

01 July 2022

Weekly Economic Update

MPC in a tight spot

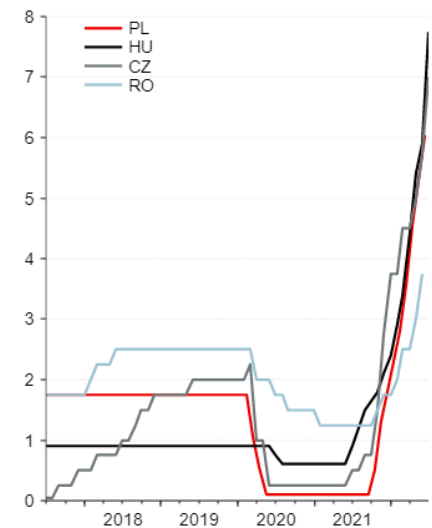
Economy next week

- The calendar of events and publications for the first week of July is not very extensive. In Poland, the most important event will be the **MPC meeting** on Thursday, July 7 and the conference of the NBP president, probably a day later in the afternoon. Also, the **Sejm session** is scheduled, at which, among other things, the approval of the laws on assistance to borrowers and on coal subsidies is expected. Abroad, not too many data releases, including final services PMIs, industrial orders in Europe and the US, Fed and ECB minutes, and data from the US labor market at the end of the week. Monday is the market holiday in the US.
- The last MPC meeting before the summer break (no decision meeting in August) will be extremely interesting. Firstly, the latest data imply a growing dilemma for the central bank, showing persistently strong inflationary pressure (CPI in June 1.5% m/m and 15.6% y/y, core inflation probably 9.3-9.4% y/y) with growing evidence of the looming recession (manufacturing PMI in June collapsed almost as much as at the peak of the pandemic, falling to 44.4 points and signaling a decline in orders, production and employment). Secondly, the MPC will learn about the results of the new NBP economic projections, which will show the expected impact of the already made interest rate hikes on inflation and GDP. The sensitivity of the MPC and the president of Glapiński to the risk of a significant slowdown in the economy, clearly visible in his recent comments, allows to expect a big temptation to trim the size of the interest rate hike at the upcoming meeting. Let us recall that already in May the MPC surprised the market with a smaller than expected scale of the move (75bp instead of 100bp), which was justified by balancing risks for inflation and economic growth. In our opinion, **the optimal decision in the current situation would be another decisive rate hike by 75bp**, which would underline the MPC's determination to fight inflation and reduce the risk of pressure on the domestic currency in the summer months amid likely aggressive monetary tightening by central banks abroad. This is still our baseline scenario, although we see a clearly growing chance of a smaller hike by 50bp. Anyway, the latest information from the economy supports our expectations that the central bank is actually approaching the end of the tightening cycle and the NBP rates will reach a maximum of around 7% in the fall.

Markets next week

- We think that the pressure on the zloty may continue after the weekend, resulting from negative global market sentiment (recession worries, declining EURUSD) and deteriorating economic fundamentals (growing imbalances measured by inflation and current account gap, slowing GDP growth). **EURPLN may test 4.74** ahead of the MPC meeting and then - depending on the result - stabilize in the case of + 75bp hike or further weaken in the case of a smaller move.
- The interest rate market follows the trend abroad, where yields continue to fall amid fear of a global recession. **Possible further slight drops in domestic yields and IRS**, which are unlikely to be stopped by the MPC decision - even if the Council hikes rates by 75bp, president Glapiński will probably strengthen the message about the nearing end of the cycle.

Main central bank rates in CEE, %

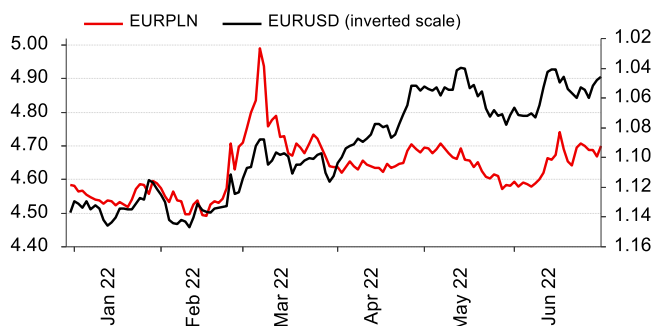


Source: Refinitiv Datastream, Santander

Economic Analysis Department:

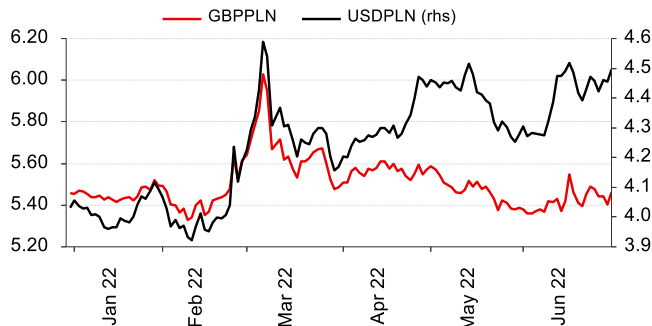
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EURPLN and EURUSD



