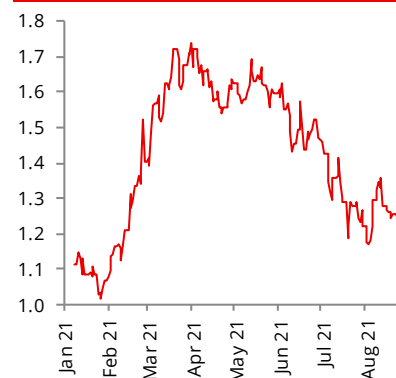
EURUSD remained between 1.1750 and 1.1775 for the better part of the session on Thursday and did not react either to US labour market data or ECB minutes. Only today's speech of Fed head Jerome Powell can provide an impulse.

EURPLN remained close to 4.5750 for the second day in a row and did not react to the NBP minutes release. We think that if the Fed head takes the opportunity to suggest a close date of start of QE tapering, then EM currencies (including the zloty) are likely to lose. For EURPLN 4.60 is a natural level attracting traders' attention.

In the CEE universe, EURHUF moved towards 349.0 on Thursday after rebounding from a trough on Wednesday, but did not continue the upward march and approached 348.0 at the end of the day again. EURCZK fell to 25.30 from 25.60. USDRUB was rising dynamically (despite relatively stable oil price) and broke 74.30 on Thursday. We are expecting the ruble to weaken further.

On the domestic interest rate market the bond yields also climbed, slightly more than on core markets and 10Y POLGB approached 1.80%.

Yield of 10Y US bond, %



Source: Bloomberg, Santander

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FX market

Today's opening			
EURPLN	4.5687	CZKPLN	0.1791
USDPLN	3.8862	HUFPLN*	1.3000
EURUSD	1.1762	RUBPLN	0.0525
CHFPLN	4.2372	NOKPLN	0.4402
GBPPLN	5.3315	DKKPLN	0.6122
USDCNY	6.4841	SEKPLN	0.4475

*for 100HUF

Last session in the FX market						26/08/2021
	min	max	open	close	fixing	
EURPLN	4.567	4.579	4.572	4.574	4.576	
USDPLN	3.878	3.896	3.885	3.889	3.891	
EURUSD	1.174	1.178	1.176	1.176	-	

Interest rate market 26/08/2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	0.45	-1
DS0726 (5Y)	1.17	2
DS0432 (10Y)	1.82	4

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.52	-1	0.17	0	-0.54	0
2L	0.89	0	0.32	0	-0.49	0
3L	1.16	0	0.57	1	-0.45	0
4L	1.33	1	0.77	2	-0.40	0
5L	1.46	1	0.93	2	-0.35	0
8L	1.67	2	1.23	2	-0.17	1
10L	1.77	1	1.35	1	-0.05	1

WIBOR rates

Term	%	Change (bps)
O/N	0.10	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	0.37	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.24	1
3x6	0.39	1
6x9	0.62	-1
9x12	0.85	2
3x9	0.49	2
6x12	0.72	-2

