

06 August 2021

Weekly Economic Update

Friday with CPI and GDP

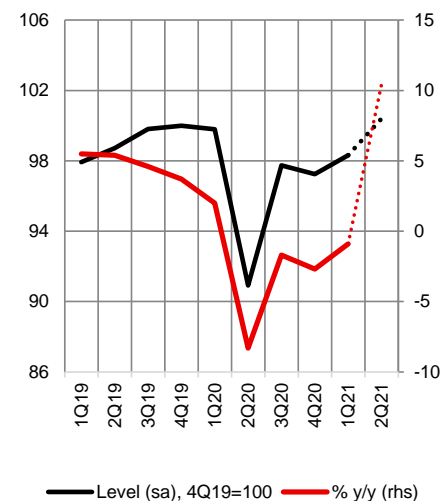
Economy next week

- The next week will be dominated by inflation data: we will see July readings in Czechia and Hungary (Tuesday), Germany and USA (Wednesday) and at the end of the week in Poland. Friday will be the most important for the Polish market – apart from the CPI data we will see also the flash GDP print for 2Q21 and balance of payments data for June. Apart from that, there will be quite few data releases abroad. Among those worth noting are German exports and ZEW index, Eurozone production, US Michigan index.
- Flash **CPI data** surprised to the upside at 5.0% and we assume that the final reading will confirm this value and offer an explanation what stood behind such a strong rise of prices. We estimate that the surprise came from substantially higher food price inflation, but also from core inflation.
- Yearly Q2 **GDP growth** will be higher due to exceptionally strong base effect as well as reopening of the economy and taking restrictions back. The print might be double digit for the first time since the quarterly data are available: our estimates point to 10.4% y/y growth, the market consensus is not far off at 10.8% y/y. However, even after adjusting for base effects, the growth was surely solid (around 2% q/q after adjusting for seasonality, we reckon), supported by all the major demand components. The detailed GDP data will be published only on 31 August.
- The **current account** surplus slowly deteriorates and June data should prove that the trend continues – we expect the surplus at EUR 76mio (the 12mth cumulative surplus at +2.3% GDP), with still double digit exports dynamics (decreasing due to base effects) and much higher import dynamics (local demand rebound after restrictions were lifted).
- In the meantime investors will be awaiting for the government reaction to **the ECJ ruling regarding the Supreme Court's Disciplinary Chamber** – the deadline for Polish government to reply was set at 16 August. In today's interview for the Rzeczpospolita daily newspaper, Justice Minister Zbigniew Ziobro suggests, that accepting the ECJ ruling might threaten the governing coalition's stability, and that Polish EU membership should not be at all costs. In theory, escalation of the conflict with the EU might negatively impact Polish financial assets.

Markets next week

- EURPLN at the start of August fell c.1% to 4.5540, which was a rebound after two unsuccessful attempts to breach 4.60 at the end of July, but also was consistent with global positive sentiment towards EM currencies. The exchange rate failed to breach either 100-day (4.5460) or 200-day (4.5290) moving averages, which was the symptom of weakness of the downward trend, we think. Moreover, both local factors (conflict with the EU, threatening at least to delay the launch of Recovery Fund money; dovish NBP) and global factors (Jackson Hole conference planned for August 26-28, at which the signals of the US monetary policy tapering may appear) are causing that in our view the zloty appreciation is not very likely in the near term. **Next week we expect EURPLN to return to its upward trend at to test again 4.60.**
- At the short end of the yield curve the beginning of August was marked by a further rise of expectations that NBP will hike rates in November. Currently the FRA market expects c.20bp hike at the 3 November meeting, which is more less in line with our expectations and should not in our view lead to sudden moves in this part of the curve. **At the long end of the curve we expect to see a rise of both IRS rates (together with core market yields, with their early August declines already being reversed now) and bond yields, e.g. 10Y to c.1.85-1.90%, but we also expect a continuation of asset swap spread widening (currently +10bp, might go to +15bp)** as bond funds have registered another month of outflows. The only BGK Covid bond auction this month was planned for Wednesday, 11 August. There will be no Finance Ministry auction next week (this month there will only be a switch auction on 19 August) and NBP will return to the market to purchase assets on 18 August.

