

23 August 2024

Weekly Economic Update

End of holidays with budget, GDP and CPI

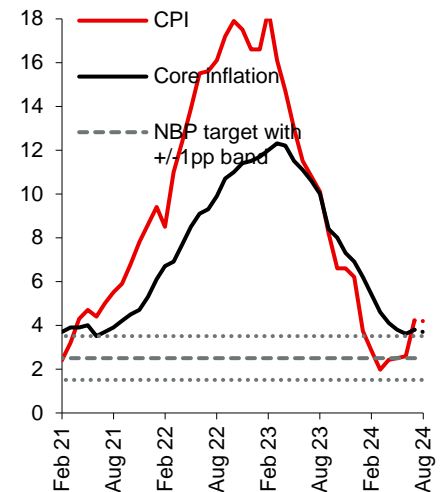
Economy next week

- In the last week of the summer holidays, investors in the Polish market will be waiting for three key pieces of information: **(1) the draft budget for 2025**, which the government is expected to discuss on Tuesday, **(2) detailed Q2 GDP data** showing the structure of growth, which will appear on Thursday, **(3) flash CPI inflation for August** on Friday. On Monday, we will also learn the **financial results of companies for 1H25**, preliminary **LFS estimates for Q2**, July **registered unemployment** and the monthly Statistical Bulletin from GUS, but all this will be rather second tier information from the market's point of view.
- The size of the budget deficit and borrowing needs planned for next year will be important information for the bond market. We assume that the draft budget, the main assumptions of which we should learn on Tuesday after the Cabinet meeting, will envisage a **slight reduction in the fiscal deficit in 2025** (to around 4.5% of GDP, from over 5% this year, in General Government terms). It should also be clear from the draft whether the government plans to amend this year's budget (our bet is that they will not). As usual, we will look at the draft budget in detail after its publication and describe it in a special note.
- The 2Q GDP data are likely to confirm the flash estimate at around 3.2% y/y (revisions at this stage do happen, but usually very minor) and reveal its composition. We believe that **private and public consumption played a key role in the acceleration of the economy in 2Q**, supported by very high dynamics of wages and other household incomes.
- **CPI inflation, according to our estimates, remained in August at July's level of 4.2% y/y** (the risk, in our view, is slightly tilted downwards, towards a lower reading of 4.1%), influenced by, among other things, slightly lower fuel and food prices as compared to July.
- Abroad, there will be economic and sentiment indicators (Ifo, GfK, ESI, Conference Board), but also next releases of Q2 GDP data in Europe and the USA, as well as inflation data: in the European countries CPI and HICP, in the USA the PCE deflator.
- On Wednesday, the **decision of the Hungarian central bank**. Analysts are divided on whether it will cut rates again by 25bp or leave them unchanged.

Markets next week

- The past few days have been marked by a weakening of the dollar on international markets. This encouraged a rebound in the koruna and forint, but the zloty gradually lost ground after reaching a local low near 4.26, and only dovish comments by Chairman Powell during the Jackson Hole symposium led to a strengthening of the zloty. **Although the EURUSD exchange rate is technically at relatively high levels, dovish statements by Fed Chairman J. Powell may still negatively affect the dollar in the coming days, and the prospect of rate cuts in the US may also positively affect the currencies of emerging economies** including those of the CEE region. We think the EURPLN exchange rate could test even the 4.25 level, especially if the GDP structure shows strong consumption growth. Stabilization of inflation will have a rather neutral effect on the zloty.
- **The domestic debt market may be influenced by declining yield trends in the core markets** after dovish statements by the Fed chairman and rising expectations for a US rate cut in September, an expected further decline in the Ifo index, **or materialization of downside risk to flash inflation reading**. One of the important events for the debt market will be the next swap auction. The lack of net new debt in the coming week is likely to be neutral for credit spreads, while net supply could remain positive through the end of the year, which, with the **relatively high supply of Treasury debt next year that may be presented in the 2025 budget draft, could keep long-term credit spreads at high levels**. Currently, the market is positioned toward a faster cycle of rate cuts. If the structure of GDP showed much stronger-than-expected consumption growth then this could halt the downward movement in rates, especially since the baseline scenario still sees rate cuts on a fairly distant horizon (mid-2025), which should favour FRA rate increases in horizon through the end of 2025 in the weeks ahead.

