

17 August 2022

Eyeopener

Is this the beginning of recession?

Today flash 2Q GDP data in Poland
Core inflation at new record high, will keep rising
Zloty weaker, bond yields higher

Today, preliminary data on Polish 2Q GDP. We expect the economic growth to slow to 7.0% y/y. The market consensus is clearly lower: around 6% y/y, with a wide range of forecasts (5.2%-7.4%). While our forecast still looks "not that bad" in terms of annual growth, it actually means the beginning of a sharp slowdown in the economy - seasonally adjusted q/q growth near zero (or just below), versus +2.5% q/q in 1Q22. Any weaker reading will reinforce fears of a looming recession. Today's release will not reveal the structure of economic growth - we will get more details on that in the next data release at the end of August. Several other EU countries will also publish GDP data today. Data from Romania this morning showed GDP growth well above forecasts. We will also get data from the USA on retail sales and Fed minutes.

The **ZEW sentiment index** for Germany declined in August, although not as sharply as feared. The expectations index fell to its lowest level since October 2008, and the current index is now the lowest since March 2021. Data from the US real estate market, on the other hand, indicated a sharp deceleration in that sector of the economy.

Core inflation excluding prices of food and energy climbed in July to 9.3% y/y from 9.1% y/y (vs. consensus forecast 9.2%), setting the new record high. Two alternative measures of core inflation also jumped to new records - CPI excluding the most volatile prices to 11.7% y/y and 15% trimmed mean to 11.4% y/y, while CPI excluding administered prices stabilised at 15.9% y/y. The data confirm that the underlying price pressure remains strong, albeit slightly weaker than at the beginning of the year - the m/m increase was 0.6%, i.e. the same as in June and the second reading below 1.0% since December. We expect core inflation to grow further towards 9.6-9.7% y/y in the nearest months, and then to descend gradually in 2023. Yet, despite still rising core inflation the MPC may be tempted to pause its monetary tightening cycle in September, in our view, if flash CPI for August shows a decline and real activity data keep heralding a looming recession.

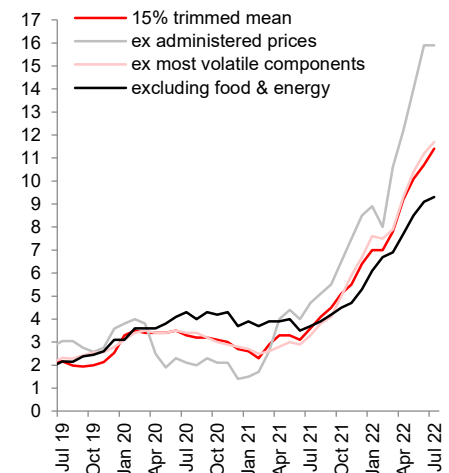
MPC member Henryk Wnorowski said in a TV interview with Biznes24 that August data will be important for the Council's decision in September. In his view, the Council is nearing the end of the rate hiking cycle, although there is still room for increases. **MPC's Przemysław Litwiniuk**, on the other hand, said in an interview with the same station today that further cautious rate hikes may be necessary "if we continue to see rising core inflation ... and once we see the budget (2023 draft) in September". The latter condition is unlikely to be met at the September MPC meeting, but only in October.

At the start of the day the dollar gained versus the euro after weak reading of ZEW index, fuelling worries about euro zone consumption. **EURUSD** managed to get to almost 1.01. However, later the euro trimmed its losses and EURUSD climbed to 1.017 at the end of the day. Today GDP in the euro zone and US retail sales will be key for the exchange rate.

Tuesday was not a good day for the zloty, as **EURPLN** climbed gradually from 4.67. It did not manage to break 4.70 and the pair ended the day slightly below this level. Other CEE currencies behaved in a similar way: **EURHUF** returned above 400 (daily peak at 406), while **EURCZK** increased to 24.55 from 24.45. Czech PPI inflation amounted to 26.8% y/y in July, slowed down from June's 28.5% y/y and was below expectations.

The debt market saw a correction on Tuesday - domestic bond curves climbed by 10-15bp, more on the shorter end. The domestic market was following core markets. The IRS curve shifted horizontally by about 8bp up.

Core inflation measures, % y/y



Source: NBP Santander

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FX market

Today's opening

| | | | |
|--------|--------|---------|--------|
| EURPLN | 4.6745 | CZKPLN | 0.1912 |
| USDPLN | 4.5982 | HUFPLN* | 1.1768 |
| EURUSD | 1.0166 | RUBPLN | 0.0756 |
| CHFPLN | 4.8242 | NOKPLN | 0.4743 |
| GBPPLN | 5.5119 | DKKPLN | 0.6321 |
| USDCNY | 6.7738 | SEKPLN | 0.4452 |

