

## Eyeopener

### Another weak economic data

Today Polish M3 money supply, flash PMIs from key economies

Another weak data from the Polish economy

EURUSD below 1.00, more of PLN weakness

**Today** M3 money supply data in Poland - a further slowdown is expected. Abroad, flash PMI indices for August for the major economies, in the US new home sales and the Richmond Fed business conditions index. PMIs for Japan and Australia already published this morning all fell, with composite indices in both countries retreating below the neutral 50-point level.

Yesterday's data from Polish economy pointed to further activity slowdown. **Retail sales** decelerated in July to 2.0% y/y from 3.2% in June, close to our forecasts (2.3% y/y while the market has expected 1.1% y/y). In general sales has remained under the negative spell of high inflation and eroding purchasing power of consumers. We are thus expecting retail sales to remain muted in the upcoming quarters. **Construction production** rose 4.2% y/y in July, down from 5.9% in June, while our forecast was 6.2% and market consensus at 5.6% y/y. We continue to see ongoing slowdown in the sector amid supply and labour constraints and worse demand for housing. Recent poor performance of industries supplying the construction sector also signals a further slowdown. House starts have been falling sharply since the start of the year and now building permits seem to be changing direction to the downside. We expect construction output growth to turn negative in late 2022. In August, Polish companies saw the **business climate** slightly worse than in July. Please see more in our [Economic comment](#).

**MPC member Henryk Wnorowski** said in an interview with Radio Maryja that interest rate rises are possible in September and October. In his view, inflation will stabilise in August and fall from September onwards. In our view, the MPC will raise rates by another 50 bp, but we see a significant downside risk to this forecast.

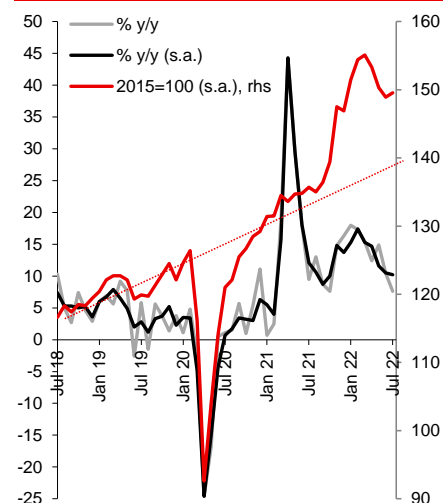
**Local governments recorded a budget surplus of PLN14.4bn** after 2Q22. This means that they registered a deficit of around PLN1.4bn in 2Q alone. Usually, local governments have a surplus in 2Q and a deficit in this period was last registered in 2015. Revenues increased by 2.1% y/y, while expenditure soared 13.7% y/y. The data suggests that there has been a deterioration of financial health in local governments after a good 1Q, however detailed figures have not yet been published to assess the situation more accurately. The government has said that in 3Q it plans to adopt a bill allowing an additional PLN13.7bn to be transferred to local authorities to improve energy efficiency and reduce the cost of purchasing heat. At the same time, municipalities will not receive in 2023 the development part of the general subvention due to these additional payments in 2022.

Fears of an economic slowdown dominated the markets on Monday, also due to hawkish statements from the Fed ahead of the upcoming Jackson Hole conference and fears of an energy crisis due to announcement of another shutdown of the Nordstream1 gas pipeline planned in the coming days. **EURUSD** broke 1.00 and tried to stabilise slightly below 0.995 at the end of the day. It resumed the downward move today in the morning. The PMI indices and data from the US could be important for the exchange rate today.

Growing risk aversion and the strengthening dollar did not favour the zloty and other currencies of our region. In the case of the zloty, the data published yesterday did not inspire optimism either. **EURPLN** rose to 4.77 from 4.75 at the start of the day. We see potential for a further rise towards 4.80 later in August. The forint, rose from 406 to 409 against the euro. The Czech koruna held up best, traditionally, but with such pressure from the dollar on emerging currencies, it too did not escape losses. The **EURCZK** exchange rate rose to 24.66 from 24.63.

