20 March 2020

# Weekly Economic Update

## Waiting for good news

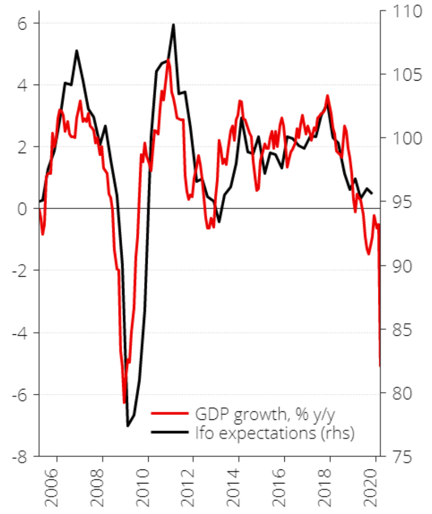
### What's hot next week

- The spread of the pandemic will remain the key topic for the economy and financial markets. Market mood will to a large extent depend on news about the pace at which the number of coronavirus victims increases in various countries. Governments and central banks in most countries have launched pronounced support measures, which gives hope for - at least temporary - stabilisation of market sentiment. The first bits of economic data will be released, and these will show the scale of the response of the economy to the lockdown and bans on many key activities. The already-published German Ifo index for March pointed to the deepest decline in German industry since the 2008-2009 crisis and is consistent with a serious recession in the country. In the coming days other indicators will be released, e.g. flash PMIs for Europe - additional puzzles to the picture of economic reality after the virus outbreak describing the services sector and other countries. There will be a few other significant publications, and the ones covering periods before March are of limited value right now.
- In Poland, the data on February money supply will be out - but most likely to be ignored. On Friday evening the Fitch agency planned to issue an update of Poland's rating, but we think the agency might skip this release - as Moody's has recently done. If the report comes out it will probably show unchanged credit score. Fitch has just cut Polish GDP growth forecast for 2020 to 1.8%.
- Till the end of the week the Polish government should make a decision whether schools and other areas of the economy should remain closed for longer. The quarantine is likely to be prolonged, the question remains: for how long.
- The Hungarian and Czech central banks meetings are also on the agenda. The former cut rates by 50bp in an emergency meeting already in the passing week, without waiting for the regular scheduled meeting. The latter has already mentioned launching an asset purchase programme, and may take this opportunity to formally announce it.

### Market implications

- After the fastest PLN depreciation vs euro since 2016 we expect a moment of a breather and a stabilization of EURPLN near 4.50. In the longer horizon it is more likely that the zloty will be weakening rather than strengthening.
- We expect that POLGBs yields will oscillate within wide ranges which we observed in the passing week, with intra-day volatility remaining at elevated levels because of very low liquidity. The local debt market have not taken participation in the ECB-induced EU periphery bond rally, but also remained insulated from the core market yields increases. The IRS should remain low, pricing in risk of further rate cuts by NBP.

**Germany: GDP growth vs Ifo index**




*Source: Refinitiv Datastream, Santander*

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## Last week in economy

Last week we got to see some new macroeconomic data from February showing that at the start of 2020 the Polish economy was doing better than expected. But this does not mean much now as the economy is facing a sudden stop due to the Coronavirus spread and most indicators are likely to deteriorate soon.

The government outlined **the rescue package** (the "Anti-crisis Shield") aimed at supporting the economy and countering the effects of the coronavirus. The total value of the programme was estimated at PLN212bn (c.9% of GDP), out of which PLN67bn represents actual public spending (about 3% of GDP), PLN75bn in government's liquidity support and PLN70bn in NBP liquidity support. We advise however not to concentrate on the headline figure (PLN212bn) too much.

The plan is based on five points: support for the labour market, for companies, for the health care, for the financial system and investment plan. Government's plan to support the financial system bases mostly on actions of the NBP and KNF, and this include the reference rate cut (to 1.00% from 1.50%), start of bond purchasing programme, cut of reserve requirement rate, liquidity-providing repo operations, TLTRO-style loans, lowering of systemic risk buffer and acceptance of LCR below advised levels. The government's rescue package implies the deterioration of fiscal balance in 2020. In our view the deficit could rise well above PLN100bn. We wrote more on the plan here.

**Industrial output growth** accelerated to 4.9% y/y in February from 1.1% y/y in January. The numbers came out strong, above the market consensus (2.0% y/y). Actually, industrial output surprised to the upside for the second time in a row. It seems that the Polish industry was getting started to follow an upward path at the start of 2020.

