30 August 2024

Eyeopener

Investments did not fall in the 2nd quarter

Today, flash CPI inflation for August
GDP growth in 2Q24 confirmed at 3.2% y/y, clear acceleration of domestic demand
ESI index for Poland rose in August to 100.0
Zloty trimmed Wednesday's loss, interest rate market quite stable

Today, flash estimate of August CPI inflation will be released, which, in our view, remained at the July level of 4.2% y/y, with a slight decrease of fuel and food prices in a month-on-month comparison. The median forecast according to Bloomberg also stands at 4.2% y/y. Preliminary data on HICP inflation will also be published in the euro area, and according to the consensus should show a decline from 2.6% y/y to 2.2% y/y. We will also see July unemployment in the euro area and a new estimate of 2Q GDP in Czechia. Apart from that, we will receive a lot of information from the US, including July data on income and consumer spending, as well as on PCE inflation, and the August reading of the Michigan Index.

2Q GDP growth was confirmed at 3.2% y/y nsa and 1.5% q/q or 4.0% y/y sa. The breakdown of growth looks strong: private consumption accelerated to 4.7% y/y (slightly more than we expected), while public consumption soared 10.7% y/y, both fuelled by strong wage and revenue growth of households. Investment growth jumped from -1.8% y/y in 1Q to +2.7% y/y in 2Q, which is the biggest positive surprise of the release. Overall, it looks like strong domestic demand (which accelerated in 2Q to 4.3% y/y, the strongest in two years) is currently protecting the Polish economy from the impact of poor economic activity in the euro zone. Today's data do not change our projected economic scenario with 3% GDP growth in 2024 and slightly faster (near 3.5%) in 2025. The GDP growth structure will not give the MPC additional arguments to consider earlier interest rate cuts, in our view. Read more in our Economic Comment.

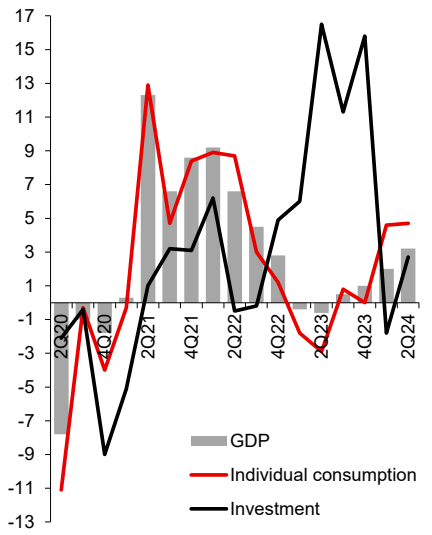
The Economic Sentiment Indicator (ESI) for Poland rose to 100.0 pts in August, and thus returned to the long-term average after a temporary drop to 99.7 pts in July. The slight improvement of the indicator resulted from increases in the indices of the industrial sector, by 0.8 pts to -16.8 pts, and of the retail sector, by 1.0 pts to 0.2 pts. The indices of the construction sector and the services sector weakened by 0.4-0.5 pts, and the consumer confidence indicator fell to negative values for the first time since the beginning of the year, reaching -1.5 pts. The causes of the deterioration of the consumer sentiment indicator included a decrease in the assessment of consumers' own financial situation, increases in the expected level of inflation and the risk of unemployment, as well as a lower propensity to make major purchases. Only expectations regarding the future general economic situation improved. However, given the still high wage growth and historically low unemployment, the decline in the consumer confidence indicator is probably temporary. **In the euro area, the overall ESI increased by 0.6 pts to 96.6 pts**, i.e. the highest level since May last year. As in Poland, the improvement resulted from increases in the indices of the industrial and the retail sectors.

The Ministry of Finance's website has published the draft budget for 2025 submitted for public consultation. The document shows, among other things, that within the financing of net borrowing needs in the amount of PLN367bn, the MoF is planning domestic financing of PLN252bn (net issuance of domestic securities in the same amount, c.PLN100bn more than in 2024) and foreign financing of PLN115bn, vs PLN21bn last year. The planned scale of the debt issuance is large, but it should be remembered that around PLN60bn from the central budget is to be used to repay of BGK and PFR debt, so the corresponding part of the borrowing needs is de facto a rollover of one debt with another, rather than a new issuance. We will discuss the details of the draft budget in a special commentary soon.

A further fall in EURUSD did not prevent the strengthening of the zloty. The dollar broke below 1.11 per euro yesterday, but this did not lead to a weakening of the zloty against the euro (even though such movements usually go hand in hand). EURPLN returned to levels from before its upward move on the early reports about 2025 budget, i.e. to c. 4.285. The CZK and HUF also recorded minimal daily gains against the euro. In our last weekly report we assessed that in case of a favourable 2Q GDP growth structure (which has been confirmed, in our view) EURPLN could head towards August lows. On the other hand, if we see a stabilisation of inflation today after its jump in July, this could have a stabilising effect on the zloty.