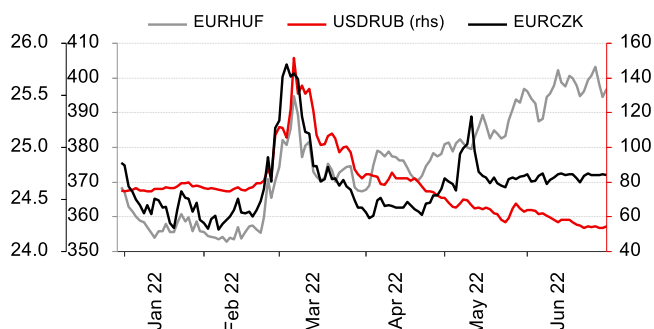
Source: Refinitiv Datastream, Santander

GBPPLN and USDPLN



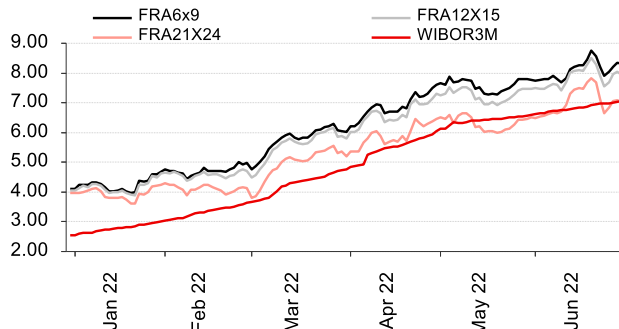
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



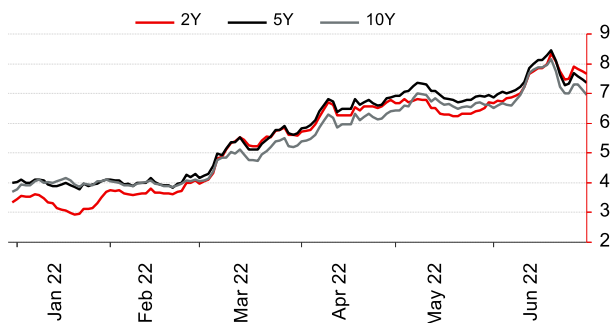
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



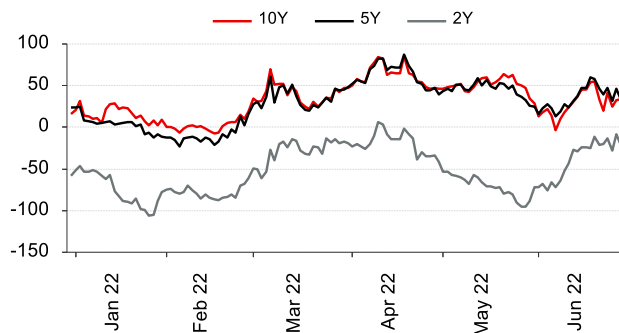
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



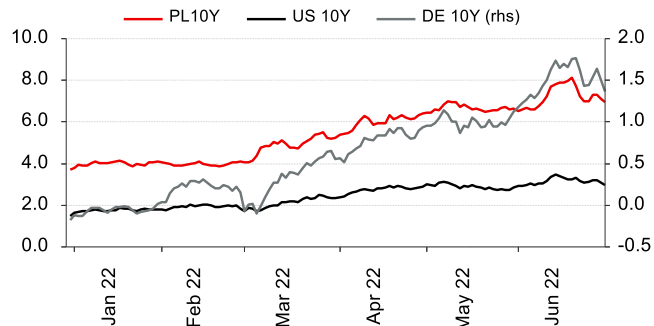
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



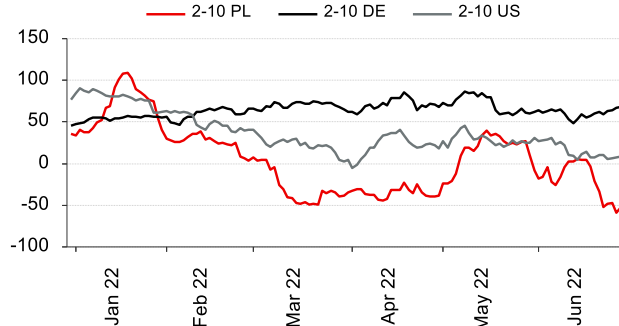
Source: Refinitiv Datastream, Santander Bank Polska

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 (4 July)							
08:00	DE	Exports SA	May	% m/m	-1.5	-	4.5
TUESDAY (5 July)							
03:45	CN	Caixin China PMI Services	Jun	pts	49.0	-	41.4
09:55	DE	Markit Germany Services PMI	Jun	pts	52.4	-	55.0
10:00	EZ	Eurozone Services PMI	Jun	pts	52.8	-	56.1
16:00	US	Durable Goods Orders	May	% m/m	0.7	-	0.4
16:00	US	Factory Orders	May	% m/m	0.5	-	0.3
WEDNESDAY (6 July)							
08:00	DE	Factory Orders	May	% m/m	-0.5	-	-2.7
09:00	HU	Industrial Production SA	May	% y/y	2.6	-	4.7
11:00	EZ	Retail Sales	May	% m/m	0.4	-	-1.3
16:00	US	ISM services	Jun	pts	54.5	-	55.9
20:00	US	FOMC Meeting Minutes	Jun.22				
THURSDAY (7 July)							
	PL	MPC decision		%	6.75	6.75	6.00
08:00	DE	Industrial Production SA	May	% m/m	0.3	-	0.7
09:00	CZ	Industrial Production	May	% y/y	2.5	-	-6.4
14:30	US	Initial Jobless Claims		k	230	-	231
FRIDAY (8 July)							
09:00	HU	CPI	Jun	% y/y	11.6	-	10.7
14:30	US	Change in Nonfarm Payrolls	Jun	k	275	-	390
14:30	US	Unemployment Rate	Jun	%	3.6	-	3.6

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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