

30 August 2021

Eyeopener

Powell: rates will not go up this year

Stock markets react positively to Jerome Powell's words
 Core market yields lower
 Fitch affirms Poland's rating
 Dollar weaker by 0.4%, EURPLN stable
 Today inflation in Germany, ESI in the euro zone

Friday's speech of Fed governor Jerome Powell was clearly more dovish than the market expected and was quickly described as a „dovish taper“. Dollar lost 0.4%, 10Y UST yield decreased c3bp (to 1.32%), 10Y German Bund yield by 1bp (to -0.42%), US equity markets rose almost 1%. Powell distinguished clearly between QE tapering (which may start already this year) and interest rate hikes (which seem far away at the moment). The asset purchases would be continued as long as there is a significant progress in realisation of two main objectives of monetary policy (inflation and full employment). Jerome Powell said that in his view the inflation objective has been already met and there is a clear improvement in the full employment accomplishment. At the same time he warned against making the same mistakes from the past, i.e. premature removal of accommodative policy. In Germany import prices surprised to the upside in July and rose 15% y/y, which will surely affect inflation. US personal income in July was much higher than expected while personal spending disappointed slightly. PCE deflator rose 4.2% and its core component by 3.6%.

Fitch rating agency has confirmed the Polish sovereign rating at A- with a stable outlook. The short term rating was upgraded to F1 from F2. The agency reckons that strengths of the Polish economy include its diversification and stable growth in recent years. Weaknesses are: low levels of governance indicators, lower income level vs countries with the same rating. Analysts have criticized the lack of public finances transparency during the pandemic. Fitch moved 2021 GDP forecast higher: to 5.2% from 4.4%. In 2022 Fitch expects growth at 4.5% while in 2023 at 3.8%.

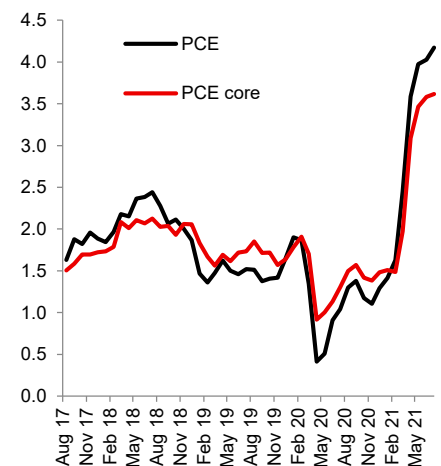
EURUSD has increased in the past week by 0.9% of which 0.4% happened on Friday after Fed Jerome Powell's speech. The current level is still down 0.6% MTD however. After the Friday's increase 1.1800 is likely to be tested (50 day moving average) which if broken to the upside, would open a way towards 1.2000. Whether such a move will materialise depends on many factors. Some of which include today's German inflation data and US labour market data on Friday.

EURPLN was exceptionally stable near 4.5700-4.5750 despite the weaker dollar on Friday. The stability of the exchange rate might be supported by corporate flows from importers.

As to the other CEE currencies: on Friday before noon EURHUF moved up to 351.0 from 349.0 after which - and in contrast to EURPLN - it did react to Fed Powell's words and retraced back to 349.0 towards end of the day. The July unemployment rate in Hungary declined to 3.9% which is below both the expectations and the previous month print (both 4.0%). EURCZK remained near 25.57-50 but there was slight move lower towards end of the day. The ruble basket was strongly influenced by Jerome Powell's words - it declined by 0.75% on Friday, which meant USDRUB down by c1% to 73.60.

On the Polish interest rate market the IRS curve did not change, while bond curve declined temporarily during the Fed governor's speech, but finally ended the week with 10Y at 1.79%. This week there is a number of events in the agenda (today inflation in Germany, on Friday US non-farm payrolls), which potentially may give new impulse for rising yields, if they surprise to the upside.

