

WEEKLY COMMENTARY

18.07.2022

Last week (11-17.07.2022), **weak sentiment** persisted in the markets. Overseas, the S&P500 index fell by 0.9%, and the technology Nasdaq Composite by 1.6%. European stocks suffered losses as well, with the Euro Stoxx 50 falling 0.8%. There are many sources of pessimism among investors. **Uncertainty about global growth prospects in an environment of high inflation and interest rate hikes** is not abating. Risk appetite is further limited by concerns about **whether Russian gas supplies via Nord Stream 1 will fully resume after the 10-day maintenance window ends**. Market sentiment has also not been improved by the emergence of **the seventh wave of the Covid-19 pandemic**. An increase in infections caused by the new Omicron variant has been observed in a number of European countries, including France and Germany. The risk of further pandemic restrictions in China has also increased.

In the **USA, June CPI inflation data** were released, rising sharply **above expectations to 9.1% y/y** (+1.3% m/m). In contrast, **core inflation fell to 5.9% y/y**, less than the market expected. As a result of this publication, expectations for a faster-than-expected monetary tightening cycle by the Federal Reserve have strengthened. The next Fed meeting is scheduled for July 26-27.

In the region, **the Czech Republic's inflation** reading showed **higher-than-expected figures** (17.2% y/y in June vs. 16% y/y in May). In Poland, GUS revised the **final June inflation reading slightly downward** (15.5% y/y). The **NBP's projection** was also published, showing that **the peak in inflation is expected in IQ'23**. The difference from earlier statements by President Glapinski, who assured that the CPI peak is expected in the summer months, is due to the fact that the NBP's inflation projection assumes that the shields will end in October, which seems an unrealistic scenario. Moreover, economic projections released by the NBP showed that the **central bank expects GDP growth of 4.7% in 2022 and 1.4% in 2023**.

The Warsaw Stock Exchange's broad **WIG index ended the week lower by 5.5%**. **Large companies**, as measured by the **WIG20 index, performed the weakest** (-6.9%). Contributing to this were statements by the Prime Minister, who announced the introduction of a mechanism for sharing excess profits of state-owned companies with the public. Against this background, **small and medium-sized companies did relatively better** (sWIG80 and mWIG40 fell by 2.9%).

In Poland, unlike in the core markets, **weakness** was visible in the **bond market**. Yields on 10-year Treasury bonds rose to 6.71% (+5 bps). In contrast, **prices of US Treasuries rose** (yields fell 15 bps to 2.93%). A similar move was seen in **German 10-year Treasuries** (yields fell 18 bps to 1.07%). **High-yield** corporate bond indexes **ended the week with positive returns**. The EUR-denominated index rose by 0.4%, while the USD-denominated index rose by 0.3%. In the foreign exchange market, the **US dollar continued to strengthen**. The EUR-USD exchange rate oscillated around parity over the past week. On the other hand, **in the commodities market** we saw **strong declines**. WTI crude oil prices fell by 6.9% for the week, below \$100 per barrel, while copper prices fell by 7.9% to below \$7200 per ton.

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