

Eyeopener

Differences of opinion in the MPC

Today domestic inflation, important data from US

Current account deficit better than expected

European Commission cuts growth forecasts

Today, final Polish inflation data for June, plus data releases from the US: retail sales, industrial production, Michigan consumer confidence index.

NBP President Adam Glapiński said in an interview with PAP that if the scenario from the central bank's inflation projection materialises, a quick end to the rate hikes cycle will be possible. On the other hand, in 2023, with a falling GDP growth rate, rate cuts will be possible. This comment echoes his own words from the 8 July press conference. We expect the MPC to raise rates by 50 basis points in September, thus ending the cycle, provided no new price shocks emerge.

MPC's Ludwik Kotecki said in an interview with DGP daily that it cannot be ruled out that the average inflation in 2023 will be higher than this year, and it will exceed 20% in 1Q23. In his opinion, another rate hike can be expected in September. However, in general, the stagflation scenario he predicts creates a big challenge for the MPC and "it is not very clear what to do about it".

Current account balance in May reached -EUR1.9bn and was much better than expected (our forecast -EUR4bn, market consensus -EUR3.5bn). The biggest surprise was export that accelerated to 26.4% y/y vs 7.9% y/y in April (c.EUR2bn higher than we predicted). In the data commentary the NBP wrote that the rebound was seen especially in exports to Ukraine, but we think this factor alone was not able to explain the entire surprise. Import accelerated to impressive 35.8% y/y, roughly in line with expectations. Other sub-balances (services, income) were also slightly better than we anticipated. The most recent business surveys signalling a collapse in export orders suggest that the outlook for export growth is not particularly rosy. The 12-month rolling current account deficit widened after May to 3.9% of GDP (from 3.5% in April), according to our estimate. We predict it may widen further towards 5% of GDP by the year-end.

The European Commission lowered its GDP growth expectations due to the effects of the war in Ukraine, slowing growth in the US and the effects of the zero Covid policy in China. The forecast for the euro area for 2022 was lowered only slightly (to 2.6% from 2.7%), but more markedly for 2023: to 1.4% from 2.3%. Among the major economies, expectations were cut most sharply for Germany, Spain and France: by more than 1% in total for 2022-2023. The Commission revised the forecast for Poland upwards for 2022, but downwards for 2023. At the same time, HICP inflation forecasts went up: for the euro area to 7.6% from 6.1% in 2022 and to 4.0% from 2.7% in 2023. For Poland, the Commission forecasts HICP inflation of 12.2% this year and 9.0% next year. Overall, in 2022-23, Poland's aggregate price growth will be one of the highest in the EU, overtaken only by Estonia, Lithuania and Latvia.

IUNG-PIB (Institute of Soil Science and Plant Cultivation) reported that during the reporting period from 11 May to 10 July, **agricultural drought** occurred in all voivodships and affected twelve crops, including spring cereals, fruit bushes and trees and ground vegetables.

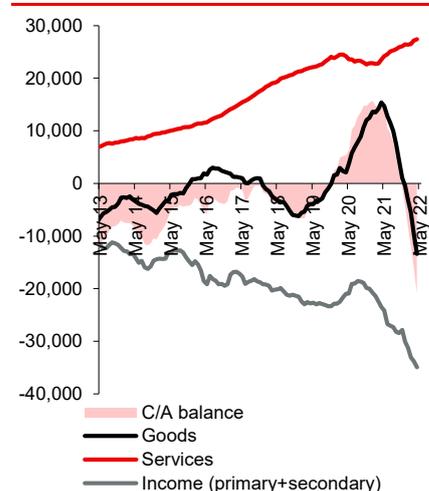
After a couple of days of flirting with 1.00, **EURUSD** finally managed to break it after US PPI in June, with – similarly to CPI released one day before – proved markedly higher than expected. Markets are worried that the strong inflation pressure will make the Fed more aggressive in the tightening cycle. Today the pair is again slightly above 1.00

EURPLN again attempted to attack 4.85, due to stronger dollar and expectations for a weaker current account in May. The better-than-expected reading supported the zloty, so the pair returned to 4.81, the Thursday's opening level.

