

# Weekly Economic Update

## Central banks in different stages of the cycle

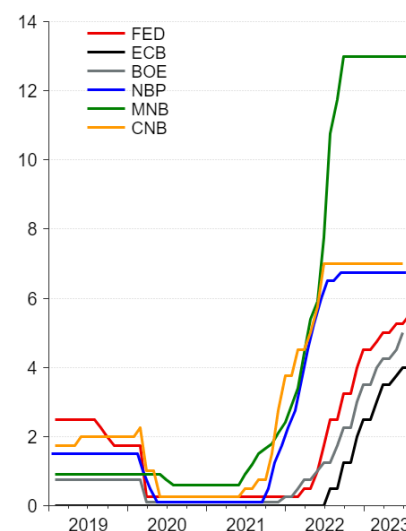
### Economy next week

- The US data published in recent days have once again pushed back the spectre of recession overseas to indefinite future and even Fed analysts no longer consider recession to be the baseline scenario. Information from the European economy is much less rosy, but we still believe that the pessimism evident in the business sentiment indicators is exaggerated in relation to the behaviour of real economy (as confirmed by the latest GDP data from France, among others). The IMF's new economic forecasts have been revised slightly upwards from the April version and continue to assume faster economic growth in the euro area next year. **Overall, we continue to see soft landing of the global economy on the horizon, as have written in the recently published MACROscope report.**
- **Monetary policy in various parts of the world is increasingly out of sync.** The FOMC and ECB raised interest rates this week as expected, each by 25bp, but the conditionality of subsequent decisions was evident in their communication, suggesting that they are close to the end of the tightening cycles. The Bank of Japan has just started to move away from an ultra-soft policy of yield curve control and will likely continue to do so. The Bank of England is set to raise rates further (decision on Thursday, +25bp expected), and Bank of Australia's next rate hike is also possible on Tuesday (+25bp). Central banks in Latin America, on the other hand, are about to enter easing cycles: the Bank of Chile is likely to lead, with expected 75bp rate cut later today, Brazil may follow on Wednesday with a 25bp cut. The Czech central bank is in no hurry to start easing and will probably leave monetary policy unchanged on Thursday.
- The following days will see plenty of important publications abroad, including: final July manufacturing and services PMIs - we already know from the preliminary readings that economic conditions continued to deteriorate; in Europe, preliminary inflation data for July and flash GDP estimates for 2Q; in the US, the next labour market report on Friday will be key. **In Poland, two important publications: flash CPI inflation on Monday and manufacturing PMI on Tuesday.**
- **We estimate that CPI inflation fell further to 10.9% y/y from 11.5%**, the median forecast is 11.0%. This would mean that prices fell by 0.1% m/m in July after two months of no change. In our view, the decline in y/y rate came primarily from food prices but also from energy and, to a lesser extent, core inflation. We assume that the stats office will not take into account the fuel price promotions available to selected clients under loyalty programmes. As a result, in the CPI data only a sub-2% m/m drop in fuel prices may be recorded, which would be a roughly neutral reading for the y/y CPI. Food prices may have moved -0.4% m/m in July, we think. Core inflation stood at 10.8% y/y in July, according to our estimate, vs 11.1% y/y in June. This would be its fourth month of decline, in what we would call a slow downward trend - indicating still-present inflationary pressures in the economy. **On the burning question of when inflation will fall below 10% y/y (as this apparently determines when the MPC will start cutting rates), we continue to forecast that September is more likely than August (implying a 25bp rate cut in October).**
- **We think that the PMI index for Polish industry slipped in July from 45.1 pts to 44.5 pts** (equal to market consensus). This would be a much slower decline than in June and than that recorded in the German industrial PMI in July. We do not want to draw strong conclusions for domestic industrial production from the behaviour of the PMI - such reservations come from their distorted relationship over the past few years and the fact that the assessment of current production trends in GUS business sentiment survey has been improving recently.

### Markets next week

- It was a good week for the EM currencies, which gained against the euro and the dollar, and this optimism was also shared by the zloty, although the CEE currencies were on the weaker side vs. most of the EMFX, while forint was main underperformer. This week there is a chance of move in the opposite direction. **We still assume a limited possibility of further appreciation of the zloty which may give room for an upward EURPLN correction in the coming week.** Disinflation in Czechia favours the acceptance of a weaker koruna, but the pace of weakening is faster than the CNB projections suggest. If the CNB remains hawkish the Czech koruna may gain slightly. The Hungarian forint will remain the currency with the greatest sensitivity to changes in risk appetite and may remain under pressure due to the normalisation of short-term interest rates, although there is technically a chance of a slight HUF recovery this week.
- **In the domestic rate market, we assume a continuation of the upward trend in rates** as the market is still, in our view, excessively pricing-in the chances of interest rate cuts this year. If CPI falls as we expect to only 10.9% y/y, or less, this may actually reduce the likelihood of inflation falling below 10% y/y in August and a limit chances for a rate cut as early as at the September meeting. A much lower-than-expected inflation reading could reinforce expectations of a rapid hike, in turn.

