

21 July 2022

Eyeopener

ECB decision in the spotlight

Today local data on construction output, retail sales ; ECB decision

First set of economic data for June heralds activity slowdown

MPC's Wnorowski: possible one interest rate hikes or more; Janczyk: I hope there will be no more rate hikes needed

Today in Poland construction production and retail sales data will be released. In our view, they could be weaker than expected, similarly to yesterday's prints. Also, the ECB meeting ends today - the probability of 50bp rate hike has recently increased. Gas deliveries to Germany via the Nord Stream 1 pipeline resumed this morning, but on a limited scale.

Industrial production growth slowed in June to 10.4% y/y from 14.9% y/y (revised lower) in May. Almost all the sectors (except mining) recorded a very weak monthly increase in output. The data provide another piece of evidence that the trend of vibrant post-pandemic rebound in Polish industry has turned around and now the sector is entering the period of contraction, amid worsening global demand, lasting shortages of components and possible shortages of energy. **Employment** increased by 2.2% y/y in June vs 2.4% y/y in May and slightly above our forecasts at 2.1% y/y. Meanwhile, **wages** slowed to 13.0% y/y in June from 13.5% y/y in May. This was a second month in a row with below-average results. We think that the wage growth is probable to remain contained in the upcoming months, yet two-digit annual growth rate is likely to stay. Still, wages are likely to grow slower than inflation, which will be negative for the real consumption. In general, June's data point to developing economic slowdown, supporting our forecast of a major decline in GDP growth in 2H22. Please read more in our [Economic comment](#).

MPC member **Henryk Wnorowski** said that one or more interest rate hikes are possible. According to Wnorowski, inflation will peak in August above 16%. Another MPC member, **Wiesław Janczyk**, hopes that no more interest rate hikes will be needed, although in his view it is difficult to assess the impact of energy price rises. Janczyk also did not rule out rate cuts in 2023.

A Senate vote on the **dismissal of Rafal Sura** from the MPC will take place today. The appointment of a successor will probably not take place before September.

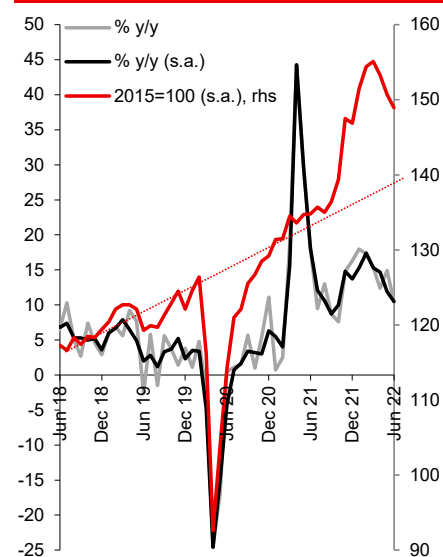
EURUSD fluctuated around 1.02 on Wednesday in anticipation of the ECB decision. A factor limiting the single currency's gains amid wave of expectations of a possible larger rate hike and the announcement of the details of a new anti-fragmentation instrument, were signals of only a partial resumption of gas transmission through the NS1 pipeline. The Russian side has indicated that the scale of transmission may still be reduced, due to the need for maintenance work on other sections of the pipeline. This may make it difficult to build up adequate reserves of natural gas in Germany before the start of the heating season.

EURPLN rose to 4.77 from around 4.75 at the opening of the European session, with the rate rising after weaker-than-expected domestic data and on the back of waning enthusiasm over the resumption of gas deliveries via the NS1 pipeline. During the day, the exchange rate even tried to attack the 4.79 area, but eventually retreated, having the prospect for the ECB meeting and a portion of more domestic data to be released today.

Other CEE currencies: EURCZK rose from 24.49 to 24.54 and EURHUF from 396 to 399. The region's currencies were hurt by reports on the conditions for the resumption of the NS1 pipeline transmission.

Debt market: the domestic yield curve recorded further declines at the longer end, due to weaker domestic data and disappointing circumstances regarding the resumption of gas transmission via the NS1 pipeline. Their effect included a rise in the 2-year ASW. At BGK's auction for the COVID-19 Fund, four series of bonds were sold for PLN723mn, with demand at PLN1.336bn. On the main markets, yields remained relatively stable.

Industrial output



Source: Eurostat, Santander

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FX market

Today's opening

EURPLN	4.7674	CZKPLN	0.1939
USDPLN	4.6638	HUFPLN*	1.1877
EURUSD	1.0221	RUBPLN	0.0850
CHFPLN	4.8042	NOKPLN	0.4685
GBPPLN	5.5899	DKKPLN	0.6401
USDCNY	6.7580	SEKPLN	0.4567

*for 100HUF

Last session in the FX market 20/07/2022

	min	max	open	close	fixing
EURPLN	4.7417	4.7880	4.7516	4.7702	4.7603
USDPLN	4.6224	4.7066	4.6371	4.6688	4.6524
EURUSD	1.0172	1.0273	1.0242	1.0213	-

Interest rate market 20/07/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	7.73	8
DS0726 (5Y)	6.91	-9
DS0432 (10Y)	6.59	-6

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.60	0	3.55	1	1.04	-3
2L	7.31	-6	3.46	-1	1.43	-1
3L	6.90	-5	3.29	-1	1.52	-4
4L	6.57	-7	3.19	0	1.61	-6
5L	6.39	-7	3.13	1	1.74	-2
8L	6.18	-3	3.06	0	1.93	-3
10L	6.19	-4	3.07	0	2.04	-4

WIBOR rates

Term	%	Change (bps)
O/N	6.33	0
T/N	6.48	-1
SW	6.63	0
2W	6.63	-1
1M	6.69	0
3M	7.00	-1
6M	7.29	-1
1Y	7.45	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7.11	0
3x6	7.48	-1
6x9	7.60	3
9x12	7.48	-3
3x9	7.67	-2
6x12	7.77	5

