

Weekly Economic Update

Summer holidays increasingly expensive

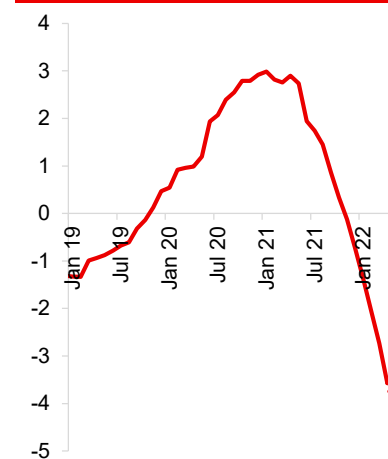
Economy next week

- Holiday season is in full swing, but it can hardly be called a 'silly season', at least as the economy and financial markets are concerned. The volatility of investor sentiment is exceptional, due to, among other things, the great uncertainty about what the next few months will bring in terms of inflation, economic growth, macroeconomic and geopolitical stability or energy security. What is more, the multitude of disturbances affecting the global economy is now so great that the economic cycle has accelerated tremendously - macroeconomic trends are changing at such a pace that sometimes the direction changes before we are able to see in the data the previous stage.
- The domestic calendar includes the **presentation of NBP Inflation Report** on Tuesday morning, and after that only two data releases at the end of the week: the **May balance of payments** on Thursday and the **final June CPI inflation** data on Friday. Abroad, the publications calendar is not particularly rich either. The data that should not be missed are: **final US and European inflation** prints, industrial production, retail sales and the University of Michigan's preliminary consumer sentiment index - all these could affect the market assessment of the outlook for Fed and ECB monetary policy, and thus the overall risk appetite.
- According to our forecast, the current account deficit widened again in May, to €4bn (rolling 12-month balance to -4.3% of GDP, the worst in a decade) on the back of an increase in imports consistently outpacing exports. The market consensus is for the deficit to narrow to €3.5bn.
- We expect the final CPI data to confirm the flash result of 15.6% y/y, driven mostly by fuels and core categories (our estimate of core inflation is 9.3%-9.4% y/y).

Markets next week

- The appreciation of the dollar and the rise in global risk aversion is creating unfavourable climate for EM currencies, and the zloty is additionally unsupported by the smaller-than-expected interest rate hike. It remains to be seen what the tone of today's press conference by President Glapinski will be (starting 15:00CET). A clear emphasis that the central bank remains determined to bring inflation down to target, and that the door to further rate hikes remains open, could support the domestic currency. However, based on the experience from previous months and given the smaller size of the last rate hike, we rather expect a renewed emphasis on the looming end of the tightening cycle and on the fact that the central bank cannot allow the economy to slow down too much.
- As a result, we think that **EURPLN may start the next week from attempting to break through 4.80 level again**. So far such attempts were unsuccessful, partly due to the market activity of the state-owned BGK. But after the weekend the chances of breaking higher will rise, in our view, especially if today's speech by Mr. Glapiński indeed sounds dovish, EURUSD moves closer to parity (for example, after higher US CPI or signals from the euro zone about possible watering down of ECB fragmentation tool), and after next poor current account data.
- In the debt market, recent weeks have seen yields go up in the first days after the weekend, only to fall again later. This pattern could, in theory, be repeated, although we have a feeling that there will be less fuel for the upward move - there are no major publications on Monday-Tuesday, and the market will still be 'digesting' the probably dovish message from the NBP governor's conference. **We assume that the short end of the curve will move downwards next week, the long end less so or will remain stable** (the market still has limited confidence in the NBP's ability to end the cycle soon, which may be further exacerbated as the PLN becomes overvalued).

Current account balance, 12m sum, % GDP

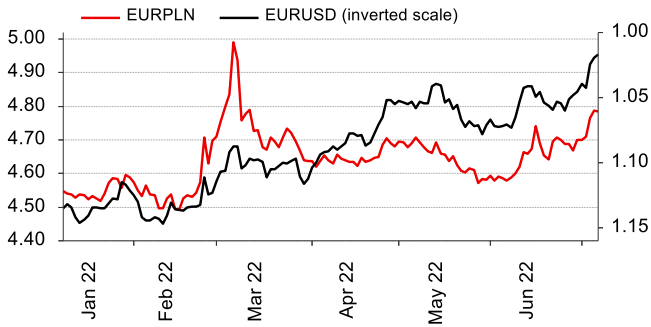


Source: NBP, Santander

Economic Analysis Department:

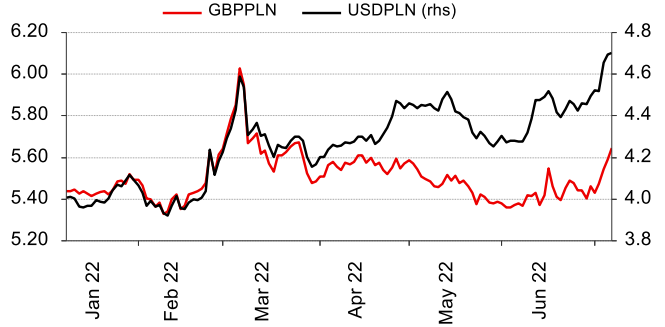
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EURPLN and EURUSD



