

Weekly Economic Update

NBP president hints on interest rate cuts

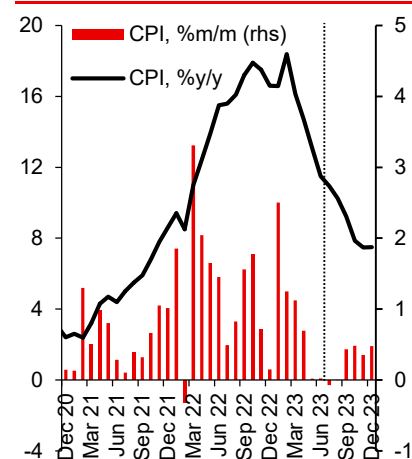
Economy next week

- Today we heard a clear message from the NBP governor: inflation's decline below 10% will trigger a rate cut. Our current forecast shows that CPI may get to 10.3% in August and 9.2% in September. If this is the case, the first rate cut by 25bp may be delivered at the MPC meeting on October 4th, and if CPI drops even faster and gets below 10% already in August the first rate cut would be possible already in September. We think that two more 25bp rate cuts may follow, bringing the NBP reference rate to 6.0% by year-end.
- At the start of the new week, attention will be still focused on monetary policy. Firstly, on Monday at 10:00 CET the NBP will present the new Inflation Report, with details of the updated economic projections, which according to MPC members are one of the key factors influencing their interest rate decisions. We already know the main figures - the changes are small and they do not indicate that the moment of reaching the inflation target is approaching. Secondly, the Sejm meeting starting on Tuesday will include the NBP President's testimony on monetary policy in 2022.
- The calendar of economic publications after the weekend is not particularly rich: in Poland, only on Friday will there be data on the May balance of payments and June inflation.
- After a series of positive surprises in previous months, the March-April balance of payments results were weaker than forecast, showing a shrinking current account surplus. Our forecast for May shows slight improvement in the C/A balance to over €800m, higher than in April and above market consensus, with exports continuing to grow slightly and imports falling. However, this will probably not be enough to materially change the mood in the domestic currency market.
- The final CPI data (preliminary reading: 11.5% y/y) will reveal which categories were responsible for the pronounced decline in core inflation. This will allow for a better assessment of whether this could be a sustained trend or rather a one-off feature.
- Abroad, a number of countries will publish inflation data, including China, Germany, US, Czechia. The end of the week marks the start of another earnings season in the US, which will, as usual, be watched for signs of an impending (allegedly) recession. A number of public speeches by regional Fed chiefs and ECB representatives are also scheduled during the week, which may shed some light on the outlook for monetary policy in the US and the euro area. On Wednesday, interest rate decisions will be made by the Bank of New Zealand and the Bank of Canada - the latter likely to raise rates once again by 25bp, to 5.0%.
- On Tuesday and Wednesday, a NATO summit is taking place in Lithuania. There, issues of Europe's security after Russian aggression will be discussed and Sweden's membership in the Alliance may be agreed on.

Markets next week

- The end of the week with its publication of below-expectations US employment data brought the end of the correction in risk appetite in the global markets triggered by rising US yields, which brought, among other things, a repricing of CEE currencies. EURPLN, after a short period of weakness, may also have been supported by BGK's currency exchange. We think that in the next week, zloty will remain in a horizontal trend, as excessive depreciation would be undesirable to the NBP and the MoF because of their fight against inflation and the impact on foreign currency debt, while excessive appreciation could hurt exports. On the other hand, considering the current phase of the cycle, the level of inflation and the preference for fiscal stimulus, exports seem somewhat less important.
- The interest rate market saw a sizable upward correction in market rates in response to good US data and a not-so-dovish NBP projection. Just like in the FM market, the correction finished at the end of the week. Slightly weaker employment data from the US may reduce market concerns about the limiting effect of the labour market and the US economy on the process of disinflation, and reduce upward pressure on yields in the core markets. The dovish change in tone of the NBP governor and the suggestion of rate cuts this year could keep domestic rates on a downward trend in anticipation of further disinflation in PPI and CPI data. With interest rate cuts likely to come, in our view, too soon and inflation taking longer to return to target than the projection assumes, there is some potential for a steepening of the swap curve. Possible proposals of new fiscal policies ahead of the election could also keep asset swap spreads wide in the months ahead, although the large liquidity cushion (PLN139bn post-June) could translate into relatively lower issuance relative to plan, which in turn could lead to temporary declines in credit spreads.

CPI inflation in Poland + our forecast, % y/y

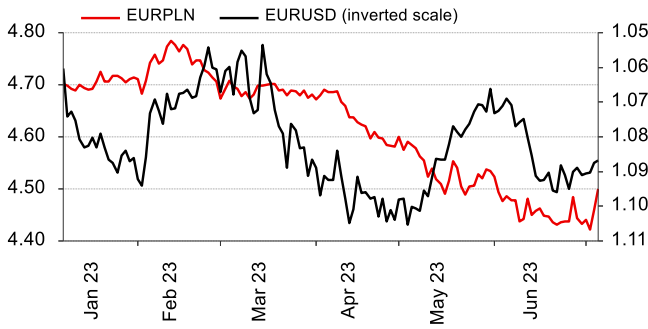


Source: GUS, Santander

Economic Analysis Department:

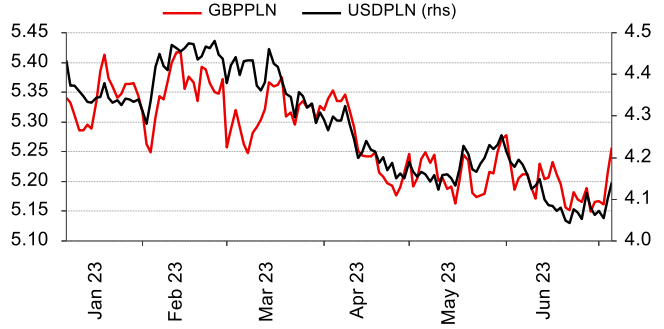
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EURPLN and EURUSD



