22 July 2022

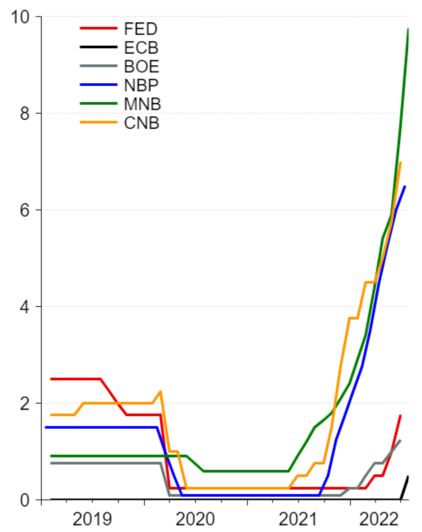
Weekly Economic Update

CPI may decline during summer holidays

Economy next week

- The week ahead will be again full of important market events that are likely to generate considerable volatility.
- The domestic calendar is modest: on Monday, the **Statistical Bulletin from GUS**, which will provide a slightly deeper look into the economic trends that are looking increasingly pessimistic. Recent data releases were clearly dissapointing, deepening fears of a looming recession (see our comments here and here).
- From a market perspective, the **flash CPI inflation** for July, published on Friday, will be much more important - according to our estimates, the **inflation rate will decline to 15.2% y/y in July** (vs. 15.5% in June), mainly due to much cheaper fuel. The median forecast in Bloomberg is so far at 15.6% y/y (only a few survey responses) so such a low reading could come as quite a shock to the market and would rather strongly reduce the chances of a rate hike by the MPC in September.
- Definitely more will be happening abroad in the coming days: key events are **the Fed decision** (Wednesday), **preliminary Q2 GDP** data in the US and some European countries (Thursday-Friday), **preliminary inflation data for July** in Europe (Thursday-Friday), business climate indices (Ifo, ESI, US consumer sentiment), plus a few other indicators of real activity. On Tuesday, the Hungarian central bank will decide on rates.
- **The FOMC will raise rates once again**, the question is whether by 75bp, as the consensus indicates, or whether it will opt for a stronger move of 100bp. The latter scenario would probably trigger a marked weakening of the euro (perhaps a renewed attack on parity by EURUSD) and EM currencies, declines in stock markets and an rise in global risk aversion.
- GDP prints and leading indicators from the developed economies are likely to reinforce expectations that the global economy is heading for a serious slowdown, which will also not be conducive to investor sentiment.

Main interest rates, %



Source: Refinitiv Datastream, Santander

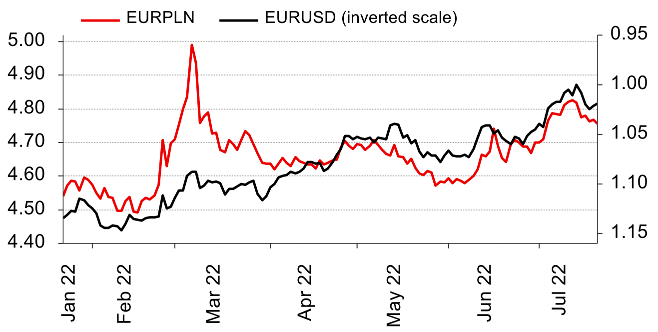
Markets next week

- The EURUSD, after bouncing back above the 1.02 on the back of hopes for faster ECB rate hikes and the effective implementation of the new anti-fragmentation instrument (TPI), retreated below this level again. Although the ECB has joined the group of central banks raising interest rates quickly, the announcement of only occasional, rather than regular, use of the TPI has dashed hopes of a sustained and comprehensive closing of the large differences in bond yields between euro area countries. In our view, this combination reinforces recessionary fears, which have been growing for some time, and another significant rate hike in the US in the coming week amid a weakening economy in Europe could further stimulate them. To make matters worse, Italy's parliament has been dissolved and the political turmoil means there is a risk of losing the Recovery Fund money (possible failure to implement the required economic reforms), which could plunge the country even further into recession. The conditional operation of NS1 at incomplete capacity and with the risk of supply being stopped again under the pretext of further maintenance does not reduce the uncertainty surrounding the possibility of a supply shock in the European gas market in the autumn.
- In such an external environment, we expect a **renewed increase in risk aversion** in the coming week, which could **push EURPLN towards 4.80**. In the debt market, we expect a further downward shift in the Polish yield curve across the board. In addition to concerns about the economic slowdown at home, signs of which were already visible in the recently published data, this should also be supported by a lower CPI inflation reading for July and a strengthening in the core debt markets on a wave of risk aversion. **We assume that 10Y yields will go down to around 5.80% and 2Y yields towards 6.90%**.