Inflation in Poland, %/y

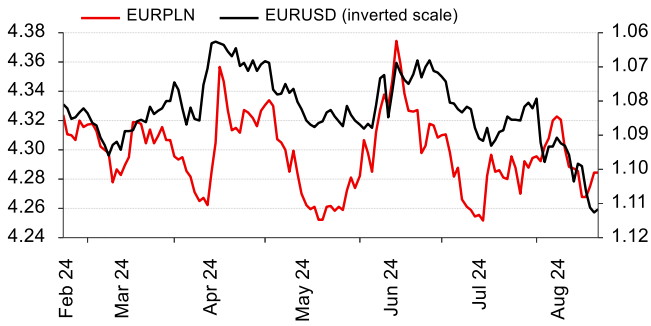


Values for August 2024 are Santander forecasts
Source: GUS, NBP, Santander

Economic Analysis Department:

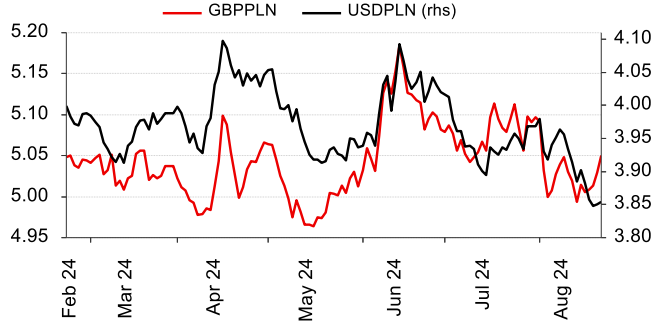
al. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website: santander.pl/en/economic-analysis
 Piotr Bielski +48 691 393 119
 Bartosz Białas +48 517 881 807
 Cezary Chrapek, CFA +48 887 842 480
 Marcin Luźniński +48 510 027 662
 Grzegorz Ogonek +48 609 224 857

EURPLN and EURUSD



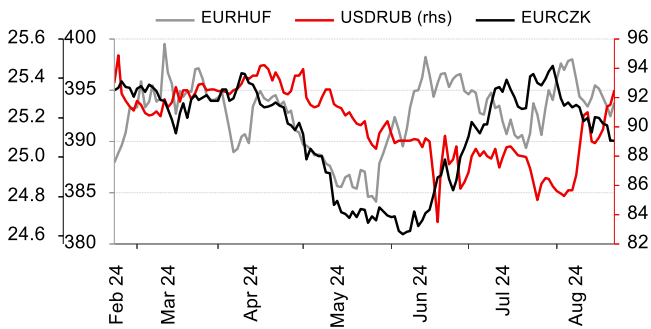
Source: LSEG Datastream, Santander

GBPPLN and USDPLN



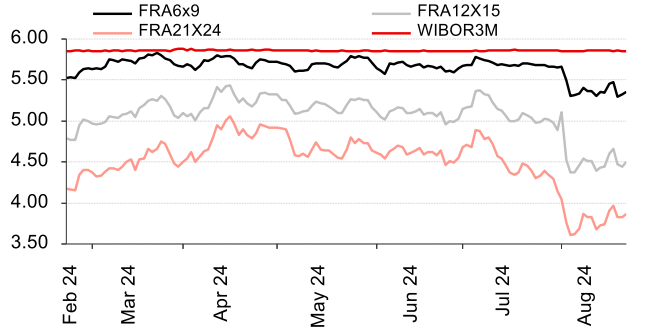
Source: LSEG Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



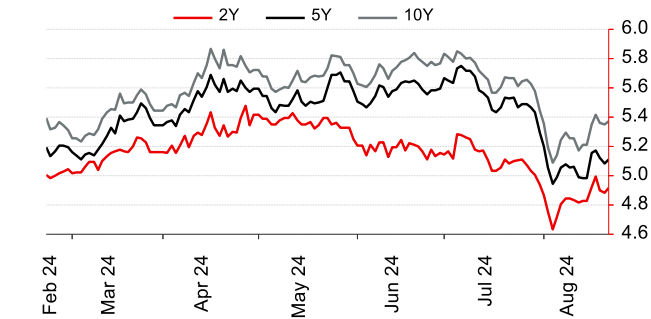
Source: LSEG Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



