

31 August 2022

# Eyeopener

## August CPI in focus

Today Polish CPI and GDP, euro zone HICP inflation and ADP report  
 Government planning GG deficit at 4.4% GDP in 2023  
 Hungarian central bank raised rates by 100bp  
 EURPLN and domestic yields lower

**Today**, key data from the Polish economy – flash CPI for August plus 2Q GDP. Their levels and breakdown may influence the MPC's September decision on interest rates. Abroad, we will see the preliminary HICP inflation in the euro area and the ADP report on the US labour market in August.

**The government has approved the draft 2023 budget**, with a projected public finance (GG) deficit at 4.4% of GDP (PLN147bn) and a central budget deficit of PLN65bn (around 2% of GDP). VAT revenue is planned at PLN286.3bn, CIT at PLN73.6bn, PIT at PLN78.4bn and excise duties at PLN88.6bn. The macroeconomic assumptions are more or less in line with the market consensus (CPI 9.8%, GDP 1.7% in 2023), but it is difficult to consider them conservative given the rapid deterioration of the economic outlook: in our view, GDP growth in 2023 could be well below 1%. On the revenue side, most items seem realistic, with the exception of VAT revenues, which we believe can only be achieved if the 'Anti-inflation shield' is not extended. We believe that such a scenario is highly unlikely in an election year. Consequently, VAT revenues are overstated by around PLN30bn (0.8-0.9% of GDP). Thus, we believe that the fiscal deficit could exceed 5% of GDP in 2023. The budget assumes an increase in healthcare spending to 6% of GDP and defence spending to PLN98bn from PLN58bn in 2022 (and including extra-budgetary funds to PLN140bn).

**Net borrowing needs**, which are expected to be about PLN59.4bn this year, will rise to about PLN 107.5 billion in 2023, according to the draft budget. Their financing is to be covered mainly by the issuance of Treasury securities (about PLN74.65bn, up from the PLN43.9bn planned for 2022). The budget's gross borrowing needs will also increase in 2023: to PLN269.5bn, versus PLN222bn initially projected for 2022. In a slowing economy, a larger supply of bonds could increase negative pressure on the domestic debt market.

**Henryk Wnorowski of the MPC** said that today's inflation reading will be key to the MPC's September decision, and that a hike is as likely as keeping rates unchanged.

**EURUSD** remains near parity. ECB chief economist Philip Lane advocated gradual rate hikes to minimise negative economic effects. This resulted in a drop of a few points in expectations for a rate hike in September, but the rate remained unmoved, probably because the Fed's Rafael Bostic said that the Fed may back off from 75-point hikes if it sees inflation slowing.

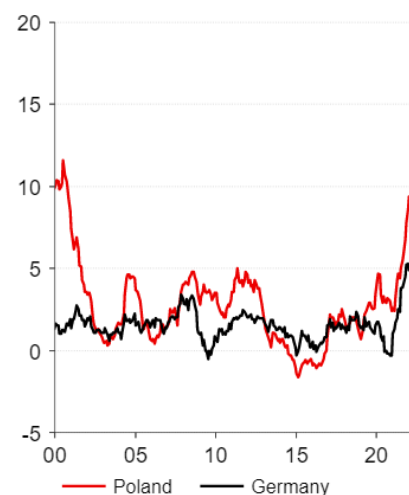
**EURPLN** slipped to 4.72 from around 4.73. The zloty was supported by the information about the Ministry of Finance's planned lower realisation of the budget deficit in 2022 (about PLN23bn vs PLN29.9bn assumed in this year's budget act).

**EURCZK** fell from around 24.58 to around 24.53. The Czech currency was supported by a slightly better 2Q GDP reading.

**EURHUF** fell to 406 from 406. The forint was helped by the NBH's 100bp rate hike, which was in line with expectations, and a statement of intent to continue rate hikes and "decisive interventions using all available tools if needed."

**Debt market:** The domestic curve fell by about 20bp on average. The behaviour of the domestic market diverged from that of curves in the main markets, which remained relatively stable. This indicates that domestic factors were the main driver of changes in the domestic market - first and foremost, the publication of the draft budget for 2023, which implies NBP rate hikes targeting 7%, clearly below current expectations of the domestic FRA market.