Other CEE currencies: **EURCZK** climbed to 24.45 from 24.35. **EURHUF** declined to 408 from 410. The MNB left 1-week deposit rate unchanged but announced new swap operations in order to increase euro supply on the local market.

Debt market: domestic yield curve shifted up by 10bp, the IRS curve climbed at a similar scale. Rising expectations for rate hikes in the USA translated into higher rates expectations also in other countries. However, given expected economic slowdown and NBP's reluctance to continue rate hikes, the upward potential of Polish yields, especially at the longer end, seem to be only a correction after dynamic declines witnessed over the last few weeks.

Current account, 12m sums, €mn



Source: NBP, Santander

European Commission's GDP forecasts

	2022	2023
EU	2.7 (-0.0)	1.5 (-0.8)
Euro zone	2.6 (-0.1)	1.4 (-0.9)
Germany	1.4 (-0.2)	1.3 (-1.1)
France	2.4 (-0.7)	1.4 (-0.4)
Italy	2.9 (+0.5)	0.9 (-1.0)
Spain	4.0 (-0.0)	2.1 (-1.3)
Netherlands	3.0 (-0.3)	1.0 (-0.6)
Poland	5.2 (+1.5)	1.5 (-1.5)
Sweden	1.3 (-1.0)	0.8 (-0.6)
Czechia	2.3 (+0.4)	2.0 (-0.7)
Hungary	5.2 (+1.2)	2.1 (-0.5)
Romania	3.9 (+1.3)	2.9 (-0.7)

Change versus May 2022 in brackets

Source: European Commission, 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
Jarostaw Kosaty +48 887 842 480
Marcin Luziński +48 510 027 662
Grzegorz Ogonek +48 609 224 857

FX market

Today's opening			
EURPLN	4,8056	CZKPLN	0,1961
USDPLN	4,7978	HUFPLN*	1,1851
EURUSD	1,0017	RUBPLN	0,0823
CHFPLN	4,8780	NOKPLN	0,4678
GBPPLN	5,6672	DKKPLN	0,6456
USDCNY	6,7581	SEKPLN	0,4531

*for 100HUF

Last session in the FX market 14.07.2022

	min	max	open	close	fixing
EURPLN	4,802	4,842	4,828	4,812	4,837
USDPLN	4,789	4,838	4,818	4,798	4,827
EURUSD	0,995	1,005	1,002	1,003	-

Interest rate market 14.07.2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	8,04	9
DS0726 (5Y)	7,25	9
DS0432 (10Y)	6,91	5

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	8,06	9	3,53	2	0,94	3
2L	7,79	9	3,40	4	1,28	5
3L	7,31	10	3,21	4	1,41	4
4L	6,90	6	3,11	5	1,49	1
5L	6,63	4	3,06	5	1,60	1
8L	6,32	6	3,01	3	1,86	3
10L	6,30	0	3,02	2	1,97	1

WIBOR rates

Term	%	Change (bps)
O/N	6,39	5
T/N	6,58	11
SW	6,63	1
2W	6,63	2
1M	6,65	-2
3M	7,00	1
6M	7,30	1
1Y	7,44	1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7,45	6
3x6	8,05	14
6x9	8,20	9
9x12	8,08	11
3x9	8,27	9
6x12	8,38	13