### Central banks' main interest rates, %

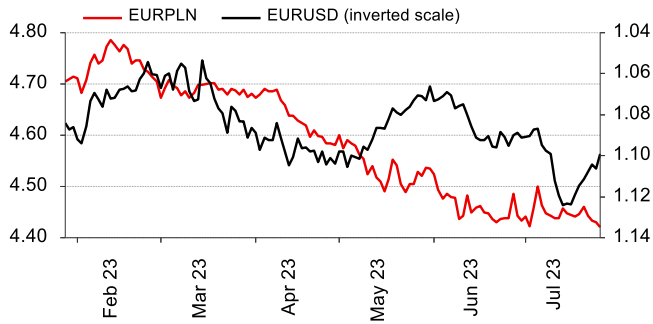


Source: Refinitiv Datastream, Santander

### Economic Analysis Department:

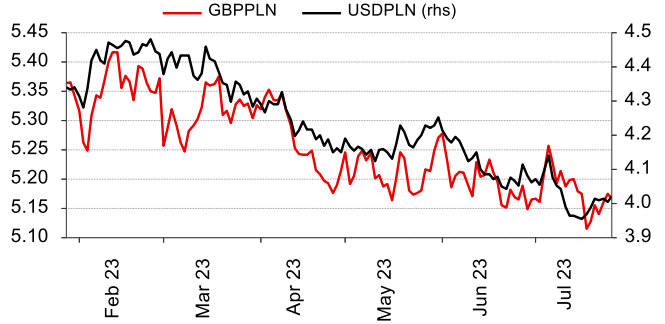
al. Jana Pawła II 17, 00-854 Warszawa  
 email: ekonomia@santander.pl  
 website: [santander.pl/en/economic-analysis](https://santander.pl/en/economic-analysis)  
 Piotr Bielski +48 691 393 119  
 Bartosz Białas +48 517 881 807  
 Cezary Chrapek, CFA +48 887 842 480  
 Marcin Luziński +48 510 027 662  
 Grzegorz Ogonek +48 609 224 857

**EURPLN and EURUSD**



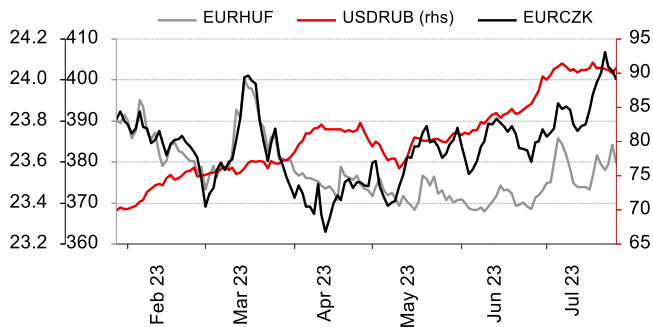
Source: Refinitiv Datastream, Santander

**GBPPLN and USDPLN**



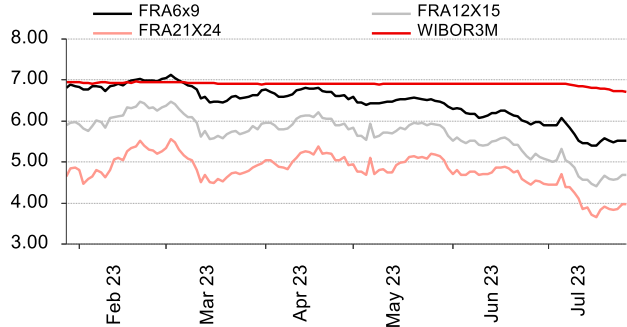
Source: Refinitiv Datastream, Santander Bank Polska

**EURCZK, EURHUF and USDRUB**



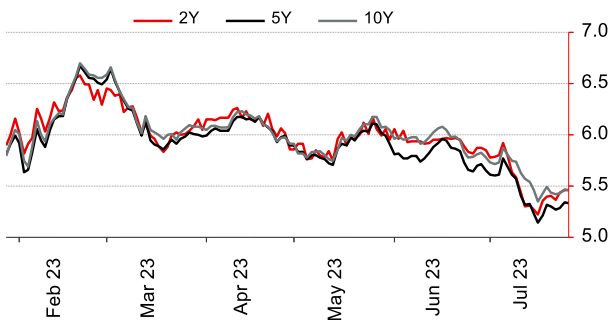
Source: Refinitiv Datastream, Santander Bank Polska

**PLN FRA and WIBOR3M**



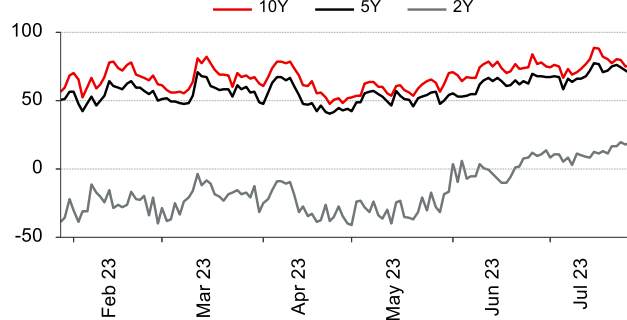
Source: Refinitiv Datastream, Santander Bank Polska