Polish and German CPI, % y/y



Source: Refinitiv Datastream, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa  
 email: ekonomia@santander.pl  
 website: [santander.pl/en/economic-analysis](https://www.santander.pl/en/economic-analysis)  
**Piotr Bielski** +48 691 393 119  
**Jarostaw Kosaty** +48 887 842 480  
**Marcin Luziński** +48 510 027 662  
**Grzegorz Ogonek** +48 609 224 857

### FX market

#### Today's opening

EURPLN	4,7235	CZKPLN	0,1921
USDPLN	4,7134	HUFPLN*	1,1586
EURUSD	1,0024	RUBPLN	0,0784
CHFPLN	4,8384	NOKPLN	0,4802
GBPPLN	5,4998	DKKPLN	0,6348
USDCNY	6,8951	SEKPLN	0,4413

\*for 100HUF

#### Last session in the FX market 30.08.2022

	min	max	open	close	fixing
EURPLN	4,7187	4,7385	4,7332	4,7219	4,7328
USDPLN	4,7024	4,7384	4,7331	4,7130	4,721
EURUSD	0,9980	1,0054	0,9998	1,0016	-

### Interest rate market 30.08.2022

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

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	7,24	-18
DS0726 (5Y)	6,65	-19
DS0432 (10Y)	6,16	-20

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

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7,70	-21	3,87	3	1,72	4
2L	7,43	-17	3,78	3	2,15	7
3L	6,93	-20	3,59	2	2,19	4
4L	6,64	-14	3,45	3	2,22	3
5L	6,48	-8	3,34	2	2,25	2
8L	6,22	-8	3,20	0	2,34	0
10L	6,17	-9	3,18	0	2,41	-1

#### WIBOR rates

Term	%	Change (bps)
O/N	6,73	44
T/N	6,62	5
SW	6,75	2
2W	6,86	2
1M	6,97	2
3M	7,10	2
6M	7,30	0
1Y	7,45	0

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

Term	%	Change (bps)
1x4	7,37	-7
3x6	7,63	-20
6x9	7,76	-16
9x12	7,57	-20
3x9	7,93	-4
6x12	7,93	-16

