

# Weekly Economic Update

## Inflation does not give up

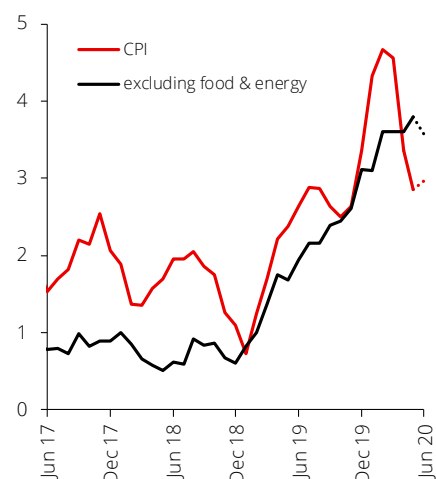
### What's hot next week

- At the beginning of the new week, we will see the results of the first round of the Polish presidential elections. We think that as long as they do not differ much from the recent polls, there should be no meaningful market reaction. It appears that a second round will be needed to get the winner and only in two weeks we will see who will be Poland's new president.
- Among the domestic factors, flash June CPI reading should be more important for the zloty and bonds. According to our forecast, inflation will rise to 3% y/y from 2.9% y/y. Our estimates suggest that the headline could be even higher but, like we have been saying lately, the opening of the economy should result in lower core CPI but it is hard to say whether the stat office was able to record this already this month or still had difficulties in getting the prices and will rely on the normal times' seasonal pattern in its calculations. The release in line with our forecast (or higher) may ease the recently mounting expectations for negative nominal interest rates in Poland. As a result, this could slightly support the zloty for some time. PMI for Polish manufacturing is likely to show a rise just like flash June euro zone and German indexes, but we do not expect this release to drive the market.
- Globally, the pace of stock indexes' rise decreased after the June FOMC meeting, where the Fed chairman expressed once again his doubts about the V-shaped recovery priced in by the markets. Also, in some US states which eased economic restrictions there is a rise of new COVID-19 cases and it seems that it is the further development of the pandemic that will be in the spotlight. The risk of a new wave of infections may at least temporarily decrease chances for a new global wave of optimism.
- In the USA, data regarding June industrial activity and labour market will be out. The market consensus is that ISM shows a solid growth, as should European PMIs and the recovery of jobs will even accelerate from the 2.5mn May rise of non-farm payrolls. However, the US data will in our view be less important market-wise than the news on coronavirus.

### Market implications

- We stick to our view that EURPLN will move up towards 4.50 in the coming days and is likely to break higher to the 4.55 area. This time we see the move rather as of a regional one – both the forint and the koruna have started to weaken lately and we expect them to weaken more. Given still low implied volatility levels, one of the most efficient ways to put a bearish CEE FX views on is via FX options (no delta hedge).
- At the front end of the yield curve, the abundant banking sector liquidity is likely to push bond yields even lower at a slow pace, towards zero. At the same time FRA and short IRS are likely to remain stable given that neither the market nor ourselves expect rate changes this year or next. On the long end of the curve we would rather expect yields to remain stable as the less liquid summer holiday period starts to kick in. However, in the context of lower summer liquidity both the CPI print and the auction size have the potential to move yields. That is why if either the June flash CPI surprises to the upside and/or Wednesday's BKG auction turns out to be in decent size then the yields might rise at the long end.

CPI and core inflation, % y/y



Source: GUS, NBP, Santander

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## Last week in economy

The passing week brought more data confirming the April trough. In May retail sales rebounded much more than expected and industrial new orders improved in m/m terms. Sectoral business sentiment indicators all rose again in June.

May **retail sales** surprised to the upside with a 7.7% decline in annual terms (consensus: -11.7% y/y, our call: -14.0% y/y). While a rebound from -22.9% y/y in April was widely expected due to gradual easing of lockdown measures (reopening of shopping malls on 4th May), the scale of recovery came as a positive surprise. We expect a further normalisation of retail sales in the upcoming months, yet it will be not as spectacular as in May. Moreover, the effect of lower households' disposable incomes growth will be undermining the retail sales dynamics in the upcoming quarters. More in [Economic Comment](#).

In May the value of **industrial new orders** was -24.7% y/y lower than a year earlier, compared to -30.2% in April, which means an 8.5% m/m rebound (following a 25% decline). Foreign new orders growth was -32.2% y/y and +11.6% m/m.

In June, sectoral **business sentiment indexes** all improved again, and at a higher pace than in May. May sentiment improvement across all sectors was based solely on better expectations, in the June print both the current assessment and expectations components went up.

