

11 August 2023

Weekly Economic Update

CPI disinflation, GDP at cycle bottom

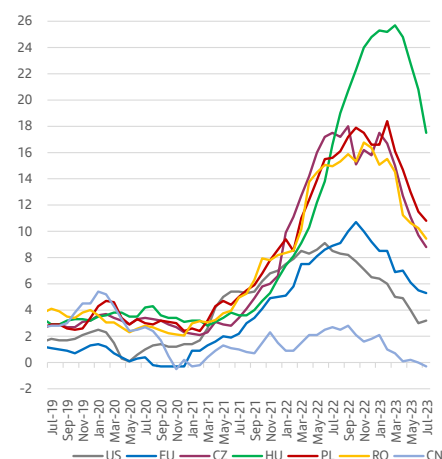
Economy next week

- **Next week, the most important domestic event will be the Wednesday release of 2Q GDP data. We expect the preliminary reading from the GUS to show a slight improvement in GDP growth to 0.1% y/y (-2.3% q/q sa) from -0.3% y/y in 1Q, slightly above the consensus rate of -0.3% y/y (-3% q/q sa).** The detailed GDP breakdown will not be published until the end of the month, but we expect further deceleration in private consumption, investment and inventory reduction with an improvement in net exports. The GDP data should, in our view, confirm that the economy is near the bottom of the business cycle. Subsequent quarters should bring a gradual recovery driven by falling inflation and a rebound in real disposable income, but we also see downside risks to our GDP forecast of 1% y/y growth in 2023 and 3.3% in 2024.
- The balance of payments data for June will show, in our opinion, a slight increase in the current account surplus compared to May.
- **The inflation data are likely to confirm the preliminary reading of 10.8% y/y**, with a detailed breakdown showing what was behind the lower core inflation (we estimate 10.6% y/y vs. 11.1% in June). The lower CPI reading in July increased the likelihood of inflation falling to a single-digit level as early as August. On the other hand, the recent rises in oil and fuel prices limit this risk.
- The fall in inflation fits the disinflationary trend observed both globally and in the region. Last week, inflation fell further in Czechia (to 8.8% y/y), Hungary (to 17.6% from 20.1% with a deeper fall in core inflation) and Romania (to 9.4% y/y from 10.2%). Data from China showed negative consumer price dynamics (-0.3% y/y) for the first time since 2020 which - together with a stronger fall in PPI - imply that the Chinese deflation spreads to the rest of the world. Inflation in the US also surprised downwards. The inflation data indicate that the monetary easing in the region is drawing closer, with markets in China anticipating fiscal and monetary stimulus, and with markets in the US expecting no further interest rate hikes this year.
- Abroad, attention will be drawn to GDP data from the Eurozone, Germany and Hungary, FOMC minutes, US retail sales data and final Eurozone inflation figures for July.
- The main event of the past week was the announcement of the parliamentary elections date - 15th of October - by President Andrzej Duda. This marks the formal start of the election campaign. In the best-case scenario, a new government could be formed at the end of November/December, and in the worst-case scenario at the end of January. The next early elections could take place in early March 2024 at the latest. At this stage, any predictions regarding the outcome of the elections are, in our view, subject to considerable uncertainty.

Markets next week

- Last week brought slight declines in the main equity markets and mixed behaviour of the EM currencies. The EURPLN exchange rate fluctuated between 4.41 and 4.47. The CEE currencies appreciated in line with our expectations, the forint by around 1.8% and the Czech koruna by 0.5%. **A continuation of the positive trend for CEE currencies is possible next week.** Support for the zloty may come from the sizable current account surplus in June, above EUR1bn. In addition, the latest NBP business survey results showed a slight reduction in the threshold rate for export profitability in 2Q to 4.24 to the euro, which could be due to the rapid fall in producer prices this year against the euro zone and cheapening imports of components. This could also pave the way for further slight strengthening of the zloty.
- In the interest rate market, there was a gradual decline in market rates and a flattening of curves, and it was only towards the end of the week that this trend was corrected. In the absence of significant domestic events, the market followed trends in the core markets. **We think there is potential for an increase in market rates, which could be supported by, for example, slightly better 2Q GDP data.**

Inflation, % y/y

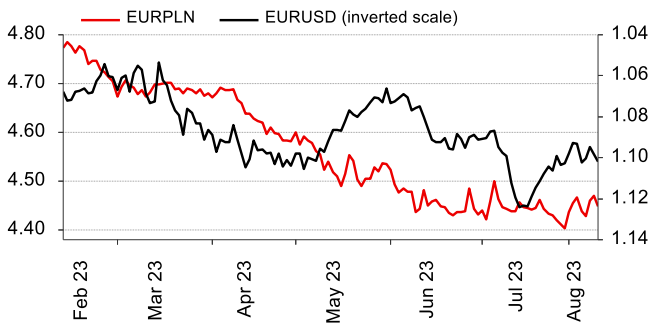


Source: Refinitiv, Santander

Economic Analysis Department:

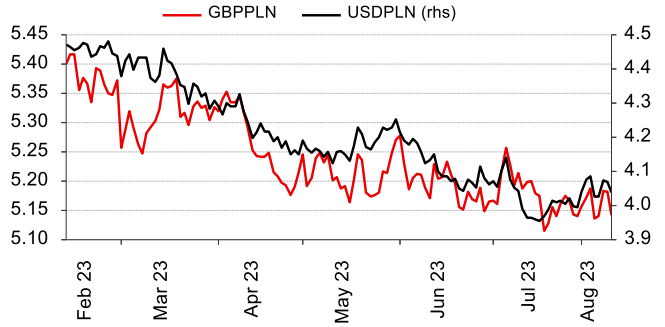
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EURPLN and EURUSD



