

8 September 2021

Eyeopener

MPC unlikely to change tone after holidays

Poland may face daily penalty for failure to comply with CJEU measures
 Zloty surprisingly strong despite dollar appreciation and unsupportive news
 Bond yields higher in core markets and in Poland
 Today MPC meeting in Poland, inflation in Hungary

Despite the good reading of German industrial output and the upward revision of Eurozone GDP growth for 2Q (which was quite solid anyway), the market seemed downbeat on Tuesday. It seems that investors focused more not on the historical data, but on the indicator showing current economic sentiment, the ZEW index. It came way below market expectations. The stock indexes in Europe and the USA were declining by c.0.7%, core markets' bond prices also dropped significantly. Prices of precious metals and oil were also going down. The dollar performed quite well, and so did the zloty despite its negative news flow.

The European Commission informed that it has asked the EU's top court (CJEU) to impose daily financial penalty on Poland over the activities of a judges' disciplinary chamber, as the measures imposed by the court's order (to dissolve the contested chamber of the Poland's Supreme Court) were not fully implemented. CJEU will decide on the size of the penalty. A potential reference point could be the case of cutting out Bialowieza Primeval Forest when the penalty considered was €100k/day. The Commission also launched yesterday the procedure of EU law infringement against Poland for breaching the law on disciplinary system for judges.

Fitch rating agency assessed that the tax changes being prepared under the Polish Deal programme will deteriorate the local governments' revenues to an extent that will affect their credit score. The agency indicated that the changes may result in a risk of investment delays, reduced provision of public services by local governments in an attempt to repair their budget situation. Today at the cabinet meeting these tax changes are discussed, as well as an extra subsidy for local governments meant to reduce the drop in their revenues.

EURUSD yesterday by moving below 1.185 may have gotten out of the upside trend that had started around 20 August. However it cannot be ruled out that at the Thursday meeting the ECB formulates its view on PEPP tapering in a way that positively impacts the euro.

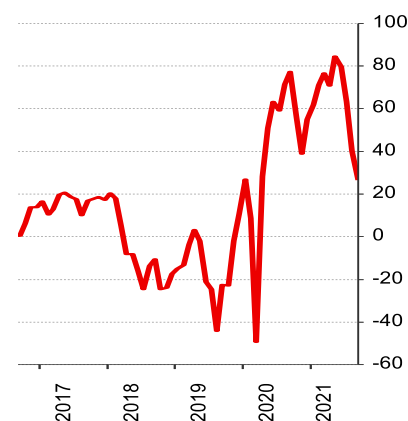
EURPLN surprised us with the ease, with which it has returned to 4.51 yesterday, i.e. more or less where it was on Monday when the NBP president's interview was released. The zloty gained despite dollar appreciation (USDPLN unchanged near 3.81) and the negative news from the European Commission and Fitch Ratings, mentioned above. Apparently the loss of faith in interest rate hikes was not dramatic and at the same time investors are not too much concerned that Poland may face financial consequences of not complying with the EU's guidelines on the rule of law. We think the zloty has bigger potential to weaken than to appreciate in the near term.

As for the **other CEE currencies**, forint weakened under the weight of strengthening dollar. It was also affected by industrial output data, worsened more than expected by downtime and reduction of working hours in car industry. EURHUF approached 348.5. EURCZK remained near 25.40. USDRUB increased for the second day in a row, by c.0.4% to 73.3.

On the **domestic interest rate market**, the strengthening seen on Monday did not last long. Rising yields in the core markets (UST yields in the long end and the belly up 4-5bp, Bund 3-4bp) pushed also Polish yields. 10Y bond yield jumped back above 2.0% level, seen on Friday, and 2Y reached 0.6%. IRS curve remained stable at the short end (2Y near 1.01%), while long end rose c.7bp. Today the BGK will auction bonds FPC0725, FPC0328, FPC0631 and FPC1140 with supply at PLN1bn at least.