In May Polish **construction output** fell by 5.1% y/y (-1.4% y/y in SA terms) vs market expectations at -0.5% and our -1.6% forecast. This is still a relatively benign response to the pandemic. Business sentiment index for construction suggests that output should not fall further, yet we are not that optimistic about the housing market. Number of finished flats was at 10.1% y/y in May versus -22.3% y/y in April. But, numbers of new house starts and building permits were visibly depressed, both below -28% y/y.

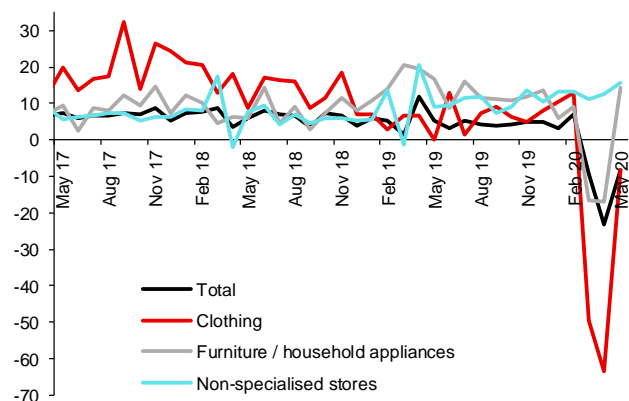
The growth of **M3 money supply** rose in May to 16.0% y/y, the highest since March 2009. The visible acceleration was caused by fiscal stimulus and mass issuance of bonds by PFR (Polish Development Fund) and state-owned bank BGK. Household deposits grew at 11.2% y/y, up from 10.0%, and corporate deposits by 24.6% y/y, up from 18.0%. The value of term deposits dropped by 11.9% y/y while current accounts rose by 28.4% y/y. Credit growth corrected for fx changes, decreased to 3.3% y/y in May from 4.2%. Loan growth fell to 5.0% y/y from 5.4% for individuals and to 1.6% y/y from 3.1% for enterprises.

**IMF lowered global growth forecast** to -4.9% from -3.0% for 2020 and to +5.4% from +5.8% for 2021. After the revision GDP growth of the euro zone and the UK, among others, is seen below -10%. Only 2 out of 30 economies had their 2020 forecast upgraded, four saw no change (including Poland, at -4.6%, 2021 was also left in place, at +4.2%). The IMF growth revision included the new support programs, including the German and the European Commission's one.

**Finance Minister Tadeusz Kościński** said that within two weeks the ministry will show the budget amendment draft. He added that the ministry is gathering more data to assess what other measures are needed to provide support to the economy. He stressed that the president has to sign the bill that suspends the stabilising spending rule before the budget amendment draft is proposed. Tadeusz Kościński wants to have the budget amended before the end of July.

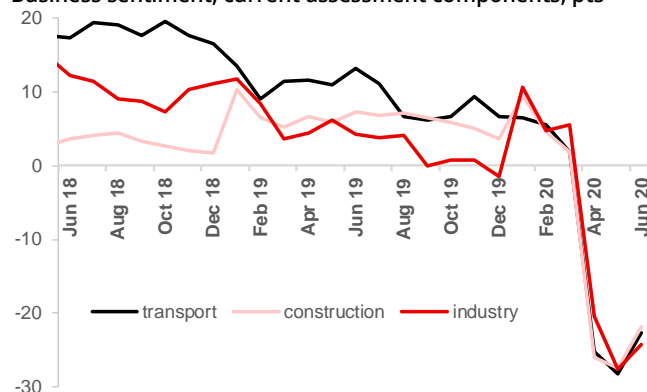
**MPC's Jerzy Kropiwnicki** said that in 2021 the MPC should start hiking rates gradually and cautiously to pre-pandemic levels. His view is different from the MPC's consensus presented in official statements, and it seems to have evolved over the last weeks. In April Kropiwnicki was hoping that the MPC will not rush to hike rates so that the recovery is not hindered. Still, it seems that most MPC members view the epidemic as deflationary factor. In our view the MPC could even use forward guidance tools and state that rates will remain low for longer (hoping this weakens the zloty, which - according to the MPC - is too strong).

