

Weekly Economic Update

ECB takes foot off the gas

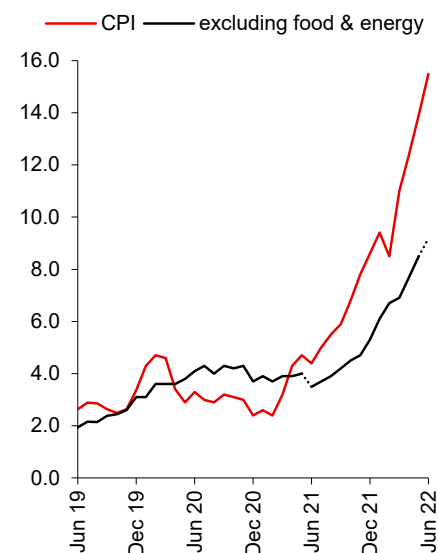
Economy next week

- This is not a lazy summer. Global inflation is rising, fears of a global recession are also growing, the threat of energy rationing in Europe in the autumn and winter is becoming more real. The dollar is strengthening, emerging market currencies are weakening and the zloty is among the most vulnerable to a sell-off. After the weekend, there will be no shortage of important economic and political topics that could rock the markets.
- In the domestic calendar, a **large portion of economic data for June**: core inflation (Monday), wages and employment, industrial production, PPI, consumer sentiment (Wednesday), construction production and retail sales (Thursday), business climate and money supply (Friday). We are betting that the releases will confirm a scenario of decelerating economic activity, with price pressures still elevated and wage pressure high, albeit already weakening.
- Abroad, leading indicators (including consumer sentiment, flash PMIs), European inflation, US housing market data will be interesting. However, **the ECB decision on Thursday** will be the event of the week. The bank is likely to raise interest rates for the first time since 2011. The market consensus is for +25bp, but opinions are divided, with some predicting +50bp or even +75bp, as most central banks around the world have recently dramatically increased the scale of rate moves and +75bp has become the new standard (of course, there are exceptions: the Bank of Canada has even decided to move by +100, and after the latest inflation data there are growing expectations for +100 from the Fed in 2 weeks' time... meanwhile, the NBP has moved to +50). The key for markets will be not only the scale of the hike, but also the forward guidance on further steps, as well as information on the anti-fragmentation tool, which is supposed to protect southern eurozone countries (Italy in particular) from solvency problems due to rising debt servicing costs. It is precisely concerns about the fragmentation of euro area markets that may hold the ECB back from a decisive rate hike.
- The importance of the fragmentation issue is growing due to, among other things, the **political turmoil in Italy** - Prime Minister Mario Draghi has just tendered his resignation, which has not yet been accepted by the President, and politicians are expected to seek a way out of the situation in the coming week; one possible solution is early elections.
- Wednesday should theoretically see the **end of the maintenance of the Nord Stream 1 pipeline**, which was supposed to last 10 days, and if gas deliveries to Germany are not resumed the following day, market fears of an energy shortage in Europe and a related 'hard landing' scenario are likely to rise strongly.
- **Fitch has scheduled a rating review** for Poland on Friday evening. We do not assume any change.

Markets next week

- EURUSD, after temporarily breaking parity (for the first time in 20 years), rebounded up, which helped the zloty and other EM currencies on Friday. Technically, **we see room for EURPLN to go down to 4.78 at the beginning of the week, but then back up above 4.80 again**. Much will depend on global sentiment. Risks that could weaken the euro against the dollar in the middle of the week, and thus also hurt the zloty, are: the extension of Nord Stream 1 'maintenance' by the Russians, political turmoil in Italy, disappointment with the ECB decision and/or its anti-fragmentation tool.
- Most of these factors would favor risk aversion and therefore lower yields in the core markets. The impact on the Polish curve, however, is less obvious - in particular, the risk of a gas shortage could increase concerns about further inflation jump and about fiscal expansion, which could be negative for yields. In the baseline scenario, **we assume a fluctuation of 10Y yields around the current level of 6.76% and an increase in the short end of the curve**.

