

10 July 2024

Eyeopener

Drought holds on

Today Czech CPI inflation

In May and June agricultural drought was present in all voivodeships

Powell: inflation's return to target not sure enough to start cuts

Stronger USD and PLN, rising core yields amid weaker sentiments

Today, June CPI inflation data will be released in Czechia and, according to the market, should point to a decrease from 2.6% y/y in May to 2.4% y/y. In addition, Fed Chairman Jerome Powell will address the US House of Representatives Financial Services Committee. Inflation data from China released earlier today showed CPI growth falling from 0.3% y/y to 0.2% y/y (below forecasts) and PPI from -1.4% y/y to -0.8% y/y (in line with consensus).

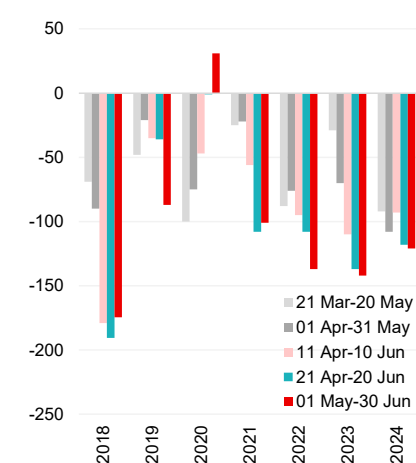
The Institute of Soil Science and Plant Cultivation, reported that in May and June agricultural drought was observed in all Polish voivodeships, as was also the case in the previous report. Drought affected 12 of the 14 crops monitored during the period (previously, 11 of 14 crops), particularly spring cereals, oilseed rape, and fruit bushes, for which the drought area exceeded 20% nationwide. The summary measure of drought risk status, the Climatic Water Balance, worsened slightly and indicated a water deficit of 121 mm against 118 mm previously, which for this reporting period constitutes a worse result than in 2019-2021, but better than in 2018, 2022 and 2023. The persistence of the agricultural drought in Poland could mean upward pressure on fruit and vegetable prices in the second half of the year.

Fed Chairman Jerome Powell testified before the Senate Banking Committee. During his speech, Powell stated, among other things, that recent indications suggest that the US economy continues to expand at a solid pace, and that the labour market situation has returned to its state from before the pandemic - strong, but not overheated. Turning to monetary policy, Powell noted that despite the lack of success in bringing inflation back to target in the first quarter of the year, recent inflation data suggest that modest progress has taken place. Nevertheless, he added that the Fed does not plan to cut interest rates until it gains more confidence that inflation is moving sustainably towards the target.

Further strengthening of the zloty. Despite weaker behaviour of equity indices in Europe the zloty continued its strengthening from last week in the first part of the day reaching levels below 4.26 per euro, and remained relatively stable in the remainder of the session. The zloty behaved slightly better than the forint and much better than the Czech koruna, which continued to lose. The dollar gained slightly against the euro from the start of the session in reaction to statements by the Fed chairman, who suggested that more data were needed to consider rate cuts.

Little change in the domestic interest rate market, rate increases in the core markets. Yesterday, changes in FRA rates, IRS rates and bond yields were marginal. In the core markets, there was an increase in yields of about 2-4 bps in both Germany and the US in anticipation of and in reaction to J. Powell's not very dovish statements, although some optimism about inflation resounded in his tone. It was also partly a downward correction after last week's sharp rise in yields. After several sessions of declines, yesterday saw a rebound in the spread to Bunds for bonds of most European countries. According to BGK's revised financial plan, the limit of bonds issued for the Relief Fund (FP) in 2024 has increased to PLN 11 billion from PLN 7.5 billion, which includes PLN and foreign currency bonds in both tender and private placement formats. Earlier, BGK also increased the limit on bonds issued for the COVID-19 Fund. Higher issuance for BGK's Funds may have a constraining effect on demand for Treasury debt, although in this case we also see chances for lower issuance than assumed in the budget law for this year.

Climatic water balance, mm



Source: IUNG-PIB, Santander

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FX market

Today's opening

EURPLN	4,2581	CZKPLN	0,1681
USDPLN	3,9361	HUFPLN*	1,0787
EURUSD	1,0817	RUBPLN	0,0450
CHFPLN	4,3856	NOKPLN	0,3698
GBPPLN	5,0338	DKKPLN	0,5707
USDCNY	7,2756	SEKPLN	0,3730

*for 100HUF

Last session in the FX market

09.07.2024

	min	max	open	close	fixing
EURPLN	4,2553	4,2702	4,2672	4,2606	4,2633
USDPLN	3,9301	3,9462	3,9403	3,9406	3,9391
EURUSD	1,0804	1,0830	1,0829	1,0811	

Interest rate market

09.07.2024

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
OK0426 (2Y)	5,25	-1
WS0429 (5Y)	5,71	0
DS1033 (10Y)	5,81	1

IRS on the interbank market**

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	5,86	5,23	3,47
2L	5,56	4,74	3,20
3L	5,34	4,48	3,03
4L	5,24	4,32	2,93
5L	5,20	4,24	2,87
8L	5,21	4,16	2,81
10L	5,26	4,15	2,83

WIRON rate

Term	%	Change (bps)
WIRON	5,39	27

WIBOR rates

Term	%	Change (bps)
O/N	5,73	1
T/N	5,76	0
SW	5,84	0
1M	5,81	1
3M	5,86	1
6M	5,87	1
1Y	5,87	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	5,86	2
3x6	5,80	1
6x9	5,73	-1
9x12	5,54	0
3x9	5,80	0
6x12	5,71	-2