Retail sales, %y/y



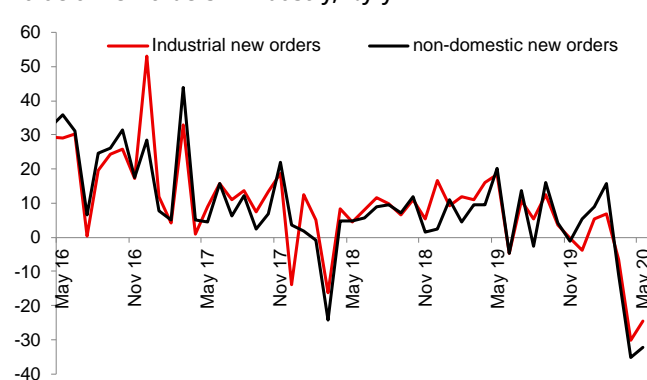
Source: GUS, Santander

Business sentiment, current assessment components, pts



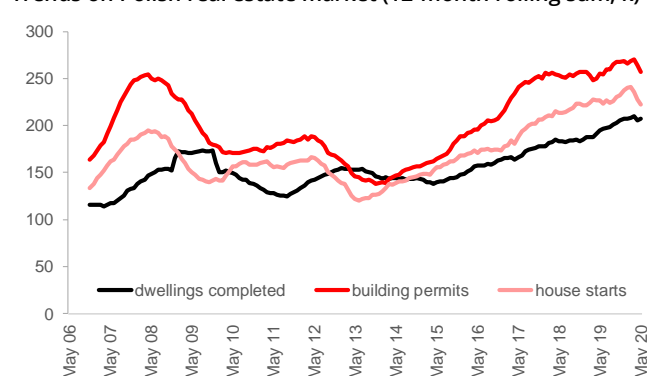
Source: GUS, Santander

Value of new orders in industry, %y/y



Source: GUS, Santander

Trends on Polish real estate market (12-month rolling sum, k)



Source: GUS, Santander

## FX and FI market

### Last week on the market

**FX** The passing week has seen the dollar index still lower (by other 0.2pp) and this helped most EM currencies to strengthen. EURPLN, for example, declined to 4.45 from 4.47, by 0.4% and similarly USDPLN, and other crosses like CHFPLN and GBPLN also declined to 3.97, 4.19 and 4.93 and by 0.6%, 0.3% and 0.2%, respectively. Other CEE currencies as the forint and the koruna lost over the week due to idiosyncratic reasons – NBH cut rates to 0.75% from 0.90%, the bank saw the departure of one of the most market-friendly deputy governors Marton Nagy, and the new deputy governor Barnabas Virag, who replaced him, said that NBH might cut by other 15bp on the upcoming July meeting thus ending the easing cycle. In Czechia, the CNB has not changed rates but EURCZK increased 0.3% on a week to 26.73 simply following the forint. USDRUB declined 0.6% to 69.2 despite lower Brent which dropped 2% w/w.

**FI** Polish bond yields declined in the passing week in a bull steepening fashion. 2Y bonds yields dropped to 0.14% by 6bp, 5Y to 0.73%, by 6bp, while 10Y only by 1bp to 1.39% lagging the Bund whose yields also declined 6bp to -0.48%. The compression of yields in the front end and the belly might indicate that the abundant liquidity of the banking sector is reaching further out the curve in search for yield. The IRS curve remained roughly unchanged over the week with 10Y tenor actually slightly up – by 4bp – to 0.88%.

**Key event** of the next week on Polish market might be the early Monday results of the Sunday first round of Presidential Election. If the polls prove to be correct (41% for the incumbent President Andrzej Duda and 30% for the challenger Rafał Trzaskowski), it will be only the second round of elections when the potential for market surprises may arise. Hence on Monday morning the impact on markets should be limited. The June flash CPI on Tuesday (last 2.9% y/y, expected 2.7% y/y) might be a market mover if surprises on the upside. On Wednesday manufacturing PMIs will be released in Eurozone, Germany and Poland and ISM manufacturing in the US. Also the BGK issues bonds on Wednesday. On Thursday we will get to know US non-farm payrolls and on Friday a June series of services PMIs starts in China, Eurozone, Germany.

### Market implications

**FX** We stick to our view that given lack of substantial presidential election or inflation surprises EURPLN will move up towards 4.50 in the coming days and is likely to break higher to the 4.55 area. This time we see the move less as a function of idiosyncratic Polish factors but rather a of a regional one – both the forint and the koruna have started to weaken lately (in the first case as a result to NBH rate cut and departure of a well-regarded deputy governor Marton Nagy) and we expect them to weaken more. We expect EURHUF to reach 360.0 and EURCZK at 27.0 in the coming weeks, also as a result of the resurgence of the Coronavirus fears. Given still low implied volatility levels, one of the most efficient ways to put a bearish CEE FX views on is via FX options (no delta hedge).

