29 July 2022

Weekly Economic Update

Business sentiment is going downhill

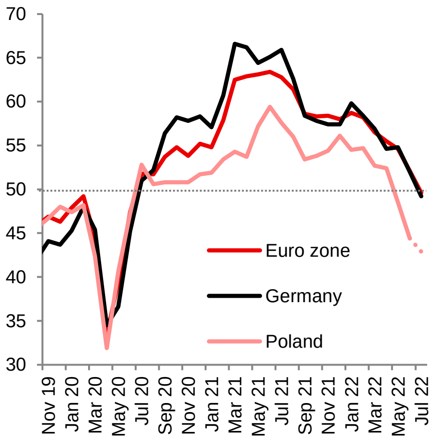
Economy next week

- Not many local releases in the coming week - just the July manufacturing PMI on Monday, most likely showing another significant decline. PMI indexes will also appear abroad, but we have already learned preliminary readings for the major economies.
- Other releases include: from Europe - German exports and production, retail sales and unemployment in the Eurozone, and from the US - durable goods orders and non-farm payrolls on Friday. So, a lot of important statistics that can affect the assessment of the economic outlook in the US and the Eurozone and, consequently, can also affect expectations for interest rate changes.
- On Thursday, the Czech central bank decides on rates - this is going to be the first meeting after the replacement the bank's governor with a staunch opponent of rate hikes. The market is split in half on whether we will see +25bp or not. Rates decisions will also be taken by the central bank of Australia (rate hikes there began in May and total 125bp so far, the market is assuming a 50bp addition to this on Tuesday, the same as in July) and the UK (on Thursday, it is likely that the pace of moentary policy tightening will be accelerated to 50bp per meeting - something that has not happened in 27 years - but the communication will be similar to that from the Fed: that further big hikes are possible but cannot be taken for granted).

Markets next week

- EURUSD returned to about 1.02 after attempting to attack lower levels. The dollar-positive Fed decision on another 75bp rate hike was somewhat muted by weaker-than-expected US GDP data, fulfilling the definition of a technical recession (two consecutive readings of negative q/q growth), which increase the likelihood of a slowdown in the US rate hike cycle in future periods. At the same time, the US GDP deflator for Q2, and June inflation readings from the Eurozone, again surprised to the upside, amplifying global stagflationary fears. In the European market, they are further amplified by uncertainty about the gas market situation during the autumn-winter heating season due to the continued repairs to the Nord Stream 1 pipeline and its reduced capacity (only up to 20% this time), making it difficult to build up adequate reserves. Not surprisingly, inflation expectations in the Eurozone and the EU have recently started to rise strongly again. Next week's PMI, industrial and retail sales data are likely to once again confirm the ongoing slowdown at home and in the core markets.
- In such external and internal conditions, we expect risk aversion to rise again. We assume that the **EUR/PLN exchange rate, which fluctuated in a wide range of 4.69 - 4.81 in the past week, will again attempt to move towards the upper limit of this range in the coming days**. In the debt market, despite the further signs of a slowing economy that we expect, **we are counting on an upward rebound in domestic yields, especially at the shorter end of the curve**. In our view, continued high inflation at home amid rising inflation expectations in Europe as a result of the renewed rise in energy commodity prices, should support a rise in 2Y yields to about 7.05%, and 10Y yields to about 5.80%.

