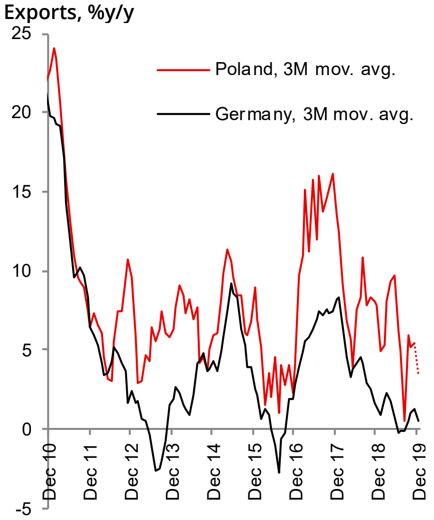
07 February 2020

Weekly Economic Update

Sudden mood swings

What's hot next week

- Calendar of the global economic releases for the coming days is rather light and most of the data will be published on Friday. Until then, investors may focus on the coronavirus. In early February, the global market mood improved markedly amid hopes that situation will soon be under control and some better-than-expected data was released.
- While data from the developed economies tend to surprise to the upside more often, in Poland and other CEE countries the turn of the year did not bring many above-consensus releases. At the end of the coming week, we will see Poland flash 4Q19 GDP that is likely to confirm hint from total 2019 GDP data of a noticeable deceleration of economic growth at the end of the last year – to c3% in 4Q19 from 3.9% in 3Q19. The growth structure will be realised at the end of February but assuming there were no revisions of the previous quarters, we estimate that the consumption and negative net exports were behind the slowdown.
- On Friday, the Stat Office will release January inflation. We assume that the upside move continued after a sharp rise of CPI to 3.4% y/y in December and inflation rose slightly above 4% at the beginning of 2020. In our base case scenario, we think this could be the annual peak but only in very late 2020 CPI could fall below 3%.
- We think the December balance of payments data will show acceleration of exports and imports annual pace of growth, mainly owing to positive effect of number of working days We have already seen this in industrial output data. Our forecast of the current account balance in near the market consensus.



Source: Bloomberg, Santander

Market implications

- We do not expect the zloty to extend its appreciation and EURPLN should not approach 4.22. The dollar may gain at least in the short term which might weigh on the zloty and its CEE peers.
- We think that two opposite forces, decent data and uncertainty related to the impact of the virus, should be balanced in the short term. Polish bonds outperformed their core peers and we think this could continue in the coming days. Also, Polish CPI and GDP data could be viewed as dovish.

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Last week in economy

In our 2020 Outlook released in December we wrote that the Polish economy may lag the economic revival we expected to see in the euro zone in 2020. First data for January seem to be in line with our scenario. While the final German and euro zone manufacturing PMIs proved better than initially estimated, Polish index fell unexpectedly. The US economy is also robust at the start of the year where manufacturing ISM returned above 50pt while the services index is rebounding further from its multi-month low in September. The US labour market is also in a decent shape. The better business sentiment could result from the phase one deal signed in mid-January by the US and China. In this context, the China declaration from the passing week that it will cut retaliation tariffs on some US goods by half should be a good sign for the next stage of negotiations. Turning back to the business sentiment data, one should remember that the January indices likely to not include the risk of coronavirus.

Polish manufacturing PMI fell in January to 47.4 pts, while market consensus and we assumed a small rise m/m. It was the first drop after three months of improvement and the 15th consecutive reading below the neutral mark of 50 pts. The main factors behind the index deterioration were worsening sub-indices of employment and delivery time. New orders kept declining but at a slightly slower pace than before. Pace of production decline stabilised. Cost pressure kept weakening, although prices of finished goods increased most in five months. Despite the lower headline PMI, Polish firms' expectations about the future improved and were the most optimistic in eight months. Still, the survey paints quite a downbeat picture of the situation in the Polish industry, especially that probably it has not reflected yet the recent wave of uncertainty related to the spread of coronavirus.