*for 100HUF

Last session in the FX market 16/08/2022

| | min | max | open | close | fixing |
|--------|--------|--------|--------|--------|--------|
| EURPLN | 4.6725 | 4.7055 | 4.6817 | 4.6759 | 4.6928 |
| USDPLN | 4.5938 | 4.6448 | 4.6067 | 4.5958 | 4.6282 |
| EURUSD | 1.0121 | 1.0194 | 1.0158 | 1.0171 | - |

Interest rate market 16/08/2022

T-bonds on the interbank market**

| Benchmark (term) | % | Change (bps) |
|------------------|------|--------------|
| DS1023 (2Y) | 6.70 | 26 |
| DS0726 (5Y) | 5.85 | 13 |
| DS0432 (10Y) | 5.52 | 14 |

IRS on the interbank market**

| Term | PL | | US | | EZ | |
|------|------|--------------|------|--------------|------|--------------|
| | % | Change (bps) | % | Change (bps) | % | Change (bps) |
| 1L | 7.26 | 3 | 3.66 | 3 | 1.03 | 1 |
| 2L | 6.72 | 7 | 3.53 | 6 | 1.37 | 4 |
| 3L | 6.11 | 7 | 3.29 | 7 | 1.44 | 4 |
| 4L | 5.73 | 7 | 3.10 | 7 | 1.49 | 4 |
| 5L | 5.52 | 9 | 2.97 | 6 | 1.54 | 4 |
| 8L | 5.25 | 9 | 2.84 | 3 | 1.69 | 5 |
| 10L | 5.24 | 10 | 2.82 | 2 | 1.79 | 5 |

WIBOR rates

| Term | % | Change (bps) |
|------|------|--------------|
| O/N | 6.63 | 15 |
| T/N | 6.66 | 16 |
| SW | 6.70 | 2 |
| 2W | 6.74 | 0 |
| 1M | 6.81 | -1 |
| 3M | 7.02 | -1 |
| 6M | 7.30 | 0 |
| 1Y | 7.44 | 0 |

FRA rates on the interbank market**

| Term | % | Change (bps) |
|------|------|--------------|
| 1x4 | 7.16 | 3 |
| 3x6 | 7.34 | 6 |
| 6x9 | 7.18 | 2 |
| 9x12 | 6.85 | -143 |
| 3x9 | 7.39 | -9 |
| 6x12 | 7.25 | -1 |

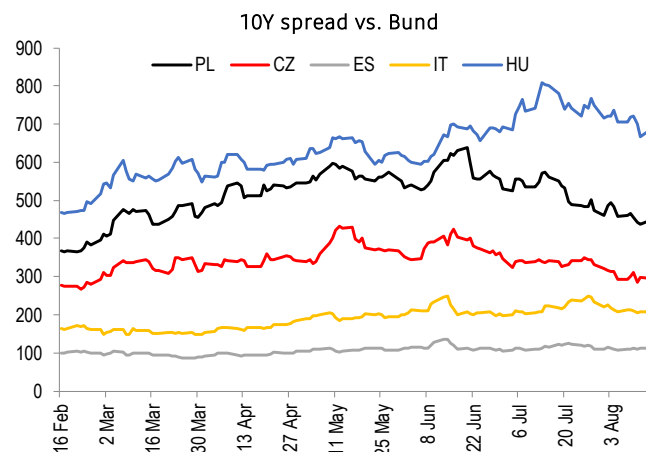
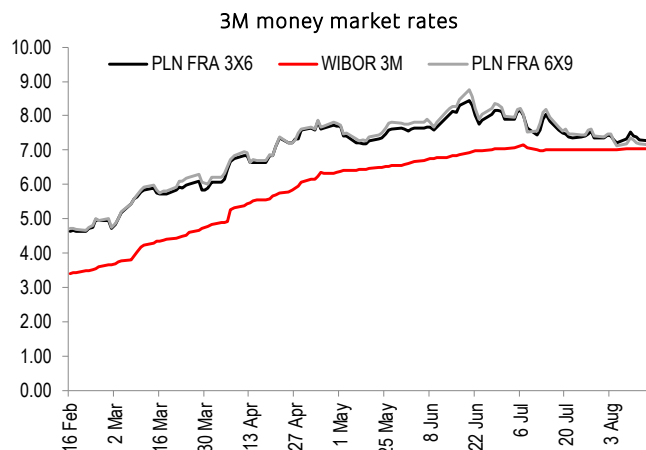
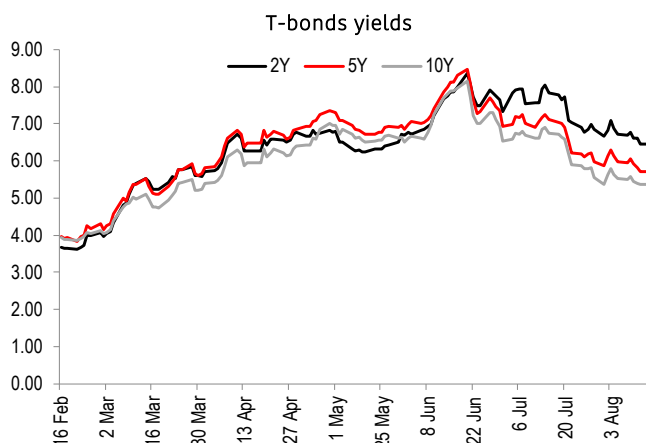
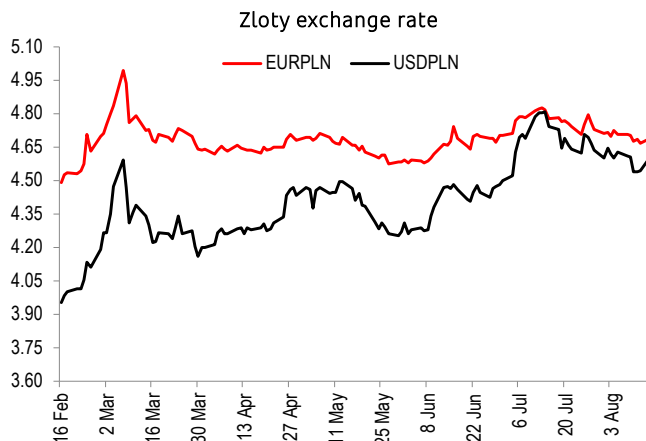
Measures of fiscal risk

