CEE Economics

Poland

29 November 2019

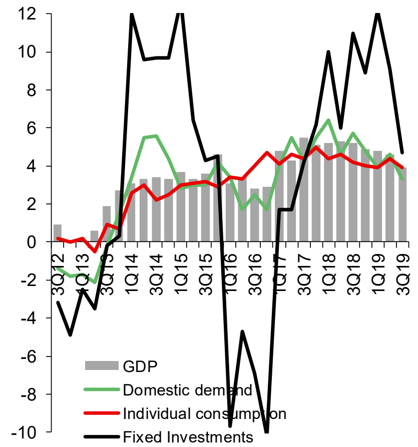
Weekly Economic Update

Is this rebound real?

What's hot next week

- GDP data confirmed that the Polish economy slowed down (to 3.9% y/y in 3Q19). Interestingly, the domestic demand was the main drag (investment, inventories, consumption), not the foreign trade, despite the slowdown abroad being blamed as the main culprit of weaker performance in Poland. Still, the tendency for the upcoming days seems obvious: our economy will slow down. The question is: how fast. Answer will be gradually revealed by economic data activity from Poland and from abroad.
- The new week will start with PMI/ISM indices for manufacturing and services in numerous countries. We expect PMI for Poland to go up slightly, but remain well below neutral level 50pts. Flash PMIs from Europe showed some improvement in industry, which – together with hopes for US-China trade deal – make markets a bit more optimistic about global economic outlook. This optimism was somewhat undermined by falling sentiment in the service sector, but so far sanguine moods seem to prevail and investors hope that the global slowdown will not become deeper. The calendar is also rich in US and euro zone economic activity measures, as retail sales, output, industrial orders. US non-farm payrolls is another important release. We are expecting a visible improvement after strike in GM factories ended.
- On Wednesday the MPC meeting ends. We do not expect any policy changes, the statement is likely to remain broadly unchanged versus last month, the NBP governor Glapiński is likely to point out repeating signs of economic slowdown. Last week we wrote: *next disappointments from Polish economy may trigger increased speculation for interest rate cuts*. And indeed this scenario already started materialising – FRA market is already pricing-in one 25bp interest rate cut. This is supported by recent comments from the MPC members (Żyżyński, Kropiwnicki), which signalled that MPC's support for policy easing may increase if economic slowdown deepens. We think the central bank will keep interest rates unchanged at least until the end of 2021, but before markets realise that, pricing-in the risk of rate cuts may get even stronger.
- The December MPC meeting will be the last one for Jerzy Osiatyński. His successor will be named by president Andrzej Duda, but so far there are no hints who this might be and if the replacement will change the balance of power within the Council.

GDP growth and its main components, % y/y



Source: GUS, Santander

Market implications

- EURPLN reached exactly the middle of its long term 4.25-4.40 horizontal range. This momentum is likely to be maintained for the time being and were it not for the December (that historically has strong PLN-positive seasonality) we would expect the move to extend towards c.4.40 by the end of the year. But because December is upon us we expect the EURPLN to move only to 4.34 next week.
- We do not expect any significant changes on the Polish fixed income market in the coming days. Any stronger move would probably result from following the core markets and here we do not have strong directional view at the moment.

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Last week in economy

Last week we got to see detailed GDP growth breakdown for 3Q19, showing a slowdown in consumption and investment. First economic data for 4Q19 are suggesting a further slowdown, even though first leading indicators started to rebound.

GDP growth in Poland slowed to 3.9% y/y in 3Q19 and rose 1.3% q/q after seasonal adjustment, confirming the flash reading released two weeks ago. As we have recently been warning, there was a notable slowdown in **fixed investments**, to 4.7% y/y (slowest growth in two years) from 9.1% y/y in 2Q. This slowdown was probably driven to a large extent by reduced public investment expenditure. **Private consumption** also disappointed, slowing to 3.9% y/y from 4.4% in 2Q, so the effect of the additional fiscal stimulus launched ahead of the autumn general elections has not appeared yet. But, in general, consumption remained the main engine of GDP growth. We think that it should still accelerate in the coming quarters, which will be dampening the effects of negative trends in other areas of GDP growth. The bright spot in GDP data was **net export**, which added 0.8pp to y/y economic growth. Export growth accelerated to 5% y/y, defying the negative trends in European economies. Interestingly, acceleration of export growth in constant prices was attributable mainly to much lower deflator, which may suggest that Polish companies are once again winning market shares abroad, competing with lower prices during the economic stagnation. We still expect Polish economy to continue slowing in the coming quarters, as the impact of external shocks will gradually filter to domestic investments and trade. Detailed forecasts will be released in the next MACROscope: 2020 Outlook in December. Read more in our economic comment.