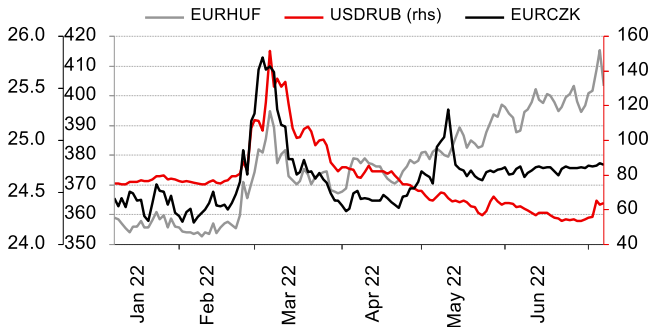
Source: Refinitiv Datastream, Santander

GBPPLN and USDPLN



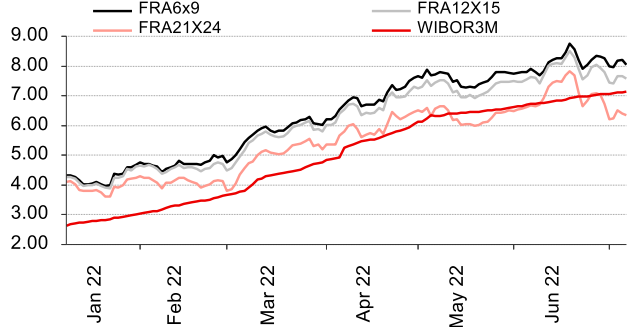
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



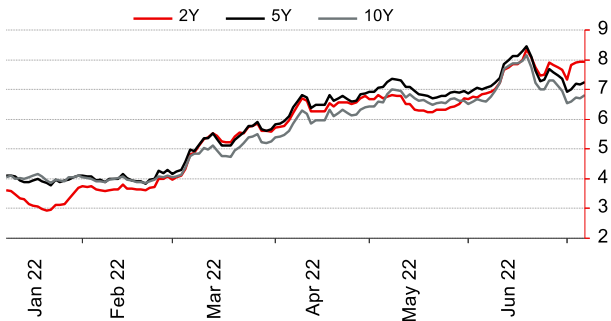
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



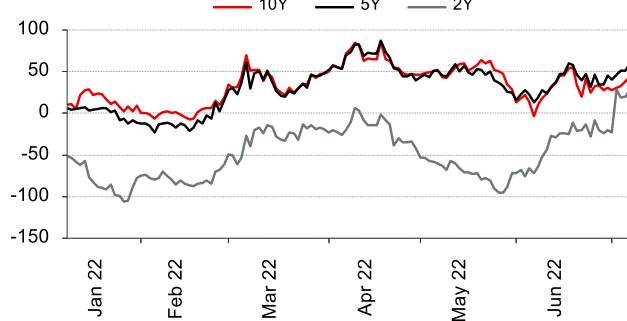
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



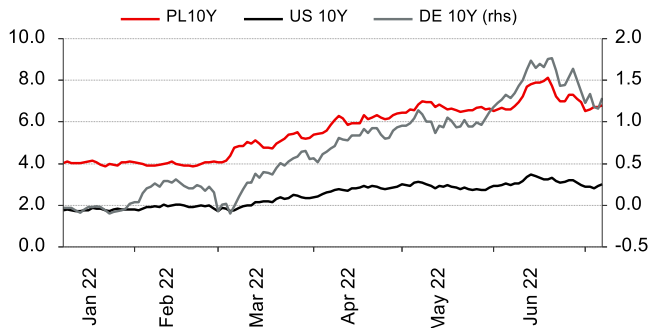
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



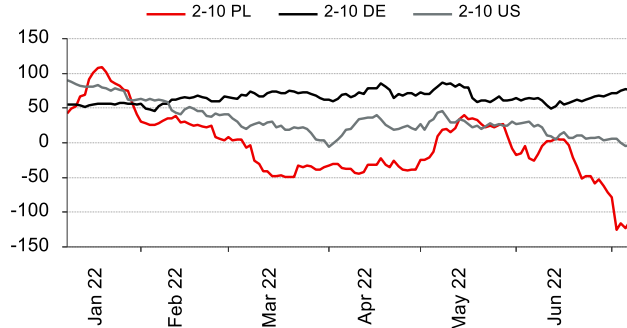
Source: Refinitiv Datastream, Santander Bank Polska

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 (11 July)							
No major events or data releases							
TUESDAY (12 July)							
09:00	PL	NBP Inflation Report					
11:00	DE	ZEW Survey Current Situation	Jul	pts	-33.0	-	-27.6
WEDNESDAY (13 July)							
08:00	DE	HICP	Jun	% m/m	-0.1	-	-0.1
09:00	CZ	CPI	Jun	% y/y	17.1	-	16.0
11:00	EZ	Industrial Production SA	May	% m/m	0.1	-	0.4
14:30	US	CPI	Jun	% m/m	1.1	-	1.0
THURSDAY (14 July)							
14:00	PL	Current Account Balance	May	€mn	-3500.0	-4019.0	-3924
14:00	PL	Trade Balance	May	€mn	-2515.0	-2626.0	-2466
14:00	PL	Exports	May	€mn	26278.0	26147.0	26559
14:00	PL	Imports	May	€mn	28971.0	28773.0	29025
14:30	US	Initial Jobless Claims		k	-	-	231.0
FRIDAY (15 July)							
10:00	PL	CPI	Jun	% y/y	15.6	15.6	13.9
14:30	US	Retail Sales Advance	Jun	% m/m	0.9	-	-0.3
15:15	US	Industrial Production	Jun	% m/m	0.0	-	0.1
16:00	US	Michigan index	Jul	pts	49.2	-	50.0

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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