GDP in Poland



Source: GUS, Santander

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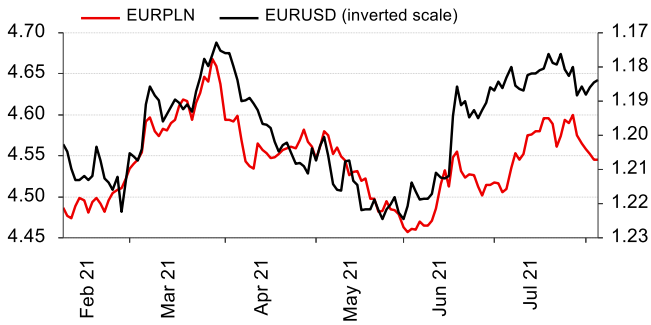
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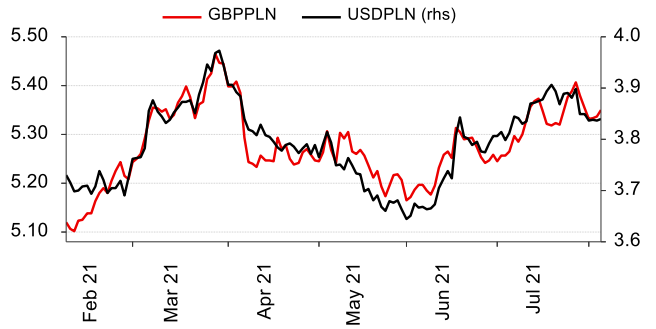
FX and FI markets

EURPLN and EURUSD



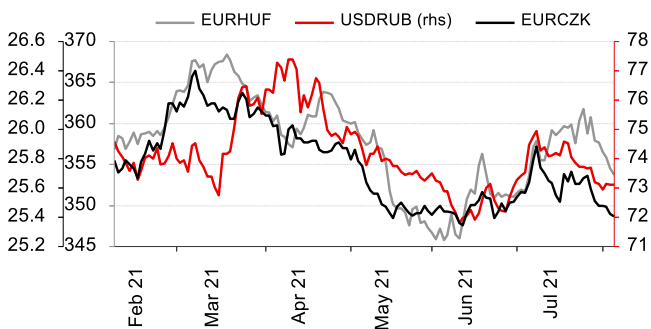
Source: Refinitiv Datastream, Santander Bank Polska

GBPPLN and USDPLN



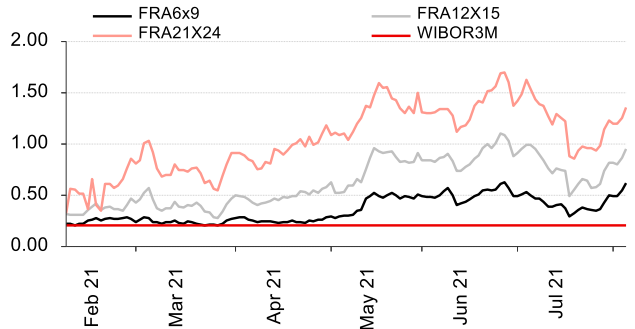
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



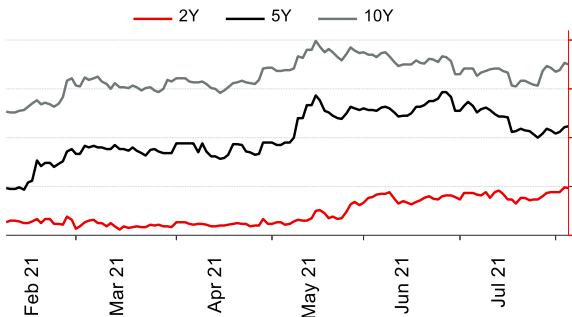
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