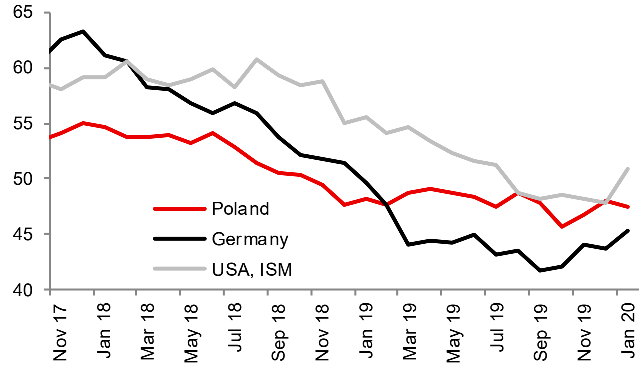
The Monetary Policy Council kept main interest rates unchanged (reference rate at 1.50%). In the statement the Council wrote that economic outlook for Poland remains good, although there is some uncertainty regarding the depth and persistence of the slowdown. The Council expects that inflation may exceed the upper limit of +/-1pp band of deviations around the target in the nearest months, but the acceleration of price growth will be temporary and driven by supply-side and regulatory factors, which remain beyond the direct impact of domestic monetary policy. Thus, inflation should decrease later this year, and hover near the inflation target in the medium run.

The NBP Governor Glapiński repeated his earlier views that interest rates should remain unchanged until the end of his term of office (2022) and the probability of rate cuts is higher than of rate hikes. Kamil Zubelewicz (the most hawkish MPC member) said that interest rates are too low, but the Council should wait with decision until the new inflation projection (next month). Ultra-dovish Eryk Łon said, in turn, that he still sees room for slight monetary easing that would support economic growth.

On balance, **nothing new on the monetary policy front in Poland**. Just like in the previous two months, the MPC announced its decision quite late and we suspect that at least one motion to change rates was submitted. So far, the majority of the MPC favours stable rates but the situation may get more interesting once/if economic outlook improves visibly later this year.

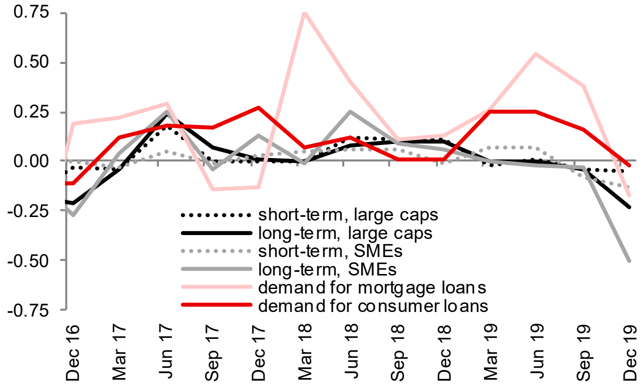
The central bank's quarterly loan survey showed that in 4Q19 the credit criteria have been tightened (particularly in case of consumer loans) and demand for loans fell (particularly for long-term corporate loans and mortgages). Banks plan to tighten the lending criteria further in 1Q20 and expect a rise of demand for consumer loans. Banks have clearly underlined the risk related to the current economic situation as the main factor behind tighter criteria for corporates and in a lesser extent for consumer loans. The survey still points to lower demand from corporates for financing of investments.

Manufacturing PMIs



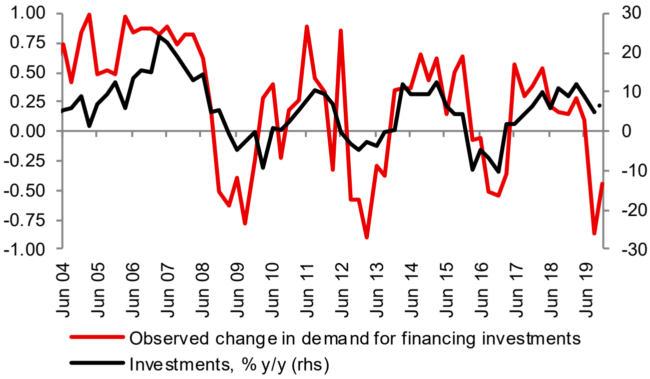
Source: Bloomberg, Santander

Credit demand indicators, net percent of banks (weighted by market share) signalling improved demand



Source: NBP, Santander

Signals from senior loan officers' survey vs investment growth



Source: NBP, Santander

FX and FI market

Last week on the market

FX In the recent weeks, the coronavirus has become the main driver of the global market mood. Whereas in late January the risk aversion was persisting amid concerns that the virus could negatively affect the worldwide economic growth, in early February risky assets recovered amid hopes that the situation would soon get under control. The zloty benefited from this meaningful improvement of the global market mood: EURPLN plummeted to 4.24 from 4.30, USDPLN to 3.85 from 3.90, GBPPLN to 4.99 from 5.10 and CHFPLN to 3.95 from 4.02. In nominal terms, this was the biggest weekly EURPLN drop since September.

