

Weekly Economic Update

Weak data vs hawkish central banks

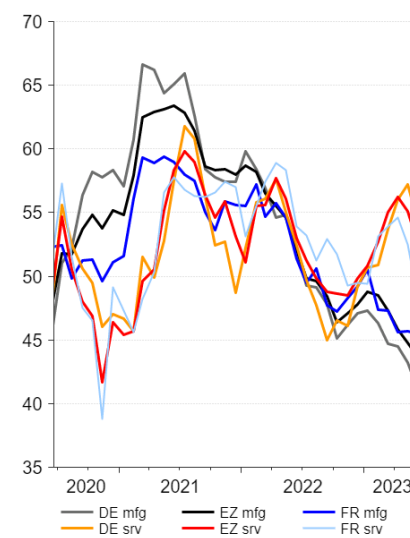
Economy next week

- Two important signals appeared this week: **Firstly, central banks in the developed world are not putting guns down in their fight against inflation.** The Bank of England and the Norges Bank raised interest rates by 50bp, more than expected, the SNB by 25bp, in line with expectations. The message was that interest rates in Europe will continue to rise as central banks remain concerned about the stubbornness of inflation in the medium run, even despite the current signs of easing cost pressures. The Bank of Turkey, on the other hand, disappointed with a hike by 'only' 650bp, from 8.5% to 15% (the market was betting on +1250bp), which is nevertheless an indication that the policy of politically vulnerable central bank may change quickly after elections. **Secondly, the flash PMI for June in the euro area turned out to be much worse than forecast.** The biggest concern was not even so much the subsequent plunge in German manufacturing, but the decline in services, particularly evident in France. Up to now, the service sectors in most countries have held firm, keeping hopes of a soft economic landing alive. A reversal of this trend could signal consumer capitulation on the last front of rising spending, indicating the risk of a deeper recession in Europe. On top of it, we have seen domestic data for May, which were generally weaker than forecast, boding badly for Q2 GDP growth. A comforting element was the further improvement in the sentiment of Polish consumers and companies in June, signalling a slow recovery in activity in the following months.
- At the very beginning of the week, the No. 1 topic in Poland may be news from the election campaign - the PiS convention in Lower Silesia, the PO leader's rally in Wrocław and conventions of other opposition parties are due to take place on Saturday. According to the media, **new election proposals are to be revealed.** So far, new proposals in this campaign have meant announcements of additional fiscal costs.
- **Domestic data releases will take place on Monday** (unemployment rate and a handful of detailed data in the GUS Statistical Bulletin) **and on Friday** (flash inflation for June); we should also see the state budget results for May in the coming days. **We expect CPI growth to have slowed in June to 11.8% y/y**, with the very high base effect still being a major contributor, but also a slight decline in fuel prices (-1% m/m) and a modest increase in food prices (0.2% m/m). Our forecast is for CPI to rise by 0.3% m/m and core inflation ex food and energy to rise by almost 0.5% m/m - still around three times the seasonal pattern of previous years.
- Abroad, against the backdrop of weak PMIs, attention may be drawn to alternative business surveys in Europe, including ESI, Ifo, GfK. Also **flash inflation data in Eurozone countries** will be important, plus speeches by the governors of key central banks (ECB, BoE, BoJ, Fed). In the US, a sizable portion of data, including real estate sales and prices, durable goods orders, sentiment, consumer income and spending.

Markets next week

- The zloty continued to strengthen for most of the week and the trend was only interrupted by an increase in global risk aversion on Friday triggered by disappointing PMI readings from the eurozone (which at the same time pushed EURUSD down). **We still believe that the room for zloty appreciation has basically run out, but the strengthening trend is still strong enough that it cannot be ruled out that EURPLN will test even lower levels in the coming days before the correction starts for good.**
- **In the rates market, the downward trend and the flattening of curves may continue** in reaction to disappointing European PMIs, weak domestic data and in anticipation of preliminary inflation data from Europe and Poland. This may be counterbalanced by the upcoming bond auction (Wednesday), ahead of which bonds have typically behaved poorly.

