

06 December 2019

Weekly Economic Update

The market says "I call"

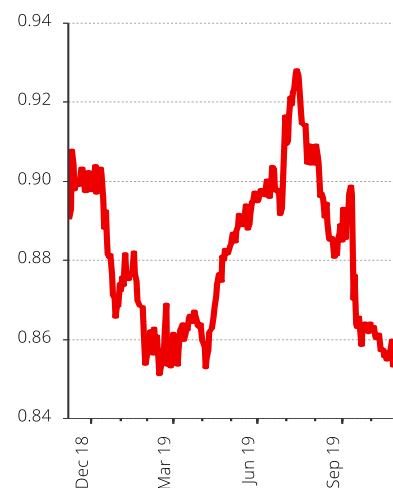
What's hot next week

- For months the market has been driven by expectations regarding how the Brexit and the trade deal would be managed. In general, investors have been pricing the scenario of the hard Brexit being avoided and at least the partial trade agreement being signed sooner than later. As a result, bond yields are somewhat higher than three months ago and many of the stock indexes are at their all-time- or at least multi-month highs.
- This week, the market will say "I call" since the UK holds a parliamentary elections and December 15 is the deadline for the next tariffs to be imposed on China.
- The pound gained somewhat in the recent days amid hopes that the UK Conservative party would secure stable majority allowing them to finish the legislative process of leaving the EU in an orderly fashion. Although it seems that this scenario is already to some extent priced in, we see room for the market positive reaction should this be delivered.
- Last week, we heard Donald Trump saying one day that the trade deal may have to wait until the US presidential elections in 2020 and the next day that the talks are doing pretty well. Additionally, media cited anonymous US negotiators who said that there are high chances for the phase one deal to be signed before December 15. Should this happen, it would be only one step on the long and a rocky road of talks, but markets would surely welcome such news with great optimism. If the deal is not signed by weekend, but there is a suggestion of a nearing agreement, and the new tariffs on consumer goods are postponed, it would be still not so bad scenario for markets.
- The ECB and FOMC will decide about the interest rates. We do not expect any changes and we think that the central bank meetings will be overshadowed by the geopolitical issues.
- In Poland, on Friday the final November CPI will be released. We see a slight risk that the flash estimate of 2.6% could be revised up to c2.7% owing to rising fuel prices in the second half of the month, which seems to have been underestimated by the stats office in the flash reading.

Market implications

- We think that the positive outcomes of the trade talks (no new tariffs) and UK elections (allowing for quick delivery of soft Brexit) could push EURPLN further down but in our view the exchange rate would hold above 4.25. In the alternative scenario (no trade deal, inconclusive UK elections), EURPLN could reverse last week's drop.
- Higher chances for a soft Brexit and progress made on the trade front would generate an upside pressure on yields. In the opposite case, yields might fall and we would expect the Bund to outperform Polish debt.

EURGBP



Source: Refinitiv Datastream, Santander Bank Polska

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Last week in economy

During the passing week we have seen Poland PMI inching up slightly but the subcomponents still not encouraging. At the same time, many of the euro zone final November PMI releases surprised to the upside vs their flash estimates. On the other hand, ISM for the US manufacturing and services disappointed. Production component neared 50pts but the new (exports) orders continued to fall. Polish MPC confirmed that it intends to maintain its "wait-and-see" approach given the available forecasts.

Polish manufacturing PMI rose in November to 46.7 from 45.6, above the market consensus. However, this is still a very low level (second lowest since July 2009). Main components of the index, albeit a bit better than in October, were still pointing to gloomy outlook for production, new orders, and employment. Firms' expectations of future output were the lowest since 2012, amid reported declining demand and worsening economic forecasts. Slowing costs growth and weakening price pressure were also reported.

Overall, the PMI index still heralds significant slowdown in the manufacturing sector. Other business climate surveys (GUS, ESI) signal the same direction for industry, although of smaller magnitude. The key issue for Polish manufacturers will be situation in the euro zone, where recent months showed first signals of shy improvement.

Polish MPC kept interest rates unchanged, as expected. The press conference confirmed that the central bank's attitude remains broadly unchanged and no moves in monetary policy are on the horizon. The MPC expects GDP growth to slow but remain decent and inflation – after short-lived jump in 1Q20 – to return towards the target in the coming quarters.

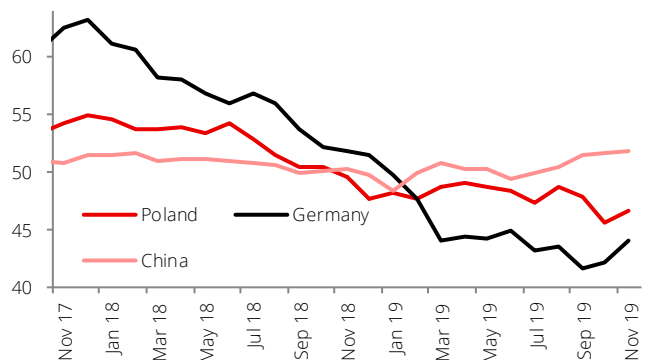
The NBP governor Adam Glapiński rebuffed market speculation for interest rate cuts and reiterated that in his view the most likely scenario is rates stability until the end of term of office (2022). He admitted there is a room for rate cuts if needed, but there are absolutely no reasons to do it. It was the last meeting with MPC member Osiatyński who leaves the office on 20 December. The name of his successor is still unknown, he will be appointed by President Duda. Overall, nothing new at the moment.