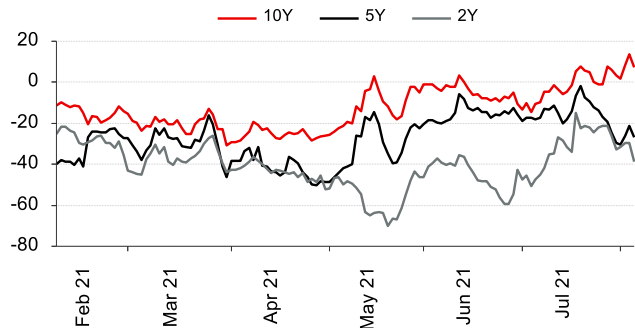
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



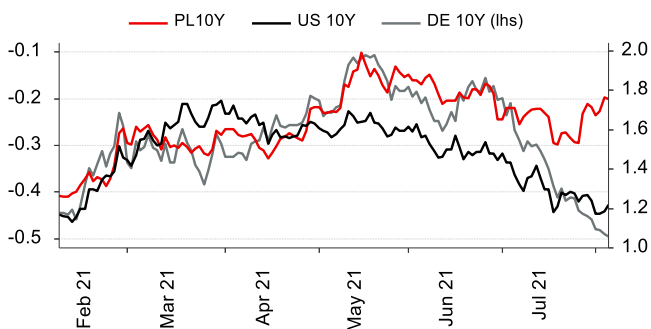
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



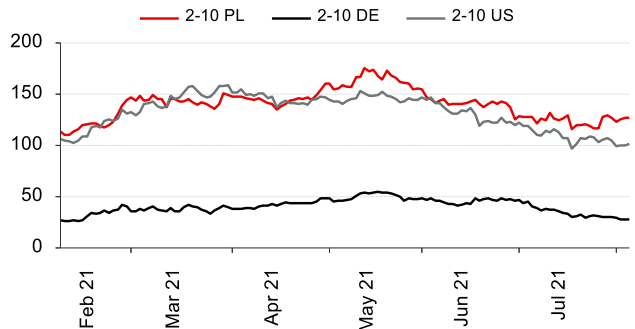
Source: Refinitiv Datastream, Santander Bank Polska

10Y bond yields



Source: Refinitiv Datastream, Santander Bank Polska

Steepness of yield curves



Source: Refinitiv Datastream, Santander Bank Polska

Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE	
				MARKET	SANTANDER		
MONDAY (9 August)							
08:00	DE	Exports SA	Jun	% m/m	-	0.3	
TUESDAY (10 August)							
09:00	CZ	CPI	Jul	% y/y	2.9	2.8	
09:00	HU	CPI	Jul	% y/y	4.8	5.3	
11:00	DE	ZEW Survey Current Situation	Aug	pts	-	21.9	
WEDNESDAY (11 August)							
08:00	DE	HICP	Jul	% m/m	0.5	0.5	
14:30	US	CPI	Jul	% m/m	0.5	0.9	
THURSDAY (12 August)							
11:00	EZ	Industrial Production SA	Jun	% m/m	0.4	-1.0	
14:30	US	Initial Jobless Claims		k	-	385.0	
FRIDAY (13 August)							
10:00	PL	CPI	Jul	% y/y	5.0	5.0	4.4
10:00	PL	GDP	2Q	% y/y	10.8	10.4	-0.9
14:00	PL	Current Account Balance	Jun	€mn	-96	76	60
14:00	PL	Trade Balance	Jun	€mn	801	869	185
14:00	PL	Exports	Jun	€mn	23783	24038	22636
14:00	PL	Imports	Jun	€mn	22908	23169	22451
16:00	US	Michigan index	Aug	pts	81.2		81.2

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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