Manufacturing PMIs



Source: Markit, Santander

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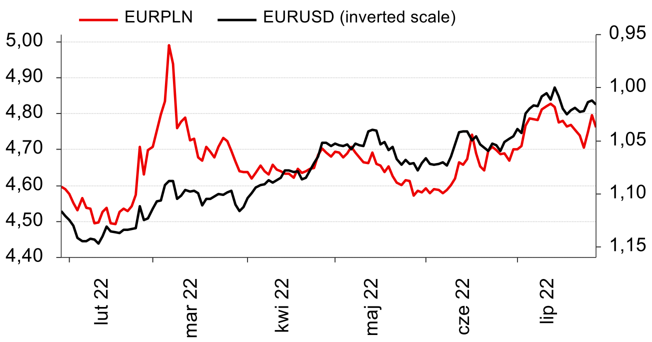
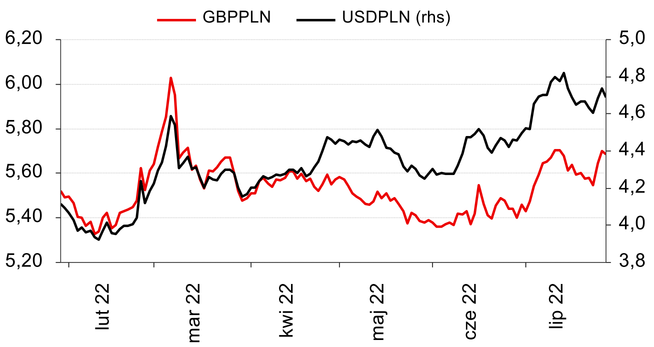
EURPLN and EURUSD



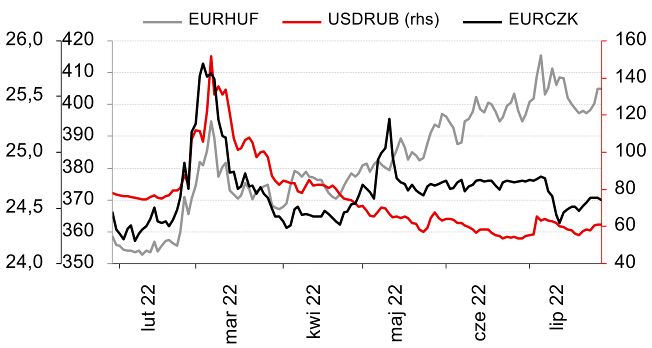
Source: Refinitiv Datastream, Santander

GBPPLN and USDPLN



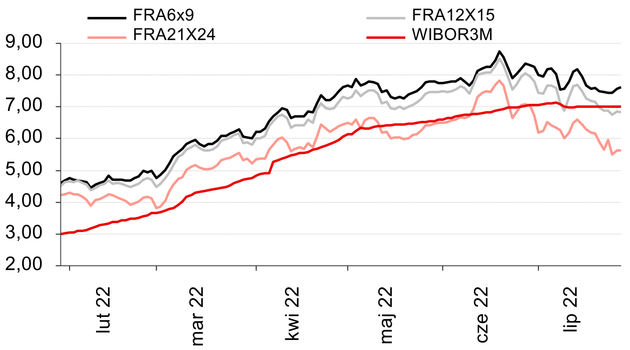
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



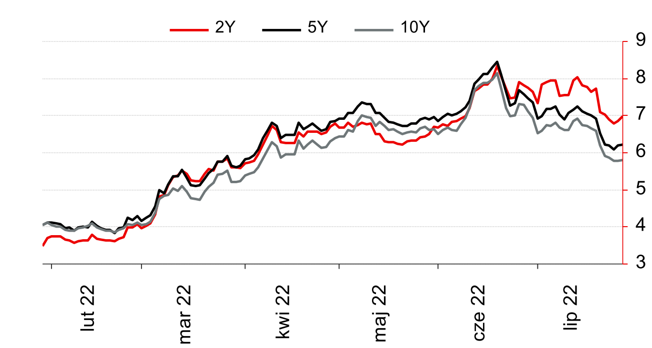
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



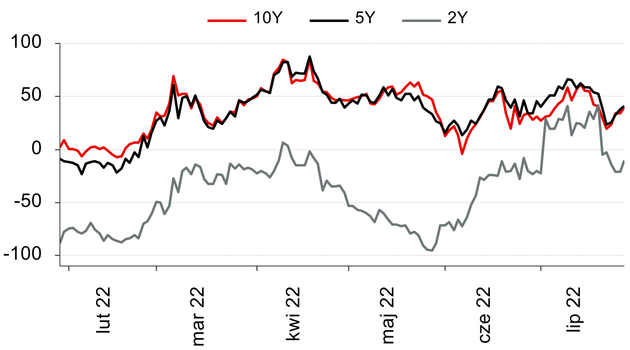
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



