

# Eyeopener

## CPI inflation stabilised

Polish CPI inflation remained at 15.5% y/y, euro zone inflation close to 9%  
PMI for Polish manufacturing further down  
Zloty gained on Friday, but might head towards 4.80 per euro this week

**Today** PMI in manufacturing is the only important release in Poland this week. The gauge declined in July to 42.1pts from 44.4pts in June, more than we expected (42.9pts). The headline was dragged lower by output, new orders and employment. Companies were reporting problems with material shortages and logistical challenges. Weak expectations in the manufacturing sector underpin our forecasts of a major economic slowdown in 2H22. We will also get to see PMI indices from abroad, but we already know flash numbers for the main economies. US ISM manufacturing index will help assess the business climate in the world's biggest economy. Caixin PMI for Chinese manufacturing showed a decline, but remained above 50pts.

**Polish CPI inflation** in July remained flat at 15.5% y/y, while the market expected 15.6% and we 15.2% y/y. Food prices advanced by 0.6% m/m, a bit more than we expected, energy prices by 1.3% m/m, in line with our expectations, and fuel prices went down by only 2.6% m/m, significantly less than we assumed based on data from gas stations. The data confirms that CPI peak is likely to be close, supporting an imminent end to MPC hiking cycle. We think that inflation may go a notch higher in August, but then will embark on a downward trend, provided that no new shocks emerge (and these are actually quite probable in food and energy). Update of our estimate of July core inflation after the Friday release points to 9.1% y/y, the same level as in June, which – if confirmed by the final data coming in two weeks – would be a downside surprise.

**According to the DGP daily**, the government is working on subsidies for households for fuels used for heating purposes (apart from coal - heating oil, pellets, LPG). In addition, financial aid for heating plants is also being considered, as well as a reduction of VAT on further energy materials (pellets, heating oil, coal).

Among **Friday's numerous data**, it is worth noting that German GDP surprised downwards (dragged lower by the foreign trade), as it showed stagnation, while the result of the euro zone economy as a whole beat expectations. In the euro zone, HICP inflation also came in, rising to 8.9% in July according to the preliminary reading, up from 8.6% y/y.

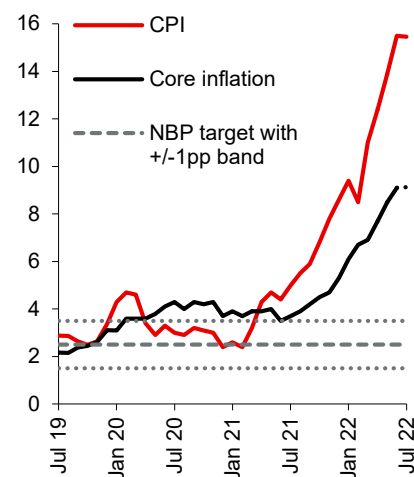
**EURUSD** fluctuated around 1.02. The rate remains in limbo due to the two opposite macroeconomic forces. The surprising inflation readings in both the euro zone and the USA, along with growing recessionary fears, should favour the strengthening of the dollar (due to its status as a "safe haven" currency). On the other hand, however, signals from the Fed that a slower pace of rate hikes is possible after September are slowing down this process. Being close to the psychological level of one, the rate needs new signals to attack it again.

**EURPLN** fell from 4.75 to about 4.73. For another day in a row, the zloty made up for the losses it suffered until Wednesday's Fed meeting. The zloty was helped by a slightly higher-than-expected euro zone GDP reading for the 2Q. Today's weaker domestic PMI reading, however, may break the streak and start putting downward pressure on the zloty again.

**Other CEE currencies:** EURCZK remained close 24.60 despite the Czech 2Q GDP reading, which was significantly higher than expected. The market fears that the CNB's first decision-making meeting under its new leadership on Thursday will end the Czech Republic's rate hike cycle. EURHUF ended the day near 404 for the second day in a row. Further rate hikes defend the forint from further depreciation but weak domestic fundamentals prevent it from strengthening.

**Debt market:** The domestic yield curve and IRS declined by an average of several bps. The lack of further growth in domestic inflation relative to the reading a month earlier supported the narrative of an imminent peak in CPI growth, which lowered the FRA curve by about 20 bps on average. However, the market is still pointing to a maximum interest rate target near 7.50%, almost 100bp higher than the current level of the benchmark rate. With market concerns about the gas market during the autumn and winter heating season, market valuations may act as a brake on further strengthening of domestic debt, especially as energy commodity prices on global markets have started to rise again.