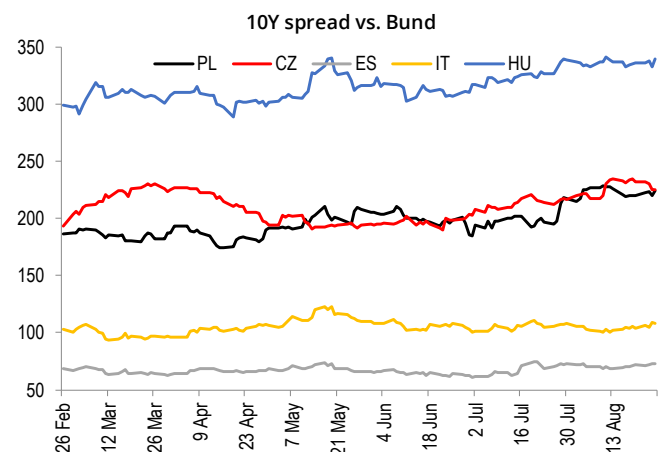
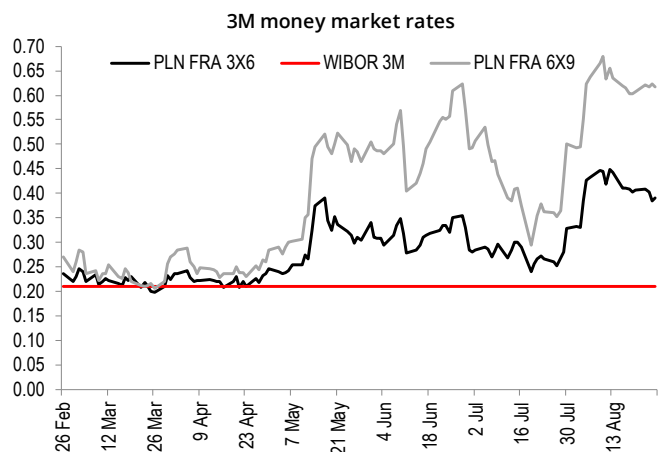
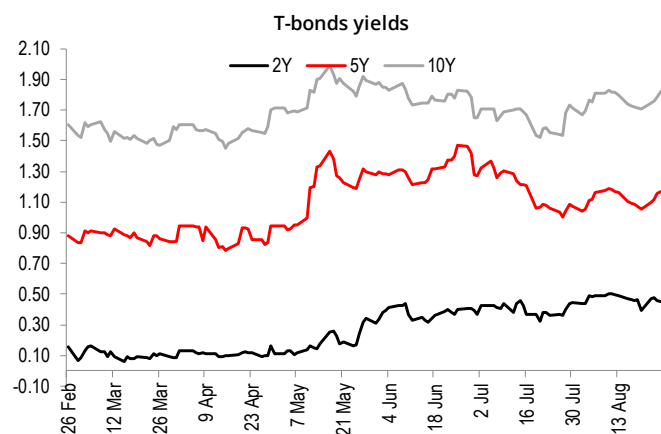
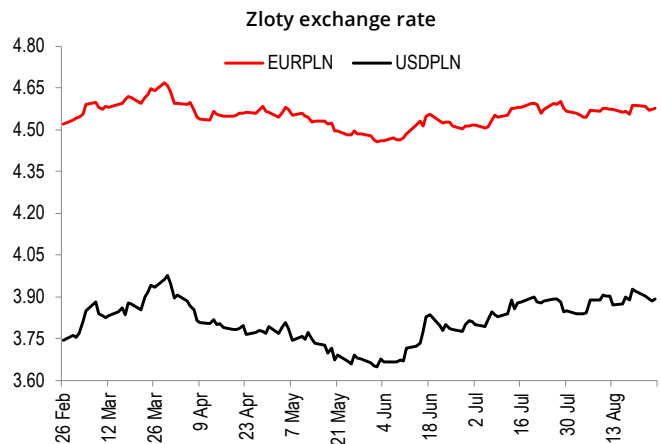
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	46	0	224	4
France	9	0	36	0
Hungary	55	0	340	7
Spain	30	0	73	0
Italy	44	1	108	0
Portugal	21	1	62	0
Ireland	10	-1	43	3
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 (20 August)								
10:00	PL	Construction Output	Jul	% y/y	6.8	7.0	3.3	4.4
10:00	PL	Retail Sales Real	Jul	% y/y	4.7	5.5	3.9	8.6
MONDAY (23 August)								
09:30	DE	Germany Manufacturing PMI	Aug	pts	65.0		62.7	65.9
09:30	DE	Markit Germany Services PMI	Aug	pts	61.0		61.5	61.8
10:00	EZ	Eurozone Manufacturing PMI	Aug	pts	62.0		61.5	62.8
10:00	EZ	Eurozone Services PMI	Aug	pts	59.5		59.7	59.8
14:00	PL	Money Supply M3	Jul	% y/y	8.2	8.3	8.8	7.4
16:00	US	Existing Home Sales	Jul	% m/m	-0.5		2.0	1.4
TUESDAY (24 August)								
08:00	DE	GDP WDA	2Q	% y/y	9.2		9.4	9.2
10:00	PL	Unemployment Rate	Jul	%	5.8	5.8	5.8	5.9
14:00	HU	Central Bank Rate Decision	Aug/21	%	1.5		1.5	1.2
16:00	US	New Home Sales	Jul	% m/m	3.1		1.0	-2.6
WEDNESDAY (25 August)								
10:00	DE	IFO Business Climate	Aug	pts	100.0		97.5	101.0
14:30	US	Durable Goods Orders	Jul	% m/m	-0.3		-0.1	0.9
THURSDAY (26 August)								
14:30	US	GDP Annualized	2Q	% Q/Q	6.6		6.6	6.5
14:30	US	Initial Jobless Claims		k			353.0	348.0
FRIDAY (27 August)								
	DE	Retail Sales	Jul	% m/m			-	4.2
14:30	US	Personal Spending	Jul	% m/m	0.4		-	1.0
14:30	US	Personal Income	Jul	% m/m	0.2		-	0.1
14:30	US	PCE Deflator SA	Jul	% m/m	0.4		-	0.5
16:00	US	Michigan index	Aug	pts	70.9		-	70.2

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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