

26 August 2022

Weekly Economic Update

Inflation is eating up growth

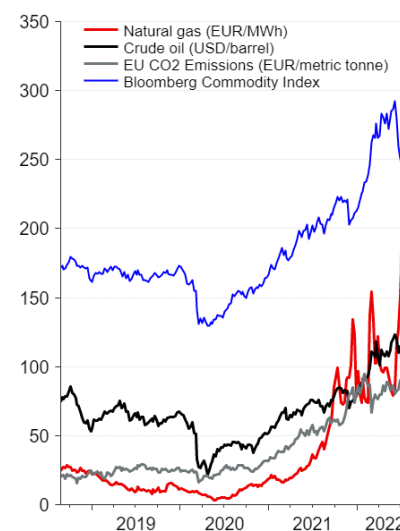
Economy next week

- Inflation and economic growth - these two topics will long remain a major concern not only for investors, but also for consumers, businesses and governments. The summer holidays are coming to an end with yet another strong shift in energy markets: new record highs for prices of natural gas, electricity and CO2 permits in Europe, global commodity prices again in an upward trend - all of this heightens fears that the recession on the continent could turn out to be deeper, while inflation higher than previously expected.
- In the nearest week, three domestic releases will attract attention: **flash CPI for August (Wednesday)**, **2Q GDP (also Wednesday)**, **August manufacturing PMI (Thursday)**. The **draft budget for 2023** should be released soon for public consultation, which will reveal the government's fiscal plans for the coming year. But it may be delayed a bit, as Climate and Environment Minister Anna Moskwa has just revealed that the government is thinking about freezing gas tariffs for 2023 and is still estimating the possible fiscal impact.
- **Forecasts point to a slight decline in CPI inflation in August** (consensus and our forecast at 15.4% y/y), mainly due to a strong drop in fuel prices. If it is confirmed, the precondition defined earlier by the NBP president as necessary for the end of the rate hike cycle will be met: inflation has stopped rising and is likely to decline slightly by the end of the year. Will it be enough for the MPC to keep rates stable in September? It cannot be ruled out, especially that evidence of a sharp economic slowdown is mounting quickly, and we should bear in mind that the sensitivity of the NBP president to the risk of recession is high. But a 25bp hike is also possible. In our view, the chances of a stronger move have clearly diminished, meanwhile the market continues to price-in +50bp.
- **GDP data will reveal what exactly was behind its 2Q collapse** (-2.3% q/q SA). The more blame can be placed on a correction in inventories, while maintaining decent momentum in the rest of the components, the less concern there will be probably about the depth of GDP contraction in subsequent quarters. The MPC's enthusiasm for rate hikes would, in our view, evaporate faster in case of a marked deterioration in consumption.
- **The PMI index will fall to 41.0, according to our forecast**, reflecting growing fears of recession and surging energy prices.
- Abroad, lots of data on inflation and economic activity, including: preliminary HICP inflation in Europe, GDP releases, ESI and PMI business climate surveys, and the US labour market report at the end of the week. So there will be plenty of opportunities for the markets to reevaluate monetary policy expectations in the US and Europe.
- On Tuesday, the decision of the Hungarian central bank is due, NBH is expected to raise rates by 100bp.

Markets next week

- The EURUSD fell below 1.0, as we anticipated, but managed to rebound somewhat before the end of the week. As a result, the zloty sell-off was halted and EURPLN even retreated slightly lower, breaking its march towards 4.80. Short-term outlook for the zloty is very much dependent on the global sentiment. Today's speech by Fed chief J.Powell (starting at 16:00 CET) will be key: if it is clearly hawkish, pushing EURUSD below parity again, the zloty and other EM currencies will probably suffer. In turn, a signal of more flexible Fed's approach could trigger a new wave of risk appetite in global markets. However, we still believe that, structurally, the potential for zloty appreciation is not big and **EURPLN will probably spend the next few months near 4.80**.
- After a clear rise in bond yields, the last days of the week saw some decline. The direction for the next few days will be determined, as in the case of the FX, by the signal from the Fed. **We are betting on a greater chance of a return to rising yields**: data from the US indicate that the economy is weakening less than feared and its prospects are better than in Europe, which may convince the FOMC to keep focusing on fighting inflation. August's flash CPI for Poland - if it confirms the decline we expect - could finally correct the market pricing of a rate hike in September. At the same time, a flurry of government ideas to offset energy costs is gradually increasing concerns about the fiscal outlook and the looming supply of bonds in 2023, favouring a rise in yields mainly at the long end of the curve.