Economic Analysis Department:

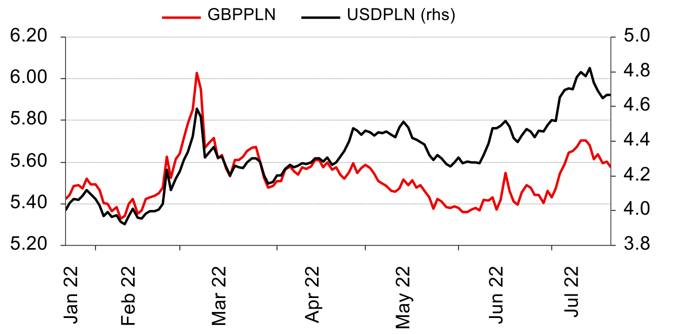
al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website: santander.pl/en/economic-analysis
Piotr Bielski +48 691 393 119
Jarosław Kosaty +48 887 842 480
Marcin Luziński +48 510 027 662
Grzegorz Ogonek +48 609 224 857

EURPLN and EURUSD



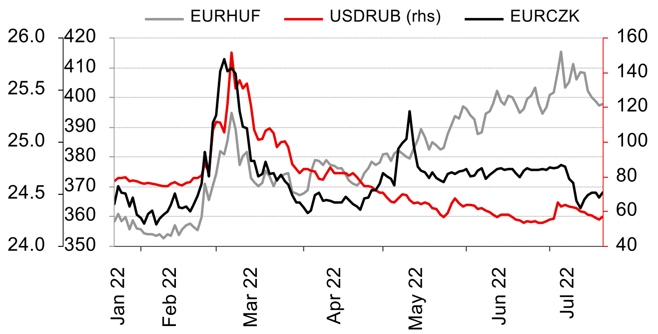
Source: Refinitiv Datastream, Santander

GBPPLN and USDPLN



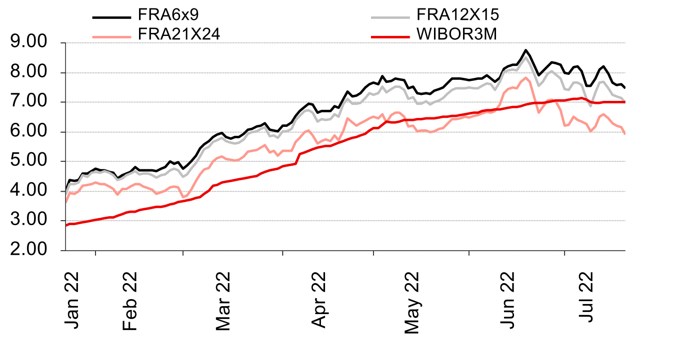
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



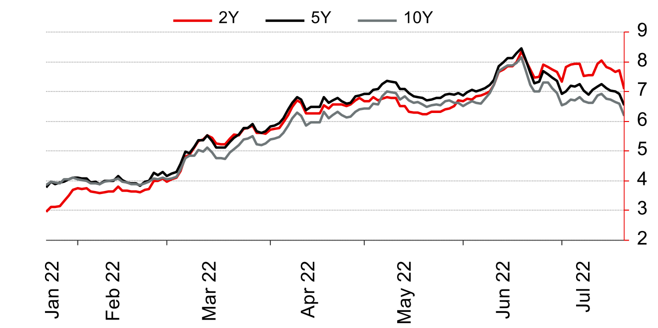
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



