

26 August 2022

Eyeopener

Waiting for the Jackson Hole message

Today US data regarding consumers, the Jackson Hole conference has started
 Relatively high investments of Polish local governments in 2Q
 Markets corrected recent moves just before the start of the Jackson Hole event

Today, more data from the US, mainly on consumer situation: personal spending and income, the Michigan optimism index and PCE inflation (considered the Fed's favourite measure). In other words: the markets will get a lot of food for thought complementing the news from Jackson Hole. The most important event of the conference for the markets - Jerome Powell's speech - is scheduled for 16:00 CET.

Yesterday's macro data abroad were all surprisingly positive, nevertheless they all pointed to a weakening economy. The German Ifo index declined only marginally, US GDP fell slightly less than the preliminary reading had suggested, new jobless claims rose less than expected plus last week's figures were revised downwards. The positive series was disrupted by today's data on German consumer sentiment deteriorating faster than expected. New statements by FOMC members (George, Bostic, Harker) were quite hawkish. In contrast, the minutes of the ECB's July meeting indicated that some members of the Governing Council opted for a 25 basis point rate hike (rates went up 50 points at the time).

Local government investment rose by 26.5% y/y in 1Q22, vs +15.8% y/y in 1Q (in nominal terms). According to our estimate, local governments added around 1 percentage point to total investment growth in 2Q. This is yet another positive sign for investments, following data from large companies. This could mean that a) investment growth in the whole economy in 2Q was solid, so a weak performance of other GDP components (consumption?) can be expected, or b) GDP growth will be revised upwards. Local government investment plans look ambitious: they want to spend PLN 91.4 billion this year. Although such plans are usually implemented at 65-75%, an implementation at this level would still support GDP growth (plus 0.4-0.5 percentage points). The question is how realistic the plans are in the face of the lack of EU recovery fund payments. EU-funded investment spending fell by 7.3% y/y in 2Q22.

The **minutes from the July MPC meeting** did not reveal much change in the Council's approach. Uncertainty and the dependence of further decisions on incoming data and their impact on the outlook for inflation and economic activity are still emphasised in the document. The MPC decided to raise rates in July (by 50 bps) in reaction to the inflation projection remaining above the target throughout the forecast horizon (until the end of 2024). The decision to hike was also influenced by the desire to contain inflation expectations and support the zloty. The document does not mention any other votes on interest rates. The minutes of the meeting record that in the MPC's view there remains strong demand allowing companies to pass on cost increases to final prices. Meanwhile, non-financial corporate earnings data showed that already in 2Q, cost pass-through was not going so smoothly any more. According to the minutes, the MPC expected a marked weakening of economic growth in 2H22, so the surprisingly weak GDP already in 2Q may influence its approach. In our view, the MPC's views will shift even more to the dovish side at the next meeting (7 September).

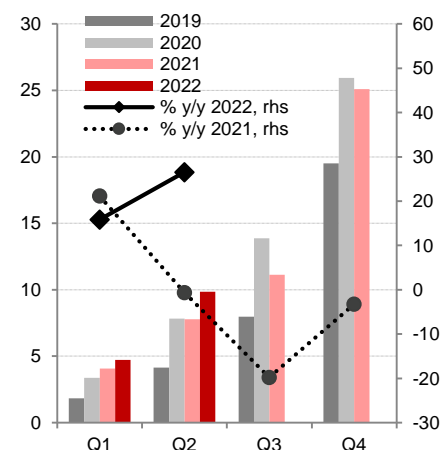
According to the government analysis, **the cost of the bill on support for heat generation sector and subsidies for households** heating their homes with fuels other than coal will be PLN10bn. In turn, the cost of the extension of the 'Anti-inflation Shield' to November and December is estimated at PLN5.3bn (PLN4.8bn in lower VAT revenues and PLN0.5bn in lower excise duty).

At the start of Thursday's session, the **EURUSD** exchange rate was on the rise, with the European currency supported by better-than-expected data from Germany. However, later, with good data from the US and hawkish statements from Fed members, the rate turned back and was close to 0.998 by the end of the day. Today, the key drivers for the rate will be the US data, including the PCE deflator, and further statements from Fed members, including Jerome Powell.