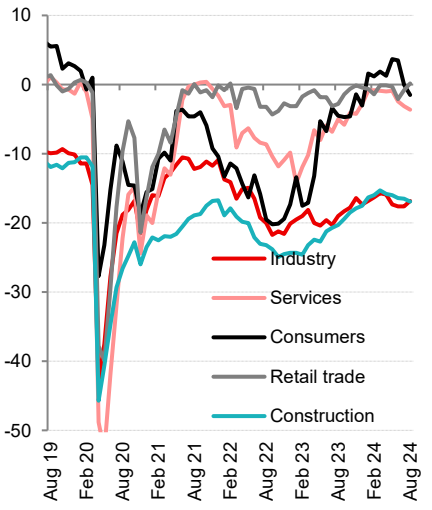
In the debt market, moves were modest. Domestic bonds showed a tendency to increase the slope of the yield curve - the 2Y-10Y spread widened by 7bp and exceeded +60bp, while a week ago it was still just above 40bp. In the interest rate swap market, shifts were even smaller and FRA rates stagnated despite the strong GDP data, which, in our view, deprives the MPC one of the possible reasons to soften its tone and move relatively quickly towards rate cuts.

GDP and its components, % y/y



Source: GUS, Santander

Poland, ESI sentiment indicators, pts



Source: Eurostat, Santander

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FX market

Today's opening

EURPLN	4.2831	CZKPLN	0.1708
USDPLN	3.8674	HUFPLN*	1.0899
EURUSD	1.1076	RUBPLN	0.0423
CHFPLN	4.5597	NOKPLN	0.3680
GBPPLN	5.0923	DKKPLN	0.5741
USDCNY	7.0910	SEKPLN	0.3779

*for 100HUF

Last session in the FX market **29/08/2024**

	min	max	open	close	fixing
EURPLN	4.2823	4.2937	4.2929	4.2835	4.2862
USDPLN	3.8499	3.8788	3.8554	3.8640	3.867
EURUSD	1.1054	1.1139	1.1133	1.1084	

Interest rate market **29/08/2024**

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
OK0426 (2Y)	4.90	-1
WS0429 (5Y)	5.27	2
DS1033 (10Y)	5.55	3

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	5.62	-1	4.51	0	2.97	-3
2L	5.08	0	3.96	-1	2.65	-2
3L	4.74	-1	3.77	2	2.52	-2
4L	4.61	0	3.68	2	2.51	2
5L	4.57	0	3.64	2	2.46	0
8L	4.60	-1	3.63	1	2.48	1
10L	4.66	0	3.67	1	2.51	1

WIRON rate

Term	%	Change (bps)
WIRON	5.26	1

WIBOR rates

Term	%	Change (bps)
O/N	5.93	9
T/N	5.82	-1
SW	5.84	0
1M	5.85	1
3M	5.85	0
6M	5.85	-1
1Y	5.84	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	5.82	0
3x6	5.74	1
6x9	5.43	-2
9x12	5.00	-2
3x9	5.70	1
6x12	5.35	-2

CDS rates and 10Y yield spread vs. German Bund

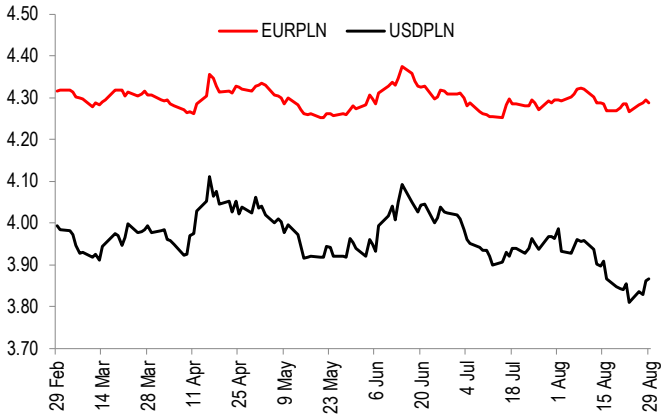
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	67	0	326	0
France	15	0	72	-1
Hungary	122	0	414	-2
Spain	35	0	83	-1
Italy	25	0	139	0
Portugal	23	0	60	-2
Ireland	12	0	37	-3
Germany	5	0	-	-

* 10Y treasury bonds over 10Y Bunds

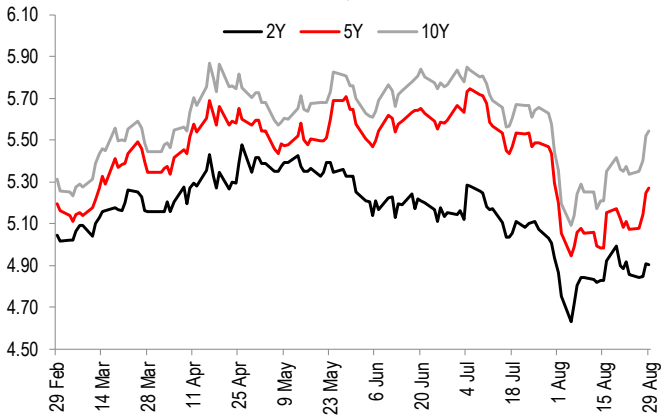
**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream

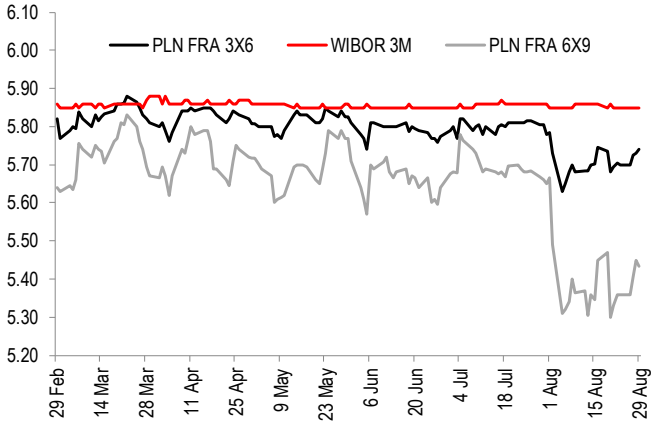
Zloty exchange rate



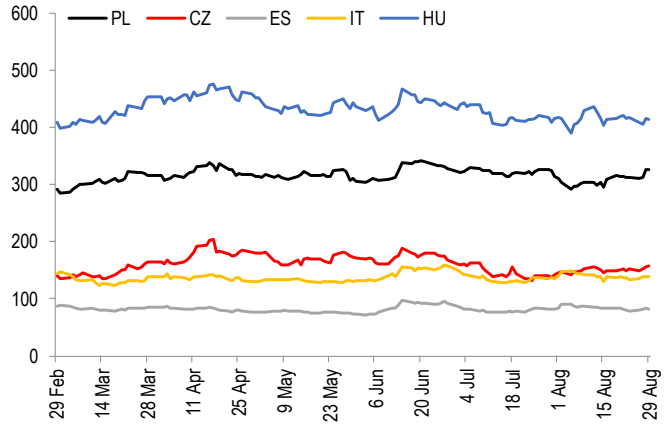
T-bonds yields



3M money market rates



10Y spread vs. Bund



Calendar of events and publications

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST SANTANDER	ACTUAL VALUE	LAST VALUE*
			FRIDAY (23 August)					
14:00	**PL**	**Money Supply M3**	**Jul**	**% y/y**	**8.3**	**8.4**	**8.3**	**8.4**
16:00	US	New Home Sales	Jul	% m/m	1.0	-	10.6	0.3
			MONDAY (26 August)					
10:00	DE	IFO Business Climate	Aug	pts	86.0	-	86.6	87.0
10:00	**PL**	**Unemployment Rate**	**Jul**	**%**	**4.9**	**5.0**	**5.0**	**4.9**
14:30	US	Durable Goods Orders	Jul	% m/m	4.2	-	9.9	-6.9
			TUESDAY (27 August)					
08:00	DE	GDP	2Q	% q/q	-0.1	-	-0.1	-0.1
14:00	HU	Central Bank Rate Decision	Aug	%	6.75	6.75	6.75	6.75
16:00	US	Consumer Conference Board	Aug	pts	100.9	-	103.3	101.9
			WEDNESDAY (28 August)					
10:00	**PL**	**Government meeting on 2025 budget**						
			THURSDAY (29 August)					
10:00	**PL**	**GDP**	**2Q**	**% y/y**	**3.2**	**3.2**	**3.2**	**2.0**
11:00	EZ	ESI	Aug	pct.	95.8	-	96.6	96.0
14:00	DE	HICP	Aug	% m/m	0.0	-	-0.2	0.5
14:30	US	GDP Annualized	2Q	% Q/Q	2.8	-	3.0	1.4
14:30	US	Initial Jobless Claims	weekly	k	235	-	231	233
16:00	US	Pending Home Sales	Jul	% m/m	0.2	-	-5.5	4.8
			FRIDAY (30 August)					
09:00	CZ	GDP SA	2Q	% y/y	0.4	-	-	0.3
10:00	**PL**	**CPI**	**Aug**	**% y/y**	**4.3**	**4.2**	**-**	**4.2**
11:00	EZ	Flash HICP	Aug	% y/y	2.2	-	-	2.6
11:00	EZ	Unemployment Rate	Jul	%	6.5	-	-	6.5
14:30	US	Personal Spending	Jul	% m/m	0.5	-	-	0.3
14:30	US	Personal Income	Jul	% m/m	0.2	-	-	0.2
14:30	US	PCE Deflator SA	Jul	% m/m	0.2	-	-	0.1
16:00	US	Michigan index	Aug	pts	67.9	-	-	66.4

Source: Santander Bank Polska. Bloomberg. Parkiet
** in the case of a revision the data is updated*

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.