

29 July 2022

Eyeopener

US in technical recession, Polish inflation may fall

US economic growth surprised downward yesterday and German inflation upward

Today, among a number of important data, a possible drop in Polish inflation

EURPLN lower, yields slightly higher

Today we will get to see a lot of data from major economies and from the CEE region. In Poland we will get to see a preliminary CPI inflation for July. We are expecting a decline (the first in a year, if we omit the temporary decline in inflation in February by the VAT cut on food) to 15.2% y/y from 15.5% in June, mainly due to markedly cheaper fuel. Most analysts, however, are betting for a small increase, with median Bloomberg forecast at 15.6% y/y. A low reading would lower the likelihood of a rate hike by the MPC in September, but there will still be plenty of significant data to come before the meeting. The behaviour of the zloty in August will also be not without influence. In addition, today we will see the first estimates of 2Q GDP from the Czech Republic, Germany, the euro zone, preliminary July inflation in the euro zone (yesterday's upward surprise in German HICP inflation hints at a rise near 9% y/y) and June PCE inflation from the US. This morning's data from showed that 2Q GDP grew by 4.2%, 1Q was revised upwards from 4.5% to 4.8%. French HICP inflation moved up from 6.5% to 6.8% y/y.

The **ESI business climate indicators** published by the European Commission for July provided a broad confirmation that the Polish economy has been hit by a slowdown. All sectoral indices went down. The headline business climate index reached its lowest since the beginning of 2021 - it fell for the third month in a row, with each successive decline being larger than the previous one (as was the case with the indices for industry and retail trade). In industry, the current trend in production and its outlook as well as the inflow of orders were markedly worse. For the first time in 1.5 years, the index assessing stocks of finished goods indicated a shortage. Employment indicators (which we interpret as labour demand) fell in all sectors. Indicators of expected price changes also fell everywhere - since the outbreak of the war, this is their third consecutive significant fall in industry and construction and the first in services and retail. From the consumer survey, it is worth noting the worst assessment of the current financial situation by 2013, a big drop in the appetite to undertake major spending after a temporary improvement and a gradual increase in fears of job loss.

After a large 1.6% q/q drop in **US GDP** in 1Q, we saw another significant decline by 0.9% in 2Q, fulfilling the definition of a technical recession. The market (with a median forecast of +0.5%) had hoped for at least partial compensation for the decline at the start of the year. While real growth disappointed, price increases surprised to the upside - the GDP deflator rose to 8.7% in annualised terms as compared to forecasts at 8.0%. More consecutive drops in GDP are likely to follow. The growth breakdown (including the decline in commodity consumption, hints that the US has a period of major economic downturn (after 1Q results, heavily undermined by net exports, there was no such feeling yet).

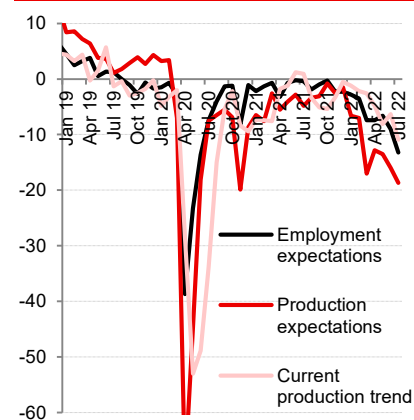
EURUSD remains in the 1.01 - 1.02 zone. The FX rate tried to descend to the lower areas of the range, but weaker US GDP data for Q2 weakened somewhat the tendency.

EURPLN, after Wednesday's attempts to break the 4.80 level again, fluctuated below it on Thursday, ending the day near 4.76. Concerns about the European gas market situation during the autumn-winter heating season strongly weakened the zloty this week. Today's publication of Polish CPI may weaken expectations for more NBP rate hikes and again increase negative pressure on the zloty.

Other CEE FX: EURCZK is holding near 24.60. **EURHUF** rose from near 403 to near 404, but it tried to attack the 408 level during the day. The Hungarian currency was depressed by attempts by global markets to strengthen the dollar again.

