

31 July 2024

Eyeopener

Energetic rise in inflation

Today flash inflation print for July in Poland and the eurozone, FOMC decision
 Polish ESI index down 1.8 pts on worse consumer sentiment
 Eurozone GDP up 0.3% q/q in 2Q, German GDP dropped by 0.1% q/q

Today, the stats office (GUS) will publish a flash estimate of July CPI inflation, which will most likely not only indicate that inflation has rebounded strongly due to increases in electricity and gas bills, but also that after five months it has again exceeded the upper limit of the target tolerance band. According to our estimates, inflation rose to 4.3% y/y (from 2.6% y/y in June), i.e. 0.1 pp below the market consensus. Preliminary data on inflation in July will also come from the euro zone and, according to the consensus, should indicate that its annual growth rate remained at 2.5%. For global markets, the FOMC decision will be the most important event. The consensus suggests that the Fed will not decide to cut interest rates yet, but J. Powell's press conference may provide the market with new hints to review the expected date of the first rate cut. In addition, the ADP report will also come from the USA, containing information on employment growth in the private sector in July, and data on pending home sales in June. The so-called government PMI indices for China, published overnight, showed marginal downside changes in sentiment in industry and services - the composite index remained slightly above 50 points, but at the same time was the lowest since December 2022. In the morning, the Bank of Japan decided to hike interest rates by 15bp (the main rate to 0.25%) and announced a moderate pace of reduction in government bond purchases (halving monthly purchases by 1Q2026).

Polish seasonally adjusted Economic Sentiment Indicator fell in July by 1.8 pts to 99.6 pts.

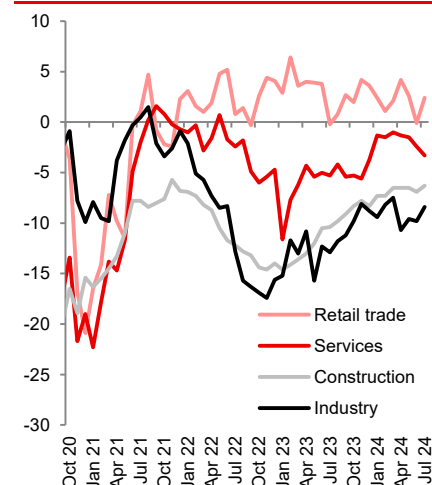
It went below the long-term average for the first time since last December. Among the components which caused the weakening of the general indicator, the most notable was the decline in consumer sentiment. The sub-index fell sharply by 3.5 pts to 0.0 pts as a result of a deterioration in the assessments of own financial situation and the general economic situation. In our opinion, hard economic data do not point to a weakening of consumption and the decline in consumer sentiment may be caused by the July increases in costs of living, and in our opinion, may be temporary. An improvement was recorded in the retail sector, with the sector's index rising by 1.2 pts to -1.0 pts. The deterioration of sentiment in industry seen in previous months came to a halt. In the euro area, the overall ESI index recorded a slight decline, by 0.1 pts to 95.8 pts, with a weakening in the retail, services and industry sectors, as well as an improvement in the construction and consumer sectors.

The seasonally adjusted GDP growth rate in the euro increased from 0.5% y/y in 1Q24 to 0.6% y/y in 2Q24, while maintaining the q/q growth rate at 0.3% (according to Bloomberg, 0.2% was expected). Nevertheless, the results of Germany, as well as the economies of the CEE region, were weaker than expected. Contrary to expectations of slight growth, Germany's GDP shrank by 0.1% q/q, which left its annual seasonally adjusted growth rate at -0.1% y/y (non-seasonally adjusted GDP increased however to +0.3% y/y, above zero for the first time since 1Q23). Spain did particularly well in 2Q (+0.8% q/q), as also did France (+0.3% q/q). Hungary's GDP fell by 0.2% q/q, although the market assumed that it would grow by 0.5% q/q, and the Czech GDP increased by 0.3% q/q, which is 0.2 percentage points less than expected. The published data are preliminary and do not yet contain information on the behaviour of the GDP components but suggest that we still need to wait for a clear and broad-based economic recovery in Europe.

EURPLN near 4.30. Yesterday's session was marked by mixed results in equity markets. The EURUSD exchange rate recorded slight fluctuations above 1.08 in anticipation of the outcome of the Fed meeting with slightly better-than-forecast data from the Eurozone (GDP, ESI) and the US (Conference Board). The EURPLN exchange rate remained near 4.29, the Czech koruna also recorded small movements near 25.4, and the forint clearly lost about 0.6% to 395.3 per euro under the influence of weaker GDP data.

