

Weekly Economic Update

Elections and central banks in focus

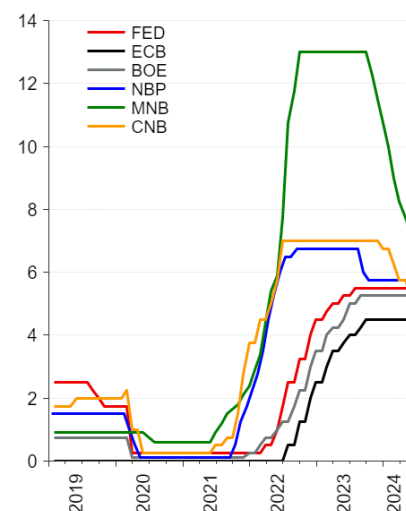
Economy next week

- At the beginning of the new week, **the results of the first round of parliamentary elections in France** will probably be the key topic. Polls indicate that the far-right National Rally (RN) enjoys the greatest (and growing) support, followed by the united left bloc (NFP), and only third is the liberal coalition (ENS) built around Macron's party. The result of the election and its interpretation by the markets may be a key determinant of market sentiment at the beginning of the week. Elevated volatility is quite likely, although it is worth remembering that the actual shape of the parliament and the government will be determined only by the results of the second round of elections a week later.
- Elections in the UK will also take place on July 4th. Polls indicate a clear victory for the Labour Party, which would mean its return to power after a 14-year break.
- It is possible that political topics will also dominate overseas, where after Thursday's Trump-Biden debate, there is growing discussion about the possible replacement of the Democratic candidate for president.
- In Poland, the main economic events after the week will be: **the PMI index on Monday, the MPC decision on Wednesday and the press conference of the NBP Governor Adam Glapiński on Thursday**. The calendar of publications abroad will be quite scarce. It includes, among others, PMI for manufacturing and services, HICP inflation in the eurozone, and on Friday the US monthly jobs report.
- **We expect another slight decline in the industrial PMI in June to 44.8 points**, following the indices in the eurozone and alternative domestic business sentiment indicators (GUS, ESI).
- **The Monetary Policy Council will probably leave interest rates unchanged**, repeating the well-known arguments for patience in monetary policy: the expected increase in CPI inflation in the second half of the year, elevated wage growth, and a gradual recovery of the economy, based on reviving consumption. At this meeting, the MPC will review the results of the new NBP economic projections, which should already take into account the current state of knowledge about the increase in energy costs from July. These results will most likely join the list of factors prompting the central bank to keep monetary policy unchanged, without bringing the horizon of inflation returning to the target any closer.
- **The ECB's annual central banking forum in Sintra** begins on Monday. This will probably be an opportunity for numerous comments from key central banks' officials on the monetary policy perspectives.

Markets next week

- **A weak PMI reading at the start of the week may keep swap rates at depressed levels near the support line. However, the prospect of a not so dovish NBP projection and communication from the NBP Governor should contribute to an upward movement in rates later in the week.** Toward the end of the week, weaker non-farm employment data from the US could provide support for the debt market. The French election result could keep asset swap credit spreads at elevated levels. The relatively high level of bond yields and credit spreads could potentially encourage foreign investors to increase their exposure to Polish bonds (the latest MoF data for May indicated an increase), but the French election issue remains a constraint to risk appetite, and on top of that, the end of June is the deadline for adding India to the global bond indices, which means a corresponding reduction in Poland's weight in the indices. In view of the fact that Poland was probably already underweight, we expect only a reduction in the scale of the underweight rather than a significant outflow of foreign capital.
- **The beginning of the week may not be the best for the region's currencies, with the zloty and the Czech koruna potentially behaving slightly weaker than the forint**, which is close to important resistance levels. Later in the week, there is a chance that statements by the NBP president, confirming little changes for soon monetary easing, will provide support for the zloty. With the French election issue and potentially weak data from the US, the outlook for EURUSD seems balanced.