**Construction output** rose in February by 5.6% y/y (or 5.8% y/y after seasonal adjustment), which was way above market expectations (near 1% y/y). The biggest jump was recorded in firms dealing with specialised construction (11.7% y/y) and civil engineering (9.9% y/y), while construction of buildings rose 2% y/y. Even if the results were partly supported by very good weather, it looks like if a rebound in infrastructure investment has been under way at the start of the year, contrary to our earlier assumptions about a deadlock in this area.

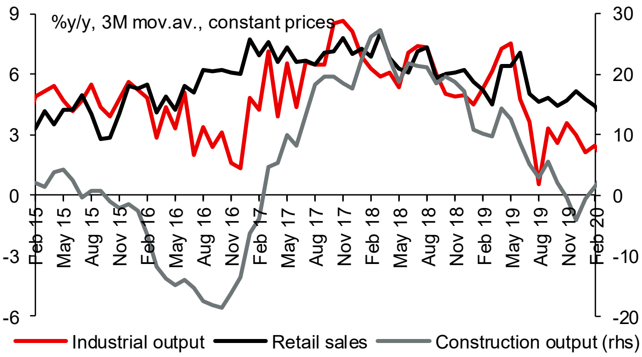
**Retail sales** rebounded to 7.3% y/y in February from 3.5% y/y in January with a broad-based recovery in most categories. The most significant jump was visible in pharma and cosmetics (12.5% y/y from 2.9% y/y in January), which we would connect to the Coronavirus effect. Sales of durable goods jumped to 6.6% y/y from 3.5% y/y in January, so clearly consumers started spending more also on non-essential goods.

**Wages** in February accelerated to 7.7% y/y from 7.1% y/y in January. We have to wait until the Statistical Bulletin due for release on 24th March to see the details, but we guess that the acceleration was achieved partially thanks to wage hikes in PGG mining company and neutral working day effect (it was negative in January). Employment growth remained unchanged at January's 1.1% y/y growth rate, but the monthly increase in new jobs has been the weakest since January 2015.

In March, **consumer confidence** changed little in Poland holding near the 3-year low as far as the main indexes regarding current situation and expectations are concerned. The details reveal a further drop in the expected financial and economic situation, while current financial situation of households improved vs February. Major purchases index and unemployment worries index were stable m/m. There was no sign of panic mode among consumers but the survey was conducted on March 2-11, that is before the tight measures were implemented by the government to stop the coronavirus spread.

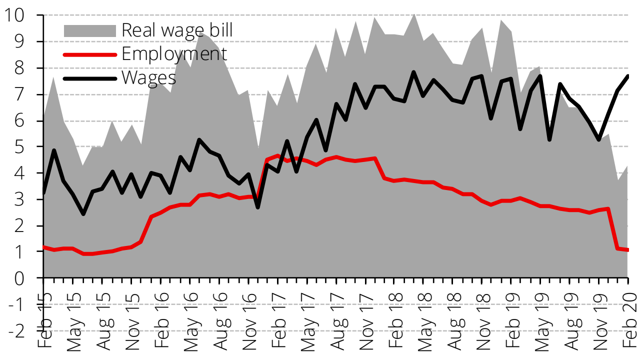
In March, **sectoral business sentiment** indicators worsened. In some cases the drop was significant: transport and storage, hotels and restaurants – both are now the lowest in six years. The decline came mostly from much worse expectations across sectors (excluding construction), while the current assessment components worsened to a limited extent (and in case of industry it even improved). Financials and ICT look the least affected so far. Notice that the GUS business sentiment surveys are collected in the first 10 days of each month, so the views expressed by companies still do not reflect the situation after the lockdown.