**Polish bond yields**



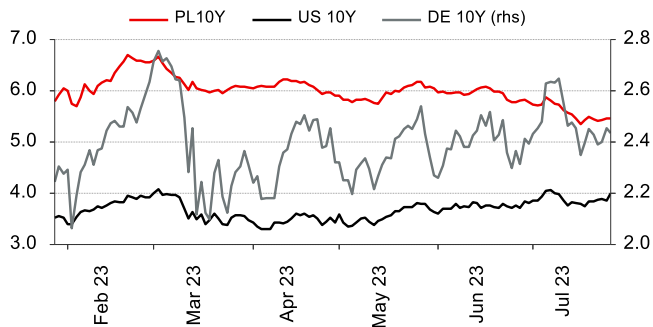
Source: Refinitiv Datastream, Santander Bank Polska

**Asset swap spreads**



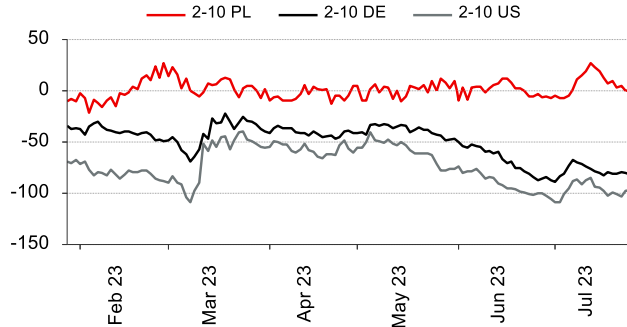
Source: Refinitiv Datastream, Santander Bank Polska

**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	
<b>MONDAY (31 July)</b>							
08:00	DE	Retail Sales	Jun	% m/m	-0.35	-	1.6
09:00	CZ	GDP SA	2Q	% y/y	0.0	-	-0.5
<b>10:00</b>	<b>PL</b>	<b>CPI</b>	<b>Jul</b>	<b>% y/y</b>	<b>11.0</b>	<b>10,9</b>	<b>11.5</b>
10:00	DE	GDP WDA	2Q	% y/y	-0.3	-	-0.5
11:00	EZ	Flash HICP	Jul	% y/y	5.2	-	5.5
11:00	EZ	GDP SA	2Q	% y/y	0.4	-	1.1
<b>TUESDAY (1 August)</b>							
<b>09:00</b>	<b>PL</b>	<b>Poland Manufacturing PMI</b>	<b>Jul</b>	<b>pts</b>	<b>44.3</b>	<b>44,5</b>	<b>45.1</b>
09:55	DE	Germany Manufacturing PMI	Jul	pts	38.8	-	38.8
10:00	EZ	Eurozone Manufacturing PMI	Jul	pts	42.7	-	42.7
11:00	EZ	Unemployment Rate	Jun	%	6.5	-	6.5
16:00	US	ISM manufacturing	Jul	pts	47.0	-	46.0
<b>WEDNESDAY (2 August)</b>							
14:15	US	ADP report	Jul	k	185	-	497
<b>THURSDAY (3 August)</b>							
03:45	CN	Caixin China PMI Services	Jul	pts	52.7	-	53.9
08:00	DE	Exports SA	Jun	% m/m	0.0	-	0.3
09:55	DE	Markit Germany Services PMI	Jul	pts	52.0	-	52.0
10:00	EZ	Eurozone Services PMI	Jul	pts	51.1	-	51.1
13:00	UK	BOE Rate Decision	Aug	%	5.25	-	5.00
14:30	US	Durable Goods Orders	Jun	% m/m	1.3	-	4.7
14:30	US	Initial Jobless Claims	Aug.23	k	235	-	221
14:30	CZ	Central Bank Rate Decision	Aug	%	7.0	-	7.0
16:00	US	ISM services	Jul	pts	53.1	-	53.9
16:00	US	Factory Orders	Jun	% m/m	-0.05	-	0.3
<b>FRIDAY (4 August)</b>							
08:00	DE	Factory Orders	Jun	% m/m	-2.4	-	6.4
08:30	HU	Industrial Production SA	Jun	% y/y	0.0	-	-4.6
11:00	EZ	Retail Sales	Jun	% m/m	0.0	-	0.0
14:30	US	Change in Nonfarm Payrolls	Jul	k	190	-	209
14:30	US	Unemployment Rate	Jul	%	3.6	-	3.6

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

This publication has been prepared by Santander Bank Polska S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Santander Bank Polska S.A. its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Santander Bank Polska S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Santander Bank Polska S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@santander.pl, <http://www.santander.pl>.