Debt market: The domestic yield curve rose by c. 10bp at the short end. The situation in the IRS market remained stable. In the core markets, yields fell under the influence of rising stagflationary fears. Contributing to this was a worse-than-expected reading of Q2 US GDP, with a higher reading of the GDP deflator, as well as higher-than-expected July inflation figures for the core Eurozone countries. Today's publication of the Polish CPI for July, may restart the declines of the domestic curve.

ESI for Polish industry. Selected indicators



Source: European Commission, Santander

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FX market

Today's opening

EURPLN	4,7554	CZKPLN	0,1930
USDPLN	4,6405	HUFPLN*	1,1765
EURUSD	1,0248	RUBPLN	0,0763
CHFPLN	4,8803	NOKPLN	0,4790
GBPPLN	5,6747	DKKPLN	0,6385
USDCNY	6,7418	SEKPLN	0,4568

*for 100HUF

Last session in the FX market 28.07.2022

	min	max	open	close	fixing
EURPLN	4,7565	4,7985	4,7812	4,7565	4,7973
USDPLN	4,6738	4,7405	4,6859	4,6846	4,6952
EURUSD	1,0112	1,0234	1,0200	1,0164	-

Interest rate market 28.07.2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	6,98	13
DS0726 (5Y)	6,22	3
DS0432 (10Y)	5,81	3

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7,60	5	3,30	-9	0,90	-9
2L	7,08	2	3,12	-11	1,12	-16
3L	6,52	1	2,91	-13	1,18	-16
4L	6,09	0	2,78	-14	1,25	-15
5L	5,81	0	2,72	-13	1,32	-15
8L	5,46	-1	2,70	-12	1,53	-12
10L	5,42	-2	2,74	-11	1,66	-10

WIBOR rates

Term	%	Change (bps)
O/N	6,48	-4
T/N	6,59	1
SW	6,64	-1
2W	6,64	-2
1M	6,71	2
3M	7,01	1
6M	7,30	0
1Y	7,44	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7,22	8
3x6	7,55	9
6x9	7,61	4
9x12	7,37	2
3x9	7,73	7
6x12	7,74	4