PMI indicators, pts.

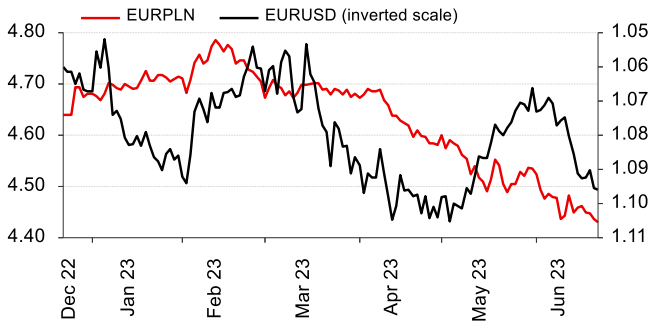


Source: Refinitiv Datastream, Santander

Economic Analysis Department:

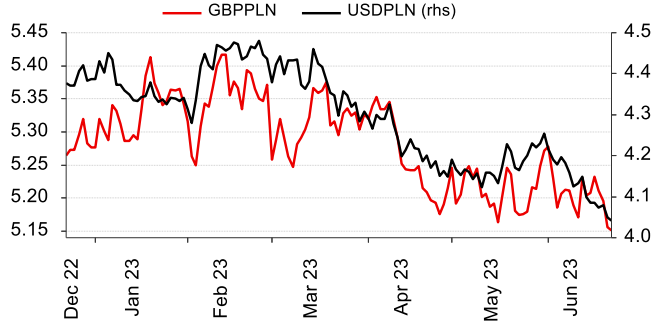
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EURPLN and EURUSD



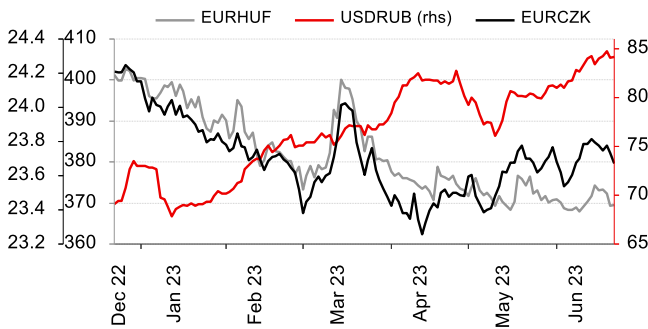
Source: Refinitiv Datastream, Santander

GBPPLN and USDPLN



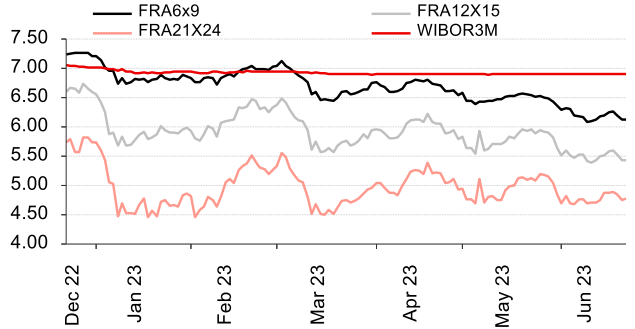
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



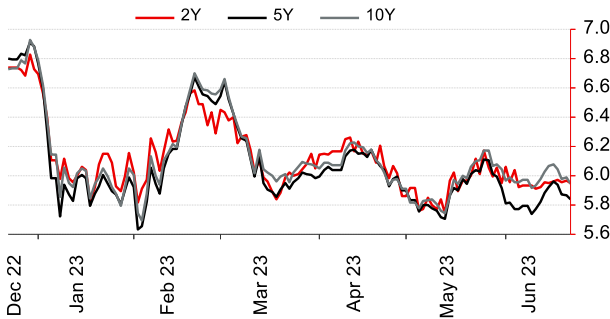
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PLN FRA and WIBOR3M