Energy and commodity prices

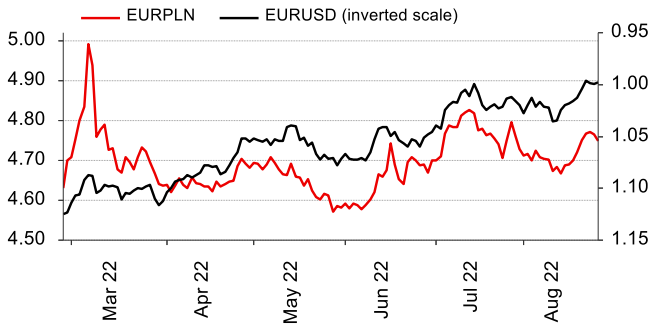


Source: Refinitiv Datastream, Santander

Economic Analysis Department:

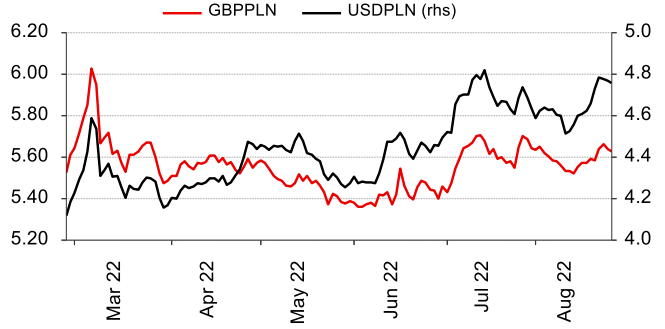
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EURPLN and EURUSD



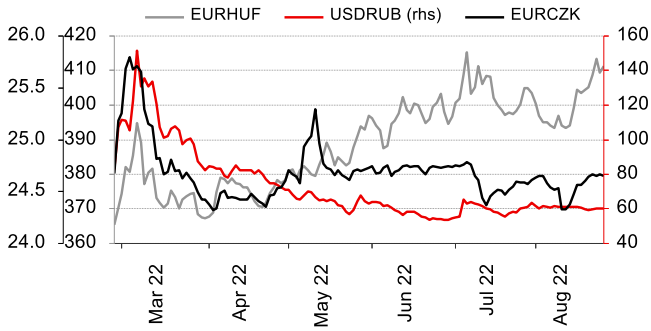
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GBPPLN and USDPLN



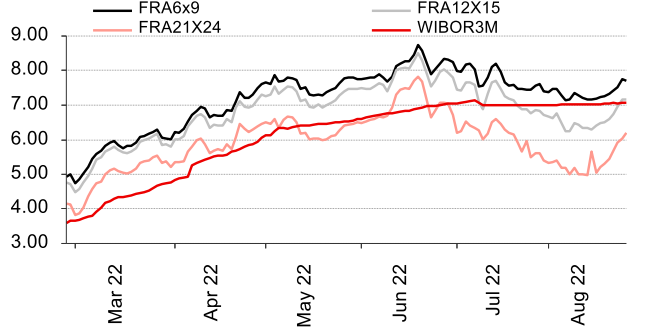
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EURCZK, EURHUF and USDRUB



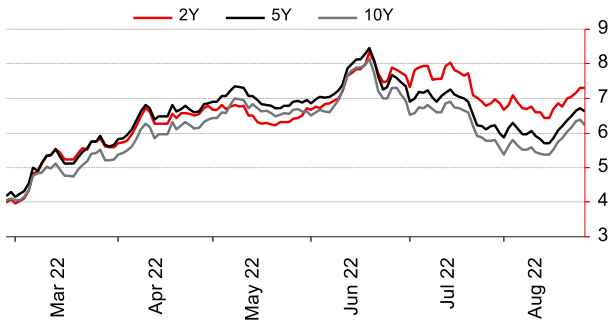
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PLN FRA and WIBOR3M