EURPLN slipped from 4.77 to 4.75 yesterday, with the market taking profit after recent increases. **EURHUF** initially declined, but eventually ended the day close to the opening level (410). The Hungarian National Bank decided to leave the weekly deposit rate unchanged. The decision was in line with expectations. The **EURCZK** was stable around 24.65.

There was a correction in the **debt market** after the rate rises seen in recent days. Yields also fell in the core markets, suggesting that investors have already run out of fuel to bet on a rate hikes and are waiting for new signals. The short end of the domestic yield curve fell only marginally, while 10-year bonds gained 13 basis points, with the 2-10 spread moving from -81 points on Wednesday to -93 on Thursday. IRS rates also fell: by 4bp at the short end and 11bp at the long end.

Investment in local governments, PLNbn, % y/y



Source: Finance Ministry, Santander

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FX market

Today's opening

EURPLN	4.7360	CZKPLN	0.1912
USDPLN	4.7515	HUFPLN*	1.1460
EURUSD	0.9964	RUBPLN	0.0791
CHFPLN	4.9387	NOKPLN	0.4911
GBPPLN	5.6258	DKKPLN	0.6321
USDCNY	6.8613	SEKPLN	0.4501

*for 100HUF

Last session in the FX market 25.08.2022

	min	max	open	close	fixing
EURPLN	4.7433	4.7688	4.7664	4.7464	4.7584
USDPLN	4.7420	4.7761	4.7662	4.7654	4.7546
EURUSD	0.9953	1.0033	0.9997	0.9955	-

Interest rate market 25.08.2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	7.30	0
DS0726 (5Y)	6.63	-10
DS0432 (10Y)	6.23	-15

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.72	0	3.79	1	1.41	0
2L	7.37	2	3.71	2	1.80	-6
3L	6.88	0	3.48	-2	1.88	-8
4L	6.57	-2	3.32	-3	1.93	-7
5L	6.41	-2	3.19	-7	1.98	-7
8L	6.13	-9	3.07	-10	2.11	-7
10L	6.10	-9	3.09	-8	2.20	-6

WIBOR rates

Term	%	Change (bps)
O/N	6.27	-1
T/N	6.55	5
SW	6.71	1
2W	6.80	2
1M	6.91	3
3M	7.06	0
6M	7.30	0
1Y	7.44	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7.36	-1
3x6	7.63	3
6x9	7.72	-3
9x12	7.55	-8
3x9	7.82	-3
6x12	7.85	4