According to the Ministry of Labour, in November the **registered unemployment rate** rose to 5.1% from 5% in November. According to the Ministry, the number of unemployed rose by 10.2k m/m to 850.7k. This estimate is in line with our forecast.

Development Minister Jadwiga Emilewicz said that there will be no compensations for energy price increases for households in 2020. The scale of electricity tariff hikes will be decided by the Energy Regulatory Office (URE) on December 17. In her view it will allow for energy costs rise for households by 5-7% (although the next day she mentioned 10%). Ten percent increase in electricity bill would move CPI higher by 0.5bp. We are still awaiting for final decisions in this matter.

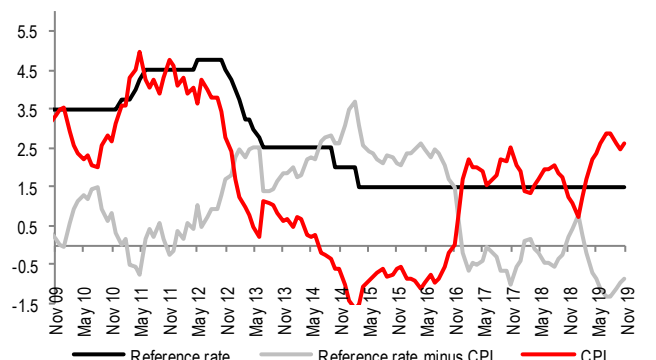
Regardless of the final decision, the jump of inflation at the turn of the year will be most likely ignored by the MPC as caused by the factors beyond the monetary policy impact. Lack of costs related to the freeze of the energy prices would, however, make it easier for the government to balance the 2020 budget after it did not manage to secure additional funding from the removing of the 30x threshold of the social security fund (ZUS).

Manufacturing PMIs



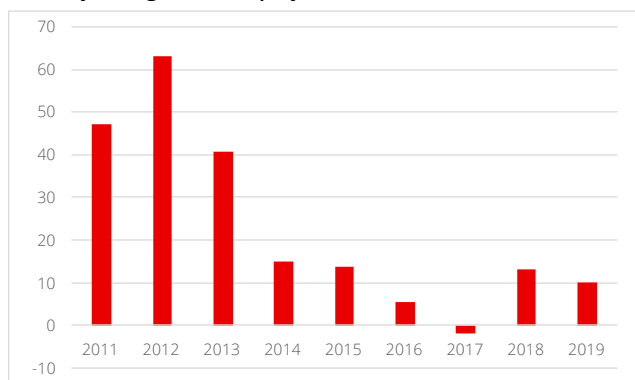
Source: Bloomberg, Santander

NBP interest rate vs. inflation



Source: GUS, NBP, Santander

Monthly change of unemployment count in November, k



Source: GUS, Santander

FX and FI market

Last week on the market

FX December, the month that usually has been positive for the zloty, started with a sharp EURPLN drop to 4.28 from 4.32. Polish currency benefited from the rise of EURUSD and decent global mood while ignoring some inconclusive comments about the trade talks. The zloty gained also vs the dollar and remained stable vs the franc and pound.

In case of the other CEE currencies, the koruna and ruble did not move much while the forint gained vs the euro.

FI Polish IRS and bond yields have become more volatile since the start of December amid significant moves recorded on the core debt market. Taking a broader look, the 5Y and 10Y bond yields have rebounded somewhat from their local lows while Bunds and Treasuries still have not decided what direction to follow in the coming weeks.

Key events

The coming week will be full of important events. The ECB and FOMC will decide about the interest rates (we expect no changes), the UK will hold a parliamentary elections and December 15 is the deadline for the additional tariffs to be imposed by the US on China.

We think that this time the central banks decisions would be overshadowed by the geopolitical factors. Comfortable majority won by UK Conservative party would in the initial market reaction likely spur risk appetite on the market as the soft Brexit scenario becomes more likely. However, for the optimism to stay for longer, we would need president Trump decision to refrain from lifting tariffs on China in mid-December.