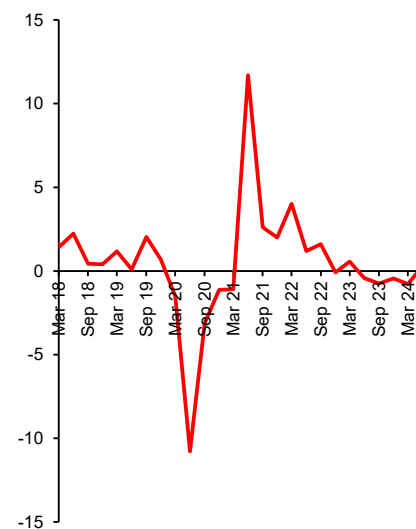
Further rate declines. Yesterday's session saw FRA rates fall by 2-7 bps, IRS by 4-5 bps and bond yields by 2-4 bps. Domestic curves reacted to movement in the core markets and to the weaker-than-forecast GDP data from Germany and the CEE region. Regional curves also moved downward. Today, the focus in the domestic market will be the release of CPI data, which may trigger an upward revision of market rates. Abroad, the most important event will be the evening Fed meeting. A possible signalling of a rate cut in September could steer rates in the core markets downward.

ESI, Poland, indicators of trends in business activity, pts



Source: Eurostat, Santander

GDP in Germany, % y/y



Source: LSEG, Santander

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FX market

Today's opening

EURPLN	4.2853	CZKPLN	0.1681
USDPLN	3.9617	HUFPLN*	1.0756
EURUSD	1.0816	RUBPLN	0.0460
CHFPLN	4.4887	NOKPLN	0.3634
GBPPLN	5.0827	DKKPLN	0.5742
USDCNY	7.2265	SEKPLN	0.3682

*for 100HUF

Last session in the FX market

30.07.2024

	min	max	open	close	fixing
EURPLN	4.2801	4.2959	4.2926	4.2904	4.2845
USDPLN	3.9501	3.9730	3.9662	3.9692	3.9567
EURUSD	1.0795	1.0835	1.0824		1.0806

Interest rate market

30.07.2024

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
OK0426 (2Y)	5.01	-3
WS0429 (5Y)	5.44	-3
DS1033 (10Y)	5.58	-5

IRS on the interbank market**

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	5.80	5.00	3.23
	-1	-3	1
2L	5.30	4.47	2.89
	-4	-5	-4
3L	4.99	4.22	2.71
	-5	-4	-5
4L	4.87	4.07	2.64
	-5	-5	-4
5L	4.83	4.01	2.61
	-5	-5	-3
8L	4.85	3.96	2.59
	-5	-4	-3
10L	4.91	3.97	2.62
	-5	-4	-2

WIRON rate

Term	%	Change (bps)
WIRON	5.22	3

WIBOR rates

Term	%	Change (bps)
O/N	5.64	10
T/N	5.80	2
SW	5.84	-1
1M	5.85	-1
3M	5.86	0
6M	5.87	0
1Y	5.85	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	5.85	0
3x6	5.81	0
6x9	5.66	-1
9x12	5.35	-2
3x9	5.81	1
6x12	5.63	-1

CDS rates and 10Y yield spread vs. German Bund

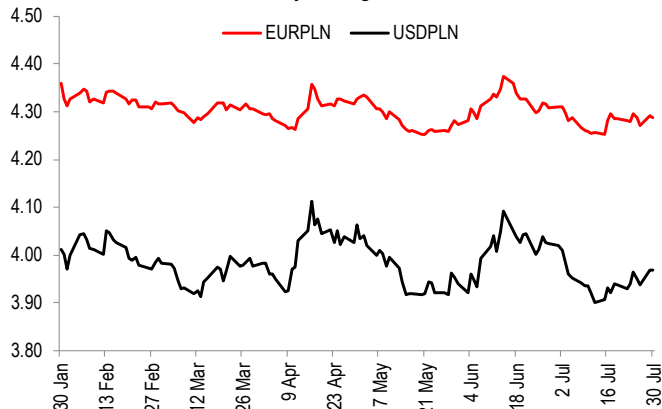
Country	CDS 5Y USD	10Y spread*
	Level	Level
	Change (bps)	Change (bps)
Poland	66	324
	0	-3
France	14	71
	0	1
Hungary	120	409
	0	-8
Spain	36	83
	0	0
Italy	25	136
	0	1
Portugal	23	64
	0	-1
Ireland	14	40
	0	-3
Germany	6	-
	0	-

* 10Y treasury bonds over 10Y Bunds

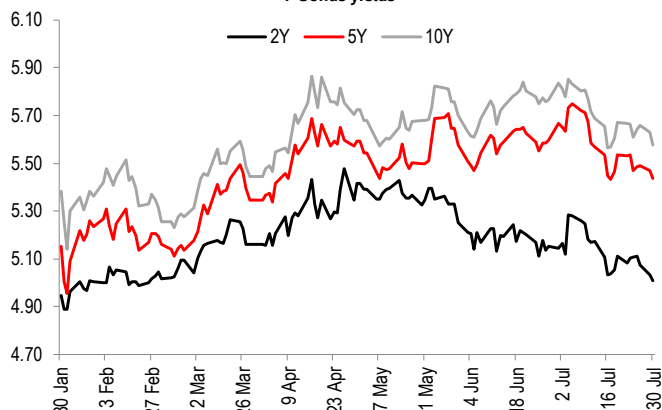
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