Main central bank interest rates, %

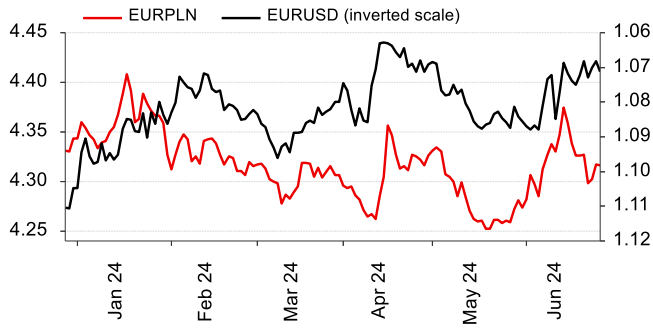


Source: LSEG Datastream, Santander Bank Polska
Source: GUS, Santander

Economic Analysis Department:

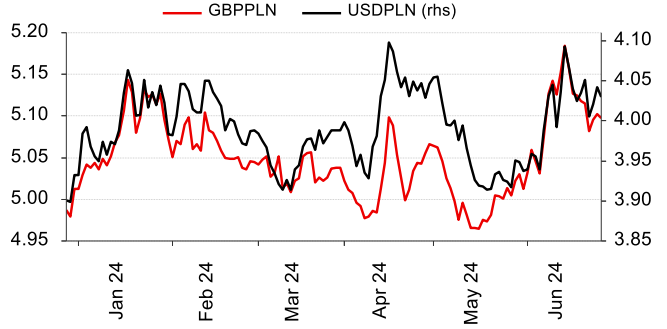
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EURPLN and EURUSD



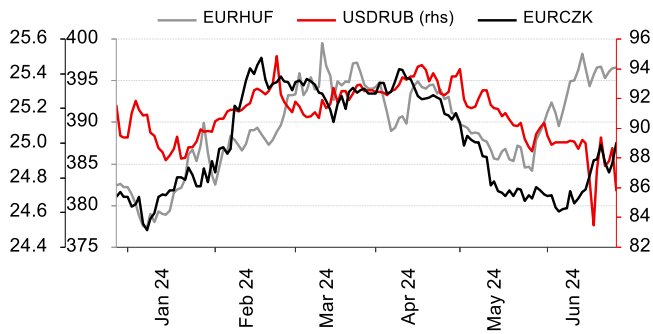
Source: LSEG Datastream, Santander

GBPPLN and USDPLN



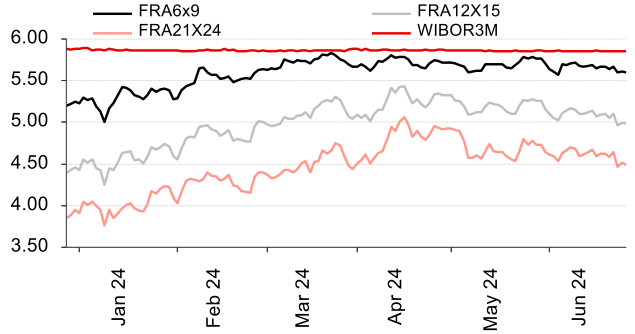
Source: LSEG Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



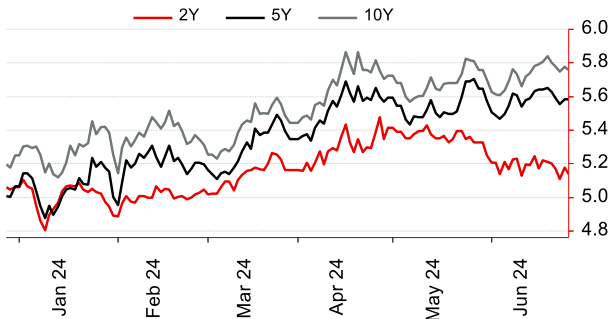
Source: LSEG Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



