

22 August 2022

Eyeopener

Data seem good, but cannot dispel recession fears

Today Polish construction output, retail sales and business sentiment indicators Industrial production, wages and employment for July surprised to the upside, but we see reasons not to build on them a more positive economic scenario
Zloty's depreciation continues, yields in Poland and on core markets keep going up

Today we will get to see the results of July's construction output and retail sales. Our forecasts for these are slightly above consensus, but are consistent with the scenario of a further deceleration of the economy in the second half of the year. There will also be the August Statistical Office's business sentiment indicators. China's central bank cut corporate lending rates today: the 1-year rate by 5bp and the 5-year rate by 15bp due to the property market problems.

Industrial production rose by 7.6% y/y in July, slightly above expectations. Seasonally adjusted output growth was 10.2% y/y (vs. 10.5% in June) and +0.5% m/m. The m/m rebound after three months of declines does not, in our view, alleviate concerns about Poland's economic growth prospects. It does not even cover the decline from June alone. Moreover, we see it more as a statistical artefact than a true rebound in the manufacturing sector, given that seasonally unadjusted output dropped heavily (-6.5% m/m, which is the deepest contraction in this time of the year since 2017, amid same number of working days as in June). July's **labour market** statistics were much better than expected: employment grew by 2.3% y/y, wages by 15.8% y/y, with the acceleration from 13% almost entirely due to one-off payments in a few sectors dominated by large state-owned companies. Polish **PPI** inflation unexpectedly fell to 24.9% y/y in July from 25.6% - the first deceleration since September 2020. More in [Economic Comment](#).

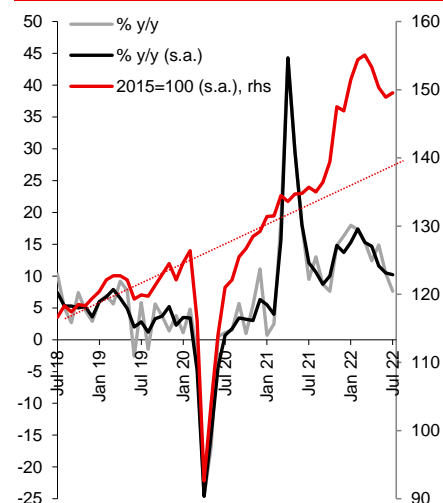
EURUSD continued its decline from Thursday and is now not far from the parity (1.005 at the end of the European session on Friday). At the end of this week the Fed chairman's speech in Jackson Hole is planned - generally every year this event has the potential to trigger a strong reshuffle in the markets. This time, however, it seems to us that the chances of a turnaround in Fed communication and a declaration of softer policy are diminishing. Admittedly, the minutes of the last meeting were fairly balanced, but incoming comments from FOMC members show a continued focus on the fight against inflation. Thomas Barkin (currently non-voting) spoke on Friday and while he mentioned the need to listen to the data he also pointed out that the demand behind high inflation since the last Fed meeting has only intensified.

EURPLN climbed another 0.03 on Friday after the publication of local data - it started last week at 4.66 and ended it at 4.75. It seems that the market environment will remain unfavourable for the zloty this week (EURUSD is attempting to break parity again, which hurts emerging market currencies) and today's data from Poland may become a reason for further depreciation. We see chances for a further rise in EURPLN towards 4.80 at the end of August.

Other CEE currencies: the forint strengthened again towards the end of the day, returning to just above 404 vs the euro. As in the case of the zloty - the pattern of a weak economic outlook in the region and the strengthening of the dollar suggests further depreciation rather than clinging to this level. The EURCZK has risen to 24.64, which means that it has already reversed the entire 1.5% decline it made in the first half of August.

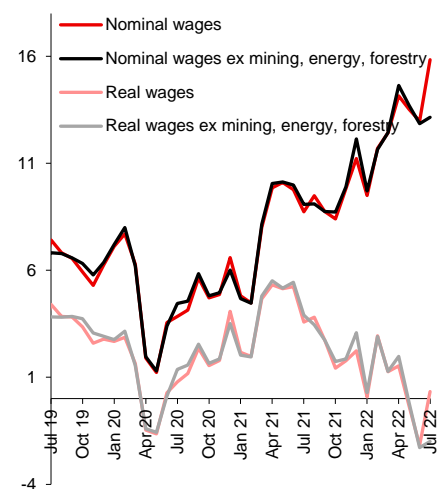
The **debt markets** in Poland and abroad have been dominated by pronounced increases in bond yields again. Contributing factors include further inflation surprises in some countries (e.g. CPI in the UK, PPI in Germany) and diminishing hopes for a "dovish pivot" by the FOMC. In this context, J. Powell's speech on Friday could be crucial. Domestically, we see some potential for a temporary downward rebound in yields at the short end - the market continues to price in a 50bp rate hike in September, while the chances of this, in our view, have clearly diminished in the context of recently published macro data. On Friday, the Polish curve copied the move from the core markets: in Poland, Germany and the US, 2Y bond yields rose 6-8 bps and longer ones by around 13 bps on gently rising expectations for Fed and ECB hikes this year and next year. Domestically, the valuation of rate hikes for the coming months remained unchanged for another day, but gradually the market reduced the valuation of cuts in 1Y+ horizon.

