

# Weekly Economic Update

## How large increase in July CPI?

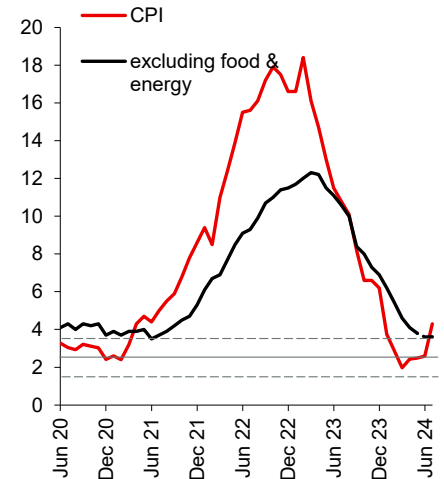
### Economy next week

- Next week will be abundant in important data from abroad, but it will also bring a few important domestic releases: **the flash estimate of July CPI inflation (Wednesday)** and **a new print of the manufacturing PMI (Thursday)**. We expect that due to the increases in electricity and gas bills CPI inflation most likely not only strongly rebounded in July, but also, after five months of remaining in line with the inflation target, returned above its upper limit – in our view, slightly above 4,0% y/y. The increase in the headline inflation rate may have also been caused by rebounding inflation of food prices, which is related to the drought in Poland and the global increases in prices. On Friday, we will see a **preliminary estimate of the harvest of main crops** which will allow to assess the drought's impact. When it comes to the manufacturing PMI, it will be worth to check whether the indicator will point to a stabilization or a slight improvement, similarly to the latest business confidence indicators released by the Polish stats office, or whether it will follow the PMIs of Germany and the euro area, suggesting that the sector's situation is worsening further. In our view, the latter outcome is more probable.
- The releases from abroad will include **the first estimates of GDP growth in the euro area, as well as in Hungary and Czechia in 2Q24 (Tuesday)**. Although they will not yet show breakdowns into the main aggregates, they will provide a first indication of Europe's economic condition over the last quarter. In the US, **attention will be drawn to labour market data**, including nonfarm payrolls and the unemployment rate (Friday), which may shed some more light on the pace and the scale of the ongoing normalization of the demand for labour.
- The main event in the US will be the **policy decision of the FOMC (Wednesday)**. The consensus suggests that the Fed will not cut the rates just yet, but Chairman J. Powell's press conference may give the market a new opportunity to speculate on the date of the first cut. In addition, monetary policy decision will be made by **Bank of Japan (Wednesday)**, as well as the **Bank of the Czechia and the Bank of England (Thursday)**.

### Markets next week

- A correction is underway in equity markets on slightly weaker corporate earnings. This is accompanied by the **strengthening of the yen, which is unlikely to be too supportive for risk appetite also in the coming week**, when the Bank of Japan may decide to raise interest rates again worsening the carry trades profitability. The dollar gained somewhat vs. the euro toward 1.085 from ca. 1.09 in recent days on fairly weak data from the euro area and mixed data from the US. Developments in the US election campaign may also remain in focus. Last week brought the first poll with K. Harris over D. Trump. When D. Trump won in 2016, the dollar strengthened in the first reaction, while Trump himself would prefer a weaker dollar, which does not necessarily go along with his election program. On the other hand, more important than the winner in the presidential election may be the Fed's policy, and the increasing chances of an interest rate cut as early as September with lower inflation and weaker data may negatively translate into the dollar. A weaker dollar is supportive for the currencies of emerging economies. **The outlook for the EURUSD exchange rate for the coming week will be set by the Fed and fairly good GDP data from the euro area. Although foreign events may not favour the zloty, a sizable rise in inflation may strengthen the prospects of no interest rate cuts for Poland for a long time, which should support the domestic currency.** We assume a stabilization of the EURPLN exchange rate in a wide range of 4.25-4.38 in the near term and 4.26-4.30 in the coming week. For the region's currencies, 2Q GDP readings will be important, which should show an improvement relative to 1Q. The krone may be kept at weaker levels by the expected 25bp rate cut.
- **In the interest rate market, we anticipate an increase in rates, especially short-term rates**, which started already on Friday. This may be supported by a significant increase in inflation and good GDP data in the region and the euro area, which should favour the flattening of the domestic curve. A dovish impulse could come from Fed and with any negative surprise from the U.S. labour market could constrain the upward movement of rates and act toward a steepening of the core market curves as well. **The debt auction may result in further widening of long-term asset swap spreads**, although given the flow of about PLN 19 bn to investors from maturing OK0724 bonds only partially utilized at the auction held this week, its effect may be relatively neutral.