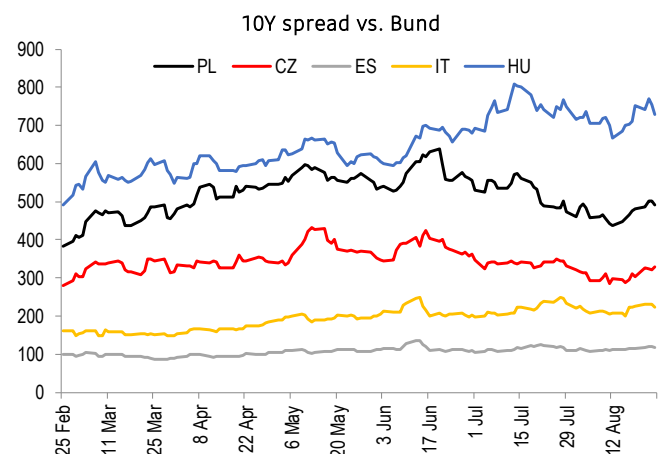
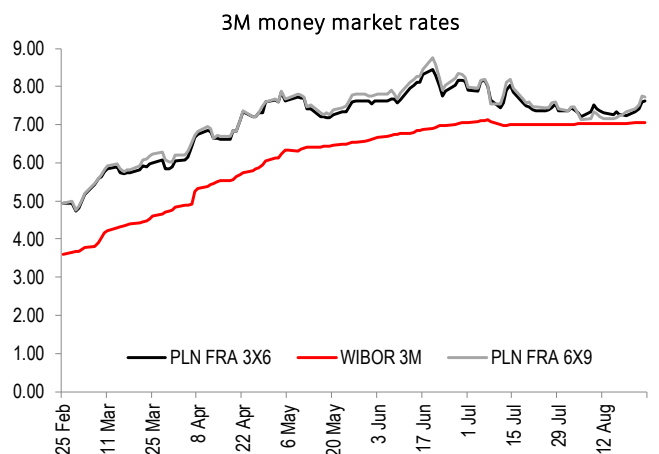
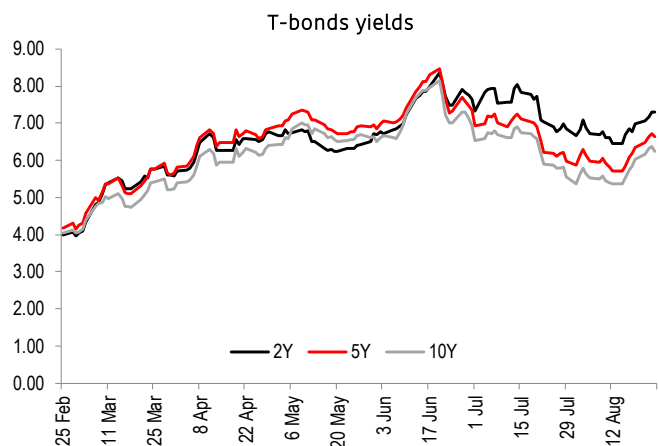
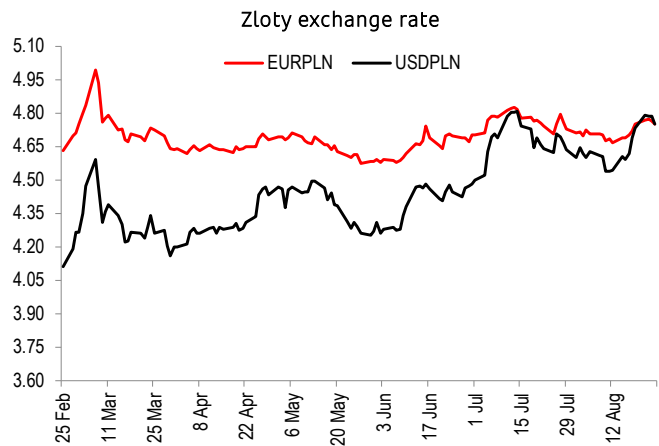
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	146	0	491	-12
France	13	0	61	0
Hungary	184	0	729	-27
Spain	53	0	117	-3
Italy	70	-2	223	-8
Portugal	40	0	109	-2
Ireland	13	-1	61	-2
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 (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	4.2	5.9
10:00	PL	Retail Sales Real	Jul	% y/y	1.1	2.3	2.0	3.2
TUESDAY (23 August)								
09:30	DE	Germany Manufacturing PMI	Aug	pts	48.3		49.8	49.3
09:30	DE	Markit Germany Services PMI	Aug	pts	49.0		48.2	49.7
10:00	EZ	Eurozone Manufacturing PMI	Aug	pts	49.4		49.7	49.8
10:00	EZ	Eurozone Services PMI	Aug	pts	50.5		50.2	51.2
14:00	PL	Money Supply M3	Jul	% y/y	5.9	5.5	6.2	6.5
16:00	US	New Home Sales	Jul	% m/m	-1.7		-12.6	-7.1
WEDNESDAY (24 August)								
10:00	PL	Unemployment Rate	Jul	%	4.8	4.9	4.9	4.9
14:30	US	Durable Goods Orders	Jul	% m/m	0.6		0.0	2.0
16:00	US	Pending Home Sales	Jul	% m/m	-2.5		-1.0	-8.9
THURSDAY (25 August)								
08:00	DE	GDP WDA	2Q	% y/y	1.4		1.7	1.4
10:00	DE	IFO Business Climate	Aug	pts	86.9		88.5	88.7
14:00	EZ	EBC minutes	Jul					
14:00	PL	MPC minutes	Jul					
14:30	US	GDP Annualized	2Q	% Q/Q	-0.9		-0.6	-0.9
14:30	US	Initial Jobless Claims		k	263.5		243	245
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

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