

Weekly Economic Update

Will new data confirm a turning point?

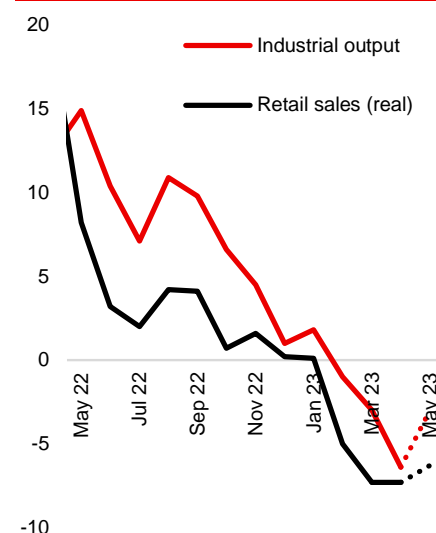
Economy next week

- Another big set of domestic economic data ahead: **after the weekend, we will get to know May's industrial production, retail sales, wages and employment, PPI, money supply, as well as June's GUS business climate indices and consumer sentiment.**
- Our forecasts are mostly in line with medians of local analysts' forecasts gathered by Parkiet daily and assume that the industrial production and retail sales dynamics will slowly start to rebound from the lows set in April (although they will still be in the negative: -3% and -6.3% y/y, respectively), the labour market will confirm its resilience to the downturn (slight increase in employment by 0.4% y/y, slight acceleration of wages to 12.6%), money supply will gently accelerate and only PPI will fall more strongly than the market consensus assumes (to 4.1% y/y). **We expect signals of a turning point in economic activity to be confirmed by improved business and consumer sentiment in surveys for June.** Such indications from published data should support forecasts of a gradual acceleration of GDP growth in the following quarters.
- Abroad, after the FOMC and ECB meetings, which are the most important for investors, it is time for other central banks: decisions in Hungary, the Czech Republic, Switzerland, Turkey, Norway, the UK, among others, are on the agenda. Out of this set, it is likely that **the Bank of England, the Bank of Switzerland and the Bank of Norway** will raise interest rates once again in response to the persistence of inflationary processes. The Hungarian central bank, on the other hand, may continue to normalise its deposit rate in the face of accelerating disinflation.
- The week will conclude with **a review of Poland's rating by Fitch and S&P** - both agencies may announce their decisions next Friday evening. We do not expect any change in the credit rating.

Markets next week

- Two factors have just materialised that could have given the zloty a reason to depreciate (the more hawkish-than-expected tone of the Fed meeting, the CJEU ruling unfavourable for the banking sector), but the currency market has hardly reacted. We are still struggling to explain well what exactly is behind the fact that the Polish currency has been behaving better than most others from emerging markets in recent weeks. The suspected culprit was the improving balance of current and financial account flows, but the balance of payments data published this week do not seem to confirm this: in April, when the appreciation of the PLN clearly gained momentum, the current account balance was the worst in six months (+€359 million), the inflow of foreign direct investment was the worst in three years (+€85 million), and the inflow of portfolio investment was indeed the largest in 2.5 years (+€4.2 billion), but it was almost entirely derived from foreign currency bond issues (which should be neutral for the exchange rate), while non-resident involvement in PLN bonds even decreased. **We do not relinquish our conviction that the space for the zloty appreciation appears to have been exhausted and an upward EURPLN correction** is on the horizon, although this horizon is clearly still moving away. A correction could potentially be quite shallow as long as there is a high risk appetite in the markets, which would be consistent with the NBP's preference for a reduction in inflation.
- **Bond yields and interest rate swaps have started to rebound and this trend should continue in the coming days in our view**, supported by the weakening of debt in core markets under the influence of hawkish rhetoric from the FOMC and ECB, the growing scale of pre-election fiscal promises and the gradual fading of expectations of rate cuts by the MPC, which we believe will be justified by macro data (turning point in economic activity, disinflation slower than in the optimistic assumptions of the NBP president). Only in the following weeks a return to moderate market rate declines is possible.