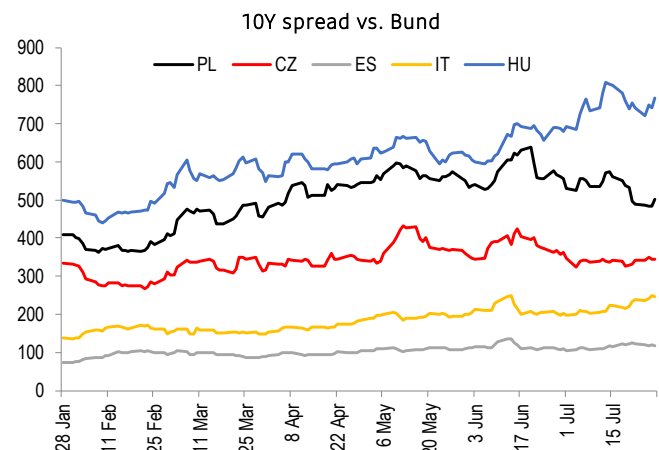
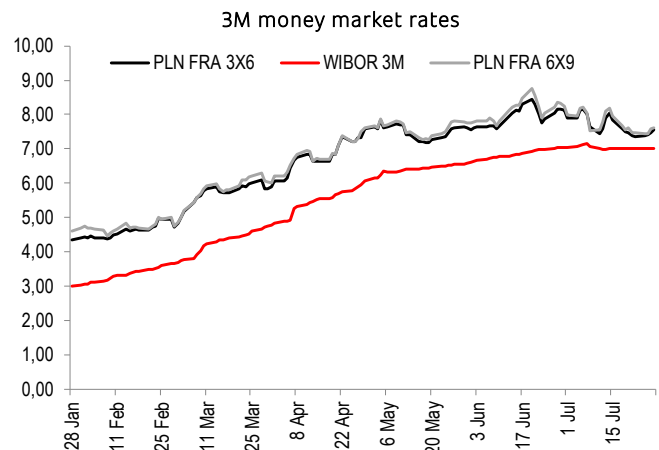
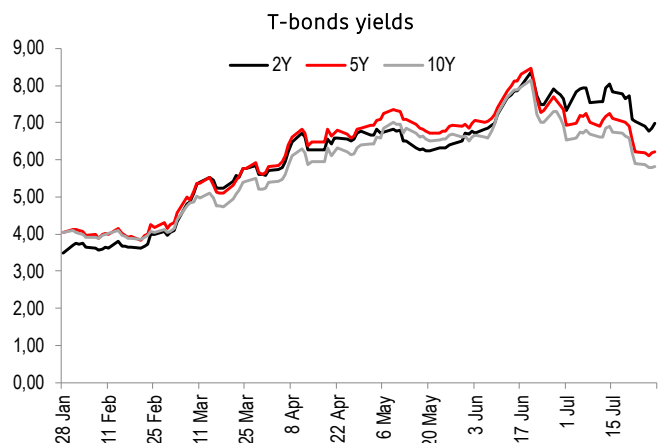
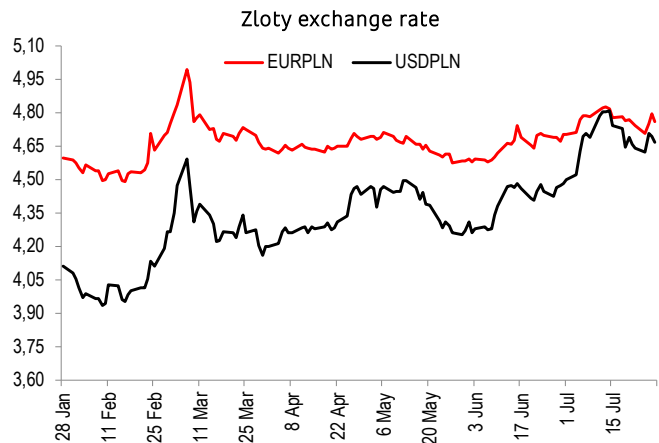
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	137	-3	501	17
France	15	0	57	-2
Hungary	208	-5	767	26
Spain	60	-2	117	-3
Italy	80	3	245	-3
Portugal	45	0	110	-3
Ireland	14	0	69	3
Germany	13	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 (22 July)								
09:30	DE	Germany Manufacturing PMI	Jul	pts	50.9		49.2	52.0
09:30	DE	Markit Germany Services PMI	Jul	pts	51.4		49.2	52.4
10:00	EZ	Eurozone Manufacturing PMI	Jul	pts	51.0		49.6	52.1
10:00	EZ	Eurozone Services PMI	Jul	pts	52.0		50.6	53.0
14:00	PL	Money Supply M3	Jun	% y/y	7.7	7.6	6.5	7.6
MONDAY (25 July)								
10:00	DE	IFO Business Climate	Jul	pts	90.3		88.6	92.2
10:00	PL	Unemployment Rate	Jun	%	4.9	4.9	4.9	5.1
TUESDAY (26 July)								
14:00	HU	Central Bank Rate Decision		%	10.75		10.75	9.75
16:00	US	New Home Sales	Jun	% m/m	-3.4		-8.1	6.3
WEDNESDAY (27 July)								
14:30	US	Durable Goods Orders	Jun	% m/m	-0.5		1.9	0.8
16:00	US	Pending Home Sales	Jun	% m/m	-1.0		-8.6	0.4
20:00	US	FOMC decision		%	2.50		2.50	1.75
THURSDAY (28 July)								
11:00	EZ	ESI	Jul	pct.	102.0		99.0	104.0
14:00	DE	HICP	Jul	% y/y	8.1		8.5	8.2
14:30	US	GDP Annualized	2Q	% Q/Q	0.5		-0.9	-1.6
14:30	US	Initial Jobless Claims		k	240		256	261
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, Bloomberg, Parkiet
* in the case of a revision the data is updated

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