

19 August 2022

# Weekly Economic Update

## Is this a true recession?

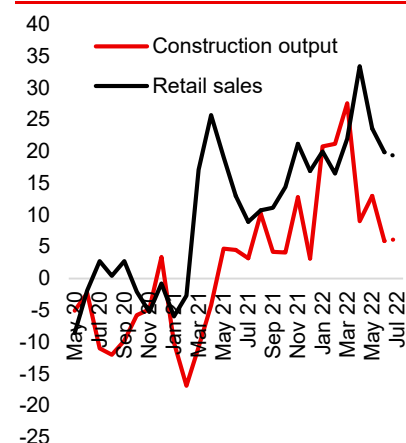
### Economy next week

- After the weekend, the debate will continue if the recession in Poland has already started and whether it is a 'true' recession or 'just a technical one' that will not cause unemployment rise. This will be helped by new economic data releases at home and abroad. **Already on Monday we will know the results of July's construction output and retail sales and the August business climate indicators of from GUS, on Tuesday the financial results of companies for the second quarter of the year and money supply, on Wednesday unemployment and a whole set of detailed indicators in the GUS Statistical Bulletin.** Abroad, on Tuesday preliminary PMIs for August, on Thursday German Ifo and Q2 GDP in the US, on Friday US personal spending and income.
- Domestic data released in recent days showed a seemingly bitter-sweet picture: the Q2 GDP contraction (-2.3% q/q) was much deeper than expected, but employment, wages and industrial production data for July looked better than forecast. In our view, however, this is an illusive discord: wage growth has been disrupted by massive increases in 'non-market' sectors (mining, energy, forestry), while in other areas wages continue to lag inflation; consumer sentiment is already worse than at the peak of the pandemic and keeps falling; seasonally adjusted production did break a streak of strong declines, but in our view this is more of a statistical artefact than a signal that the trend has stopped - unadjusted production fell by 6.5% m/m, the sharpest fall in five years (despite the same number of working days as in June), many sectors are showing signs of weakness, most notably those linked to construction, but also to consumer demand (furniture), and industrial orders keep falling.
- Our forecasts for construction output and retail sales are slightly above consensus, but are consistent with the scenario of a further deceleration of the economy in the second half of the year. **We see a risk that the last two quarters of this year will also see declines in deseasonalized GDP (q/q), although no longer as significant as in Q2, and that annual GDP growth will slide below zero before the end of this year.**
- The annual central bankers' forum in Jackson Hole starts on Thursday and investors will be looking above all to **Jerome Powell's speech scheduled for Friday at 14:00GMT.** A year ago at the same venue, the Fed chairman argued that inflation was transitory and there were no signs of excessive wage pressure on the horizon, which turned out to be a completely wrong forecast (sounds familiar? ☺). Now investors will be on the lookout for signs of a chance to soften the current hawkish stance in the face of growing signs of economic weakness.

### Markets next week

- As we expected a week ago, EURPLN headed north in response to domestic data and a stronger dollar. It seems that the market environment will remain unfavourable for the zloty. The EURUSD may attempt to break the parity again, which is negative for EM currencies. In addition, new data is intensifying concerns about the future of Polish economy, and the prospect of unblocking money from the recovery fund seems increasingly distant. **We see chances for a further rise in EURPLN towards 4.80 at the end of August.**
- The debt markets at home and abroad have been dominated by pronounced rises in bond yields in the last several days. Contributing factors include further inflation surprises in some countries (e.g. CPI in the UK, PPI in Germany) and diminishing hopes for a "dovish pivot" by the FOMC. In this context, J.Powell's speech on Friday could be crucial. But before it happens, **at least a temporary downward move in yields, more at the short end than at the long end, is possible, in our view,** as a result of a revaluation of NBP rate hike expectations. The market continues to price in a 50bp rate hike in September, while the chances of this, in our view, have clearly diminished in the context of recently published macro data.