Inflation rates, % y/y

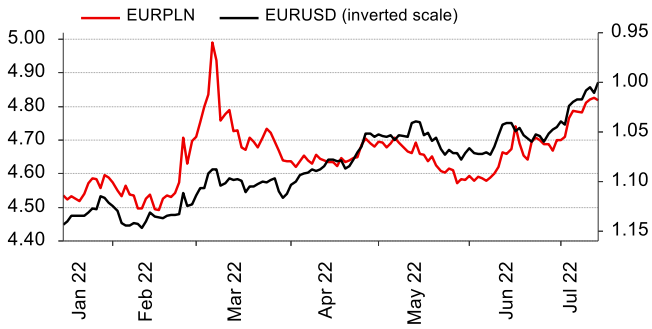


Source: GUS, NBP, Santander

Economic Analysis Department:

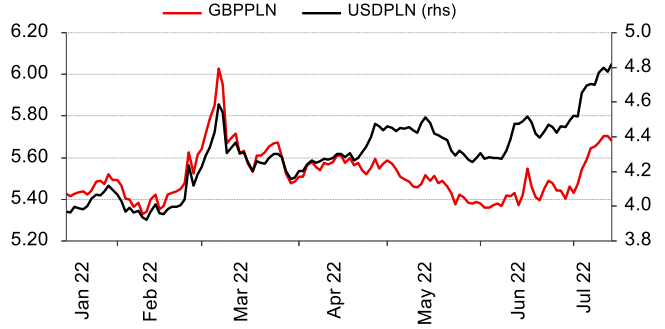
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EURPLN and EURUSD



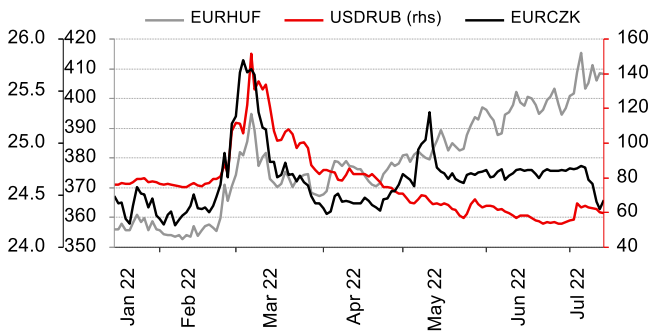
Source: Refinitiv Datastream, Santander

GBPPLN and USDPLN



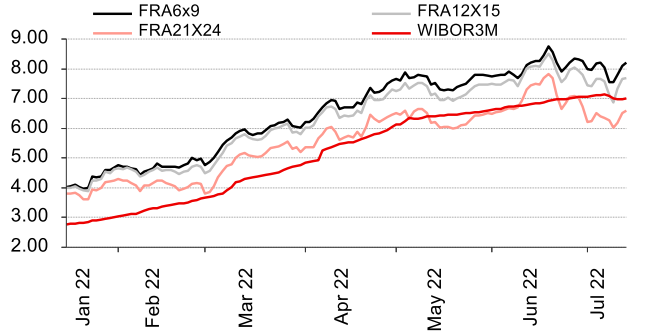
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



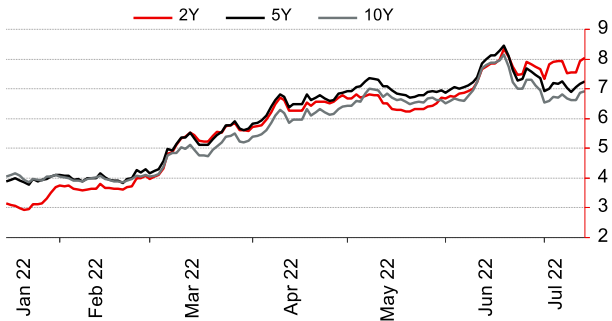
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