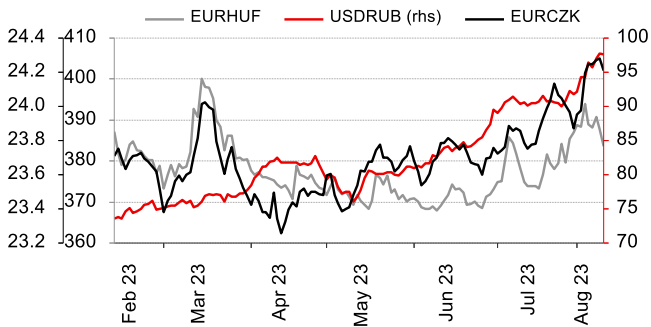
Source: Refinitiv Datastream, Santander

GBPPLN and USDPLN



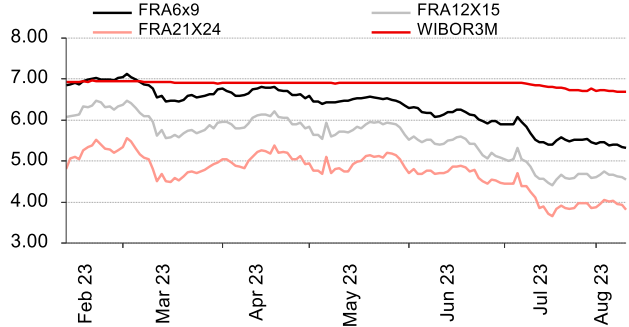
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



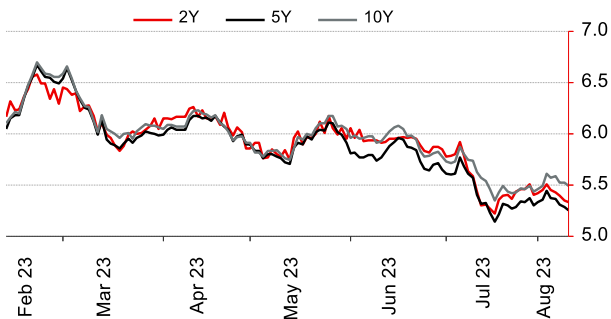
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



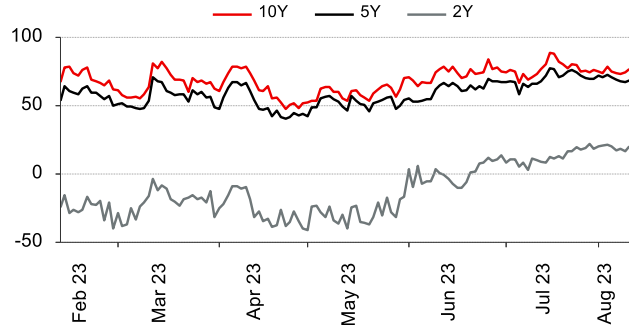
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



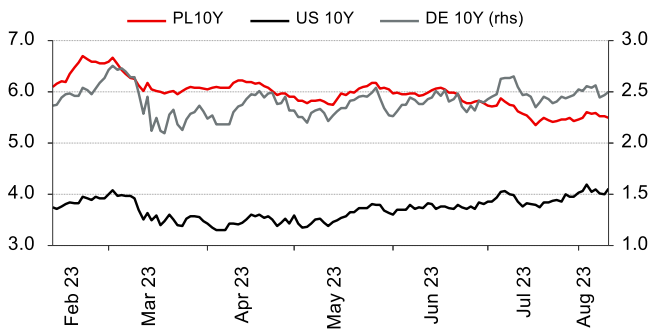
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



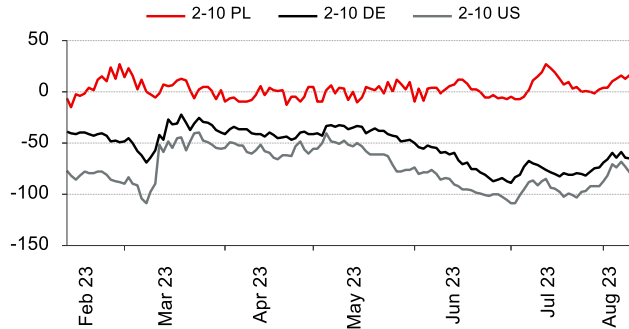
Source: Refinitiv Datastream, Santander Bank Polska

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 (14 August)						
08:00	PL	CPI	Jul	% y/y	10.8	10.8
14:00	PL	Current account	Jun	€mn	1752	1217
14:00	PL	Balance of trade	Jun	€mn	730	1122
14:00	PL	Export	Jun	€mn	28750	28550
14:00	PL	Import	Jun	€mn	27750	27428
TUESDAY (15 August)						
11:00	DE	ZEW	Aug	pts	-63.0	-
14:30	US	Retail sales	Jul	% m/m	0.4	-
WEDNESDAY (16 August)						
	PL	Budget balance level YTD	Jul	PLN mn	-	-
08:30	HU	GDP	2Q	% y/y	-1.2	-
10:00	PL	GDP	2Q	% y/y	-0.3	0.1
11:00	EZ	GDP SA	2Q	% y/y	0.6	-
11:00	EZ	Industrial production	Jun	% m/m	-0.4	-
14:00	PL	CPI core	Jul	% y/y	10.7	10.6
14:30	US	Housing starts	Jul	% m/m	0.4	-
15:15	US	Industrial production SA	Jul	% m/m	0.4	-
20:00	US	Minutes FOMC	Aug			
THURSDAY (17 August)						
14:30	US	Initial jobless claims	Aug.23	k	-	-
FRIDAY (18 August)						
11:00	EZ	HICP	Jul	% y/y	5.3	-

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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