Today the **MPC meeting** takes place, the first one after the summer break and the first one after the surprising inflation jump to 5.4% y/y. It is almost certain that the rate hike motion will be voted again (without success). The MPC's official rhetoric is unlikely to change much, in our view – the post-meeting statement will repeat the view that elevated inflation is transitory and results from factors beyond monetary policy control, plus the argument about large uncertainty regarding the impact of the next wave of pandemic. Tomorrow in the afternoon the NBP governor will hold a press conference (the first one since the pandemic started with live presence of journalists). We expect to see a renewed attempt to talk down interest rate hike expectations.

ZEW Economic Sentiment index for Germany



Source: Refinitiv Datastream, Santander

Economic Analysis Department:

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

FX market

Today's opening			
EURPLN	4.5072	CZKPLN	0.1771
USDPLN	3.8100	HUFPLN*	1.2824
EURUSD	1.1831	RUBPLN	0.0520
CHFPLN	4.1363	NOKPLN	0.4374
GBPPLN	5.2421	DKKPLN	0.6057
USDCNY	6.4647	SEKPLN	0.4426

*for 100HUF

Last session in the FX market						07/09/2021
	min	max	open	close	fixing	
EURPLN	4.511	4.528	4.523	4.513	4.518	
USDPLN	3.803	3.817	3.808	3.809	3.804	
EURUSD	1.184	1.188	1.188	1.185	-	

Interest rate market

07/09/2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	0.60	3
DS0726 (5Y)	1.36	6
DS0432 (10Y)	2.02	5

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.59	1	0.16	0	-0.53	1
2L	1.03	1	0.30	0	-0.47	1
3L	1.33	1	0.55	3	-0.41	2
4L	1.53	4	0.74	2	-0.35	3
5L	1.68	6	0.90	3	-0.29	3
8L	1.89	8	1.24	5	-0.09	4
10L	1.99	8	1.37	4	0.04	4

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	0.24	0
6M	0.28	0
1Y	0.43	1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.29	2
3x6	0.44	2
6x9	0.71	0
9x12	0.95	1
3x9	0.53	3
6x12	0.82	1