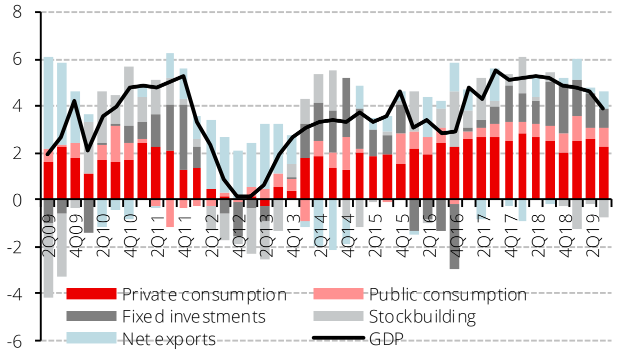
CPI inflation was at 2.6% y/y in November versus 2.5% y/y in October. Scarce details released by GUS show a monthly rise in food (+0.3% m/m), energy (+0.2% m/m) and fuel prices (0.1% m/m). Our estimates of fuel and food prices were markedly higher (0.8% m/m and 0.5% m/m, respectively) and it seems that fuel prices went up mostly in late November, so, in our view, it is possible that the final reading could be pushed up to 2.7% when the stat office takes into account the new data. We estimate that core inflation accelerated to 2.6% from 2.4%. We are expecting both CPI and core inflation to climb further in the months to come and peak in 1Q20. Later on, the economic slowdown will be limiting pressure on price growth.

In October, **retail sales** grew 4.6% y/y in real terms vs 4.3% market consensus. Such result eases somewhat the worries about consumer spending that arose after the disappointing previous reading, but confirms the outlook of continuing slowdown. In our view, additional social transfers and cut of the PIT tax rate should prevent retail sales from a major deceleration. More in our economic comment.

The registered unemployment rate declined in October to 5% for the first time since the transformation and the fall in the number of unemployed was slightly higher than in October last year. According to LFS, unemployment was also lower than ever: in Q3 it amounted to 3.1%, which means that it managed to trim 0.7 points during the year.

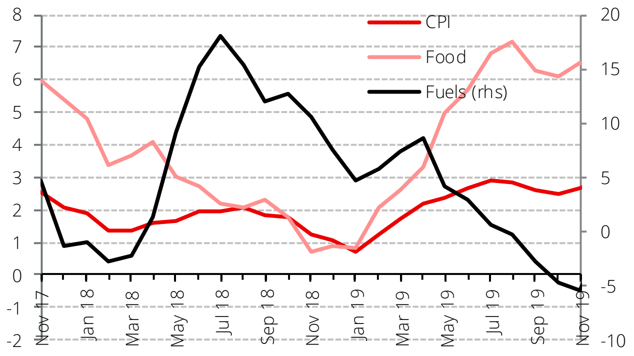
New industrial orders rose by 3.7% y/y in October, while foreign orders alone added 4.3% y/y. In both cases the growth rates are significantly below their Q3 and YTD averages. Seasonally adjusted **business sentiment indices** in manufacturing showed that current assessment of new orders is one of the lowest in the last four years. There was, however, a noticeable improvement in sentiment in the services in the restaurants and hotels sector which was a function of better demand and higher sales. Meanwhile, **ESI business climate** indicator for Poland improved in November to 100.9 from 100.2. The sub-indices in construction, retail trade and consumer confidence improved, while services indicator remained unchanged and in manufacturing it deteriorated.