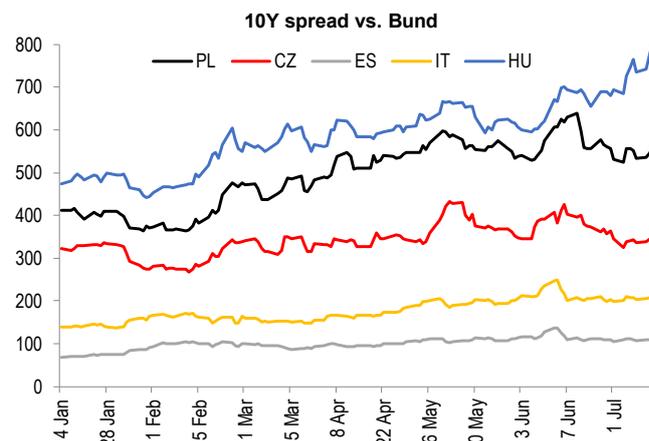
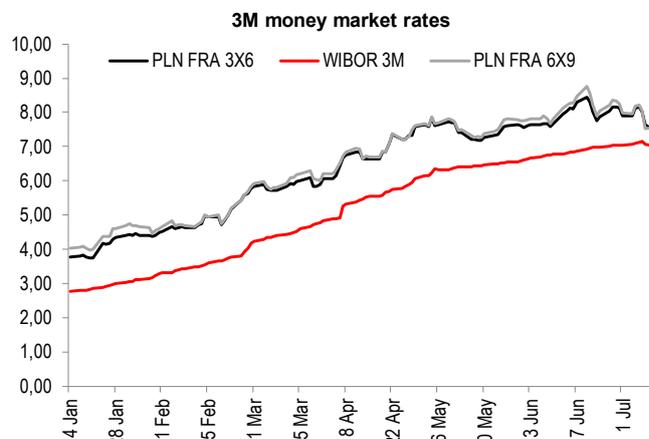
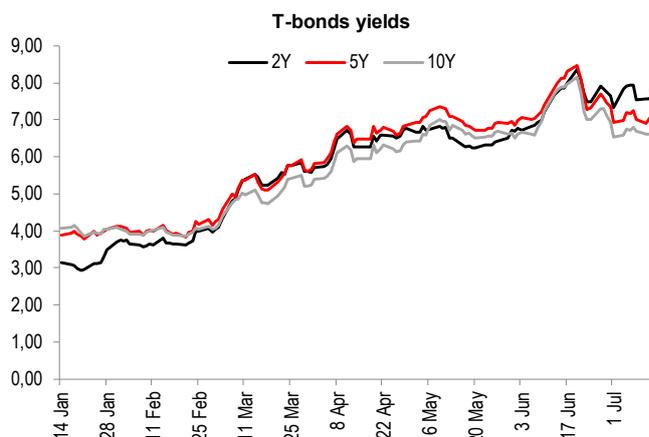
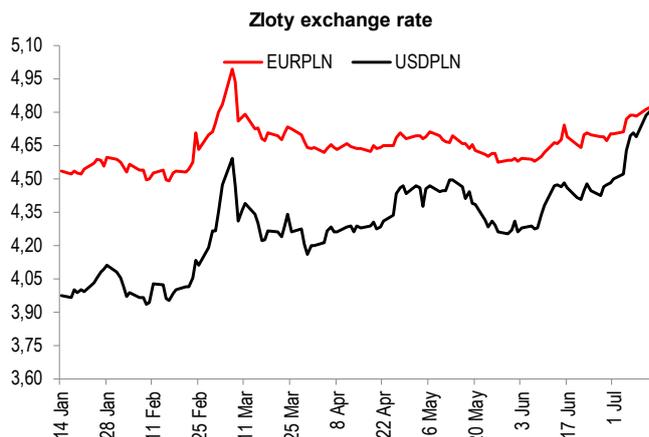
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	130	11	573	2
France	15	3	53	2
Hungary	201	12	804	-5
Spain	65	3	117	5
Italy	78	5	222	14
Portugal	50	3	118	6
Ireland	14	0	60	2
Germany	15	2	-	-

* 10Y treasury bonds over 10Y Bunds

**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	SANTANDER			
FRIDAY (8 July)								
09:00	HU	CPI	Jun	% y/y	11.6	-	11.7	10.7
14:30	US	Change in Nonfarm Payrolls	Jun	k	275	-	372	384
14:30	US	Unemployment Rate	Jun	%	3.6	-	3.6	3.6
MONDAY (11 July)								
No important releases								
TUESDAY (12 July)								
09:00	PL	NBP Inflation Report						
11:00	DE	ZEW Survey Current Situation	Jul	pts	-33.0	-	-53.8	-28.0
WEDNESDAY (13 July)								
08:00	DE	HICP	Jun	% m/m	-0.1	-	-0.1	-0.1
09:00	CZ	CPI	Jun	% y/y	17.1	-	17.2	16.0
11:00	EZ	Industrial Production SA	May	% m/m	0.1	-	0.8	0.4
14:30	US	CPI	Jun	% m/m	1.1	-	1.3	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	235	244		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. Bloomberg. Parkiet

* in the case of a revision the data is updated

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