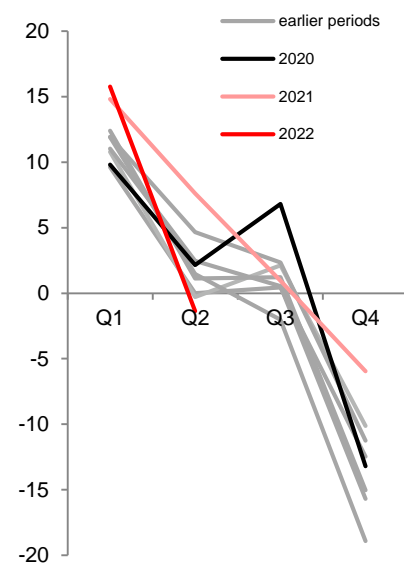
On the **debt market** at home and abroad, bond yields rose further. The domestic curve steepened, with 2Y yields rising by 7bp and 10Y yields by 12bp. During the week, the short end rose by more than 50bp and the long end by more than 70bp. IRS rates behaved similarly yesterday, with the swaps curve moving more strongly than the bond curve (short end up 10bp, long end up 14bp). FRA rates also went up. Apparently, the market attached more weight to the words of MPC member Henryk Wnorowski than to the weak data from the economy.

#### Industrial output



Source: GUS, Santander

#### Budget results by quarter in local governments, PLNbn, 2014-2022



Source: Finance Ministry, Santander

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**FX market**

**Today's opening**

EURPLN	4.7571	CZKPLN	0.1912
USDPLN	4.7955	HUFPLN*	1.1541
EURUSD	0.9919	RUBPLN	0.0802
CHFPLN	4.8242	NOKPLN	0.4743
GBPPLN	5.5119	DKKPLN	0.6321
USDCNY	6.8551	SEKPLN	0.4452

\*for 100HUF

**Last session in the FX market** 22.08.2022

	min	max	open	close	fixing
EURPLN	4.7402	4.7766	4.7466	4.7621	4.7493
USDPLN	4.7259	4.7986	4.7266	4.7933	4.7427
EURUSD	0.9926	1.0039	1.0038	0.9934	-

**Interest rate market** 22.08.2022

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

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	7.06	7
DS0726 (5Y)	6.49	13
DS0432 (10Y)	6.15	12

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

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.46	10	3.74	8	1.34	6
2L	7.05	12	3.66	8	1.81	13
3L	6.57	13	3.46	8	1.90	14
4L	6.29	13	3.30	9	1.95	14
5L	6.16	15	3.17	7	1.99	14
8L	5.91	16	3.07	5	2.09	12
10L	5.89	17	3.05	4	2.15	11

**WIBOR rates**

Term	%	Change (bps)
O/N	6.37	-14
T/N	6.57	-10
SW	6.71	-2
2W	6.77	0
1M	6.87	1
3M	7.06	2
6M	7.30	0
1Y	7.44	0

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

Term	%	Change (bps)
1x4	7.30	6
3x6	7.35	10
6x9	7.43	10
9x12	7.22	15
3x9	7.48	9
6x12	7.54	15