Industrial output



Source: GUS, Santander

Corporate sector wage growth, % y/y



Source: GUS, Santander

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
Jarostaw Kosaty +48 887 842 480
Marcin Luzziński +48 510 027 662
Grzegorz Ogonek +48 609 224 857

FX market

Today's opening

EURPLN	4.7488	CZKPLN	0.1912
USDPLN	4.7346	HUFPLN*	1.1609
EURUSD	1.0028	RUBPLN	0.0801
CHFPLN	4.8242	NOKPLN	0.4743
GBPPLN	5.5119	DKKPLN	0.6321
USDCNY	6.8274	SEKPLN	0.4452

*for 100HUF

Last session in the FX market 19.08.2022

	min	max	open	close	fixing
EURPLN	4.7220	4.7603	4.7307	4.7491	4.748
USDPLN	4.6821	4.7323	4.6945	4.7317	4.7061
EURUSD	1.0033	1.0095	1.0074	1.0035	-

Interest rate market 19.08.2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	6.99	23
DS0726 (5Y)	6.36	17
DS0432 (10Y)	6.03	18

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.37	0	3.66	-1	1.28	7
2L	6.93	8	3.58	3	1.68	11
3L	6.44	13	3.39	6	1.76	12
4L	6.16	17	3.21	5	1.81	12
5L	6.01	21	3.11	7	1.85	12
8L	5.75	21	3.01	10	1.96	12
10L	5.72	20	3.01	10	2.04	12

WIBOR rates

Term	%	Change (bps)
O/N	6.51	-12
T/N	6.67	-2
SW	6.73	-1
2W	6.77	-2
1M	6.86	0
3M	7.04	0
6M	7.30	0
1Y	7.44	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7.24	-1
3x6	7.25	0
6x9	7.33	7
9x12	7.07	4
3x9	7.39	0
6x12	7.40	4