Industrial output and retail sales in constant prices, %/y, with Santander forecast

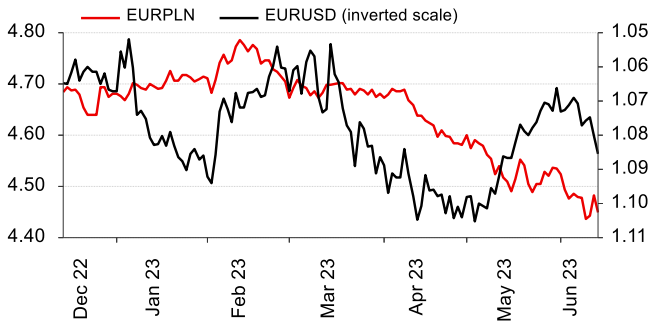


Source: GUS, Santander

Economic Analysis Department:

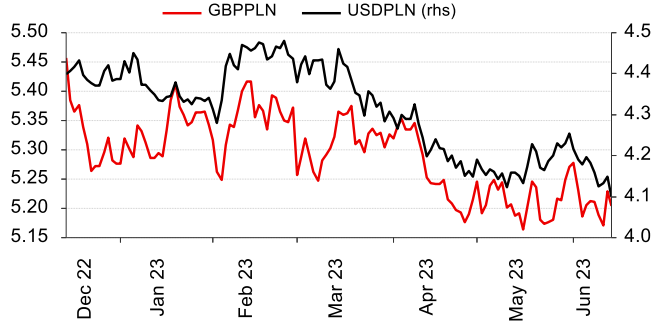
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EURPLN and EURUSD



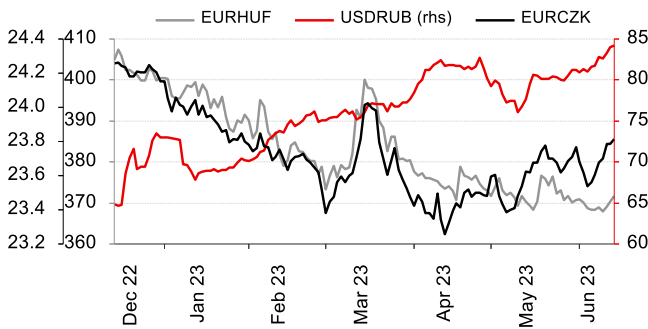
Source: Refinitiv Datastream, Santander

GBPPLN and USDPLN



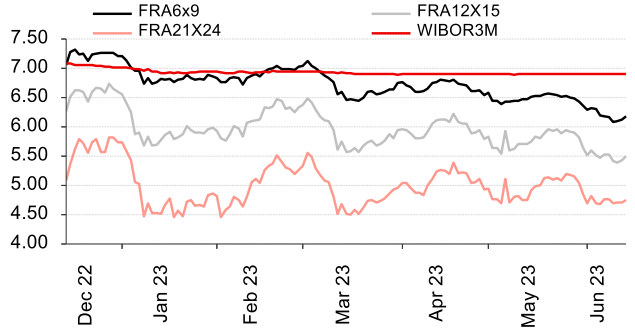
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



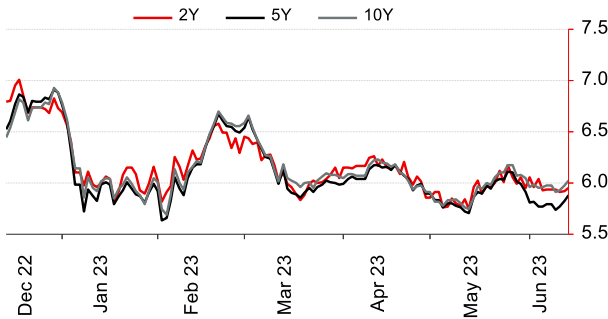
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



