



Poland: Weekly Macroeconomic Update

LAST TWO WEEKS:

According to flash estimate in July Poland's **inflation** was flat m/m and rose by 2.9% y/y, much above market consensus view. In July food prices rose by 0.3% m/m and increased by 6.8% y/y what was the main reason for higher inflation. In July fuel prices fell by 1.6% m/m and were 0.7% up y/y while prices of energy were unchanged m/m and fell by 1.0% y/y. We expect inflation to stabilize above 3% in the coming months due to a decline in fuel prices. Food inflation should also decelerate in the summer, despite the fact that at least part of food inflation was related to start of holiday season in July.

According to final data, in 2018 Poland's **exports** rose by 8.2% y/y to EUR223.6bn while Poland's **imports** were 10.7% up y/y to EUR228.2bn resulting in -EUR4.6bn **trade deficit**. In 2018 exports to the EU increased by 9.0% y/y while exports to the euro-zone were 9.7% up y/y. In 2018 Poland had a surplus of EUR46.2bn in a trade with the EU and a surplus of EUR22.1bn in a trade with the euro-zone. In 2018 trade deficit of -EUR49.2bn was reported in trade with developing countries and there was trade gap of -EUR7.3bn in trade with Central and Eastern Europe.

On Wednesday 31 July, the **FOMC**, as expected cut interest rates by 25 bps but comments from Fed's Chairman Powel were surprisingly hawkish. He said that yesterday's rate cut was not a beginning of long series of rate cut, but it was rather mid-cycle adjustment. Powell added, however, that this didn't mean that rate cuts were done. DB expects that the Fed will cut interest rates by 25 bps in September and by 25 bps in December this year.

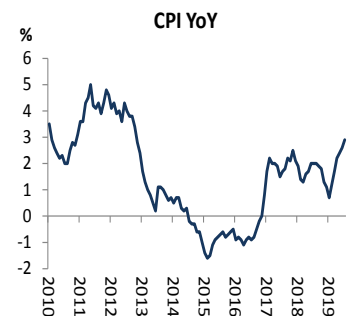
In July **manufacturing PMI** fell to 47.4pts from 48.4pts in June, declining to the lowest level since April 2013. Significant deterioration in business conditions in July stemmed from further declines in sales and output. The pace of decline in new orders was fast and similar to that reported in June. Demand weakened in domestic and foreign markets, in particular in the EU market. In July production of finished goods declined a bit slower than in June. In July employment in manufacturing declined partially due to lower demand and partially caused by workers quitting their jobs. In July cost inflation was relatively weak that caused minor increase in prices of final goods. In July confidence in manufacturing sector fell to almost the lowest level in history of the survey.

Official reserve assets for July fell to USD116.5bn from USD117.8bn in June.

THIS WEEK:

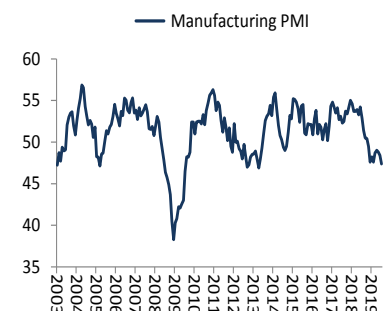
On Tuesday the NBP will release **balance of payments** for June. We expect an EUR130mn surplus in the current account and -EUR350mn trade gap in June. On Wednesday the GUS will publish preliminary **GDP growth** for Q2. Our call is 4.5% y/y. **Core inflation** for July (due on Friday) should amount to 2.0% y/y.

Figure 1: Inflation (y/y)



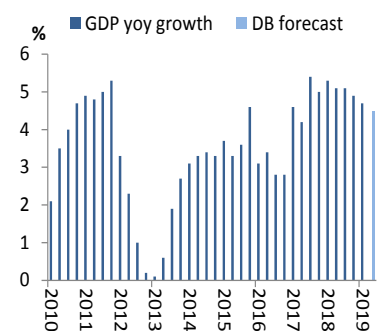
Source: GUS

Figure 2: Manufacturing PMI



Source: Markit

Figure 3: GDP growth (y/y)



Source: GUS, Deutsche Bank Polska S.A.



DIARY (this week)

Date	GMT	Release/Event	DB Expected	Actual	Consensus
Aug-13	12:00	Current account (Jun)	EUR130mn		-EUR10mn
Aug-13	12:00	Trade balance (Jun)	-EUR350mn		EUR70mn
Aug-14	8:00	GDP (Q2)	0.9% (4.5%)		0.9% (4.5%)
Aug-16	12:00	Core inflation (Jul)	0.0% (2.0%)		0.1% (2.1%)

Source: Deutsche Bank Estimates, Reuters and Bloomberg Finance LP

FX and interest rate forecasts

	EUR/PLN	USD/PLN	CHF/PLN	GBP/PLN	EUR/USD	WIBOR 3M	WIBOR 6M	EURIBOR 3M	LIBOR USD 3M	CPI (Poland)	Yield on 10Y POLGB
	(end of period)										
Aug-19	4.320	3.868	3.969	4.670	1.117	1.72	1.79	-0.40	2.15	2.9	2.10
Sep-19	4.310	3.843	3.958	4.657	1.122	1.72	1.79	-0.40	2.05	3.0	2.12
Oct-19	4.300	3.819	3.948	4.645	1.126	1.72	1.79	-0.40	2.00	3.0	2.15
Nov-19	4.290	3.795	3.937	4.632	1.131	1.72	1.79	-0.40	1.90	3.4	2.20
Dec-19	4.280	3.771	3.927	4.619	1.135	1.72	1.79	-0.40	1.85	3.5	2.22
Jan-20	4.278	3.756	3.915	4.619	1.139	1.72	1.79	-0.40	1.80	3.8	2.25
Feb-20	4.275	3.742	3.904	4.618	1.143	1.72	1.79	-0.40	1.80	3.7	2.25
Mar-20	4.273	3.727	3.893	4.617	1.146	1.72	1.79	-0.40	1.80	3.4	2.28
Apr-20	4.270	3.713	3.882	4.617	1.150	1.72	1.79	-0.40	1.80	3.0	2.30
May-20	4.268	3.699	3.871	4.616	1.154	1.72	1.79	-0.40	1.80	3.0	2.30
Jun-20	4.265	3.685	3.860	4.615	1.158	1.72	1.79	-0.40	1.80	2.8	2.30
Jul-20	4.263	3.671	3.849	4.614	1.161	1.72	1.79	-0.40	1.80	2.7	2.30

Note: Due to Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 the way of calculation of WIBOR rates and their values may be subject to change.

Source: Deutsche Bank Polska S.A.



Appendix 1

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