

Weekly Economic Update

(Not so) silly season

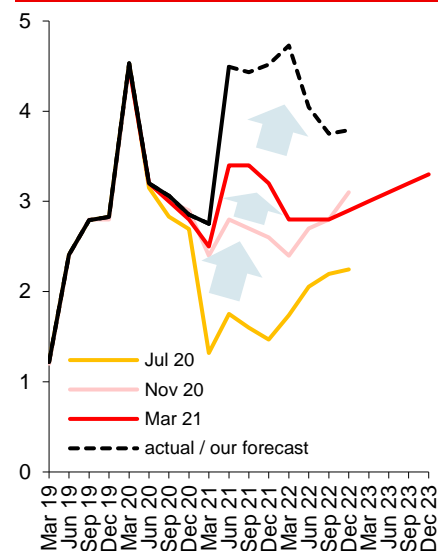
Economy next week

- The main economic event of the coming week in Poland will be the **MPC meeting** (this time on Thursday and not the usual Wednesday), where the Council will analyse updated NBP macroeconomic projections. The result of the previous meeting (the text of the statement, the tone of NBP governor Adam Glapiński's conference) was surprisingly "dovish" – at least on the official level, as we stressed many times in our [comments](#) that actually the rhetoric of the central bank has changed in the other direction: the declarations of how long interest rates may remain stable were gone, macroeconomic conditions to consider policy normalisation were indicated (a lasting rise of GDP growth and inflation, reflected by NBP projections, fading risk of further waves of the pandemic). After the June meeting the NBP governor and some of the members highlighted the importance of new projections, especially the November one.
- The **July NBP projection** (the details of which will likely be released only in the following week) is likely to show a higher inflation path: the starting point is much above the previous forecasts, plus the macroeconomic scenario looks much more optimistic than in March (faster GDP growth rebound, faster recovery of the labour market). The 2021 part of the CPI projection will likely undergo the largest upside revision, while the next years will probably show a decline of inflation – the question is how quick the decline will be. Note that according to the March projection CPI and core inflation were shown in a mild upward trend in 2022-2023 due to the economic recovery, both reaching 3.5% y/y at the end of that period.
- **We do not expect to see a quick and significant change in MPC's policy in July** but the new projection may give an argument for further gradual change of the course. Governor Glapiński in his recent interviews ([last week](#) but also [today](#)) indicated clearly that a change of interest rates has to be preceded by the end of QE purchases, and this process should be spread over time. We still think that the first rate hike is possible in November, if by that time the data and forecasts remain optimistic and the new Covid-19 wave does not turn out dangerous to growth. A signal that we are heading towards a rate hike could be a falling size of bond purchases at NBP auctions in the coming months.
- Still before the MPC meeting, the first days of the week will likely be full of political comments after the weekend convention of PiS (the ruling party) and the meeting of national council of PO (the main opposition party).
- The calendar of data releases abroad is almost empty. Services PMIs, output and new orders in several EU countries as well as the German ZEW index deserve some attention in our view.

Markets next week

- Today's US labour market data (stronger employment change, but somewhat higher unemployment) did not significantly affect the dollar and EM currencies. In the coming week we expect a relatively stable EURPLN moving around 4.52 due to the light calendar of economic events abroad (the main items will be services PMIs from China, Eurozone, Germany and US ISM services coming on Monday and Tuesday) and the fact that investors may prefer to wait until the Thursday MPC meeting before building larger FX positions.
- Large declines of domestic bond yields (e.g. 10Y by 12bp to 1.63%) after a relatively insignificant negative surprise in June CPI (4.4% y/y vs 4.6% expected) showed the scale of investors' one-way positioning ("reflation trade"). No rebound of yields after such a large decline suggests that in the coming week the yields will stay near current levels (5Y at 1.26%, 10Y at 1.63%) until at least the Thursday MPC meeting. We do not expect any rate or other policy parameter changes at this meeting but the Council may use this event to continue its slow preparations to start normalising monetary policy later this year.