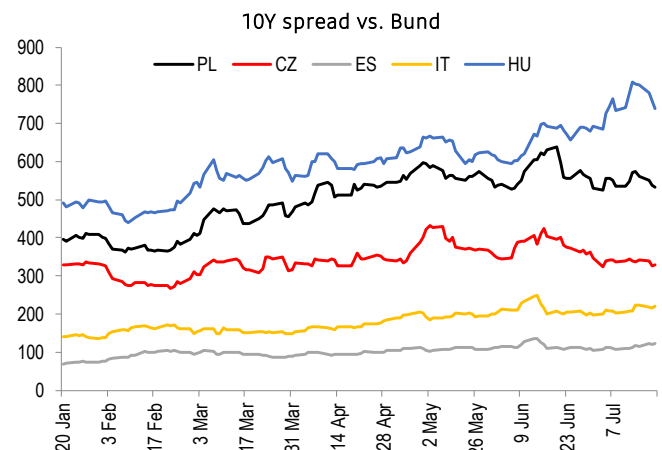
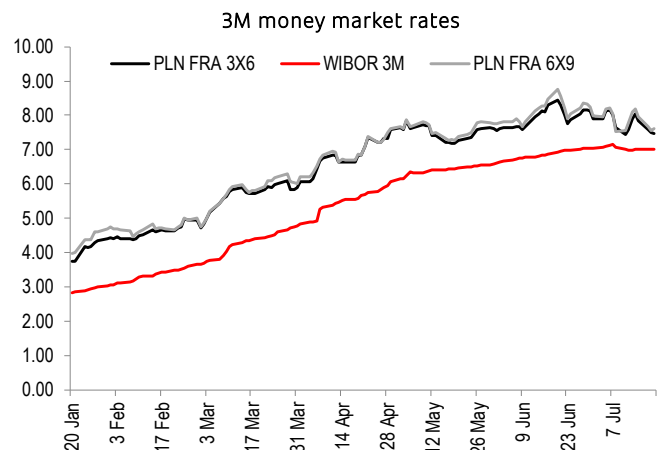
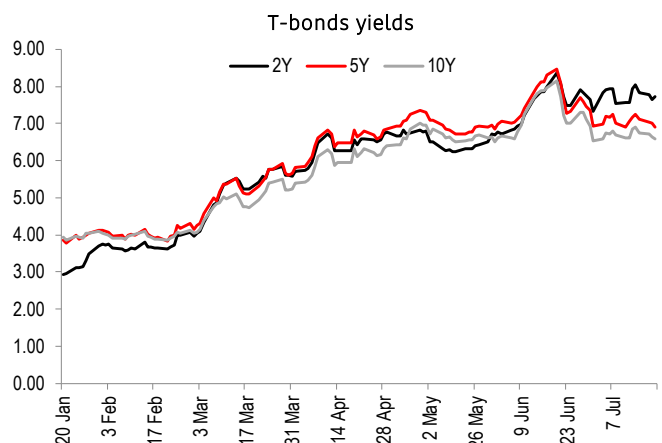
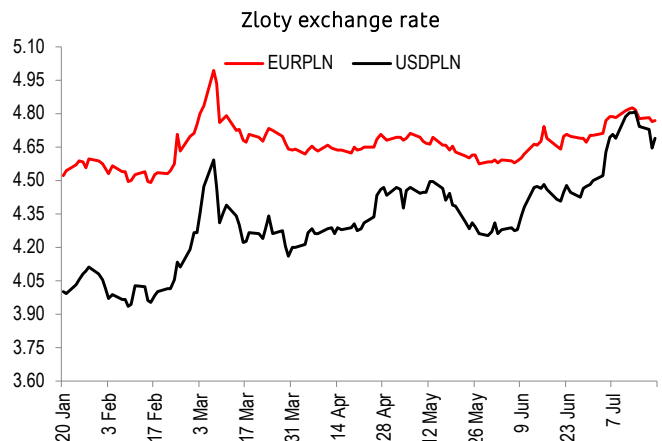
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	130	0	533	-4
France	15	0	57	1
Hungary	211	0	739	-21
Spain	65	0	122	2
Italy	73	3	221	6
Portugal	50	0	114	2
Ireland	15	0	57	0
Germany	14	0	-	-

* 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)								
10:00	PL	CPI	Jun	% y/y	15.6	15.6	15.5	13.9
14:30	US	Retail Sales Advance	Jun	% m/m	0.9	-	1.0	-0.3
15:15	US	Industrial Production	Jun	% m/m	0.0	-	-0.2	0.1
16:00	US	Michigan index	Jul	pts	49.2	-	51.1	50.0
MONDAY (18 July)								
14:00	PL	CPI Core	Jun	% y/y	9.3	9.2	9.1	8.5
TUESDAY (19 July)								
11:00	EZ	HICP	Jun	% y/y	8.6		8.6	8.6
14:30	US	Housing Starts	Jun	% m/m	3.0		-2.0	-11.9
WEDNESDAY (20 July)								
10:00	PL	Employment in corporate sector	Jun	% y/y	2.2	2.1	2.2	2.4
10:00	PL	Average Gross Wages	Jun	% y/y	13.3	13.3	13.0	13.5
10:00	PL	Sold Industrial Output	Jun	% y/y	11.2	12.4	10.4	15.0
10:00	PL	PPI	Jun	% y/y	25.2	25.3	25.6	24.7
16:00	US	Existing Home Sales	Jun	% m/m	-0.2		-5.4	-3.4
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, Bloomberg, Parkiet
* in the case of a revision the data is updated

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