

09 September 2022

Weekly Economic Update

Inflation remains in focus

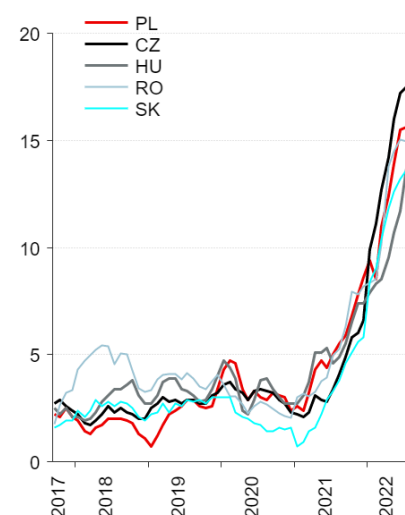
Economy next week

- **Concerns about the energy crisis in Europe** are growing stronger every week. Today, an extraordinary EU summit begins in Brussels, which is expected to focus on possible measures to counteract soaring energy prices and the effects of possible energy shortages during the heating season. Among the solutions to be discussed will be the introduction of cap on Russian gas prices, changes to the energy trading rules, relaxation of state aid rules for energy companies, or windfall taxes for energy producers. Poland proposes to suspend the ETS mechanism in the first place, but this idea is not supported by the EC. The effects of these discussions may influence the behaviour of energy markets in the coming months.
- Several days ago, we published a new [MACROscope Lite](#) report, with macroeconomic forecasts revised, among other things, under the influence of the situation on energy markets and the worsening economic situation in Europe.
- In the coming week, alongside the still key energy issues, **inflation will be the main theme**. CPI data will be released in a number of countries, including Poland, USA, Czechia, Germany and several others. Given the very hawkish rhetoric of the major central banks, any new surprises may significantly affect expectations for further ECB and Fed actions.
- In Poland, CPI data for August will appear on Thursday, core inflation on Friday. **We expect a confirmation of the flash CPI reading at 16.1% y/y and an increase in core inflation to 9.9% y/y** (a new record). Although it is worth remembering that out of the last 10 inflation readings for which a flash was available (i.e. excluding January-February) there was 7 upward revisions, 1 downward revision and 2 confirmations of the preliminary reading.
- On Tuesday we will know the July balance of payments data: **our forecast for the current account deficit (EUR -1.9 billion) is again below consensus (EUR -1.5 billion)** and points to a further steady widening of external imbalances (rolling 12-month current account deficit around 4% of GDP).
- It is possible that the **state budget results after August** will be released as well. If so, a deterioration of the non-tax revenues should be expected due to the transfer of 90% of NBP profit and revenue from the sale of CO2 emissions permits to the COVID-19 fund.
- Other than that, there will be quite few critical events or data releases.

Markets next week

- EURPLN has been moving in a range of 4.70-4.74 for the past two weeks, starting a week slightly higher and ending it with a descent to the lower limit of the range. A week ago we wrote that we thought the exchange rate was whisking up a bottom before breaking out higher, but so far this prediction has failed to materialise due to, among other things, the EURUSD rising above parity after the hawkish ECB decision. Interestingly, despite the weakening of the dollar, EURPLN failed to break through 4.70, which in our view is not a good sign of the potential for the domestic currency to strengthen. And the euro appreciation seems to us to be temporary, as the Fed is not letting up either (reverse currency wars - central banks are trying to boost their currencies to make inflation fight easier) and the outlook for the US economy looks better than the European one. The zloty is also unsupported by the contrast between the hawkish rhetoric of the ECB and the Fed and the [much softer rhetoric of the NBP](#), and by news from Brussels suggesting an increase in chances that Hungary could unlock recovery fund money faster than Poland. All in all, **we assume EURPLN to remain in its current range, or move upwards if EURUSD retreats clearly below 1.0**.
- For the debt market, inflation data in the coming days will be important. We rather **bet on a continuation of yield increases in core markets**, which may also push the domestic curve, probably more at the long end than the short end, due to the NBP's signalled intention to slow down rate hikes in the coming months. Volatility remains high, so large swings in the trend are to be expected.

Inflation rates in CEE, % y/y

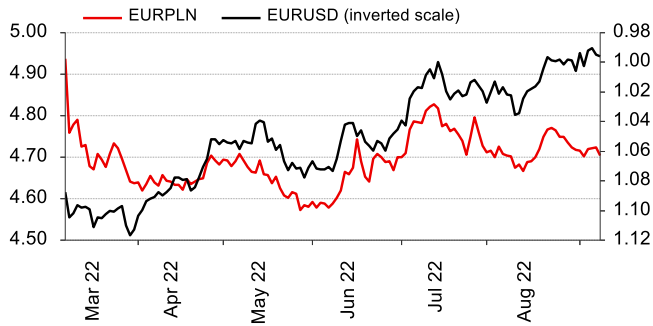


Source: Refinitiv Datastream, Santander

Economic Analysis Department:

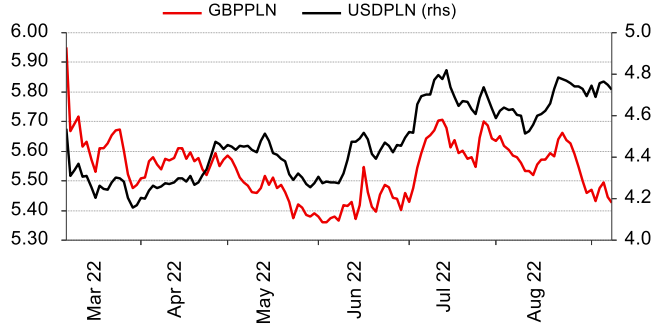
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EURPLN and EURUSD