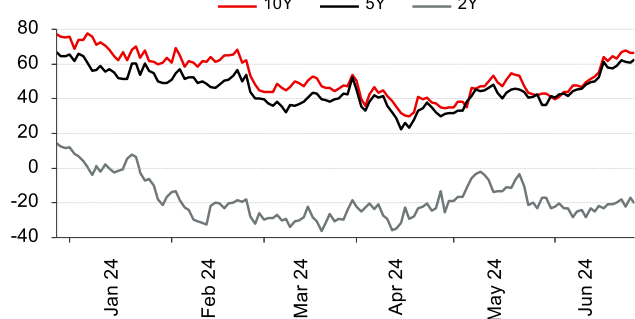
Source: LSEG Datastream, Santander Bank Polska

Polish bond yields



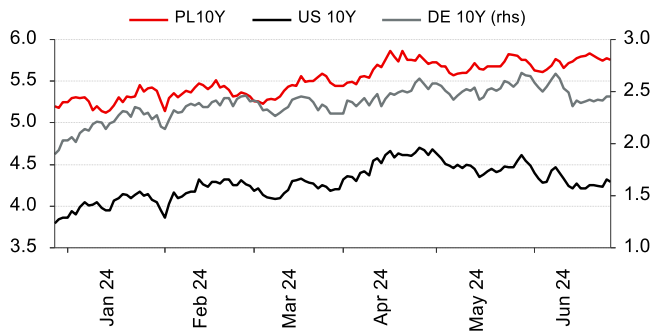
Source: LSEG Datastream, Santander Bank Polska

Asset swap spreads



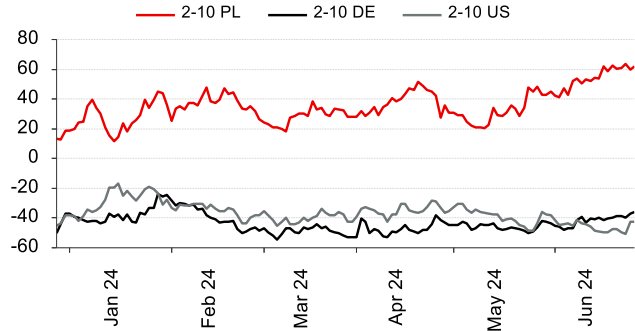
Source: LSEG Datastream, Santander Bank Polska

10Y bond yields



Source: LSEG Datastream, Santander

Steepness of yield curves



Source: LSEG Datastream, Santander Bank Polska

Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE
				MARKET	SANTANDER	
MONDAY (1 July)						
09:00	PL	Poland Manufacturing PMI	Jun	pts	44.9	45.0
09:55	DE	Germany Manufacturing PMI	Jun	pts	43.4	43.4
10:00	EZ	Eurozone Manufacturing PMI	Jun	pts	45.6	45.6
14:00	DE	HICP	Jun	% m/m	0.13	0.2
16:00	US	ISM manufacturing	Jun	pts	49.0	48.7
TUESDAY (2 July)						
11:00	EZ	Flash HICP	Jun	% y/y	2.5	2.6
11:00	EZ	Unemployment Rate	May	%	6.5	6.4
WEDNESDAY (3 July)						
	PL	MPC decision		%	5.75	5.75
03:45	CN	Caixin China PMI Services	Jun	pts	-	54.0
09:55	DE	Markit Germany Services PMI	Jun	pts	53.5	53.5
10:00	EZ	Eurozone Services PMI	Jun	pts	52.6	52.6
14:15	US	ADP report	Jun	k	160.0	152.0
14:30	US	Durable Goods Orders		% m/m	-0.5	0.1
14:30	US	Initial Jobless Claims		k	235	233
16:00	US	ISM services	Jun	pts	52.0	53.8
16:00	US	Factory Orders	May	% m/m	0.35	0.7
20:00	US	FOMC Meeting Minutes	Jun			
THURSDAY (4 July)						
08:00	DE	Factory Orders	May	% m/m	1.0	-0.2
FRIDAY (5 July)						
08:00	DE	Industrial Production SA	May	% m/m	0.3	-0.1
08:30	HU	Industrial Production SA	May	% y/y	-1.9	-2.4
11:00	EZ	Retail Sales	May	% m/m	0.5	-0.5
14:30	US	Change in Nonfarm Payrolls	Jun	k	185	272
14:30	US	Unemployment Rate	Jun	%	4.0	4.0

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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