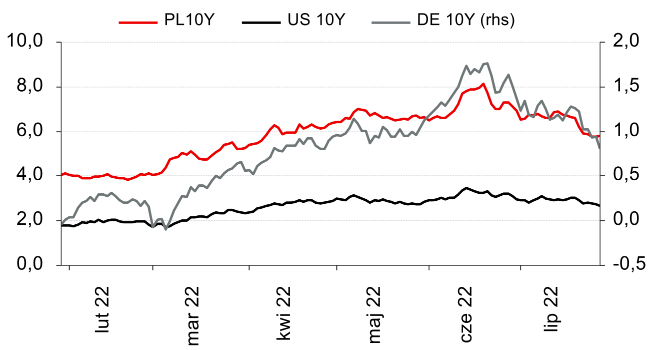
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



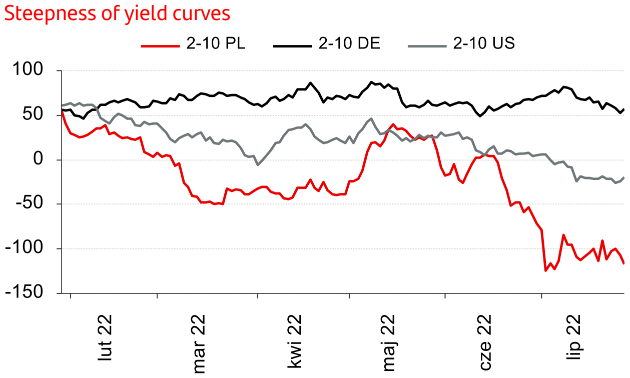
Source: Refinitiv Datastream, Santander Bank Polska

10Y bond yields



Source: Refinitiv Datastream, Santander

Steepness of yield curves



Source: Refinitiv Datastream, Santander Bank Polska

Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST SANTANDER	LAST VALUE
			MONDAY (1 August)				
03:45	CN	Manufacturing PMI	Jul	pts	51.5	-	51.7
08:00	DE	Retail Sales	Jun	% m/m	0.4	-	1.2
09:00	**PL**	**Poland Manufacturing PMI**	**Jul**	**pts**	**42.9**	**42.9**	**44.4**
09:55	DE	Germany Manufacturing PMI	Jul	pts	49.2	-	52.0
10:00	EZ	Eurozone Manufacturing PMI	Jul	pts	49.6	-	52.1
11:00	EZ	Unemployment Rate	Jun	%	6.6	-	6.6
16:00	US	ISM manufacturing	Jul	pts	52.1	-	53.0
			TUESDAY (2 August)				
		No key events or releases					
			WEDNESDAY (3 August)				
03:45	CN	Caixin China PMI Services	Jul	pts	54.0	-	54.5
08:00	DE	Exports SA	Jun	% m/m	1.0	-	1.6
09:55	DE	Markit Germany Services PMI	Jul	pts	49.2	-	52.4
10:00	EZ	Eurozone Services PMI	Jul	pts	50.6	-	53.0
11:00	EZ	Retail Sales	Jun	% m/m	0.0	-	0.2
16:00	US	Durable Goods Orders	Jun	% m/m	-	-	1.9
16:00	US	ISM services	Jul	pts	53.9	-	55.3
16:00	US	Factory Orders	Jun	% m/m	0.8	-	1.6
			THURSDAY (4 August)				
08:00	DE	Factory Orders	Jun	% m/m	-1.2	-	0.1
14:30	US	Initial Jobless Claims	Jul.22	k	-	-	256
14:30	CZ	Central Bank Rate Decision	Aug.22		7.00	-	7.00
			FRIDAY (5 August)				
08:00	DE	Industrial Production SA	Jun	% m/m	-0.4	-	0.2
09:00	HU	Industrial Production SA	Jun	% y/y	-	-	3.4
14:30	US	Change in Nonfarm Payrolls	Jul	k	250	-	372
14:30	US	Unemployment Rate	Jul	%	3.6	-	3.6

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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.