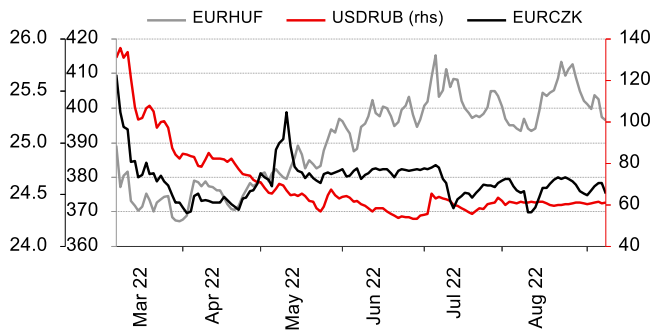
Source: Refinitiv Datastream, Santander

GBPPLN and USDPLN



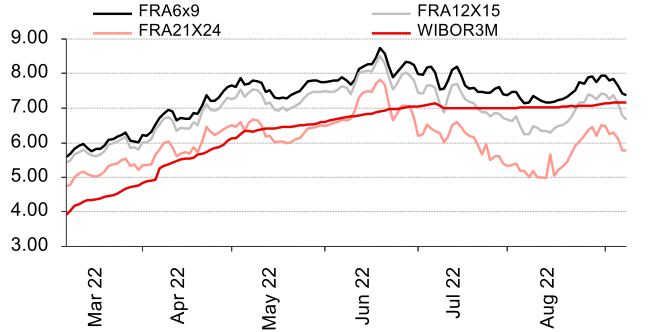
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



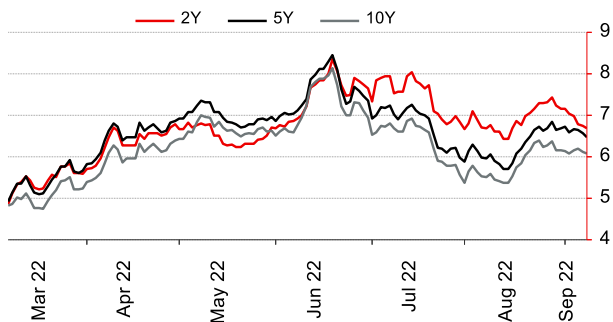
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



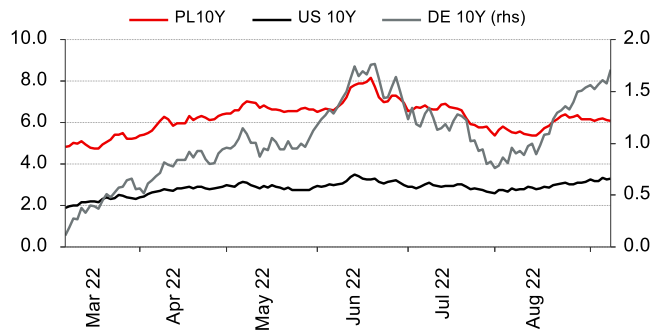
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



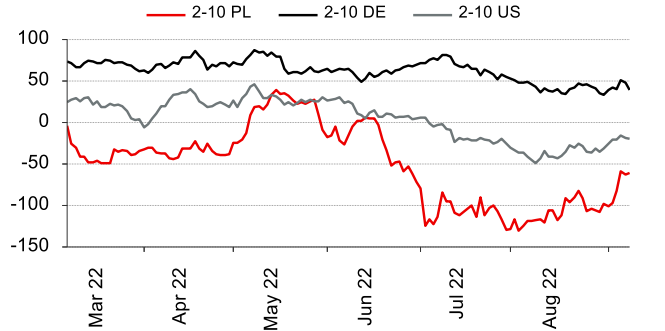
Source: Refinitiv Datastream, Santander Bank Polska

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 (12 September)						
09:00	CZ	CPI	Aug	% y/y	17.7	17.5
TUESDAY (13 September)						
08:00	DE	HICP	Aug	% m/m	0.4	0.4
11:00	DE	ZEW Survey Current Situation	Sep	pts	-50.1	-47.6
14:00	PL	Current Account Balance	Jul	€mn	-1490	-1861
14:00	PL	Trade Balance	Jul	€mn	-1320	-1330
14:00	PL	Exports	Jul	€mn	26708	25905
14:00	PL	Imports	Jul	€mn	28080	27235
14:30	US	CPI	Aug	% m/m	-0.1	0.0
WEDNESDAY (14 September)						
11:00	EZ	Industrial Production SA	Jul	% m/m	-0.7	0.7
THURSDAY (15 September)						
	PL	Central Budget Cumul.	Aug	mn PLN	-	34660
10:00	PL	CPI	Aug	% y/y	16.1	16.1
14:30	US	Initial Jobless Claims		k	235.0	222.0
14:30	US	Retail Sales Advance	Aug	% m/m	0.0	0.0
15:15	US	Industrial Production	Aug	% m/m	0.2	0.56
FRIDAY (16 September)						
11:00	EZ	HICP	Aug	% y/y	9.1	9.1
14:00	PL	CPI Core	Aug	% y/y	9.8	9.9
16:00	US	Michigan index	Sep	pts	59.3	58.2

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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