| Country | CDS 5Y USD | | 10Y spread* | |
|----------|------------|--------------|-------------|--------------|
| | Level | Change (bps) | Level | Change (bps) |
| Poland | 123 | 0 | 454 | 6 |
| France | 13 | 0 | 57 | 0 |
| Hungary | 179 | 0 | 701 | 17 |
| Spain | 50 | 2 | 112 | 1 |
| Italy | 68 | 5 | 0 | -208 |
| Portugal | 38 | 2 | 102 | 0 |
| Ireland | 13 | 0 | 60 | -1 |
| Germany | 12 | 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 (12 August) | | | | | | | | |
| 10:00 | PL | CPI | Jul | % y/y | 15.5 | 15.5 | 15.6 | 15.5 |
| 11:00 | EZ | Industrial Production SA | Jun | % m/m | 0.0 | - | 0.7 | 2.1 |
| 14:00 | PL | Current Account Balance | Jun | €mn | -2571 | -3220 | -1468 | -1485 |
| 14:00 | PL | Trade Balance | Jun | €mn | -1500 | 2016 | -849 | -1157 |
| 14:00 | PL | Exports | Jun | €mn | 27296 | 26133 | 28076 | 28289 |
| 14:00 | PL | Imports | Jun | €mn | 29144 | 28149 | 28925 | 29446 |
| 16:00 | US | Michigan index | Aug | pts | 51.8 | - | | 51.5 |
| MONDAY (15 August) | | | | | | | | |
| | PL | Holiday | | | | | | |
| TUESDAY (16 August) | | | | | | | | |
| 11:00 | DE | ZEW Survey Current Situation | Aug | pts | -49.8 | | -47.6 | -45.8 |
| 14:00 | PL | CPI Core | Jul | % y/y | 9.2 | 9.2 | 9.3 | 9.1 |
| 14:30 | US | Housing Starts | Jul | % m/m | -1.4 | | -9.6 | -2.0 |
| 15:15 | US | Industrial Production | Jul | % m/m | 0.3 | | 0.6 | -0.2 |
| WEDNESDAY (17 August) | | | | | | | | |
| 09:00 | HU | GDP | 2Q | % y/y | 6.1 | | | 8.2 |
| 10:00 | PL | GDP | 2Q | % y/y | 6.1 | 7.0 | | 8.5 |
| 11:00 | EZ | GDP SA | 2Q | % y/y | 4.0 | | | 4.0 |
| 14:30 | US | Retail Sales Advance | Jul | % m/m | 0.2 | | | 1.0 |
| 20:00 | US | FOMC Meeting Minutes | Jul | | | | | |
| THURSDAY (18 August) | | | | | | | | |
| 10:00 | PL | Consumer confidence | Aug | pts. | | | | |
| 11:00 | EZ | HICP | Jul | % y/y | 8.9 | | | 8.6 |
| 14:30 | US | Initial Jobless Claims | week | k | 265 | | | 262.0 |
| 14:30 | US | Index Philly Fed | Aug | pts. | -3.5 | | | -12.3 |
| 16:00 | US | Existing Home Sales | Jul | % m/m | -5.1 | | | -5.36 |
| FRIDAY (19 August) | | | | | | | | |
| 10:00 | PL | Employment in corporate sector | Jul | % y/y | 2.2 | 2.2 | | 2.2 |
| 10:00 | PL | Average Gross Wages | Jul | % y/y | 13.3 | 13.5 | | 13.0 |
| 10:00 | PL | Sold Industrial Output | Jul | % y/y | 7.4 | 7.5 | | 10.4 |
| 10:00 | PL | PPI | Jul | % y/y | 25.6 | 26.0 | | 25.6 |

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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