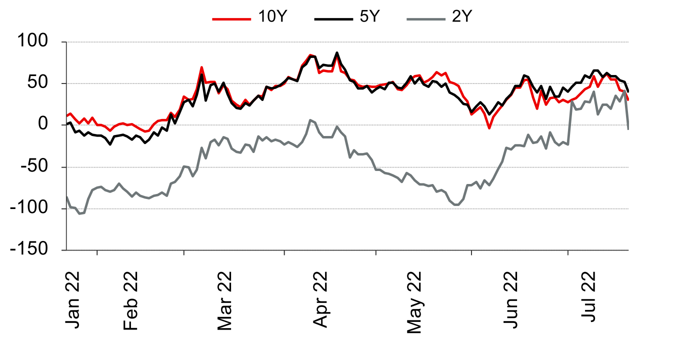
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



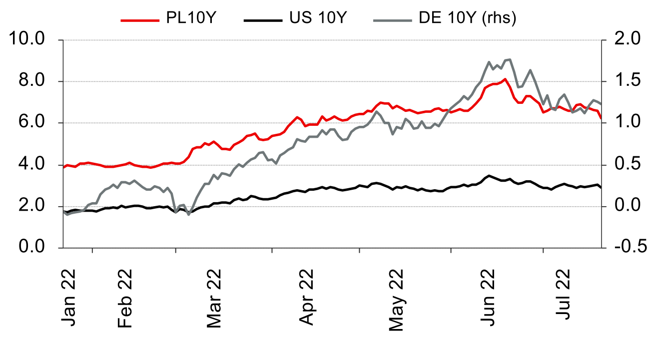
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



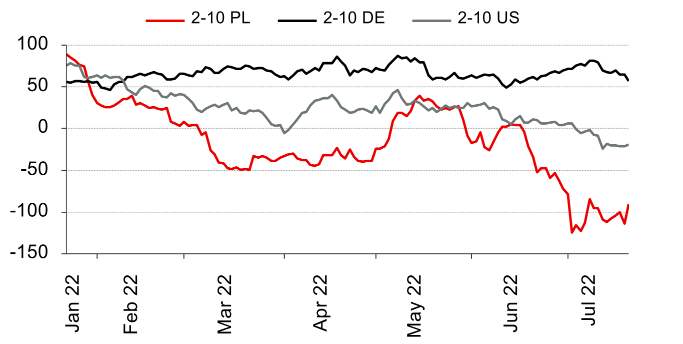
Source: Refinitiv Datastream, Santander Bank Polska

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 MARKET	FORECAST SANTANDER	LAST VALUE
		MONDAY (25 July)					
10:00	DE	IFO Business Climate	Jul	pts	90.3		92.3
10:00	**PL**	**Unemployment Rate**	**Jun**	**%**	**4.9**	**4.9**	**5.1**
		TUESDAY (26 July)					
14:00	HU	Central Bank Rate Decision		%	10.75		9.75
16:00	US	New Home Sales	Jun	% m/m	-3.4		10.7
		WEDNESDAY (27 July)					
14:30	US	Durable Goods Orders	Jun	% m/m	-0.5		0.8
16:00	US	Pending Home Sales	Jun	% m/m			0.7
20:00	US	FOMC decision		%	2.50		1.75
		THURSDAY (28 July)					
11:00	EZ	ESI	Jul	pct.	102.0		104.0
14:00	DE	HICP	Jul	% y/y	8.1		8.2
14:30	US	GDP Annualized	2Q	% Q/Q	0.5		-1.6
14:30	US	Initial Jobless Claims		k	240.0		251.0
		FRIDAY (29 July)					
09:00	CZ	GDP SA	2Q	% y/y	3.4		4.9
10:00	**PL**	**CPI**	**Jul**	**% y/y**	**15.6**	**15.2**	**15.5**
10:00	DE	GDP WDA	2Q	% y/y	1.7		3.8
11:00	EZ	Flash HICP	Jul	% y/y	8.7		8.6
11:00	EZ	GDP SA	2Q	% y/y	3.4		5.4
14:30	US	Personal Spending	Jun	% m/m	0.8		0.2
14:30	US	Personal Income	Jun	% m/m	0.5		0.5
14:30	US	PCE Deflator SA	Jun	% m/m	0.9		0.6
16:00	US	Michigan index	Jul	pts	51.1		51.1

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg