

25 August 2023

Weekly Economic Update

Inflation at the edge of 10%

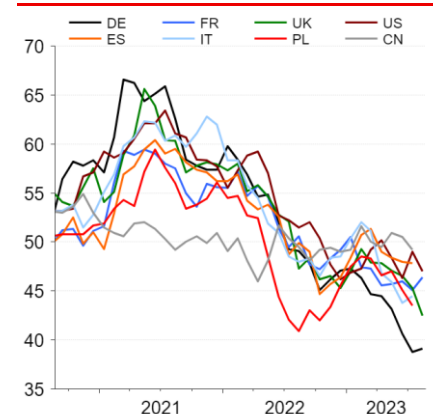
Economy next week

- The set of domestic data published in the recent days did not give reasons for excessive optimism about economic activity at the beginning of 3Q. On the other hand, some indicators (consumer and business sentiment, changes in the credit market, retail sales, corporate investment activity) point, in our opinion, to a looming economic recovery.
- The list of domestic publications in the last week of the summer holiday period is not long, but includes important items. On Thursday we will see **flash CPI inflation for August** and **detailed 2Q GDP data**, and on Friday the **August manufacturing PMI index** will be out.
- The inflation reading will be particularly closely watched in the context of the NBP president's recent declaration that CPI inflation's slide to single-digit levels will open the door for the MPC's decision to cut interest rates. **Our forecast suggests that CPI growth in August will be right on the edge of 10.0% y/y**, which is in line with the median forecast in the Bloomberg survey. The forecast range is very narrow this time: between 9.9% and 10.2% y/y.
- **The detailed GDP data will reveal what exactly was behind the weaker-than-expected 2Q result** (-0.5% y/y according to the preliminary reading). Our intuition says that consumption and/or inventory changes may have been responsible for the disappointing outcome. Data covering mid-size and large companies suggest that investment growth remained strong in 2Q, and the foreign trade balance was also clearly better than a year earlier.
- **As for the PMI, we expect a slight upward rebound to 44.1 points** in August after strong declines in the previous two months - the manufacturing PMI indices in the Eurozone countries behaved in a similar way (flash readings for August are already known). However, we emphasise that the PMI index is not, in our opinion, the best reflection of the situation in Polish industry, so we would not draw far-reaching conclusions from the behaviour of this measure. The GUS survey of economic conditions showed a slight improvement in manufacturing in August, with a marked upward rebound in the sub-index reflecting expected production.
- Abroad, a number of countries will publish detailed 2Q GDP data, there will be inflation readings in the Eurozone and the US as well as ESI business climate indexes in Europe. The key publication will again be the monthly US labour market report on Friday. On Tuesday, the Hungarian central bank will decide on interest rates - a 100bp cut in the overnight rate is expected.

Markets next week

- **EURPLN has been gradually moving upwards since the beginning of August and we assume that the end of the month will show a similar trend**, supported by the strengthening of the dollar against the euro, global market sentiment, but also echoes of the just-published draft budget for 2024, which implies a high scale of fiscal deficit and very high debt issuance next year.
- **The government's fiscal plans for 2024 is also, in our view, an argument for higher bond yields.** According to the draft, net issuance of domestic marketable bonds is expected to amount to PLN154bn next year and foreign bonds PLN38bn, compared to PLN48bn and PLN13bn respectively in 2023. Gross borrowing needs will be much higher (PLN420bn in total) due to high debt maturities next year. This outlook should be reflected in higher ASW spreads and higher government bond yields. Given the large borrowing needs in 2024, we expect an increase in the bond issuance already in the coming months - the supply plan for September will be announced by the MoF on Thursday. The situation at the end of the week may be determined by CPI and PMI data - in case of readings below forecasts, a strengthening at the short end of the bond and FRA/IRS curves is possible.

Manufacturing PMIs

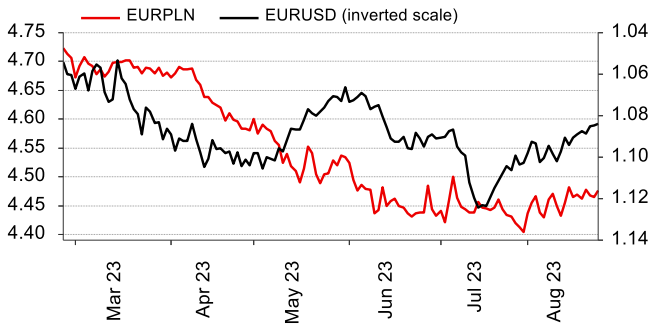


Source: GUS, Santander

Economic Analysis Department:

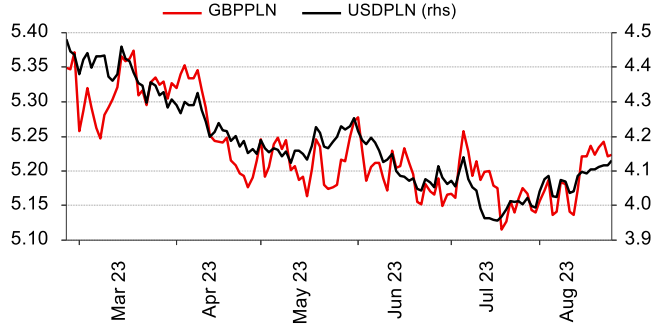
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EURPLN and EURUSD



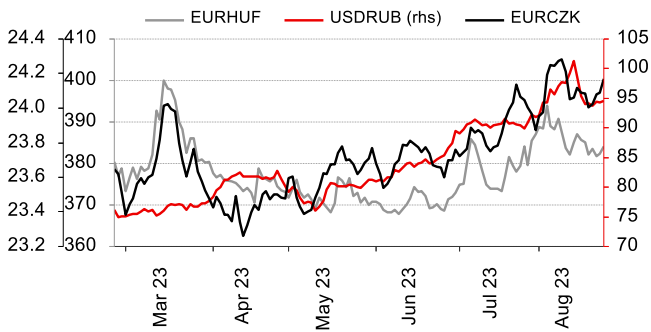
Source: Refinitiv Datastream, Santander

GBPPLN and USDPLN



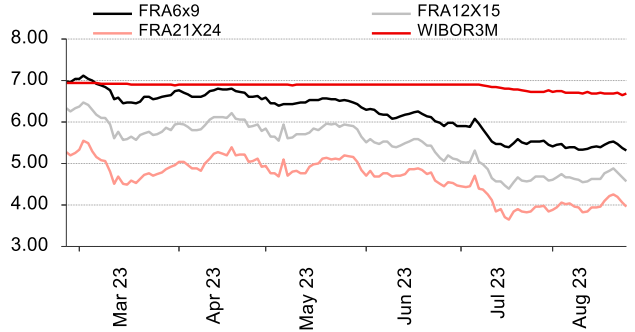
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



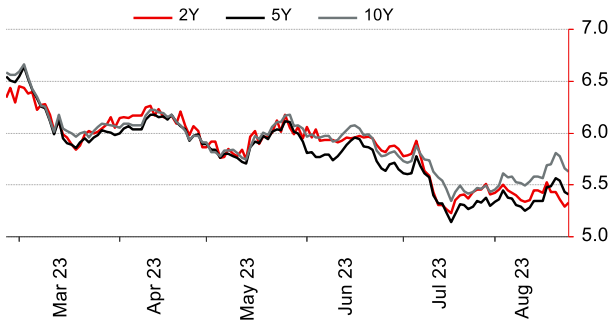
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