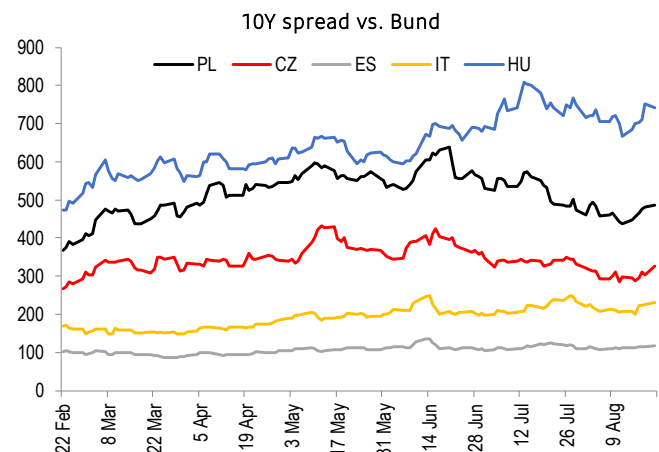
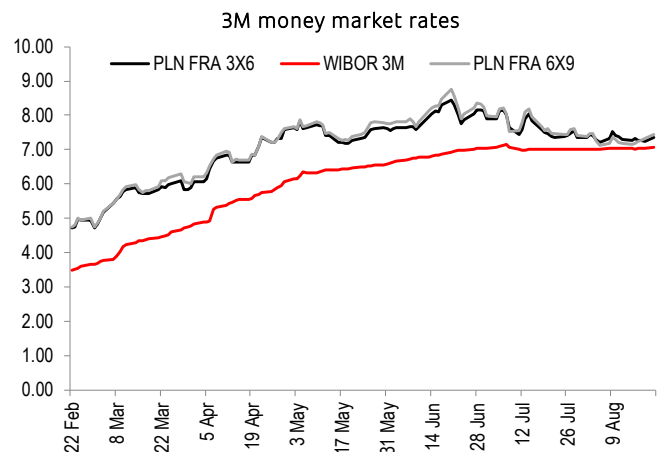
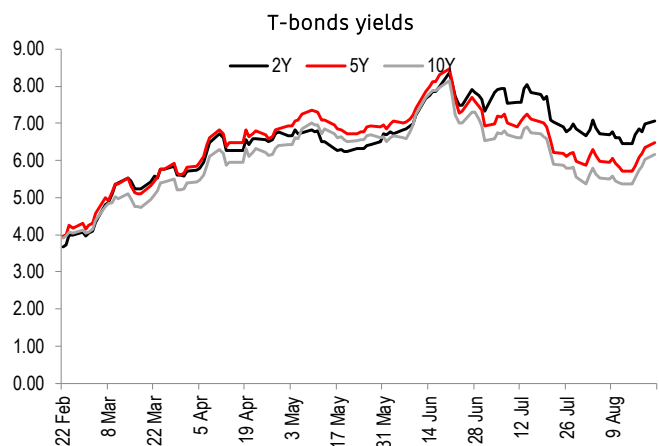
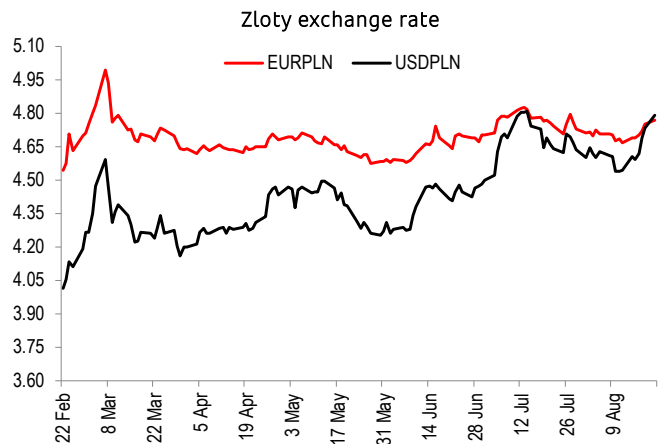
**Measures of fiscal risk**

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	140	8	486	6
France	13	0	59	1
Hungary	184	0	742	-10
Spain	53	0	119	4
Italy	73	0	231	4
Portugal	40	0	108	2
Ireland	12	0	63	2
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			
<b>FRIDAY (19 August)</b>								
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
<b>MONDAY (22 August)</b>								
10:00	PL	Construction Output	Jul	% y/y	5.6	6.2	4.2	5.9
10:00	PL	Retail Sales Real	Jul	% y/y	1.1	2.3	2.0	3.2
<b>TUESDAY (23 August)</b>								
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
<b>WEDNESDAY (24 August)</b>								
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
<b>THURSDAY (25 August)</b>								
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
<b>FRIDAY (26 August)</b>								
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

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