GDP growth breakdown, % y/y



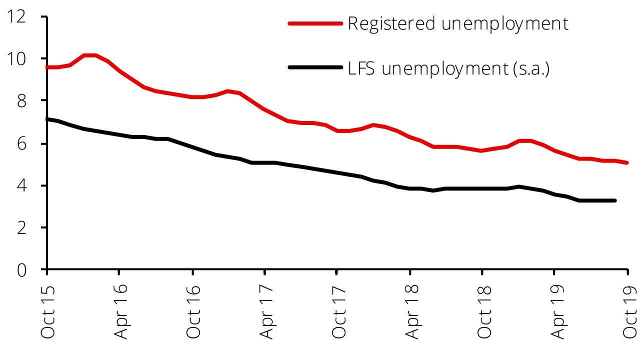
Source: GUS, Santander

Inflation, % y/y



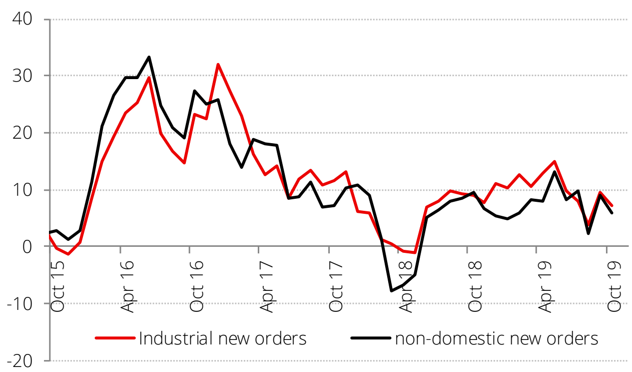
Source: GUS, Santander

Unemployment rate, %



Source: GUS, Santander

New orders in industry, % y/y



Source: GUS, Santander

FX and FI market

Last week on the market

FX The past week has been 4th consecutive one of the weakening of zloty. This time neither the global market sentiment nor stronger dollar are there to blame – stocks have performed well, the dollar index has not changed w/w.

Zloty weakness seems to be a function of two factors: one idiosyncratic and one global. Polish Supreme Court overturned the Appeal Court's judgement (the case against borrower sued by the commercial bank) hence the option that is unfavourable for banks (possibility to convert the loan at historic FX rates) has become more plausible in investors' opinion. On top of that the negative mood towards EM currencies in general persists, led by significant weakness in the LATAM currencies.

Elsewhere in the CEE region, EURHUF has not changed on a weekly basis, however in the meantime established another all-time high at 337.21. EURCZK where for most part stable and also has not changed on a weekly basis. USDRUB has risen by 0.4% and this despite oil prices slightly up, which suggests the c5% strengthening trend since August might be exhausted and a rebound is likely in the coming weeks.

FI Polish IRS and bond yields traded lower in the past week slightly disentangling from the German curve which they normally follow very closely – the 10Y PL-DE spread narrowed by 7bp to 232bp. The core markets have not changed much in the past week because of the US holidays. The Polish yield curve moved lower as the economic data points to increasing likelihood of slowdown and interest rate cuts are being priced into the FRA curve (slightly more than one 25bp cut in the 2 year horizon).

Key events

In the coming days, we will see a round of manufacturing PMIs in the US, Eurozone, Germany and Poland, non-farm payrolls and durables goods orders in the US. In Poland, MPC is expected to leave interest rates unchanged at 1.50%. The market still eagerly awaits the outcome of the US-China trade talks.

Market implications

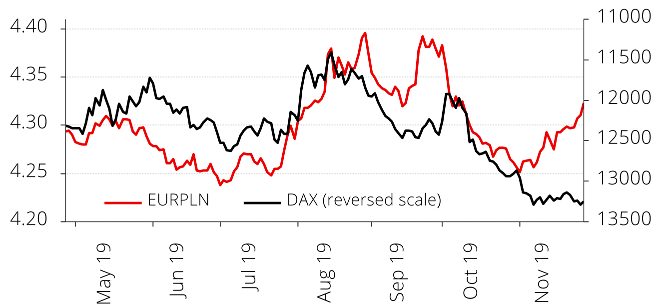
The passing week has been rather quiet because of the US holidays on Thursday. Stocks firmed only slightly, core rates have not changed by much.

FX EURPLN reached exactly the middle of its long term 4.25-4.40 horizontal range. The pace of the upward move from the 4.25 handle in late October has been relatively slow (realized volatility in the last week only around 2%) but perseverant. The lack of significant correction or even consolidation suggests that momentum is likely to be maintained for the time being and were it not for the December (that historically has strong PLN-positive seasonality) we would with high confidence expect the move to extend towards the upper band e.g 4.40 by the end of the year. But because December is upon us we expect the EURPLN to move only to 4.34 in the next week.

FI We do not expect any significant changes to take place on the Polish fixed income market in the coming days. No government bond auctions are scheduled for the next week. The narrowing of the spread versus Bund if anything is already slightly stretched and the rate cuts priced by the FRAs market are unlikely to be delivered by the NBP, we think.