Inflation in Poland, %y/y



Source: GUS, NBP, Santander

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**FX market**

**Today's opening**

EURPLN	4.7371	CZKPLN	0.1921
USDPLN	4.6383	HUFPLN*	1.1720
EURUSD	1.0213	RUBPLN	0.0753
CHFPLN	4.8730	NOKPLN	0.4788
GBPPLN	5.6481	DKKPLN	0.6358
USDCNY	6.7548	SEKPLN	0.4559

\*for 100HUF

**Last session in the FX market** 29/07/2022

	min	max	open	close	fixing
EURPLN	4.7206	4.7656	4.7612	4.7338	4.7399
USDPLN	4.6127	4.6758	4.6622	4.6411	4.6365
EURUSD	1.0144	1.0254	1.0209	1.0200	-

**Interest rate market** 29/07/2022

**T-bonds on the interbank market\*\***

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	6.85	-13
DS0726 (5Y)	5.98	-25
DS0432 (10Y)	5.56	-25

**IRS on the interbank market\*\***

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.44	-16	3.34	4	0.90	0
2L	6.93	-15	3.12	0	1.15	3
3L	6.37	-15	2.92	1	1.19	1
4L	5.94	-15	2.77	-1	1.27	3
5L	5.65	-16	2.70	-2	1.35	3
8L	5.32	-14	2.66	-4	1.53	0
10L	5.29	-13	2.71	-3	1.65	-1

**WIBOR rates**

Term	%	Change (bps)
O/N	6.79	31
T/N	6.83	24
SW	6.74	10
2W	6.71	7
1M	6.75	4
3M	7.01	0
6M	7.30	0
1Y	7.44	0

**FRA rates on the interbank market\*\***

Term	%	Change (bps)
1x4	7.10	-12
3x6	7.37	-18
6x9	7.41	-20
9x12	7.14	-23
3x9	7.53	-20
6x12	7.52	-22

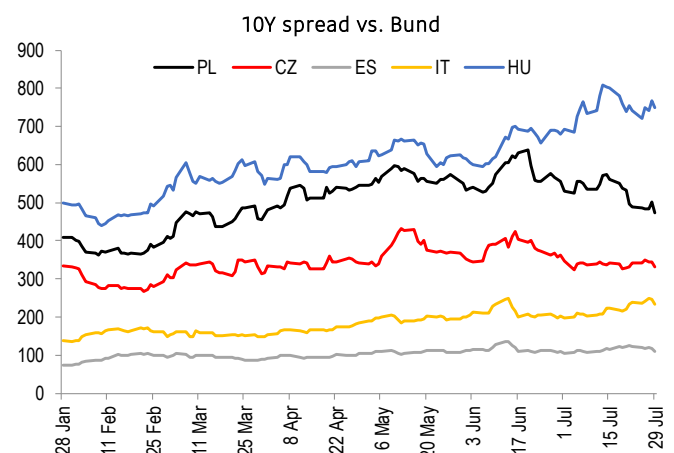
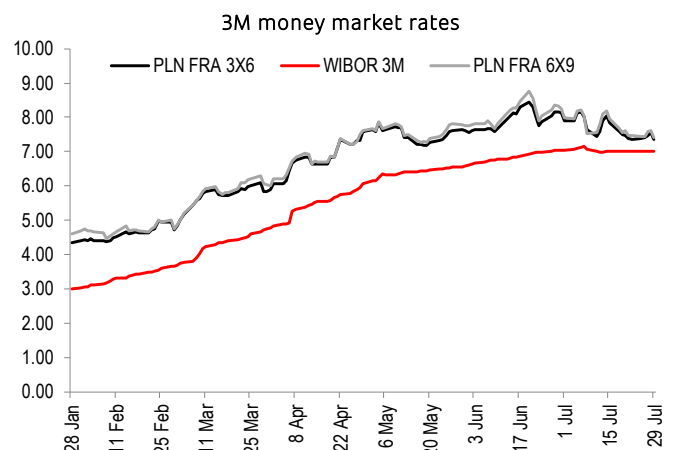
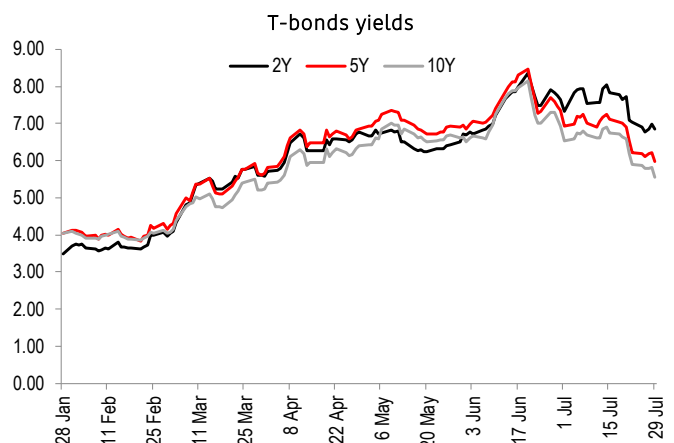
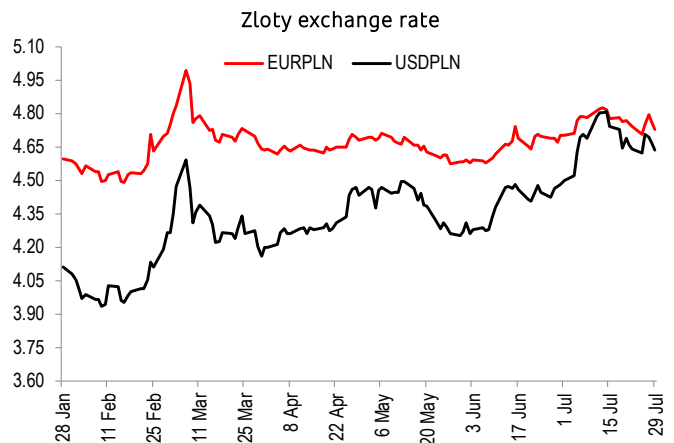
**Measures of fiscal risk**