**Output and sales growth, % 3m moving average**



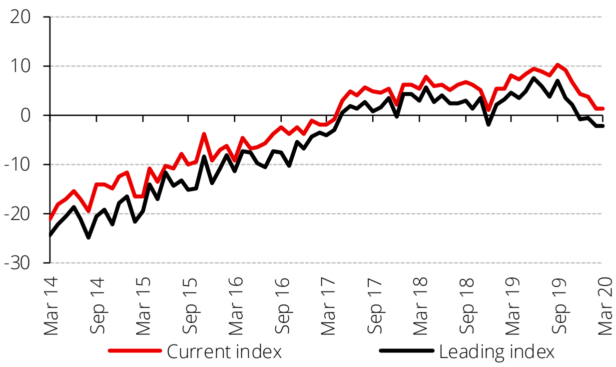

*Source: GUS, Santander*

**Labour market statistics, % y/y**



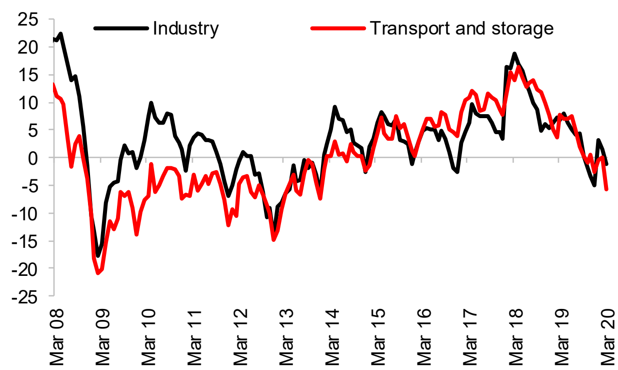

*Source: GUS, Santander*

**Consumer sentiment, pts**




*Source: GUS, Santander*

**Business sentiment, pts**




*Source: GUS, Santander*

## FX and FI market

### Last week on the market

The global market mood remained shaky in the passing week. The equity indexes and commodity prices were trying to find the bottom and the dollar gained further vs the euro as the ECB announced an extended QE program. Additional pressure on the euro came from the fact that there were still no signs of the coronavirus pandemic losing pace in Europe, particularly in Italy. Many central banks cut rates – Fed to zero, BoE to 0.1% – and it appears that these actions finally start to have a desired effect. At the end of the passing week, the market mood is pretty stable. In Poland, the government announced a package of measures to help the economy fight with the virus while the MPC cut interest rates and announced some additional liquidity measures.

**FX** The zloty suffered a heavy sell-off with EURPLN jumping to 4.60 (its highest since April 2009), USDPLN to 4.30 (highest since August 2001) and CHFPLN to c4.37 (in its history, it has been higher only on 15 January 2015 when the SNB abandoned 1.20 floor on EURCHF). The other CEE currencies followed suit. The ruble underperformed amid falling oil price and EURHUF reached its fresh all-time-high at c360.

**FI** Polish IRS and bonds have been extremely volatile. Initially, rates moved down after the NBP cut interest rates by 50bp but later in the week yields corrected somewhat. The weekly trading range was large with the 10Y yield moving sharply between 1.80% and 2.20%, 5Y 1.55%-1.80% and 2Y 1.20%-1.40%. At the same time, the IRS curves shifted 40-50bp down. This led to a sharp widening of the asset swap spreads – the 10Y spread jumped above 100bp, its highest since 2011/2012 turn.

The NBP conducted its first bond purchase auction. The central bank said it will purchase three selected series for a maximum amount of PLN10bn. The commercial banks decided to sell bonds for cPLN2.7bn.

**Key events** The coronavirus pandemic is very likely to remain the issue for the market. Particularly, investors may focus on situation in Italy.
Among the data releases, flash March PMIs shall be closely watched but we think much of the global recession scenario has already been priced in. Nevertheless, poor readings could put pressure on the states and central banks to deliver more support for the economy.

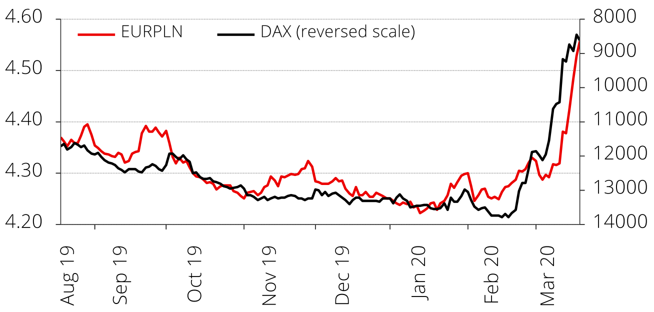
### Market implications

Stabilization or even cautious improvement of the global market mood observed at the end of the week after numerous measures announced by the central banks gives hope that the situation could calm down for at least a couple of days.

**FX** EURPLN has been on the rise for two weeks already and this was the fastest zloty depreciation vs the euro since early 2016. A the end of this week, the Polish currency benefited from the better global mood and EURPLN pulled back to c4.50. We assume the exchange rate may stabilize for a few days around 4.50 since equity indexes look heavily oversold and equity market could try to recover somewhat. The risk to this scenario is situation in Italy – increased concerns about the virus spreading could push EURUSD lower which in turn could hit the zloty.