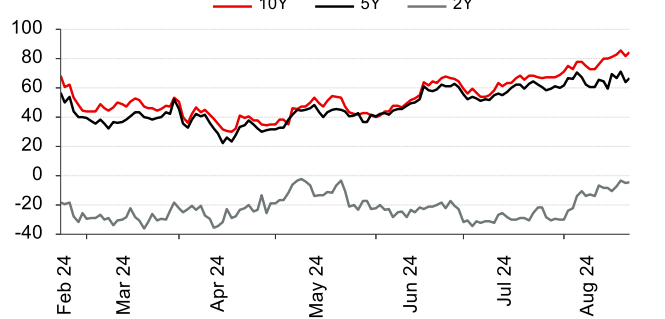
Source: LSEG Datastream, Santander Bank Polska

Polish bond yields



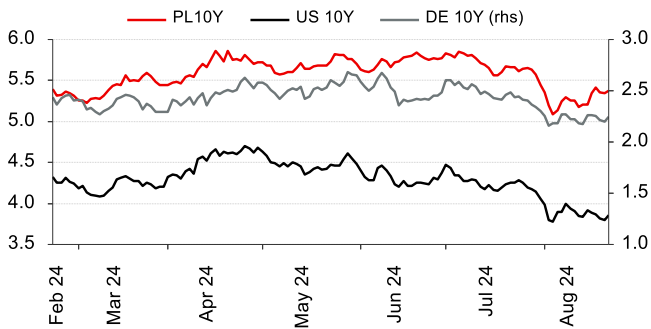
Source: LSEG Datastream, Santander Bank Polska

Asset swap spreads



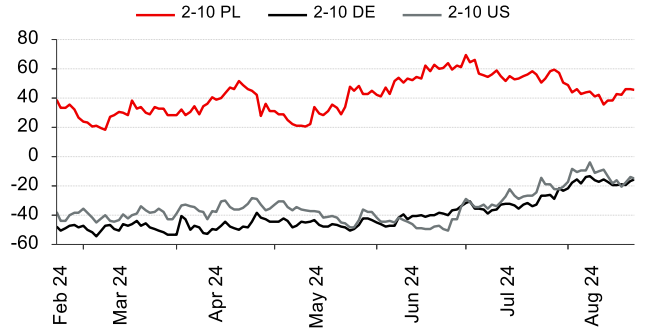
Source: LSEG Datastream, Santander Bank Polska

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 (26 August)							
10:00	DE	IFO Business Climate	Aug	pts	86.0	-	87.0
10:00	PL	Unemployment Rate	Jul	%	4.9	5.0	4.9
14:30	US	Durable Goods Orders	Jul	% m/m	4.2	-	-6.7
TUESDAY (27 August)							
08:00	DE	GDP WDA	2Q	% y/y	-0.1	-	-0.1
14:00	HU	Central Bank Rate Decision	Aug	%	6.75	-	6.75
16:00	US	Consumer Conference Board	Aug	pts	100.1	-	100.3
WEDNESDAY (28 August)							
No data releases							
THURSDAY (29 August)							
10:00	PL	GDP	2Q	% y/y	3.2	3.2	2.0
11:00	EZ	ESI	Aug	pct.	95.8	-	95.8
14:00	DE	HICP	Aug	% m/m	0.0	-	0.5
14:30	US	GDP Annualized	2Q	% Q/Q	2.8	-	1.4
14:30	US	Initial Jobless Claims	weekly	k	235	-	232
16:00	US	Pending Home Sales	Jul	% m/m	0.4	-	4.8
FRIDAY (30 August)							
08:00	DE	Retail Sales	May	% m/m	0.1	-	-0.2
09:00	CZ	GDP SA	2Q	% y/y	0.4	-	0.3
10:00	PL	CPI	Aug	% y/y	4.3	4.2	4.2
11:00	EZ	Flash HICP	Aug	% y/y	2.2	-	2.6
11:00	EZ	Unemployment Rate	Jul	%	6.5	-	6.5
14:30	US	Personal Spending	Jul	% m/m	0.5	-	0.3
14:30	US	Personal Income	Jul	% m/m	0.2	-	0.2
14:30	US	PCE Deflator SA	Jul	% m/m	0.2	-	0.1
16:00	US	Michigan index	Aug	pts	67.9	-	66.4

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.