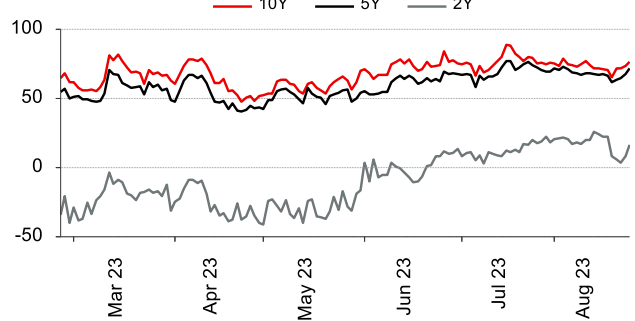
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



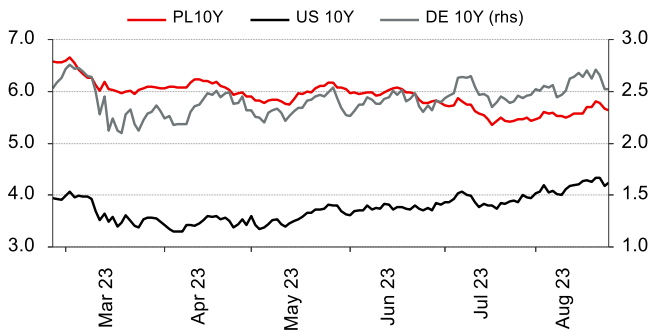
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



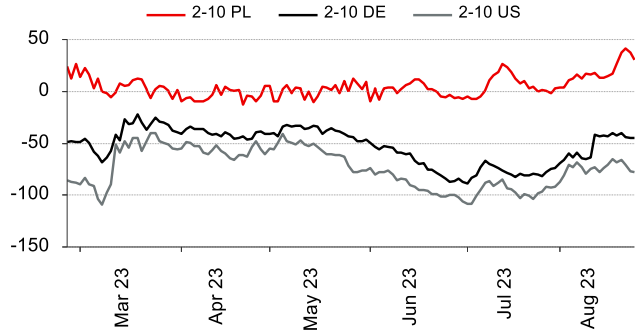
Source: Refinitiv Datastream, Santander Bank Polska

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 (28 August)						
TUESDAY (29 August)						
09:00	CZ	GDP SA	2Q	% y/y	-	-0.6
14:00	HU	Central Bank Rate Decision	Aug.23	%	-	13.00
16:00	US	Consumer Conference Board	Aug	pts	117.1	117.0
WEDNESDAY (30 August)						
11:00	EZ	ESI	Aug	pct.	-	94.5
14:00	DE	HICP	Aug	% m/m	-	0.5
14:15	US	ADP report	Aug	k	-	324.0
14:30	US	GDP Annualized	2Q	% Q/Q	2.5	2.4
16:00	US	Pending Home Sales	Jul	% m/m	-	0.26
THURSDAY (31 August)						
08:00	DE	Retail Sales	Jul	% m/m	-	-0.6
10:00	PL	CPI	Aug	% y/y	10.0	10.0
10:00	PL	GDP	2Q	% y/y	-0.5	-0.5
11:00	EZ	Flash HICP	Aug	% y/y	5.0	5.3
11:00	EZ	Unemployment Rate	Jul	%	-	6.4
14:30	US	Initial Jobless Claims	Aug.23	k	240	230
14:30	US	Personal Spending	Jul	% m/m	0.7	0.5
14:30	US	Personal Income	Jul	% m/m	0.3	0.3
14:30	US	PCE Deflator SA	Jul	% m/m	0.2	0.2
FRIDAY (1 September)						
08:30	HU	GDP	2Q	% y/y	-	-2.4
09:00	PL	Poland Manufacturing PMI	Aug	pts	43.7	44.1
09:55	DE	Germany Manufacturing PMI	Aug	pts	38.75	39.1
10:00	EZ	Eurozone Manufacturing PMI	Aug	pts	42.7	43.7
14:30	US	Change in Nonfarm Payrolls	Aug	k	160	187
14:30	US	Unemployment Rate	Aug	%	3.5	3.5
16:00	US	ISM manufacturing	Aug	pts	47.0	46.4

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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