PCE price indices, % y/y



Source: Reuters, Santander

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FX market

Today's opening			
EURPLN	4.5731	CZKPLN	0.1791
USDPLN	3.8774	HUFPLN*	1.2929
EURUSD	1.1799	RUBPLN	0.0527
CHFPLN	4.2454	NOKPLN	0.4402
GBPPLN	5.3359	DKKPLN	0.6122
USDCNY	6.4688	SEKPLN	0.4475

*for 100HUF

Last session in the FX market						27.08.2021
	min	max	open	close	fixing	
EURPLN	4.564	4.585	4.572	4.575	4.580	
USDPLN	3.874	3.902	3.888	3.879	3.898	
EURUSD	1.173	1.180	1.176	1.179	-	

Interest rate market 27.08.2021

T-bonds on the interbank market**		
Benchmark (term)	%	Change (bps)
DS1023 (2Y)	0.45	-1
DS0726 (5Y)	1.16	-1
DS0432 (10Y)	1.81	-1

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.52	0	0.16	-1	-0.54	0
2L	0.90	0	0.31	-1	-0.49	-1
3L	1.16	0	0.54	-3	-0.45	0
4L	1.33	0	0.73	-4	-0.41	-1
5L	1.46	-1	0.88	-5	-0.35	-1
8L	1.67	0	1.19	-4	-0.18	-1
10L	1.77	0	1.31	-4	-0.06	-1

WIBOR rates

Term	%	Change (bps)
O/N	0.09	-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	0.38	1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.23	-1
3x6	0.39	0
6x9	0.63	1
9x12	0.85	0
3x9	0.45	-4
6x12	0.72	0

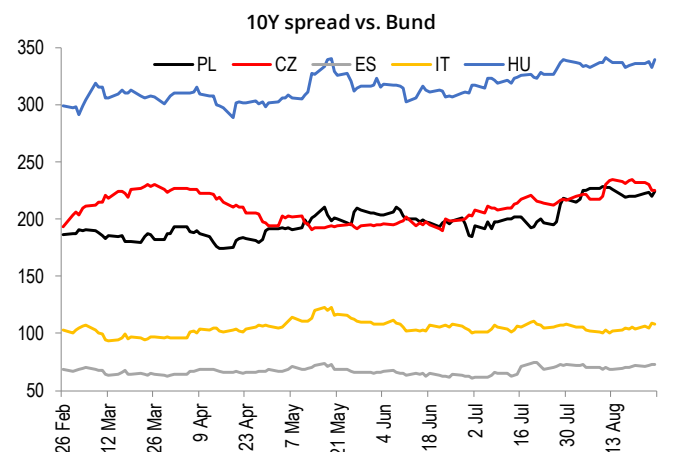
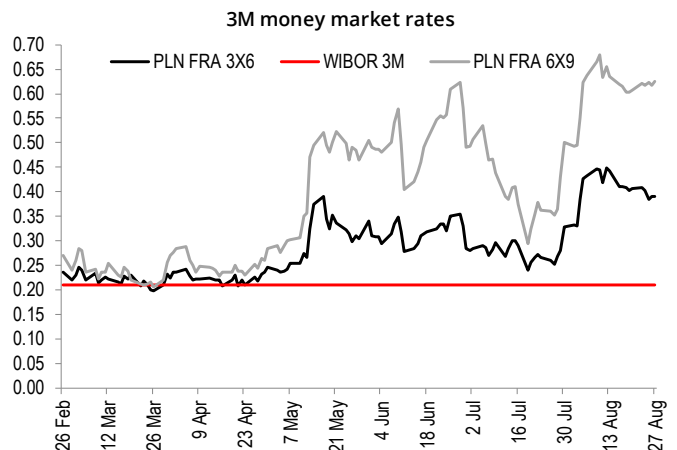
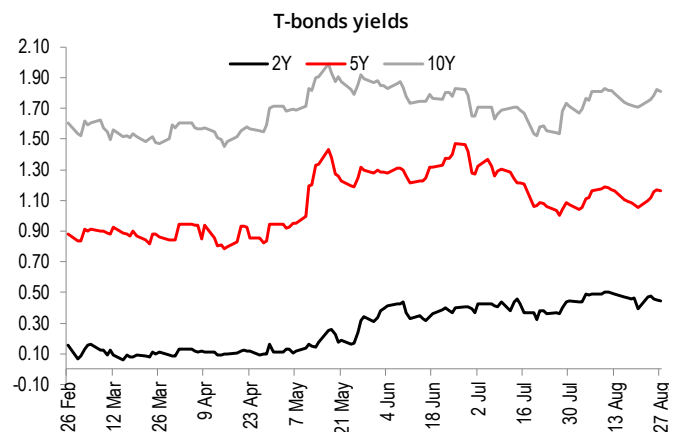
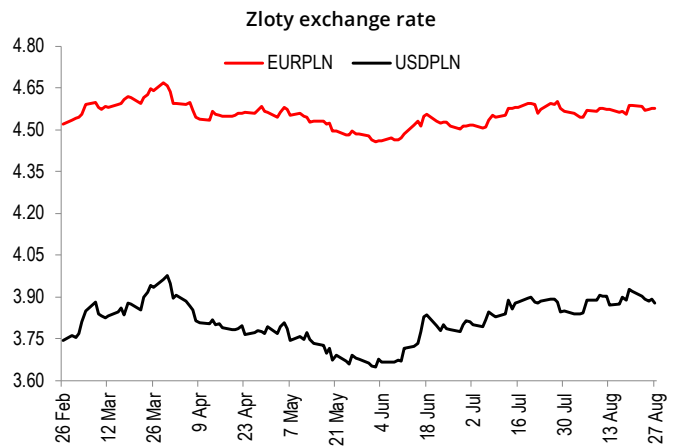
Measures of fiscal risk