### Inflation measures, % y/y

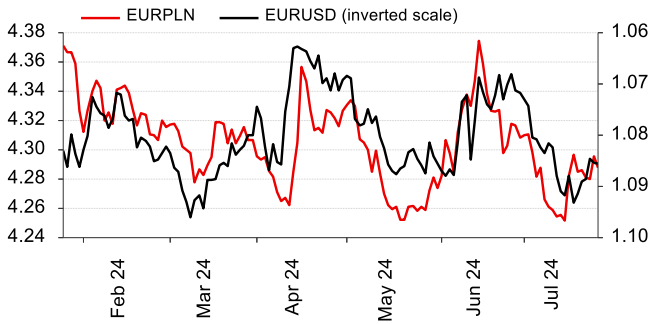


Source: GUS, Santander

### Economic Analysis Department:

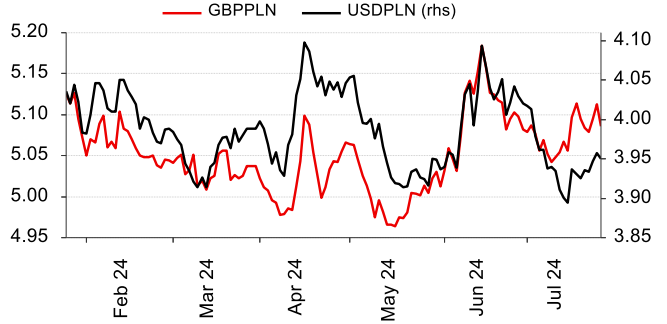
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**EURPLN and EURUSD**



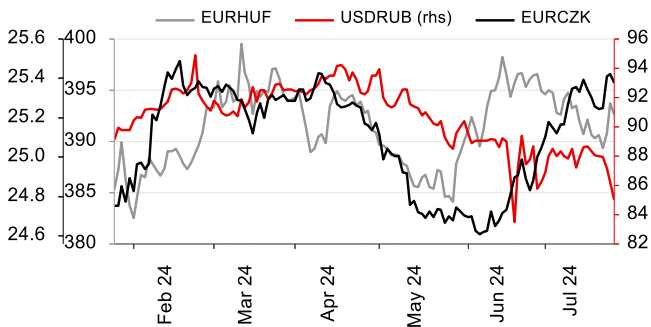
Source: LSEG Datastream, Santander

**GBPPLN and USDPLN**



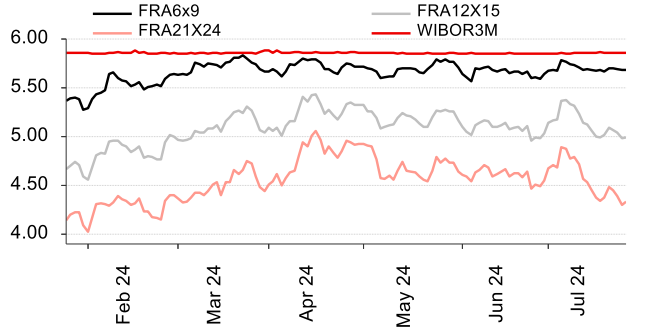
Source: LSEG Datastream, Santander Bank Polska

**EURCZK, EURHUF and USDRUB**



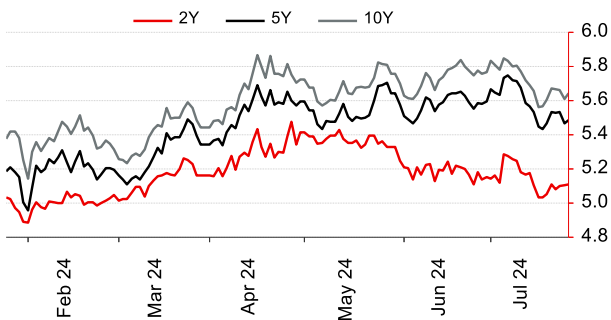
Source: LSEG Datastream, Santander Bank Polska