Construction output and retail sales, constant prices, % y/y

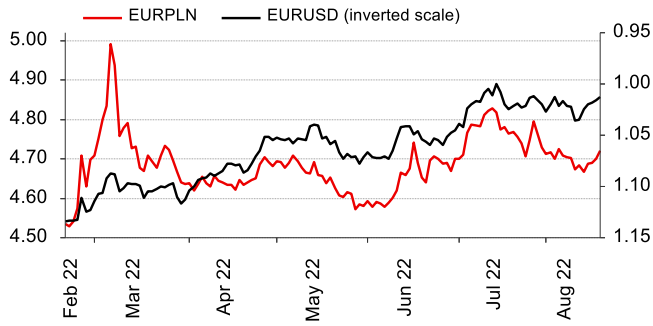


Source: GUS, Santander

### Economic Analysis Department:

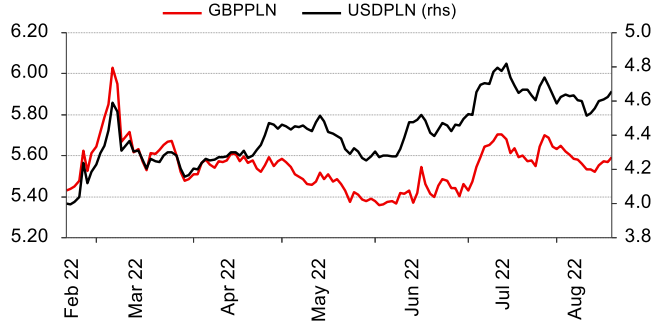
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**EURPLN and EURUSD**



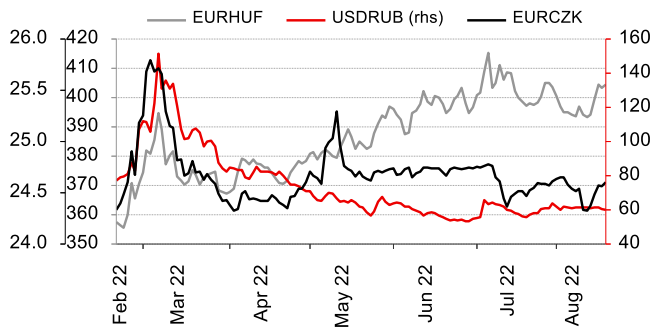
Source: Refinitiv Datastream, Santander

**GBPPLN and USDPLN**



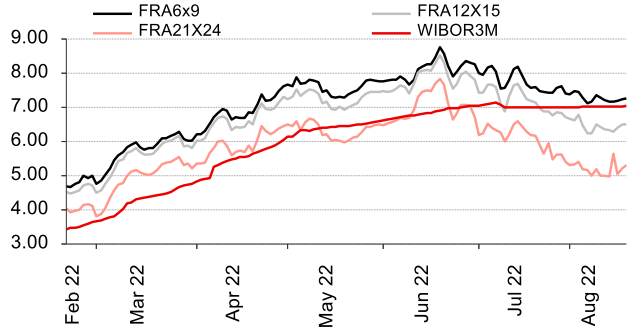
Source: Refinitiv Datastream, Santander Bank Polska

**EURCZK, EURHUF and USDRUB**



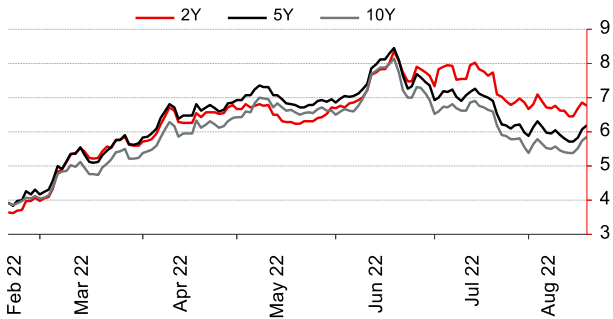
Source: Refinitiv Datastream, Santander Bank Polska