FI Polish bond yields and IRS rates rose in the first part of the week (the scale of move did not exceed 10bp) and managed to more than offset this later thanks to poor real German data and information from the Ministry of Finance. The asset swap spreads fell and the bond curve flattened a bit. The 10Y PL-DE bond yield spread fell from its local peak at 260bp and closed the week at nearly 250bp.

At the switch auction, the Ministry of Finance sold bonds for PLN6.3bn. Also, the Ministry issued EUR1.5bn of EUR-denominated bonds. The Ministry said that 2020 gross borrowing needs have been covered in 70%.

According to the Ministry of Finance, in December, non-residents cut their holdings of the PLN-denominated marketable bonds but only by nearly PLN600mn. Although the net change of foreign investors holdings was minor, flows within this group were noticeable. Commercial banks sold bonds for PLN1.9bn and nonfinancial entities PLN5.0bn. However, foreign insurance companies purchased bonds for PLN5.0bn and PLN1.2bn was added to the omnibus accounts.

Key events

Next week, we will have to wait until Friday to see any meaningful data releases, mainly from the US. The recent US data were encouraging and this may make the market optimistic ahead of the upcoming figures.

Investors are likely to continue following the developments related to the coronavirus. It seems that unless it gets much worse, this issue might have a limited impact on the market.

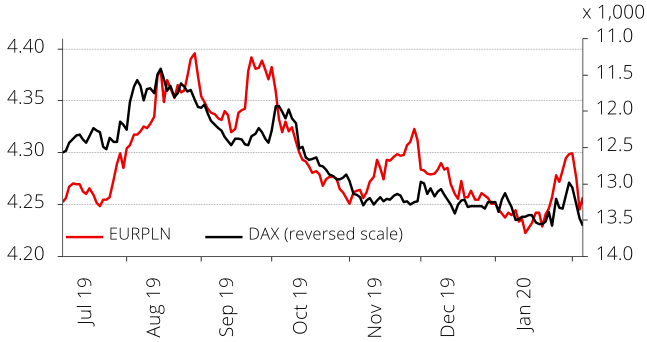
Our forecasts for data to be released in Poland (flash 4Q GDP, January CPI, December C/A) are close to the market consensus.

Market implications

FX We do not expect the zloty to extend its appreciation and EURPLN should not approach 4.22. Poor real data from Germany and robust readings from the US pushed EURUSD below the 1.098 support. Thus, the dollar may gain at least in the short term which might weigh on the zloty and its CEE peers. Also, note that much of the recent rally on the stock market that contributed to the Polish currency appreciation was driven by hopes that cure for the coronavirus would be found soon. Should no positive information emerge on this front, the global market mood could again be somewhat more shaky. In our view, however, the potential for any long-lasting risk aversion is limited by expectations that central banks will take action in case of higher risk of the virus taking meaningful toll on the economic growth.

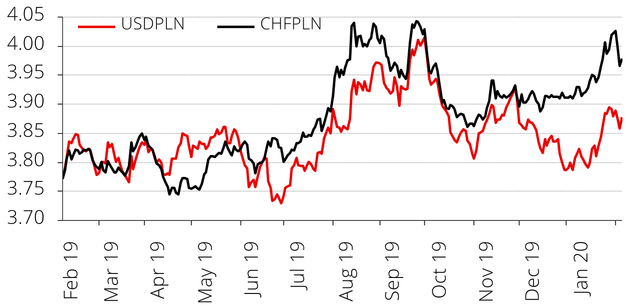
FI Core bond yields rose 10-15bp after the above consensus PMI/ISM data. However, when we compare this move to the rise on the equity market, the bond reaction to the decent macro data looks muted. This might have been due to the market expectations for central banks' action in case any significant distortions emerge in the upcoming data. On balance, we think that these two opposite forces, decent data and uncertainty related to the impact of the virus, should be balanced in the short term. Polish bonds outperformed their core peers and we think this could continue in the coming days thanks to the information of a high coverage of 2020 gross borrowing needs. Also, Polish CPI and GDP data could be viewed as dovish. However, the 10Y PL-DE bond spread shall resume the upside move soon.