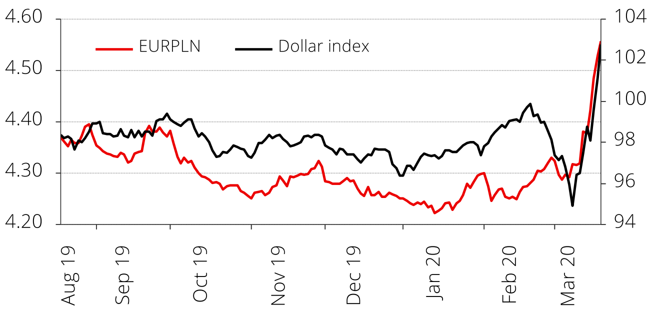
**FI** We expect Polish bond yields to hold in their wide ranges seen in the passing week with the intraday volatility staying high as there is hardly any liquidity. Domestic debt did not benefit from the rally on the euro zone peripheries but remained resilient to rising core yields. So far, the central bank activity on the bond market failed to bring any noticeable positive effects and it is only a question of time when the larger debt issuances come to cover higher deficit. Thus, we would expect the yields to stay rather in the upper ends of ranges while the IRS should stay low.

### EURUSD and German DAX index



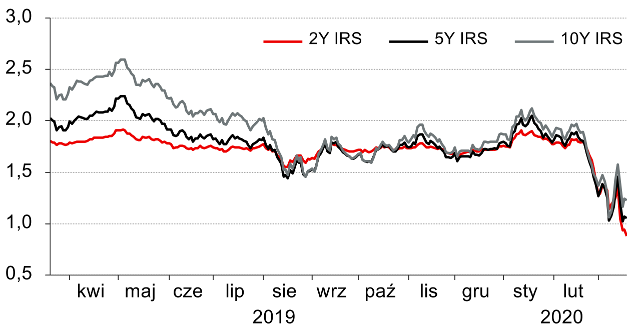

Source: Refinitiv Datastream, Santander Bank Polska

### EURPLN and dollar index



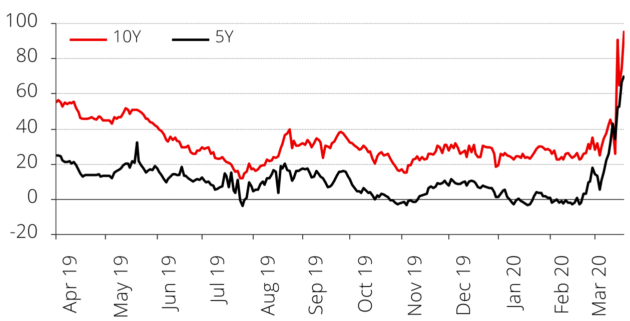

Source: Refinitiv Datastream, Santander Bank Polska

### Poland IRS




Source: Refinitiv Datastream, Santander Bank Polska

### Poland asset swap spreads




Source: Refinitiv Datastream, Santander Bank Polska

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## Economic Calendar

| TIME CET | COUNTRY | INDICATOR | PERIOD | | FORECAST MARKET | FORECAST SANTANDER | LAST VALUE |
|---|---|---|---|---|---|---|---|
| | | | **MONDAY (23 March)** | | | | |
| **14:00** | **PL** | **Money supply** | **Feb** | **% y/y** | **8.7** | **9.1** | **9.3** |
| | | | **TUESDAY (24 March)** | | | | |
| 9:30 | DE | Flash PMI – manufacturing | Mar | pts | 40.0 | - | 48.0 |
| 9:30 | DE | Flash PMI – services | Mar | pts | 43.5 | - | 52.5 |
| 10:00 | EZ | Flash PMI – manufacturing | Mar | pts | 40.0 | - | 49.2 |
| 10:00 | EZ | Flash PMI – services | Mar | pts | 40.0 | - | 52.6 |
| 14:00 | HU | Central bank decision | | % | 0.90 | - | 0.90 |
| 15:00 | US | New home sales | Feb | % m/m | -1.8 | - | 7.9 |
| | | | **WEDNESDAY (25 March)** | | | | |
| 10:00 | DE | Ifo index | Mar | pts | - | - | 87.7 |
| 13:30 | US | Durable goods orders | Feb | % m/m | -1.0 | - | -0.2 |
| | | | **THURSDAY (26 March)** | | | | |
| 13:00 | CZ | Central bank decision | | % | - | - | 1.25 |
| 13:30 | US | Initial jobless claims | week | k | 750 | - | 281 |
| 13:30 | US | GDP 3rd estimate | 4Q | % y/y | 2.1 | - | 2.1 |
| | | | **FRIDAY (27 March)** | | | | |
| 13:30 | US | Personal incomes | Feb | % m/m | 0.4 | - | 0.6 |
| 13:30 | US | Personal spending | Feb | % m/m | 0.3 | - | 0.2 |
| 15:00 | US | Michigan index | Mar | % m/m | 93.3 | - | 95.9 |
| | **PL** | **Fitch rating review** | | | | | |

*Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg*



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