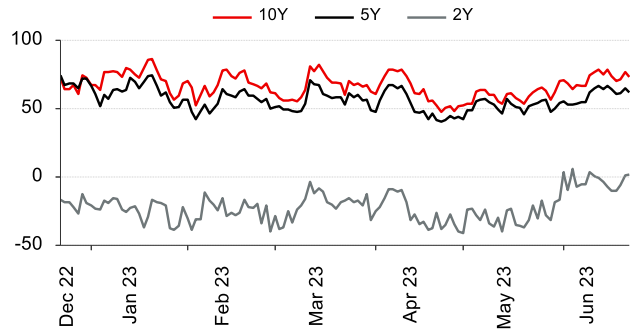
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Polish bond yields



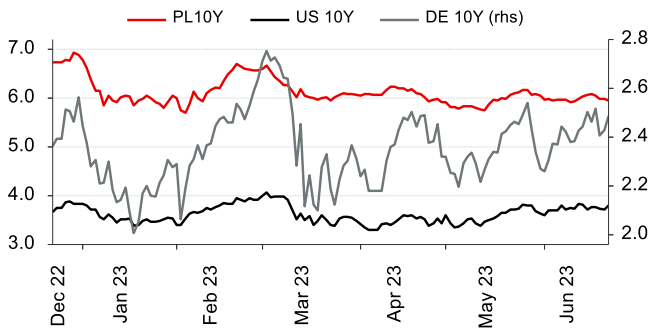
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



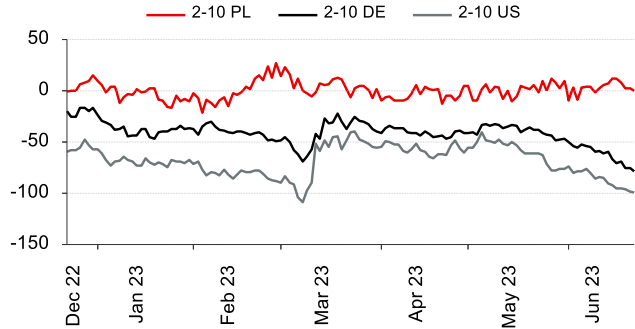
Source: Refinitiv Datastream, Santander Bank Polska

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 (26 June)							
10:00	DE	Ifo Business Climate	Jun	pts	90.5	-	91.7
10:00	PL	Unemployment Rate	May	%	5.1	5.1	5.2
TUESDAY (27 June)							
14:30	US	Durable Goods Orders	May	% m/m	-1.0	-	1.1
16:00	US	Consumer Conference Board	Jun	pts	103.5	-	102.3
16:00	US	New Home Sales	May	% m/m	-3.0	-	4.1
WEDNESDAY (28 June)							
No key events or releases							
THURSDAY (29 June)							
11:00	EZ	ESI	Jun	pct.	96.0	-	96.5
14:00	DE	HICP	Jun	% m/m	0.2	-	-0.2
14:30	US	GDP Annualized	1Q	% Q/Q	1.4	-	2.6
14:30	US	Initial Jobless Claims	Jun.23	k	259	-	264
16:00	US	Pending Home Sales	May	% m/m	-0.3	-	0.0
FRIDAY (30 June)							
09:00	CZ	GDP SA	1Q	% y/y	-0.4	-	0.3
10:00	PL	CPI	Jun	% y/y	11.8	11.8	13.0
11:00	EZ	Flash HICP	Jun	% y/y	5.6	-	6.1
11:00	EZ	Unemployment Rate	May	%	6.5	-	6.5
14:30	US	Personal Spending	May	% m/m	0.2	-	0.8
14:30	US	Personal Income	May	% m/m	0.4	-	0.4
14:30	US	PCE Deflator SA	May	% m/m	0.1	-	0.4
16:00	US	Michigan index	Jun	pts	63.9	-	59.2

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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