EURPLN and DAX index



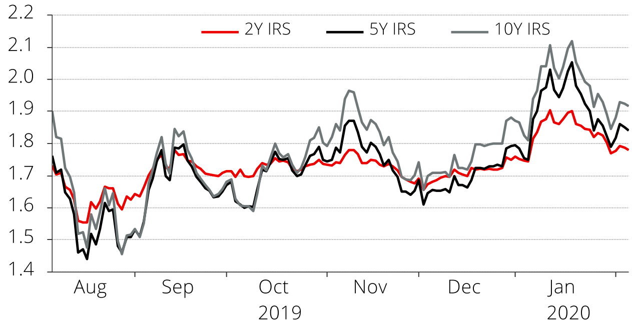
Source: Refinitiv Datastream, Santander Bank Polska

USDPLN and CHFPLN



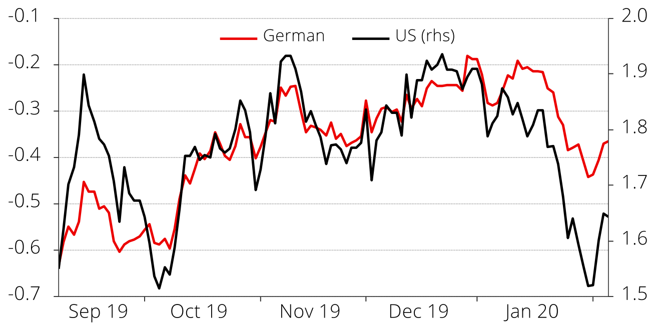
Source: Refinitiv Datastream, Santander Bank Polska

Poland IRS



Source: Refinitiv Datastream, Santander Bank Polska

10Y Bund and UST yields



Source: Refinitiv Datastream, Santander Bank Polska

Economic Calendar

CZAS W-WA	KRAJ	WSKAŹNIK	OKRES		PROGNOZA RYNEK	PROGNOZA SANTANDER	OSTATNIA WARTOŚĆ
		MONDAY (10 February)					
		No imporant data relases					
		TUESDAY (11 February)					
		No imporant data relases					
		WEDNESDAY (12 February)					
11:00	EZ	Industrial output	Dec	% m/m	-0,5	-	0,2
		THURSDAY (13 February)					
08:00	DE	HICP	Jan	% m/m	-0.8	-	-0.8
09:00	HU	CPI	Jan	% y/y	4.4	-	4.0
14:00	**PL**	**Current Account Balance**	**Dec**	**€mn**	**-571**	**-551**	**1 457**
14:00	**PL**	**Trade Balance**	**Dec**	**€mn**	**-775**	**-811**	**829**
14:00	**PL**	**Exports**	**Dec**	**€mn**	**16 710**	**16 712**	**20 238**
14:00	**PL**	**Imports**	**Dec**	**€mn**	**17 690**	**17 523**	**19 409**
14:30	US	CPI	Jan	% m/m	0.2	-	0.2
14:30	US	Initial Jobless Claims	week	k	215	-	202
		FRIDAY (14 February)					
08:00	DE	GDP WDA	4Q	% y/y	0.4	-	0.5
09:00	CZ	GDP SA	4Q	% y/y	2.0	-	2.5
09:00	CZ	CPI	Jan	% y/y	3.1	-	3.2
09:00	HU	GDP	4Q	% y/y	4.2	-	5.0
10:00	**PL**	**CPI**	**Jan**	**% y/y**	**4.1**	**4.1**	**3.4**
10:00	**PL**	**Flash GDP**	**4Q**	**% y/y**	**3.0**	**3.0**	**3.9**
11:00	EZ	GDP SA	4Q	% y/y	1.0	-	1.0
14:30	US	Retail Sales Advance	Jan	% m/m	0.3	-	0.3
15:15	US	Industrial Production	Jan	% m/m	-0.3	-	-0.3
16:00	US	Michigan index	Feb	pts	98.9	-	99.8

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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