**PLN FRA and WIBOR3M**



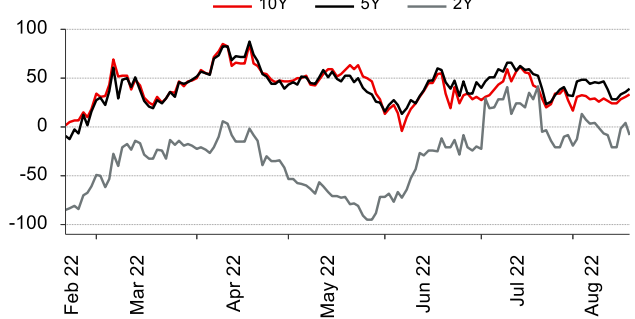
Source: Refinitiv Datastream, Santander Bank Polska

**Polish bond yields**



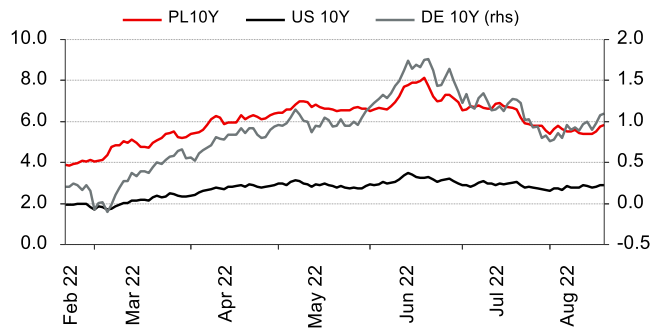
Source: Refinitiv Datastream, Santander Bank Polska

**Asset swap spreads**



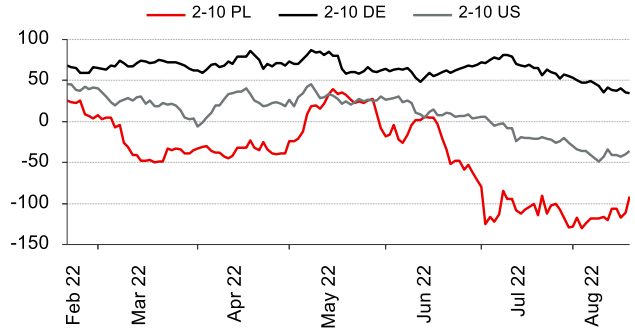
Source: Refinitiv Datastream, Santander Bank Polska

**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 (22 August)							
10:00	PL	Construction Output	Jul	% y/y	5.6	6.2	5.9
10:00	PL	Retail Sales Real	Jul	% y/y	1.1	2.3	3.2
TUESDAY (23 August)							
09:30	DE	Germany Manufacturing PMI	Aug	pts	48.3		49.3
09:30	DE	Markit Germany Services PMI	Aug	pts	49.0		49.7
10:00	EZ	Eurozone Manufacturing PMI	Aug	pts	49.4		49.8
10:00	EZ	Eurozone Services PMI	Aug	pts	50.5		51.2
14:00	PL	Money Supply M3	Jul	% y/y	5.9	5.5	6.5
16:00	US	New Home Sales	Jul	% m/m	-1.7		-8.1
WEDNESDAY (24 August)							
10:00	PL	Unemployment Rate	Jul	%	4.8	4.9	4.9
14:30	US	Durable Goods Orders	Jul	% m/m	0.6		2.0
16:00	US	Pending Home Sales	Jul	% m/m	-2.5		-8.6
THURSDAY (25 August)							
08:00	DE	GDP WDA	2Q	% y/y	1.4		1.4
10:00	DE	IFO Business Climate	Aug	pts	86.9		88.6
14:30	US	GDP Annualized	2Q	% Q/Q	-0.9		-0.9
14:30	US	Initial Jobless Claims		k	263.5		250.0
FRIDAY (26 August)							
14:30	US	Personal Spending	Jul	% m/m	0.3		1.1
14:30	US	Personal Income	Jul	% m/m	0.6		0.6
14:30	US	PCE Deflator	Jul	% m/m	0.1		1.0
16:00	US	Michigan index	Aug	pts	55.1		55.1

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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