Market implications

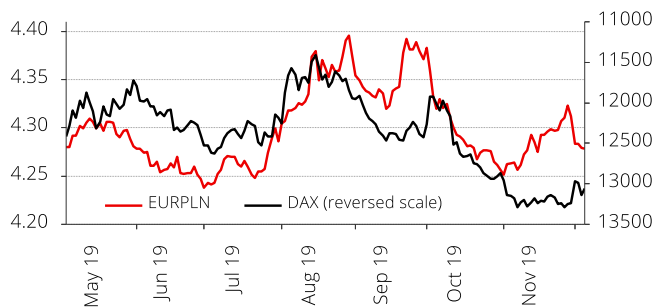
Scenario for the market in the coming week is highly conditional and dependent on very unpredictable outcomes. However, in both cases (UK elections, trade talks) we think that higher odds are for market-friendly results than for alternative scenarios.

FX The zloty has recovered more than half of the losses suffered vs the euro in November. We think that the positive outcomes of the trade talks and UK elections could push EURPLN further down but in our view the exchange rate would hold above 4.25. The CHF mortgage loans issue emerges on the headlines from time to time and this factor should limit the scope for the zloty appreciation even when optimism prevails on the global market. In the scenario of inconclusive result of the UK elections (hung parliament) and no trade deal, EURPLN could reverse this week's drop.

FI Since the upside yield's move seen in late August, Polish bonds are moving in a wide horizontal trend. Similar pattern can be observed in case of Treasuries while Bund yields reveal the biggest willingness to rise from here mentioned. Clearly, the debt market is waiting for the trigger to show a direction at least for a few weeks.

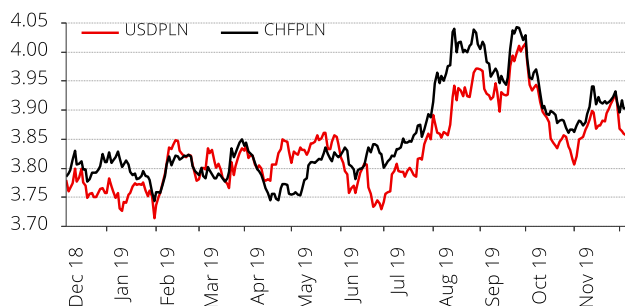
Higher chances for a soft Brexit and progress made on the trade front would generate an upside pressure on yields. In the opposite case, yields might fall but here we would expect the Bund to outperform Polish debt.

EURPLN and German DAX index



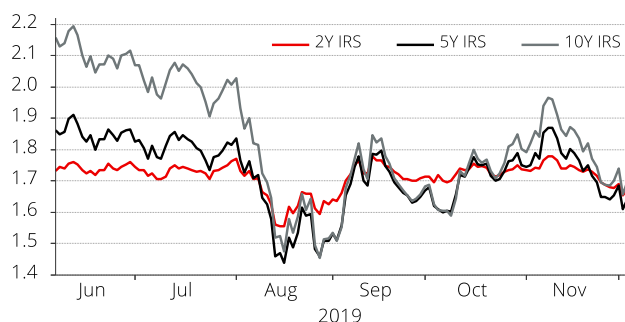
Source: Refinitiv Datastream, Santander Bank Polska

USDPLN and CHFPLN



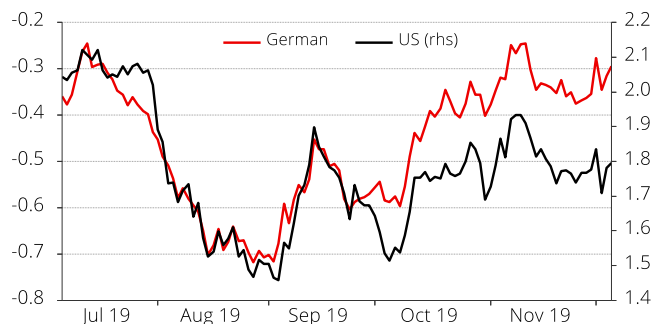
Source: Refinitiv Datastream, Santander Bank Polska

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		LAST	
				MARKET	SANTANDER	VALUE	
MONDAY (9 December)							
08:00	DE	Exports SA	Oct	% m/m	-0.3	-	1.5
09:00	CZ	Industrial Production	Oct	% y/y	-3.0	-	4.9
TUESDAY (10 December)							
09:00	CZ	CPI	Nov	% y/y	2.9	-	2.7
09:00	HU	CPI	Nov	% y/y	3.3	-	2.9
11:00	DE	ZEW Survey Current Situation	Dec	pts	-22.0	-	-24.7
WEDNESDAY (11 December)							
14:30	US	CPI	Nov	% m/m	0.2	-	0.4
20:00	US	FOMC decision		%	1.50-1.75	-	1.50-1.75
THURSDAY (12 December)							
		UK parliamentary elections					
08:00	DE	HICP	Nov	% m/m	-0.8	-	-0.8
11:00	EZ	Industrial Production SA	Oct	% m/m	-0.2	-	0.1
13:45	EZ	ECB Main Refinancing Rate		%	0.0	-	0.0
14:30	US	Initial Jobless Claims	week	k	215	-	203
FRIDAY (13 December)							
10:00	PL	CPI	Nov	% y/y	2.6	2.6	2.6
14:30	US	Retail Sales Advance	Nov	% m/m	0.4	-	0.3

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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