CPI inflation in consecutive NBP projections and our current forecast, %/y



Source: NBP, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website: www.santander.pl/en/economic-analysis

Piotr Bielski +48 22 534 18 87

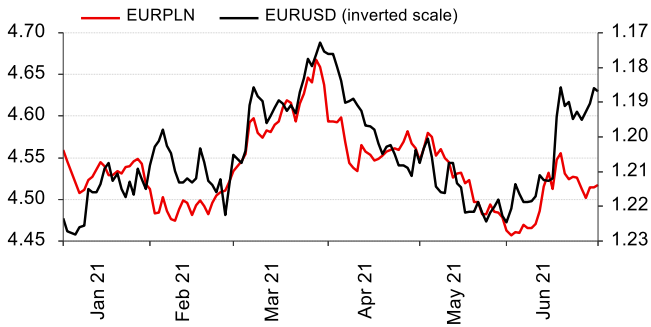
Marcin Luzziński +48 22 534 18 85

Grzegorz Ogonek +48 22 534 18 84

Wojciech Mazurkiewicz +48 22 534 18 86

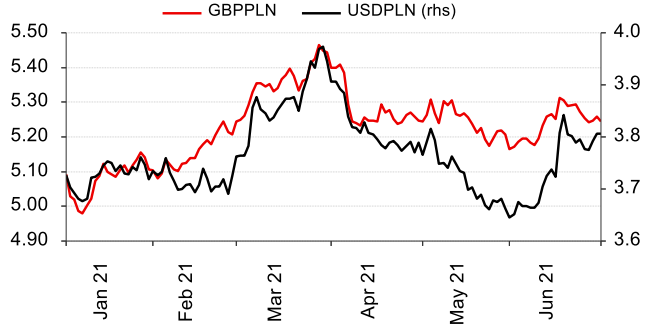
FX and FI markets

EURPLN and EURUSD



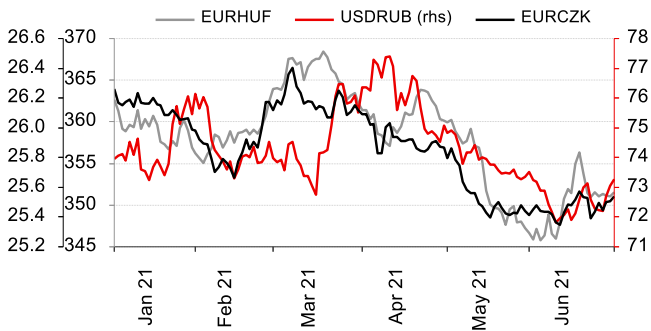
Source: Refinitiv Datastream, Santander Bank Polska

GBPPLN and USDPLN



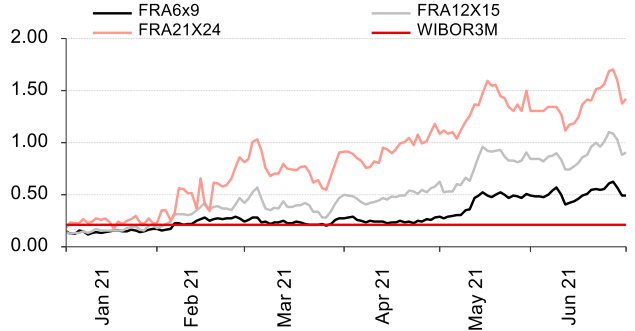
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



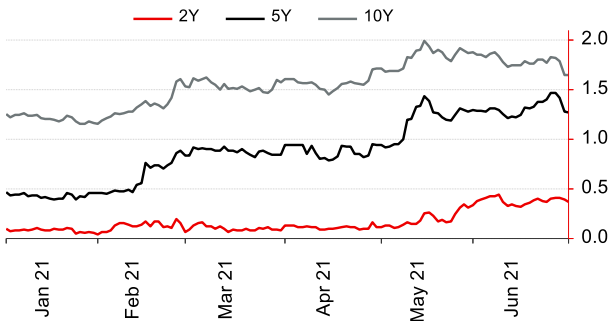
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