CDS rates and 10Y yield spread vs. German Bund

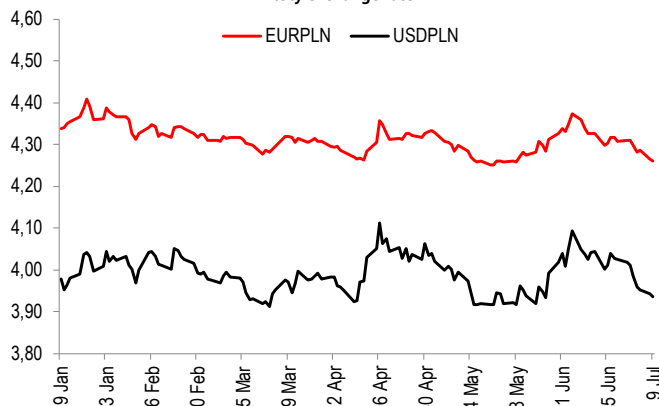
Country	CDS 5Y USD	10Y spread*
	Level	Level
	Change (bps)	Change (bps)
Poland	67	325
France	14	70
Hungary	120	426
Spain	36	81
Italy	28	140
Portugal	23	64
Ireland	14	41
Germany	6	-

* 10Y treasury bonds over 10Y Bunds

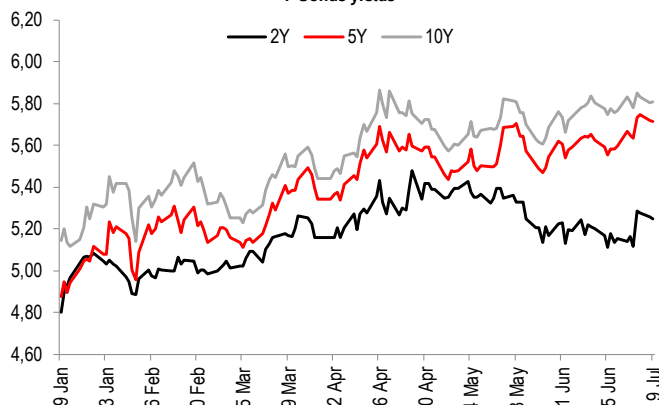
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

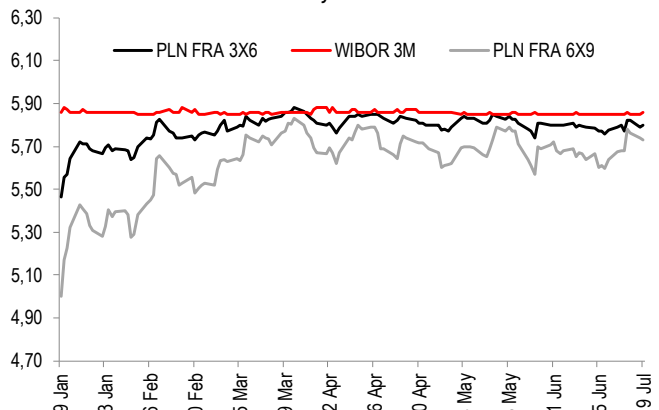
Zloty exchange rate



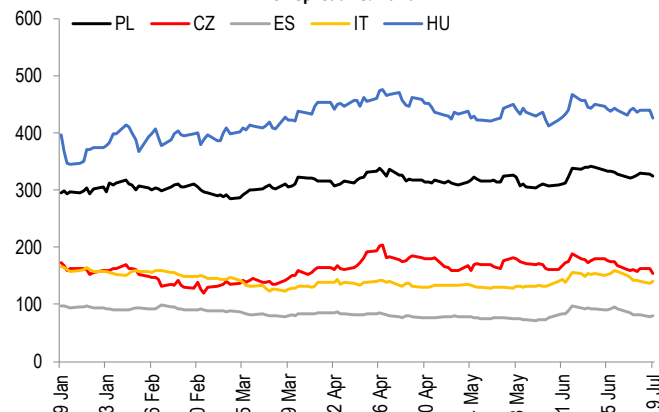
T-bonds yields



3M money market rates



10Y spread vs. Bund



Calendar of events and publications

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST	
				MARKET	SANTANDER	VALUE	VALUE*	
FRIDAY (5 July)								
08:00	DE	Industrial Production SA	May	% m/m	0.1	-	-2.5	-0.1
08:30	HU	Industrial Production SA	May	% y/y	-2.1	-	-4.9	-2.4
11:00	EZ	Retail Sales	May	% m/m	0.2	-	0.1	-0.5
14:30	US	Change in Nonfarm Payrolls	Jun	k	190	-	206	218
14:30	US	Unemployment Rate	Jun	%	4.0	-	4.1	4.0
MONDAY (8 July)								
08:00	DE	Exports SA	May	% m/m	-2.5	-	-3.6	1.6
09:00	CZ	Industrial Production	May	% y/y	-1.2	-	-3.2	9.0
TUESDAY (9 July)								
08:30	HU	CPI	Jun	% y/y	3.9	-	3.7	4.0
WEDNESDAY (10 July)								
09:00	CZ	CPI	Jun	% y/y	2.4	-	-	2.6
THURSDAY (11 July)								
08:00	DE	HICP	Jun	% y/y	2.5	-	-	2.8
14:30	US	CPI	Jun	% y/y	3.1	-	-	3.3
14:30	US	Initial Jobless Claims	Jul	k	-	-	-	238
FRIDAY (12 July)								
16:00	US	Michigan index	Jul	pts	67.0	-	-	68.2

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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