

Weekly Economic Update

Week with inflation data

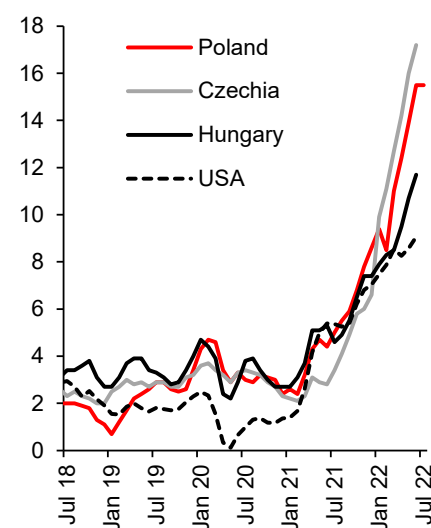
Economy next week

- This week, important data from Poland will only appear on Friday: detailed **CPI inflation data for July** (preliminary data showed stabilisation at 15.5% y/y) and **the balance of payments for June**. We believe that the inflation data will confirm a gradual waning of shocks, which will support our forecast of stabilisation and then a decline in inflation in the coming months. We expect the current account deficit to widen against May to more than €3bn and we are somewhat more pessimistic than the market, which expects around €2.5bn.
- Abroad, inflation data, including the US (CPI and PPI) and CEE countries. In addition, we will get to see **the Michigan consumer optimism index** and other statistics of somewhat less market significance, such as the NFIB small business optimism index. **The US inflation data** are likely to be crucial. Recently, the market has been somewhat more focused on the weaker macro outlook. A surprise in the inflation data could revive expectations of interest rate rises again.

Markets next week

- EURUSD, after trying to attack 1.03, returned to 1.02. Slightly better-than-expected PMI data from the euro zone proved insufficient to sustainably strengthen the single currency against the dollar. Although the dollar was initially helped by an increase in US-China geopolitical tensions around House of Representatives Speaker Nancy Pelosi's visit to Taiwan, by the end of the week it received additional support from surprisingly strong readings from the US labour market. With concerns emerging recently that the rate hike cycle is gradually approaching its end, the strong US labour market should re-energize expectations for a continuation of meaningful Fed rate hikes and strengthen the dollar. **We assume that in the coming week the EURUSD exchange rate will decline to 1.01.** A barrier to attempts to attack parity again may be Wednesday's publication of July CPI inflation from the US (consensus assumes a slightly lower reading than previously). However, in light of the Fed's determined stance, which has signalled that only a more sustained downward trend in inflation could influence a review of existing policy, in principle this should not deter the dollar.
- The strengthening of the dollar in global markets should influence a more decisive return of the EURPLN rate to an upward trend. The expected increase in the current account deficit at the end of the week should further weaken the zloty. **We anticipate that the EURPLN exchange rate will rise to 4.75 in coming week.**
- In the debt market, after attempts by domestic yields to fall after Monday's weaker domestic PMI reading, there were attempts later in the week to push them higher, helped by the OPEC+ meeting, which agreed to only a symbolic increase in daily output. This helped boost inflation expectations in Europe, which the domestic curve also benefited from. Strong readings from the U.S. labour market, weakened somewhat the global stagflation narrative leading to a strong upward rebound in yields in the main markets. We assume that this will also translate into trends in the domestic market in coming week. **This should support 2Y yields to rise again to about 6.80%, and 10Y yields to about 5.80%.**

CPI inflation, % y/y

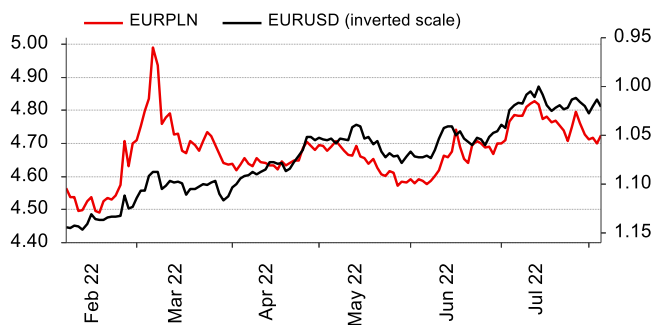


Source: Refinitiv, Santander

Economic Analysis Department:

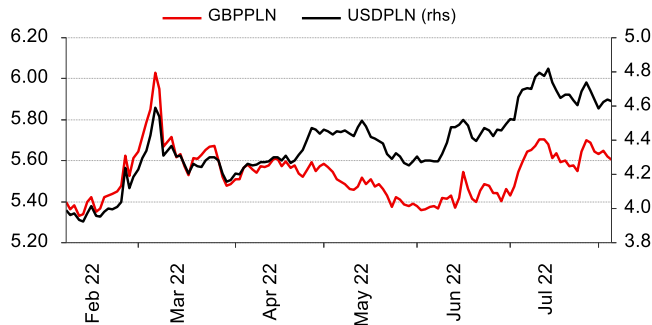
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EURPLN and EURUSD