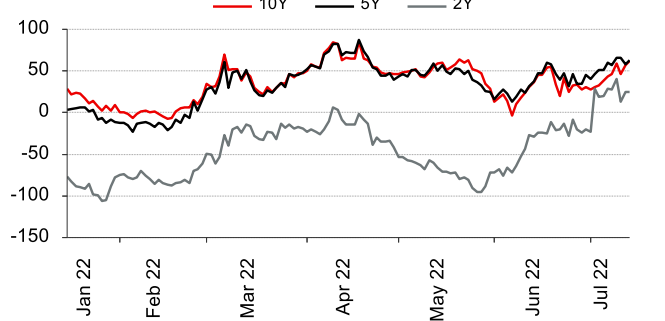
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



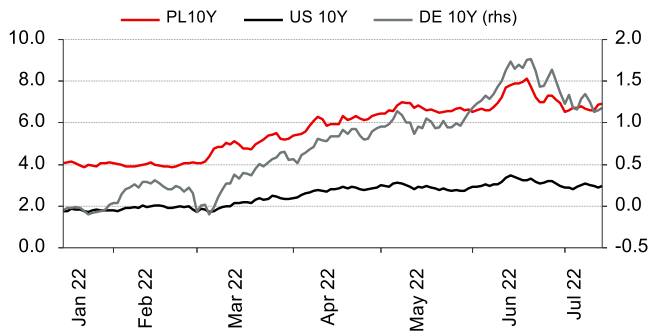
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



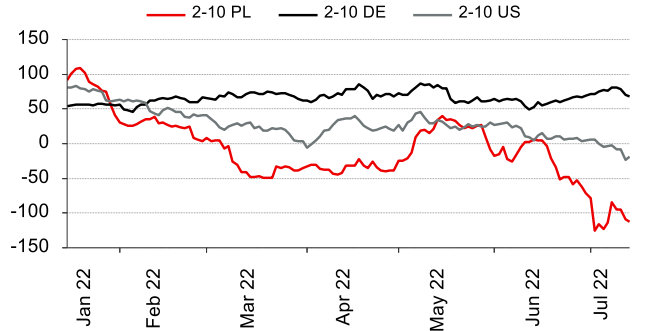
Source: Refinitiv Datastream, Santander Bank Polska

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 (18 July)							
14:00	PL	CPI Core	Jun	% y/y	9.3	9.2	8.5
TUESDAY (19 July)							
11:00	EZ	HICP	Jun	% y/y	8.6		8.6
14:30	US	Housing Starts	Jun	% m/m	2.97		-14.4
WEDNESDAY (20 July)							
10:00	PL	Employment in corporate sector	Jun	% y/y	2.2	2.1	2.4
10:00	PL	Average Gross Wages	Jun	% y/y	13.3	13.3	13.5
10:00	PL	Sold Industrial Output	Jun	% y/y	11.2	12.4	15.0
10:00	PL	PPI	Jun	% y/y	25.2	25.3	24.7
16:00	US	Existing Home Sales	Jun	% m/m	-0.18		-3.39
THURSDAY (21 July)							
10:00	PL	Construction Output	Jun	% y/y	11.25	8.7	13.0
10:00	PL	Retail Sales Real	Jun	% y/y	5.85	5.8	8.2
14:15	EZ	ECB Main Refinancing Rate		%	0.25		0.0
14:30	US	Initial Jobless Claims		k	240.0		244.0
14:30	US	Index Philly Fed	Jul	pts	-0.5		-3.3
FRIDAY (22 July)							
09:30	DE	Germany Manufacturing PMI	Jul	pts	50.9		52.0
09:30	DE	Markit Germany Services PMI	Jul	pts	51.4		52.4
10:00	EZ	Eurozone Manufacturing PMI	Jul	pts	51.0		52.1
10:00	EZ	Eurozone Services PMI	Jul	pts	52.0		53.0
14:00	PL	Money Supply M3	Jun	% y/y	7.7	7.6	7.6

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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