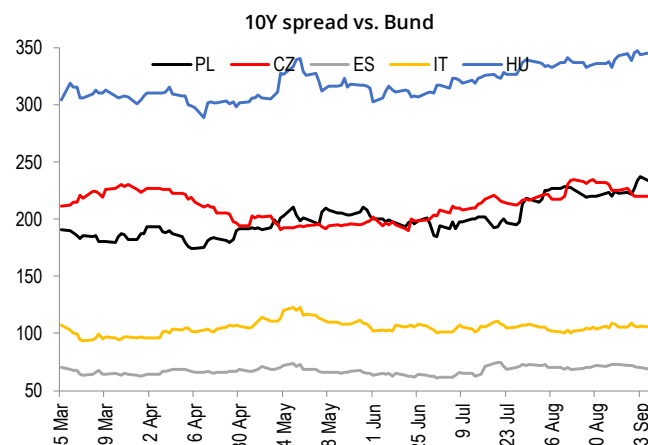
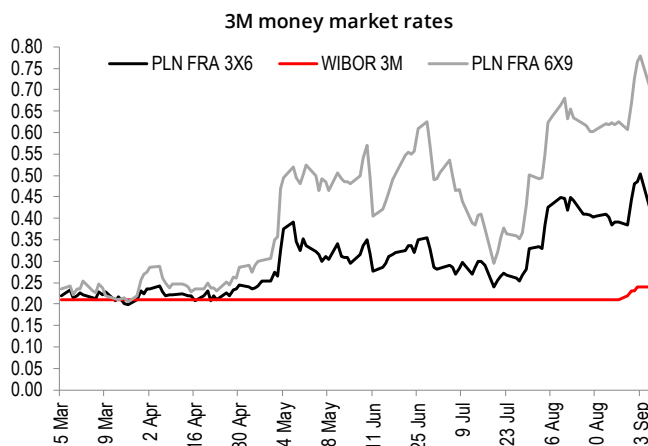
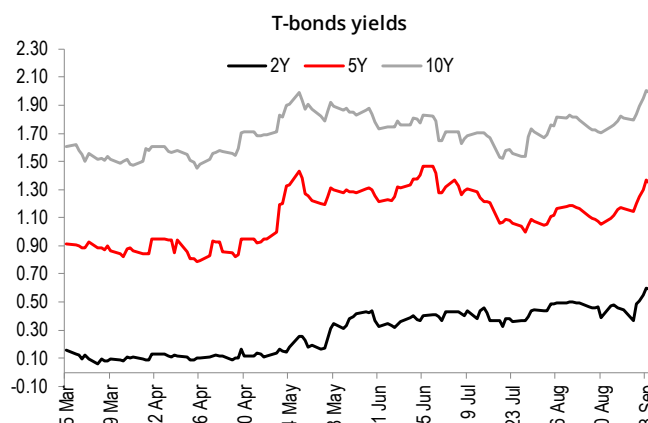
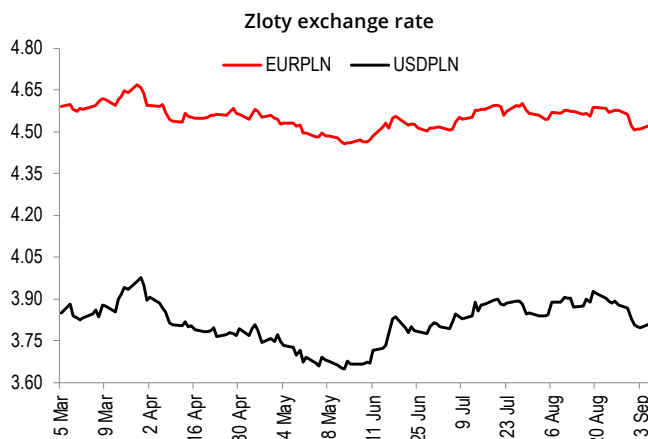
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	46	0	233	0
France	9	0	35	1
Hungary	55	0	344	-2
Spain	30	0	70	1
Italy	44	0	109	3
Portugal	20	0	59	1
Ireland	10	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 (3 September)								
03:45	CN	Caixin China PMI Services	Aug	pts	52.0	47.2	54.9	
09:55	DE	Markit Germany Services PMI	Aug	pts	61.5	60.8	61.5	
10:00	EZ	Eurozone Services PMI	Aug	pts	59.7	59.0	59.7	
11:00	EZ	Retail Sales	Jul	% m/m	0.0	-2.3	1.5	
14:30	US	Change in Nonfarm Payrolls	Aug	k	733.0	235.0	1053.0	
14:30	US	Unemployment Rate	Aug	%	5.2	5.2	5.4	
16:00	US	ISM services	Aug	pts	61.6	61.7	64.1	
MONDAY (6 September)								
08:00	DE	Factory Orders	Jul	% m/m	-1.0	3.4	4.1	
09:00	CZ	Industrial Production	Jul	% y/y	5.0	7.0	11.1	
TUESDAY (7 September)								
08:00	DE	Industrial Production SA	Jul	% m/m	0.9	1.0	-1.0	
09:00	HU	Industrial Production SA	Jul	% y/y	10.6	8.0	22.0	
11:00	EZ	GDP SA	2Q	% y/y	13.6	14.3	-1.3	
11:00	DE	ZEW Survey Current Situation	Sep	pts	30.0	26.5	40.4	
WEDNESDAY (8 September)								
	PL	MPC decision		%	0.1	0.1	-	0.1
09:00	HU	CPI	Aug	% y/y	4.7	-	4.6	
THURSDAY (9 September)								
08:00	DE	Exports SA	Jul	% m/m	1.3	-	1.3	
13:45	EZ	ECB Main Refinancing Rate	Sep/21	%	0.0	-	0.0	
14:30	US	Initial Jobless Claims		k	345.0	-	353.0	
15:00	PL	NBP President press conference						
FRIDAY (10 September)								
08:00	DE	HICP	Aug	% m/m	0.1	-	0.1	
09:00	CZ	CPI	Aug	% y/y	3.6	-	3.4	

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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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.