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	43	0	108	0
Portugal	21	0	62	0
Ireland	11	0	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 (27 August)								
14:30	US	Personal Spending	Jul	% m/m	0.4		0.3	1.0
14:30	US	Personal Income	Jul	% m/m	0.2		1.1	0.1
14:30	US	PCE Deflator SA	Jul	% m/m	0.4		0.4	0.5
16:00	US	Michigan index	Aug	pts	70.8		70.3	70.2
MONDAY (30 August)								
11:00	EZ	ESI	Aug	pct.	118.0		-	119.0
14:00	DE	HICP	Aug	% m/m	0.0		-	0.5
16:00	US	Pending Home Sales	Jul	% m/m	0.4		-	-1.9
TUESDAY (31 August)								
09:00	CZ	GDP SA	2Q	% y/y	7.9		-	7.8
10:00	PL	CPI	Aug	% y/y	5.1	5.1	-	5.0
10:00	PL	GDP	2Q	% y/y	-		-	10.9
11:00	EZ	Flash HICP	Aug	% y/y	2.6		-	2.2
16:00	US	Consumer Conference Board	Aug	pts	124.0		-	129.1
WEDNESDAY (1 September)								
08:00	DE	Retail Sales	Jul	% m/m	-1.0		-	4.2
09:00	PL	Poland Manufacturing PMI	Aug	pts	57.0	56.8	-	57.6
09:00	HU	GDP	2Q	% y/y	-		-	17.9
09:55	DE	Germany Manufacturing PMI	Aug	pts	62.7		-	62.7
10:00	EZ	Eurozone Manufacturing PMI	Aug	pts	61.5		-	61.5
11:00	EZ	Unemployment Rate	Jul	%	7.6		-	7.7
14:15	US	ADP report	Aug	k	650.0		-	330.0
16:00	US	ISM manufacturing	Aug	pts	58.7		-	59.5
THURSDAY (2 September)								
14:30	US	Initial Jobless Claims		k			-	353.0
16:00	US	Durable Goods Orders	Jul	% m/m			-	-0.1
16:00	US	Factory Orders	Jul	% m/m	0.3		-	1.5
FRIDAY (3 September)								
03:45	CN	Caixin China PMI Services	Aug	pts	51.3		-	54.9
09:55	DE	Markit Germany Services PMI	Aug	pts	61.5		-	61.5
10:00	EZ	Eurozone Services PMI	Aug	pts	59.7		-	59.7
11:00	EZ	Retail Sales	Jul	% m/m	-0.4		-	1.5
14:30	US	Change in Nonfarm Payrolls	Aug	k	787.0		-	943.0
14:30	US	Unemployment Rate	Aug	%	5.2		-	5.4
16:00	US	ISM services	Aug	pts	62.0		-	64.1

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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