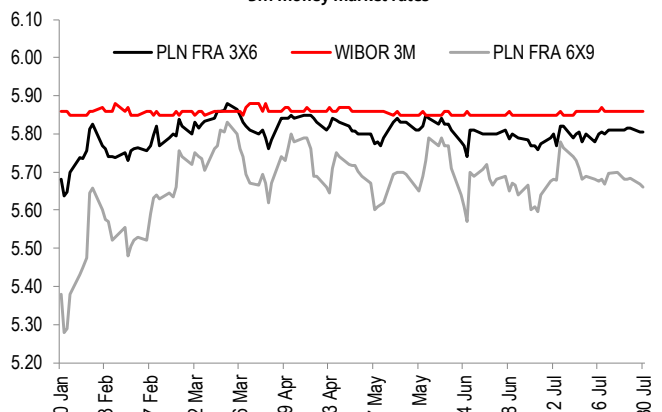
Zloty exchange rate



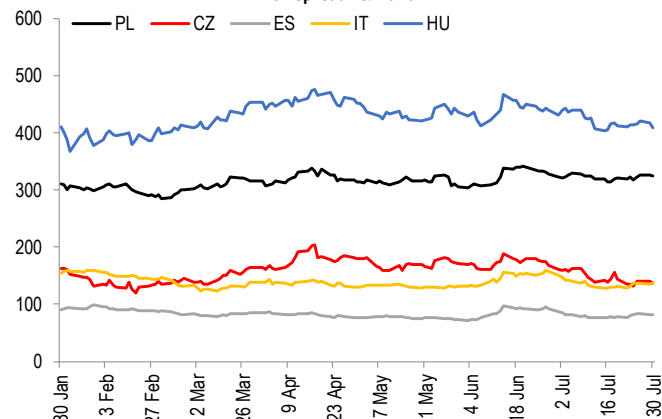
T-bonds yields



3M money market rates



10Y spread vs. Bund



Calendar of events and publications

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	SANTANDER		
FRIDAY (26 July)								
14:30	US	Personal Spending	Jun	% m/m	0.3	-	0.3	0.4
14:30	US	Personal Income	Jun	% m/m	0.4	-	0.2	0.4
14:30	US	PCE Deflator SA	Jun	% m/m	0.1	-	0.1	0.0
16:00	US	Michigan index	Jul	pts	66.4	-	66.4	68.2
MONDAY (29 July)								
No data releases								
TUESDAY (30 July)								
08:30	HU	GDP	2Q	% y/y	2.2	-	1.5	1.1
09:00	CZ	GDP SA	2Q	% y/y	0.6	-	0.4	0.3
10:00	DE	GDP WDA	2Q	% q/q	0.0	-	-0.1	-0.1
11:00	EZ	GDP SA	2Q	% y/y	0.5	-	0.6	0.5
11:00	EZ	ESI	Jul	pct.	95.3	-	95.8	95.9
14:00	DE	HICP	Jul	% m/m	0.5	-	0.5	0.2
16:00	US	Consumer Conference Board	Jul	pts	99.8	-	100.3	100.4
WEDNESDAY (31 July)								
10:00	PL	CPI	Jul	% y/y	4.4	4.3	-	2.6
11:00	EZ	Flash HICP	Jul	% y/y	2.5	-	-	2.5
14:15	US	ADP report	Jul	k	168	-	-	150.0
16:00	US	Pending Home Sales	Jun	% m/m	1.5	-	-	-2.1
20:00	US	FOMC decision	Jul	%	5.50	-	-	5.50
THURSDAY (1 August)								
09:00	PL	Poland Manufacturing PMI	Jul	pts	44.8	44.5	-	45.0
09:55	DE	Germany Manufacturing PMI	Jul	pts	42.6	-	-	42.6
10:00	EZ	Eurozone Manufacturing PMI	Jul	pts	45.6	-	-	45.6
11:00	EZ	Unemployment Rate	Jun	%	6.4	-	-	6.4
14:30	US	Initial Jobless Claims	weekly	k	238	-	-	235
14:30	CZ	Central Bank Rate Decision	Aug	%	4.5	-	-	4.75
16:00	US	ISM manufacturing	Jul	pts	49.0	-	-	48.5
FRIDAY (2 August)								
14:30	US	Change in Nonfarm Payrolls	Jul	k	175	-	-	206
14:30	US	Unemployment Rate	Jul	%	4.1	-	-	4.1
16:00	US	Durable Goods Orders	Jun	% m/m	0.3	-	-	-6.6
16:00	US	Factory Orders	Jun	% m/m	0.5	-	-	-0.5

Source: Santander Bank Polska. Bloomberg. Parkiet

* in the case of a revision the data is updated

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