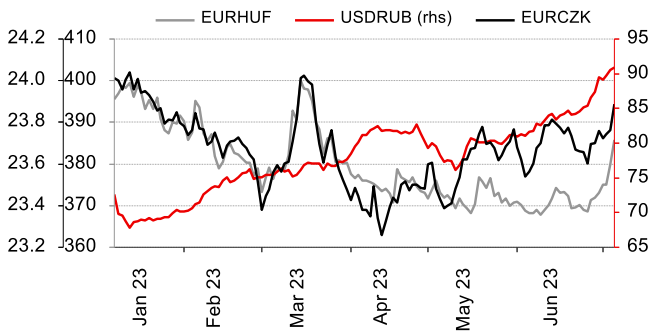
Source: Refinitiv Datastream, Santander

GBPPLN and USDPLN



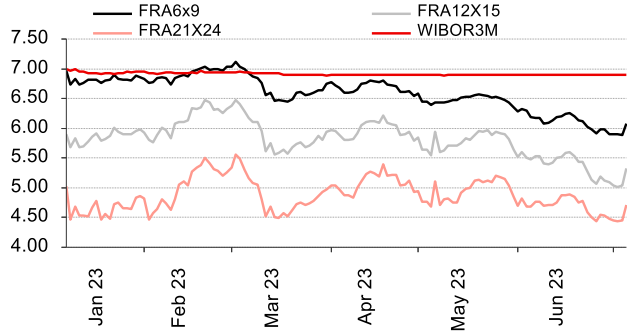
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



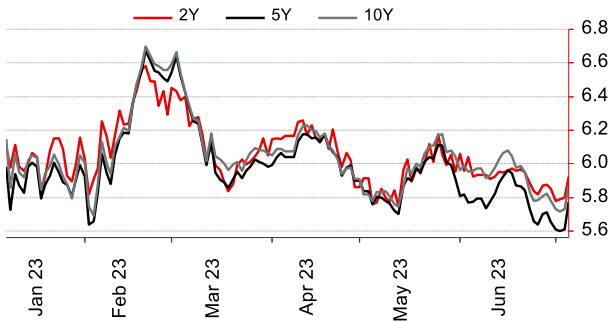
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



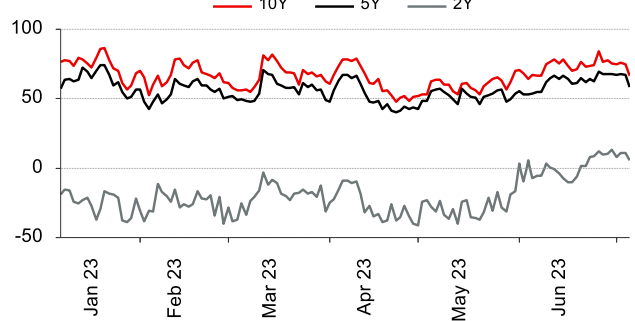
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



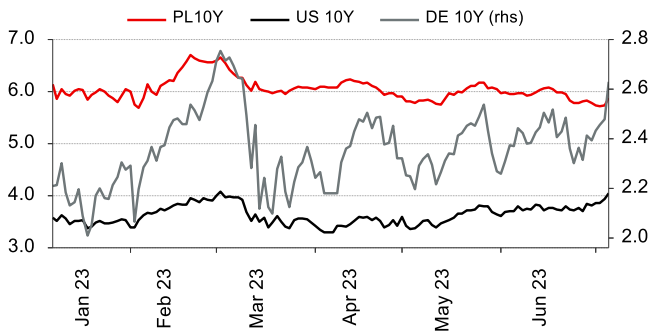
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



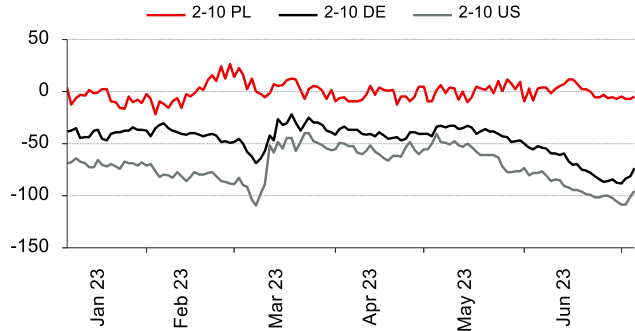
Source: Refinitiv Datastream, Santander Bank Polska

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 (10 July)							
9:00	PL	Inflation Report					
TUESDAY (11 July)							
08:00	DE	HICP	Jun	% m/m	0.4		
11:00	DE	ZEW Survey Current Situation	Jul	pts		-56.5	
WEDNESDAY (12 July)							
14:30	US	CPI	Jun	% m/m	0.3	0.1	
THURSDAY (13 July)							
09:00	CZ	CPI	Jun	% y/y		11.1	
11:00	EZ	Industrial Production SA	May	% m/m	0.5	1.0	
14:30	US	Initial Jobless Claims	Jul.23	k	245	248	
FRIDAY (14 July)							
10:00	PL	CPI	Jun	% y/y	11.5	11.5	13.0
14:00	PL	Current Account Balance	May	€mn	437	856	359
14:00	PL	Trade Balance	May	€mn	609	1266	209
14:00	PL	Exports	May	€mn	28047	28066	26337
14:00	PL	Imports	May	€mn	27387	26800	26128
16:00	US	Michigan index	Jul	pts	65.5	64.4	

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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