**FI** At the front end of the yield curve the abundant banking sector liquidity is likely to push bond yields even lower at a slow pace, towards zero. At the same time FRA and short IRS are likely to remain stable given that neither the market nor ourselves expect rate changes within at least a next year.

On the long end of the curve we would rather expect yields to remain stable as the less liquid summer holiday period starts to kick in. However, in the context of lower summer liquidity both the CPI print and the auction size have the potential to move yields.

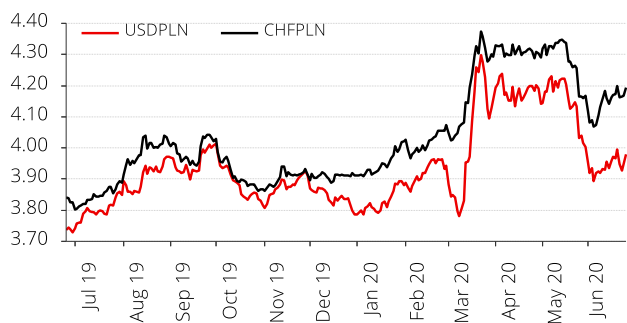
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### EURPLN



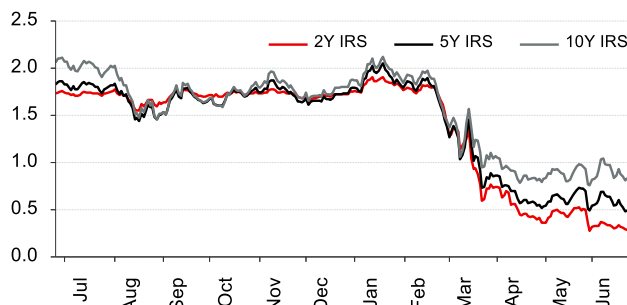
Source: Refinitiv Datastream, Santander Bank Polska

### USDPLN and CHFPLN



Source: Refinitiv Datastream, Santander Bank Polska

### Poland IRS



Source: Refinitiv Datastream, Santander Bank Polska

## Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE
				MARKET	SANTANDER	
<b>MONDAY (29 June)</b>						
11:00	EZ	ESI	Jun	pct.	80.3	67.5
14:00	DE	HICP	Jun	% m/m	0.4	0.0
16:00	US	Pending Home Sales	May	% m/m	18.85	-21.8
<b>TUESDAY (30 June)</b>						
09:00	CZ	GDP SA	1Q	% y/y	-2.0	-2.0
<b>10:00</b>	<b>PL</b>	<b>CPI</b>	<b>Jun</b>	<b>% y/y</b>	<b>2.7</b>	<b>3.0</b>
11:00	EZ	Flash HICP	Jun	% y/y	0.2	0.1
16:00	US	Consumer Conference Board	Jun	pts	90.0	86.6
<b>WEDNESDAY (1 July)</b>						
08:00	DE	Retail Sales	May	% m/m	3.75	-6.5
<b>09:00</b>	<b>PL</b>	<b>Poland Manufacturing PMI</b>	<b>Jun</b>	<b>pts</b>	<b>-</b>	<b>46.0</b>
09:55	DE	Germany Manufacturing PMI	Jun	pts	44.6	44.6
10:00	EZ	Eurozone Manufacturing PMI	Jun	pts	46.9	46.9
14:15	US	ADP report	Jun	k	3000.0	-2760.4
16:00	US	ISM manufacturing	Jun	pts	49.0	43.1
20:00	US	FOMC Meeting Minutes	Jun.20		-	0.0
<b>THURSDAY (2 July)</b>						
11:00	EZ	Unemployment Rate	May	%	7.6	7.3
14:30	US	Initial Jobless Claims	Jun.20	k	1320	1480
14:30	US	Change in Nonfarm Payrolls	Jun	k	3000	2509
14:30	US	Unemployment Rate	Jun	%	12.5	13.3
16:00	US	Durable Goods Orders	May	% m/m	10.45	15.8
16:00	US	Factory Orders	May	% m/m	8.0	-13.0
<b>FRIDAY (3 July)</b>						
03:45	CN	Caixin China PMI Services	Jun	pts	53.3	55.0
09:55	DE	Markit Germany Services PMI	Jun	pts	45.8	45.8
10:00	EZ	Eurozone Services PMI	Jun	pts	47.3	47.3

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg  
\*\*estimate after CPI inflation data

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