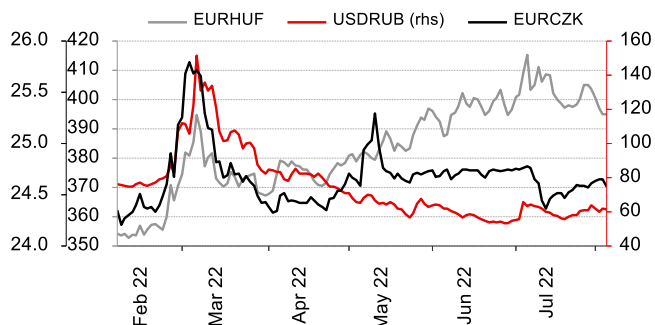
Source: Refinitiv Datastream, Santander

GBPPLN and USDPLN



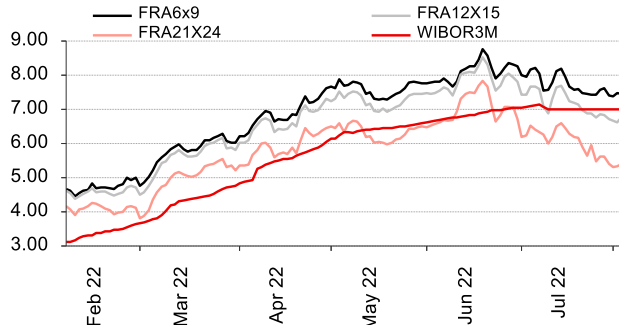
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



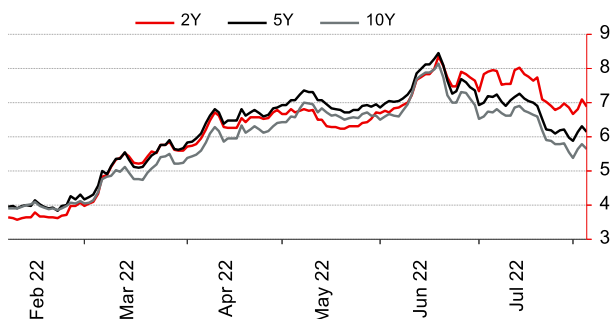
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



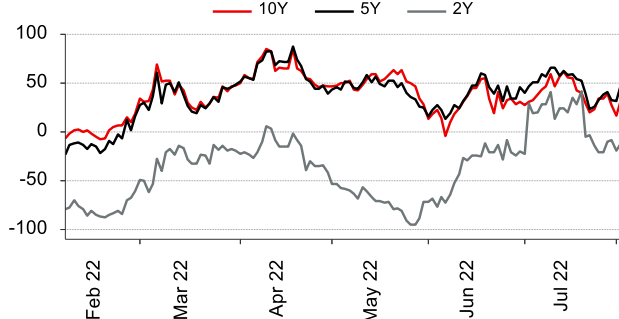
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



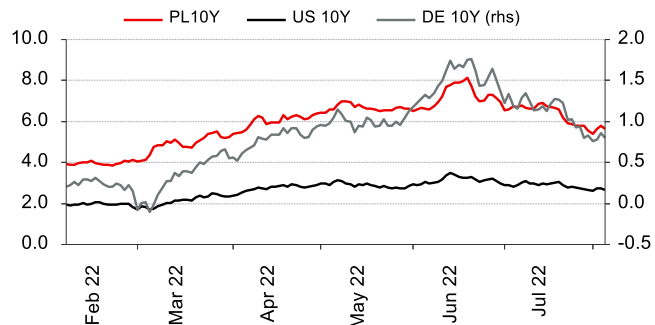
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



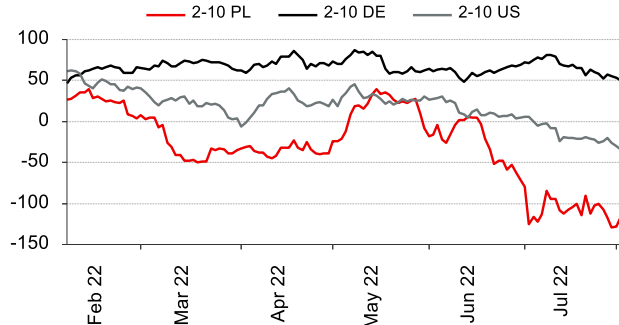
Source: Refinitiv Datastream, Santander Bank Polska

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		LAST VALUE	
				MARKET	SANTANDER		
MONDAY (8 August)							
09:00	CZ	Industrial Production	Jun	% y/y	2.0	-	6.3
TUESDAY (9 August)							
09:00	HU	CPI	Jul	% y/y	13.0	-	11.7
WEDNESDAY (10 August)							
08:00	DE	HICP	Jul	% m/m	0.8	-	0.8
09:00	CZ	CPI	Jul	% y/y	17.7	-	17.2
14:30	US	CPI	Jul	% m/m	0.2	-	1.3
THURSDAY (11 August)							
14:30	US	Initial Jobless Claims		k	260	-	260
FRIDAY (12 August)							
10:00	PL	CPI	Jul	% y/y	15.5	15.5	15.5
11:00	EZ	Industrial Production SA	Jun	% m/m	0.0	-	0.8
14:00	PL	Current Account Balance	Jun	€mn	-2571	-3220	-1909
14:00	PL	Trade Balance	Jun	€mn	-1500	2016	-1222
14:00	PL	Exports	Jun	€mn	27296	26133	28104
14:00	PL	Imports	Jun	€mn	29144	28149	29326
16:00	US	Michigan index	Aug	pts	51.8	-	51.5

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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