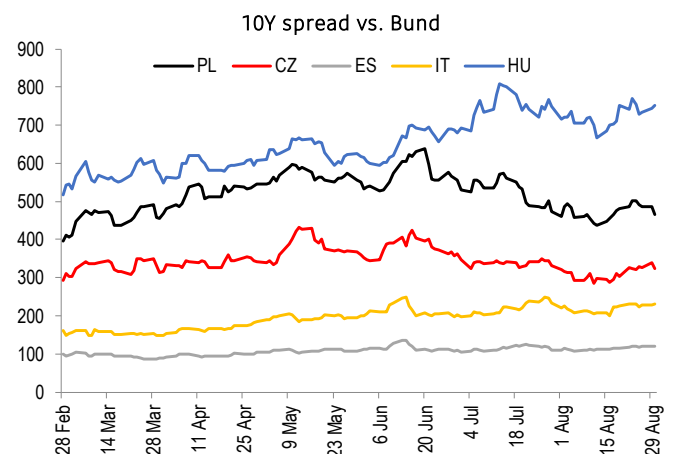
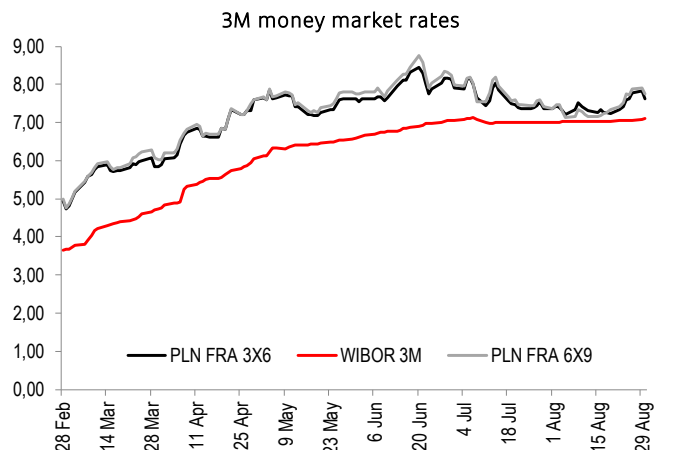
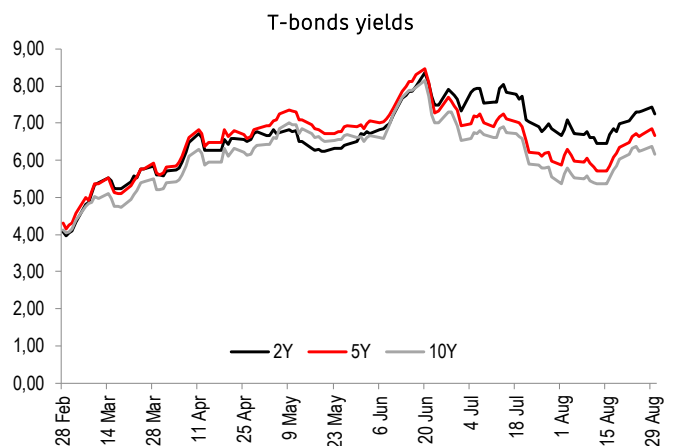
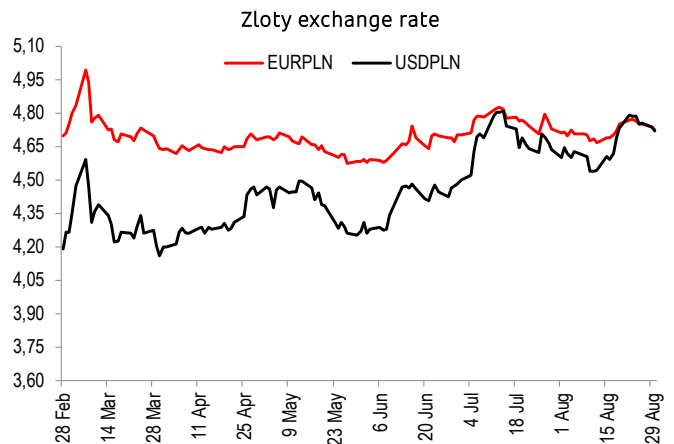
#### Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	146	0	466	-21
France	13	0	62	0
Hungary	189	5	751	7
Spain	53	0	120	0
Italy	70	-2	232	3
Portugal	40	0	111	0
Ireland	13	0	66	-1
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 (26 August)</b>								
14:30	US	Personal Spending	Jul	% m/m	0.5	-	0.1	1.0
14:30	US	Personal Income	Jul	% m/m	0.6	-	0.2	0.7
14:30	US	PCE Deflator SA	Jul	% m/m	0.0	-	-0.1	1.0
16:00	US	Michigan index	Aug	pts	55.4	-	58.2	55.1
<b>MONDAY (29 August)</b>								
No significant data								
<b>TUESDAY (30 August)</b>								
09:00	CZ	GDP SA	2Q	% y/y	3.6	-	3.7	4.9
11:00	EZ	ESI	Aug	pct.	97.8	-	97.6	98.9
14:00	HU	Central Bank Rate Decision	Aug.22	%	11.75	-	11.75	10.75
14:00	DE	HICP	Aug	% m/m	0.3	-	0.4	0.8
16:00	US	Consumer Conference Board	Aug	pts	97.4	-	103.2	95.3
<b>WEDNESDAY (31 August)</b>								
<b>10:00</b>	<b>PL</b>	<b>CPI</b>	<b>Aug</b>	<b>% y/y</b>	<b>15.4</b>	<b>15.4</b>	-	<b>15.6</b>
<b>10:00</b>	<b>PL</b>	<b>GDP</b>	<b>2Q</b>	<b>% y/y</b>	<b>5.3</b>	<b>5.3</b>	-	<b>8.5</b>
11:00	EZ	Flash HICP	Aug	% y/y	8.95	-	-	8.9
14:15	US	ADP report	Aug	k	-	-	-	128.2
<b>THURSDAY (1 September)</b>								
<b>09:00</b>	<b>PL</b>	<b>Poland Manufacturing PMI</b>	<b>Aug</b>	<b>pts</b>	<b>41.6</b>	<b>41.0</b>	-	<b>42.1</b>
09:00	HU	GDP	2Q	% y/y	6.5	-	-	6.5
09:55	DE	Germany Manufacturing PMI	Aug	pts	49.8	-	-	49.3
10:00	EZ	Eurozone Manufacturing PMI	Aug	pts	49.7	-	-	49.8
11:00	EZ	Unemployment Rate	Jul	%	6.6	-	-	6.6
14:30	US	Initial Jobless Claims	Aug.22	k	252.0	-	-	243.0
16:00	US	ISM manufacturing	Aug	pts	52.05	-	-	52.8
<b>FRIDAY (2 September)</b>								
08:00	DE	Exports SA	Jul	% m/m	-2.75	-	-	4.4
14:30	US	Change in Nonfarm Payrolls	Aug	k	300.0	-	-	528.0
14:30	US	Unemployment Rate	Aug	%	3.5	-	-	3.5
16:00	US	Durable Goods Orders	Jul	% m/m	0.0	-	-	0.0
16:00	US	Factory Orders	Jul	% m/m	0.2	-	-	2.0

Source: Santander Bank Polska. Bloomberg. Parkiet

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

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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.