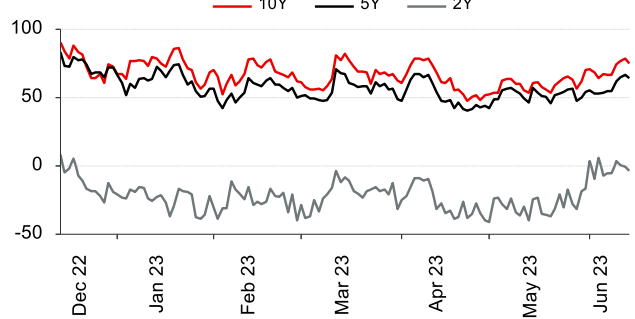
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



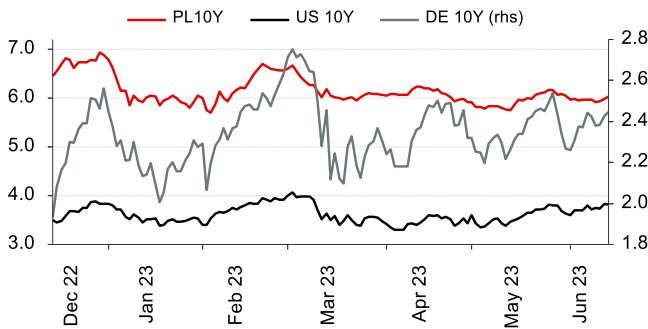
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



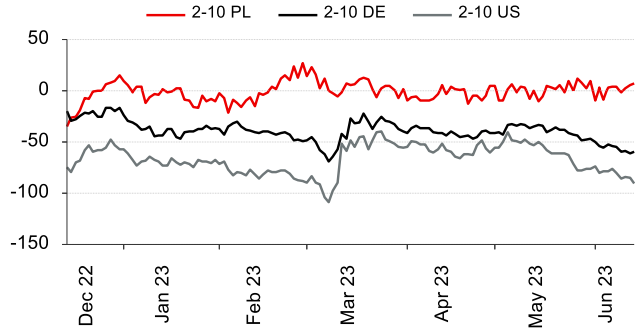
Source: Refinitiv Datastream, Santander Bank Polska

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 (19 June)							
No key events or data releases							
TUESDAY (20 June)							
14:00	HU	Central Bank Rate Decision	Jun	%	13.00	13.00	13.00
14:30	US	Housing Starts	May	% m/m	-0.1	-	2.2
WEDNESDAY (21 June)							
10:00	PL	Employment in corporate sector	May	% y/y	0.4	0.4	0.4
10:00	PL	Sold Industrial Output	May	% y/y	-3.0	-3.0	-6.4
10:00	PL	PPI	May	% y/y	4.6	4.1	6.8
10:00	PL	Average Gross Wages	May	% y/y	12.6	12.6	12.1
14:30	CZ	Central Bank Rate Decision	Jun		7.00	7.00	7.00
THURSDAY (22 June)							
10:00	PL	Construction Output	May	% y/y	1.5	2.4	1.2
10:00	PL	Retail Sales Real	May	% y/y	-5.7	-6.3	-7.3
16:00	US	Existing Home Sales	May	% m/m	-0.7	-	-3.4
FRIDAY (23 June)							
09:30	DE	Germany Manufacturing PMI	Jun	pts	43.0	-	43.2
09:30	DE	Markit Germany Services PMI	Jun	pts	56.6	-	57.2
10:00	EZ	Eurozone Manufacturing PMI	Jun	pts	-	-	44.8
10:00	EZ	Eurozone Services PMI	Jun	pts	-	-	55.1
14:00	PL	Money Supply M3	May	% y/y	7.1	7.1	6.7
	PL	Fitch: rating/outlook			-	A-/stable	A-/stable
	PL	S&P: rating/outlook			-	A-/stable	A-/stable

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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