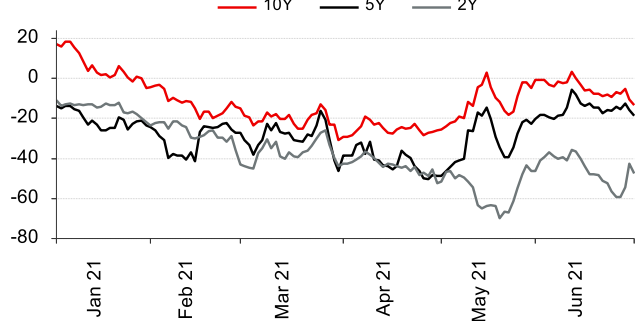
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



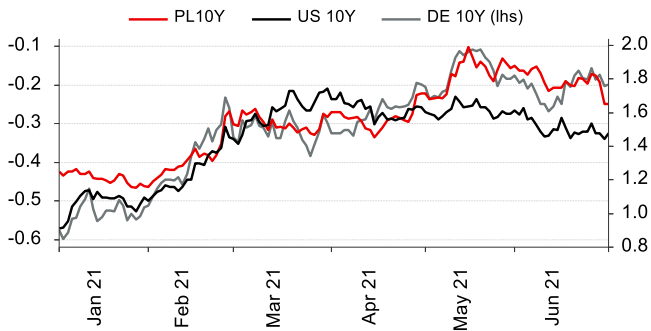
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



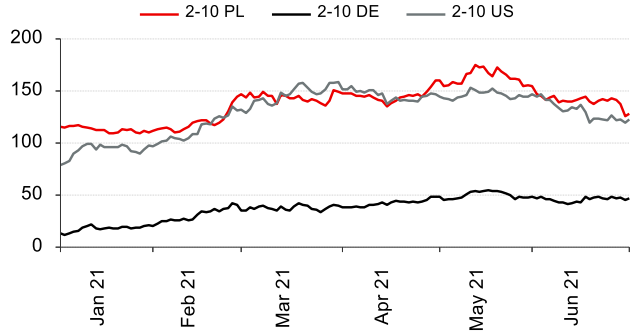
Source: Refinitiv Datastream, Santander Bank Polska

10Y bond yields



Source: Refinitiv Datastream, Santander Bank Polska

Steepness of yield curves



Source: Refinitiv Datastream, Santander Bank Polska

Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE
				MARKET	SANTANDER	
MONDAY (5 July)						
03:45	CN	Caixin China PMI Services	Jun	pts	54.9	55.1
09:55	DE	Markit Germany Services PMI	Jun	pts	58.1	58.1
10:00	EZ	Eurozone Services PMI	Jun	pts	58.0	58.0
TUESDAY (6 July)						
08:00	DE	Factory Orders	May	% m/m	1.0	-0.2
11:00	DE	ZEW Survey Current Situation	Jul	pts	2.5	-9.1
11:00	EZ	Retail Sales	May	% m/m	4.4	-3.1
16:00	US	ISM services	Jun	pts	63.8	64.0
WEDNESDAY (7 July)						
08:00	DE	Industrial Production SA	May	% m/m	-0.3	-1.0
09:00	CZ	Industrial Production	May	% y/y	34.9	55.1
09:00	HU	Industrial Production SA	May	% y/y	-	59.2
20:00	US	FOMC Meeting Minutes	Jun/21		-	-
THURSDAY (8 July)						
	PL	MPC decision		%	0.1	0.1
08:00	DE	Exports SA	May	% m/m	0.0	0.2
09:00	HU	CPI	Jun	% y/y	-	5.1
14:30	US	Initial Jobless Claims		k	-	364.0

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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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>.