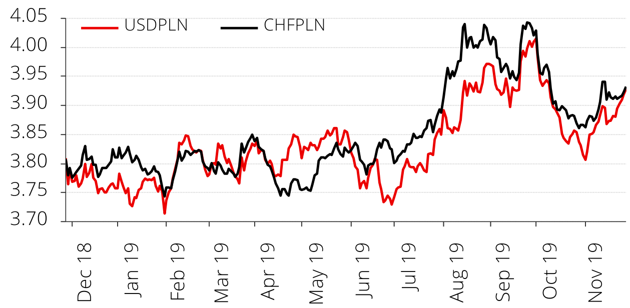
Polish yields will surely be driven by the core markets next week and significant data releases like NFP, PMIs, durables etc. are likely to drive the core yields out of the consolidation period (Bund still has not traded below the important support at -0.434% suggesting higher core yields are still in play). The Polish bond 10Y yield is likely to remain in the vicinity of 1.95-2.00% levels, if however the 1.95% level does not hold we might test the October lows at 1.89%.

EURPLN and German DAX index



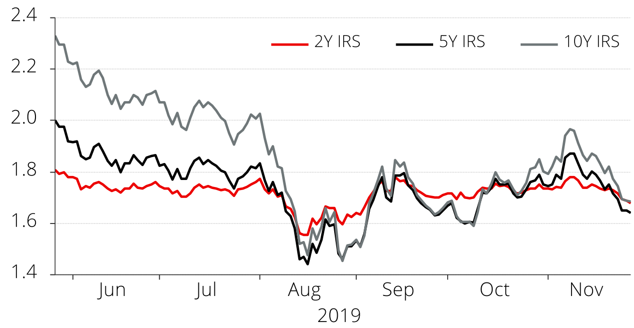
Source: Refinitiv Datastream, Santander Bank Polska

USDPLN and CHFPLN



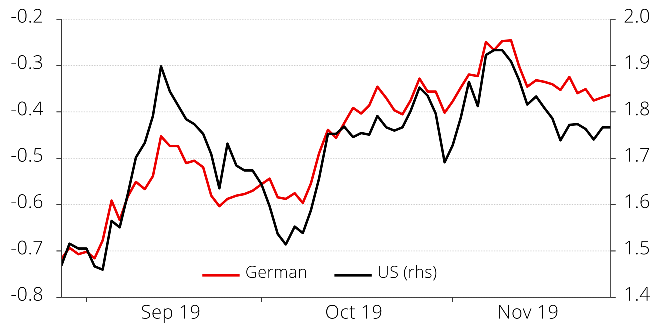
Source: Refinitiv Datastream, Santander Bank Polska

PLN IRS



Source: Refinitiv Datastream, Santander Bank Polska

10Y Bund and UST yields



Source: Refinitiv Datastream, Santander Bank Polska

Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST SANTANDER	LAST VALUE
		MONDAY (2 December)					
09:00	**PL**	**Poland Manufacturing PMI**	**Nov**	**pts**	**46.3**	**46.9**	**45.6**
09:55	DE	Germany Manufacturing PMI	Nov	pts	43.8		42.1
10:00	EZ	Eurozone Manufacturing PMI	Nov	pts	46.6		45.9
16:00	US	ISM manufacturing	Nov	pts	49.5		48.3
		WEDNESDAY (4 December)					
	PL	**MPC decision**		**%**	**1.50**	**1.50**	**1.50**
02:45	CN	Caixin China PMI Services	Nov	pts	51.2		51.1
09:55	DE	Markit Germany Services PMI	Nov	pts	51.3		51.6
10:00	EZ	Eurozone Services PMI	Nov	pts	51.5		52.2
14:15	US	ADP report	Nov	k	140		125
16:00	US	ISM services	Nov	pts	54.5		54.7
		THURSDAY (5 December)					
08:00	DE	Factory Orders	Oct	% m/m	0.6		1.3
11:00	EZ	GDP SA	3Q	% y/y	1.2		1.2
11:00	EZ	Retail Sales	Oct	% m/m	0.0		0.1
14:30	US	Initial Jobless Claims	week	k	220		213
16:00	US	Durable Goods Orders	Oct	% m/m	-0.9		0.6
16:00	US	Factory Orders	Oct	% m/m	0.1		-0.6
		FRIDAY (6 December)					
08:00	DE	Industrial Production SA	Oct	% m/m	0.2		-0.6
09:00	HU	Industrial Production SA	Oct	% y/y	6.7		9.0
14:30	US	Change in Nonfarm Payrolls	Nov	k	190		128
14:30	US	Unemployment Rate	Nov	%	3.6		3.6
16:00	US	Michigan index	Dec	pts	97.0		96.8

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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.