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	130	-7	473	-28
France	15	0	56	-1
Hungary	194	-15	749	-18
Spain	55	-5	111	-6
Italy	75	-5	233	-13
Portugal	43	-3	103	-7
Ireland	13	0	63	-7
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		
<b>FRIDAY (29 July)</b>							
09:00	CZ	GDP SA	2Q	% y/y	3.3	3.6	4.9
<b>10:00</b>	<b>PL</b>	<b>CPI</b>	<b>Jul</b>	<b>% y/y</b>	<b>15.6</b>	<b>15.5</b>	<b>15.5</b>
10:00	DE	GDP WDA	2Q	% y/y	1.7	1.4	3.6
11:00	EZ	Flash HICP	Jul	% y/y	8.7	8.9	8.6
11:00	EZ	GDP SA	2Q	% y/y	3.4	4.0	5.4
14:30	US	Personal Spending	Jun	% m/m	0.9	1.1	0.3
14:30	US	Personal Income	Jun	% m/m	0.5	0.6	0.6
14:30	US	PCE Deflator SA	Jun	% m/m	0.9	1.0	0.6
16:00	US	Michigan index	Jul	pts	51.1	51.5	51.1
<b>MONDAY (1 August)</b>							
03:45	CN	Manufacturing PMI	Jul	pts	51.5	50.4	51.7
08:00	DE	Retail Sales	Jun	% m/m	0.4	-1.6	1.2
<b>09:00</b>	<b>PL</b>	<b>Manufacturing PMI</b>	<b>Jul</b>	<b>pts</b>	<b>42.9</b>	<b>42.1</b>	<b>44.4</b>
09:55	DE	Manufacturing PMI	Jul	pts	49.2	-	52.0
10:00	EZ	Manufacturing PMI	Jul	pts	49.6	-	52.1
11:00	EZ	Unemployment Rate	Jun	%	6.6	-	6.6
16:00	US	ISM manufacturing	Jul	pts	52.1	-	53.0
<b>TUESDAY (2 August)</b>							
No key events or releases							
<b>WEDNESDAY (3 August)</b>							
03:45	CN	Services PMI	Jul	pts	54.0	-	54.5
08:00	DE	Exports SA	Jun	% m/m	1.0	-	1.6
09:55	DE	Services PMI	Jul	pts	49.2	-	52.4
10:00	EZ	Services PMI	Jul	pts	50.6	-	53.0
11:00	EZ	Retail Sales	Jun	% m/m	0.0	-	0.2
16:00	US	Durable Goods Orders	Jun	% m/m	-	-	1.9
16:00	US	ISM services	Jul	pts	53.9	-	55.3
16:00	US	Factory Orders	Jun	% m/m	0.8	-	1.6
<b>THURSDAY (4 August)</b>							
08:00	DE	Factory Orders	Jun	% m/m	-1.2	-	0.1
14:30	US	Initial Jobless Claims	week	k	-	-	256
14:30	CZ	Central Bank Rate Decision		%	7.00	-	7.00
<b>FRIDAY (5 August)</b>							
08:00	DE	Industrial Production SA	Jun	% m/m	-0.4	-	0.2
09:00	HU	Industrial Production SA	Jun	% y/y	-	-	3.4
14:30	US	Change in Nonfarm Payrolls	Jul	k	250	-	372
14:30	US	Unemployment Rate	Jul	%	3.6	-	3.6

Source: Santander Bank Polska. Bloomberg. Parkiet

\* in the case of a revision the data is updated

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