**PLN FRA and WIBOR3M**



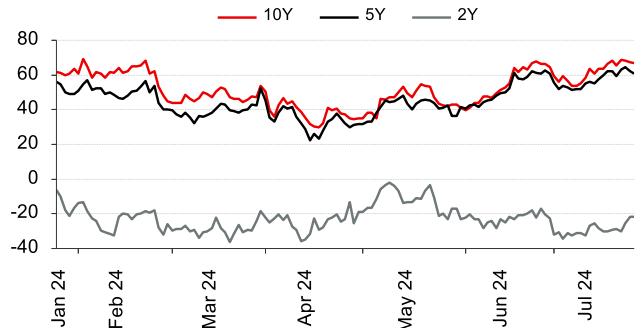
Source: LSEG Datastream, Santander Bank Polska

**Polish bond yields**



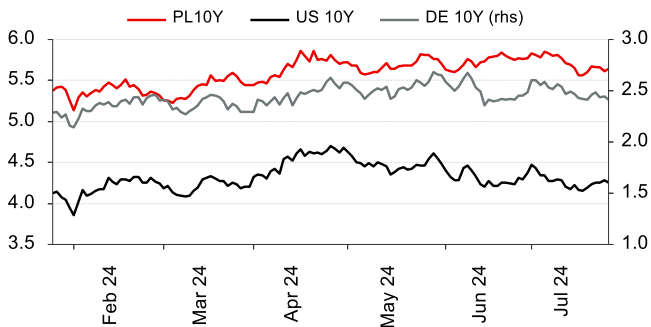
Source: LSEG Datastream, Santander Bank Polska

**Asset swap spreads**



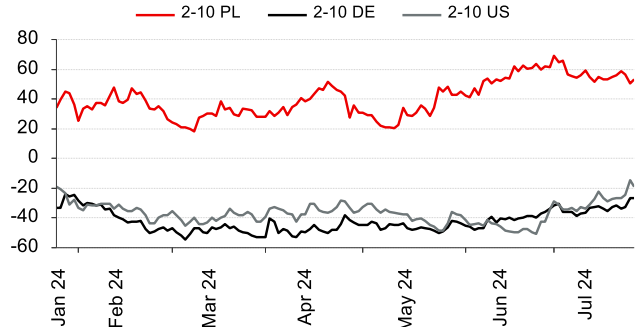
Source: LSEG Datastream, Santander Bank Polska

**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		
<b>MONDAY (29 July)</b>							
No data releases							
<b>TUESDAY (30 July)</b>							
08:30	HU	GDP	2Q	% y/y	2.2	-	1.1
09:00	CZ	GDP SA	2Q	% y/y	0.6	-	0.3
10:00	DE	GDP WDA	2Q	% y/y	0.0	-	-0.2
11:00	EZ	GDP SA	2Q	% y/y	0.5	-	0.5
11:00	EZ	ESI	Jul	pts	95.3	-	95.9
14:00	DE	HICP	Jul	% m/m	0.5	-	0.2
16:00	US	Consumer Conference Board	Jul	pts	99.8	-	100.4
<b>WEDNESDAY (31 July)</b>							
<b>10:00</b>	<b>PL</b>	<b>CPI</b>	<b>Jul</b>	<b>% y/y</b>	<b>4.5</b>	<b>4.3</b>	<b>2.6</b>
11:00	EZ	Flash HICP	Jul	% y/y	2.5	-	2.5
14:15	US	ADP report	Jul	k	168	-	150.0
16:00	US	Pending Home Sales	Jun	% m/m	1.5	-	-2.1
20:00	US	FOMC decision	Jul	%	5.50	-	5.50
<b>THURSDAY (1 August)</b>							
<b>09:00</b>	<b>PL</b>	<b>Poland Manufacturing PMI</b>	<b>Jul</b>	<b>pts</b>	<b>44.8</b>	<b>44.5</b>	<b>45.0</b>
09:55	DE	Germany Manufacturing PMI	Jul	pts	42.6	-	42.6
10:00	EZ	Eurozone Manufacturing PMI	Jul	pts	45.6	-	45.6
11:00	EZ	Unemployment Rate	Jun	%	6.4	-	6.4
14:30	US	Initial Jobless Claims	weekly	k	238	-	235
14:30	CZ	Central Bank Rate Decision	Aug	%	4.5	-	4.8
16:00	US	ISM manufacturing	Jul	pts	49.0	-	48.5
<b>FRIDAY (2 August)</b>							
14:30	US	Change in Nonfarm Payrolls	Jul	k	0.3	-	-6.6
14:30	US	Unemployment Rate	Jul	%	175	-	206
16:00	US	Durable Goods Orders	Jun	% m/m	4.1	-	4.1
16:00	US	Factory Orders	Jun	% m/m	0.5	-	-0.5

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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