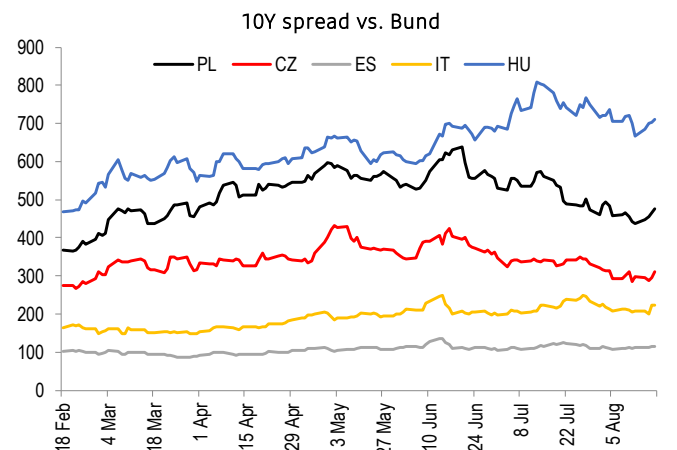
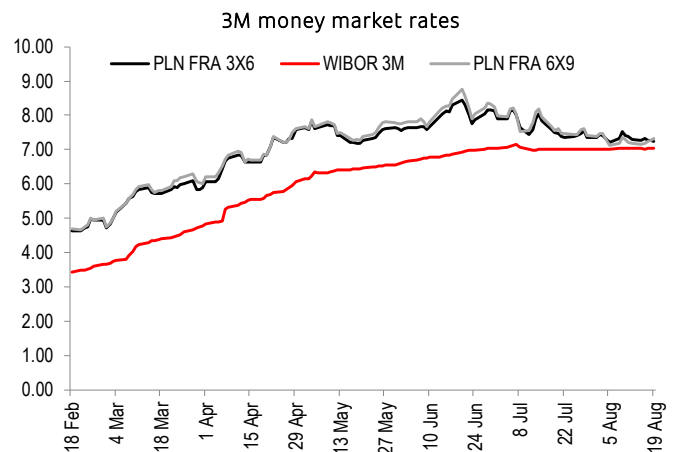
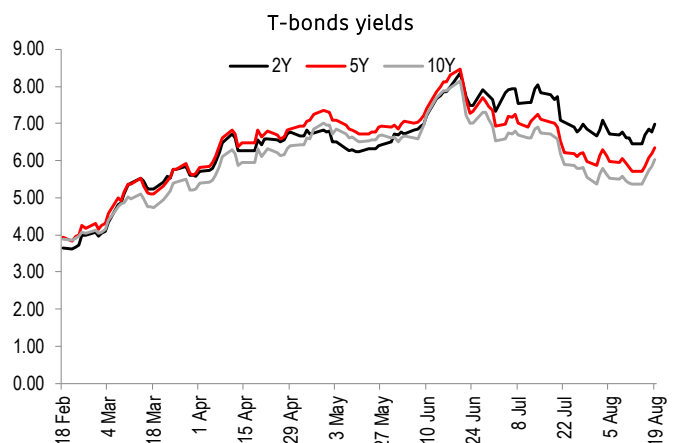
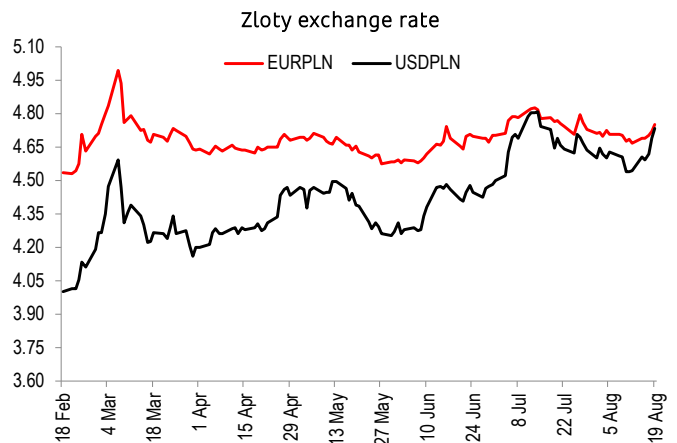
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	132	2	476	9
France	13	0	58	0
Hungary	184	0	711	7
Spain	53	0	115	1
Italy	73	2	223	1
Portugal	40	0	107	1
Ireland	13	0	62	0
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 (19 August)								
10:00	PL	Employment in corporate sector	Jul	% y/y	2.2	2.2	2.3	2.2
10:00	PL	Average Gross Wages	Jul	% y/y	13.3	13.5	15.8	13.0
10:00	PL	Sold Industrial Output	Jul	% y/y	7.4	7.5	7.6	10.4
10:00	PL	PPI	Jul	% y/y	25.6	26.0	24.9	25.6
MONDAY (22 August)								
10:00	PL	Construction Output	Jul	% y/y	5.6	6.2		5.9
10:00	PL	Retail Sales Real	Jul	% y/y	1.1	2.3		3.2
TUESDAY (23 August)								
09:30	DE	Germany Manufacturing PMI	Aug	pts	48.3			49.3
09:30	DE	Markit Germany Services PMI	Aug	pts	49.0			49.7
10:00	EZ	Eurozone Manufacturing PMI	Aug	pts	49.4			49.8
10:00	EZ	Eurozone Services PMI	Aug	pts	50.5			51.2
14:00	PL	Money Supply M3	Jul	% y/y	5.9	5.5		6.5
16:00	US	New Home Sales	Jul	% m/m	-1.7			-8.1
WEDNESDAY (24 August)								
10:00	PL	Unemployment Rate	Jul	%	4.8	4.9		4.9
14:30	US	Durable Goods Orders	Jul	% m/m	0.6			2.0
16:00	US	Pending Home Sales	Jul	% m/m	-2.5			-8.6
THURSDAY (25 August)								
08:00	DE	GDP WDA	2Q	% y/y	1.4			1.4
10:00	DE	Ifo Business Climate	Aug	pts	86.9			88.6
14:30	US	GDP Annualized	2Q	% Q/Q	-0.9			-0.9
14:30	US	Initial Jobless Claims		k	263.5			250.0
FRIDAY (26 August)								
14:30	US	Personal Spending	Jul	% m/m	0.3			1.1
14:30	US	Personal Income	Jul	% m/m	0.6			0.6
14:30	US	PCE Deflator	Jul	% m/m	0.1			1.0
16:00	US	Michigan index	Aug	pts	55.1			55.1

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

This publication has been prepared by Santander Bank Polska S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Santander Bank Polska S.A. its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Santander Bank Polska S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Santander Bank Polska S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

Additional information is available on request. Please contact Santander Bank Polska S.A., Financial Management Division, Economic Analysis Department. al. Jana Pawła II 17, 00-854 Warsaw, Poland. phone +48 22 534 18 87, email ekonomia@santander.pl, <http://www.santander.pl>.