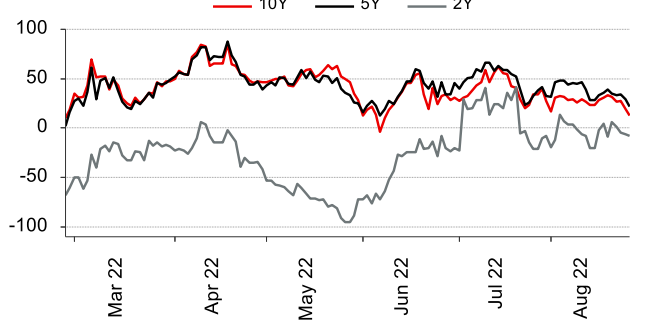
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Polish bond yields



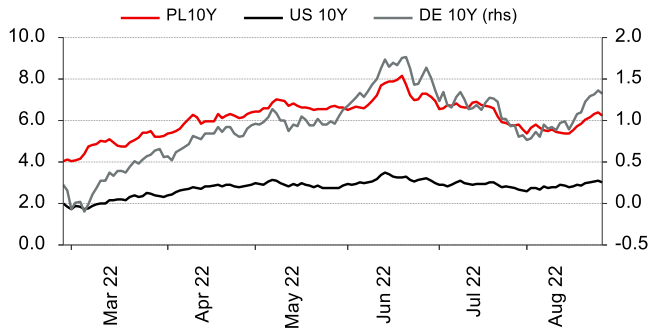
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



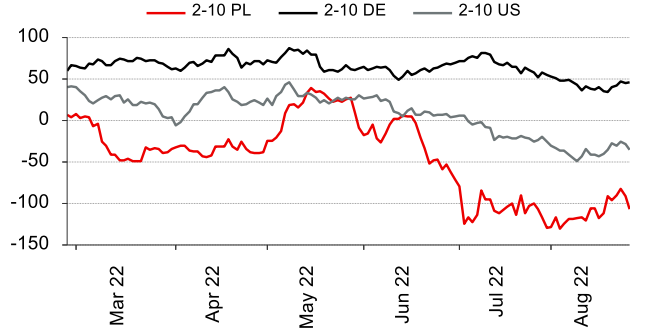
Source: Refinitiv Datastream, Santander Bank Polska

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 (29 August)							
	DE	Retail Sales	Jul	% m/m	-0.35	-	-1.5
TUESDAY (30 August)							
09:00	CZ	GDP SA	2Q	% y/y	3.6	-	4.9
11:00	EZ	ESI	Aug	pct.	97.8	-	99.0
14:00	HU	Central Bank Rate Decision	Aug.22	%	11.75	-	10.75
14:00	DE	HICP	Aug	% m/m	0.3	-	0.8
16:00	US	Consumer Conference Board	Aug	pts	97.4	-	95.7
WEDNESDAY (31 August)							
10:00	PL	CPI	Aug	% y/y	15.4	15.4	15.6
10:00	PL	GDP	2Q	% y/y	5.3	5.3	8.5
11:00	EZ	Flash HICP	Aug	% y/y	8.95	-	8.9
14:15	US	ADP report	Aug	k	-	-	128.2
THURSDAY (1 September)							
09:00	PL	Poland Manufacturing PMI	Aug	pts	41.6	41.0	42.1
09:00	HU	GDP	2Q	% y/y	6.5	-	6.5
09:55	DE	Germany Manufacturing PMI	Aug	pts	49.8	-	49.3
10:00	EZ	Eurozone Manufacturing PMI	Aug	pts	49.7	-	49.8
11:00	EZ	Unemployment Rate	Jul	%	6.6	-	6.6
14:30	US	Initial Jobless Claims	Aug.22	k	252.0	-	243.0
16:00	US	ISM manufacturing	Aug	pts	52.05	-	52.8
FRIDAY (2 September)							
08:00	DE	Exports SA	Jul	% m/m	-2.75	-	4.4
14:30	US	Change in Nonfarm Payrolls	Aug	k	300.0	-	528.0
14:30	US	Unemployment Rate	Aug	%	3.5	-	3.5
16:00	US	Durable Goods Orders	Jul	% m/m	0.0	-	0.0
16:00	US	Factory Orders	Jul	% m/m	0.2	-	2.0

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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