27 March 2020

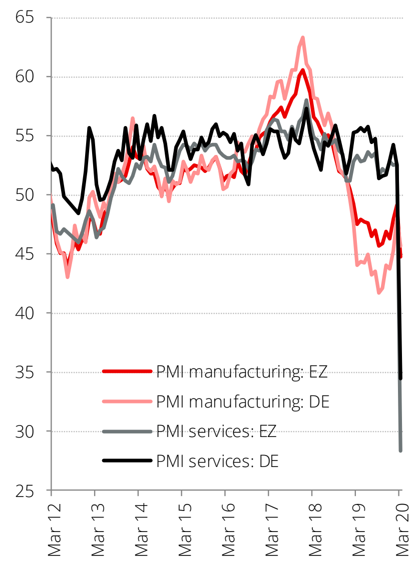
Weekly Economic Update

Prepare for more bad data

What's hot next week

- First economic data that include the impact of pandemic released already in some countries look pretty gloomy. Flash PMIs plummeted, mainly in services, and signal deep recession. In the US, the initial jobless claims rose by more than 3mn in a week (c.1% of the US population), to its highest level on record. In Norway, the similar measure jumped by 350% within two weeks which implies unemployment rate at above 10% (the highest since Great Depression in the 1930s).
- In the coming days, we will see more of such releases. Abroad, **next economic activity indexes are on the agenda, including ESI, final PMIs (including China), flash March inflation and more news from the labour markets**: in the US we will see initial jobless claims and nonfarm payrolls, some other countries will release unemployment rate data for March. It is hard to expect any good news. It is worth to notice, though, that markets to a great extent have already priced-in the upcoming economic crash (but also the economic policy response that follows) and did not show any meaningful reaction to the recent extremely poor US labour market data released last Thursday. What could now trigger a yet another wave of pessimism is not weakness in macro data, it seems, but information that economic deadlock might last longer than expected.
- In Poland, we will see **flash March CPI (Thursday) and manufacturing PMI (Wednesday). We expect inflation eased to 4.4%** from 4.7% in February. We should highlight that the uncertainty related to the March reading is exceptionally high. Prices in some categories dropped sharply (companies cut prices in online stores trying to mitigate lower demand) while some have recorded significant jump (food, hygienic). Additionally, prices of some services (like cosmetics, hairdressing) could be difficult to measure since they are currently out of business. Furthermore, there is an issue with the change of methodology – the stat office has to rely on the online surveys. This means that the March release needs to be taken with a pinch of salt. **As regards the manufacturing PMI, we expect a meaningful drop to 44.5pt**, more or less consistent with a decline in the euro zone.

PMI in manufacturing and services



Source: IHS Markit, Santander

Market implications

- On the financial markets, in line with our intuition, the market mood stabilized thanks to interventions of the central banks and states. In the coming days, this atmosphere could persist although new waves of risk aversion cannot be excluded (if more negative information about the coronavirus spreading appear). Even if the EURPLN falls somewhat more in the short term, we think the exchange rate might rise again before more long-lasting appreciation of the zloty begins.
- Yields are trading low thanks to the central bank's buying and so the upcoming large debt supply could have a limited impact on the market. This view is strengthened by the fact that the state-owned BGK bank can now buy bonds directly from the Ministry of Finance, without an official auction. Together with the central bank's bond repurchase program, this gives an option of financing bigger borrowing needs without any serious problems.

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website www: skarb.santander.pl
Piotr Bielski +48 22 534 18 87
Marcin Luziński +48 22 534 18 85
Grzegorz Ogonek +48 22 534 19 23
Wojciech Mazurkiewicz +48 22 534 18 86
Marcin Sulewski, CFA +48 22 534 18 84

Last week in economy

In the passing week we saw the government fine-tuning its fiscal support package. There were more data suggesting that the economy was doing quite fine (rising new orders, strong investment plans in some sectors) before the virus. We also heard more MPC members.

The government accepted the **draft of the fiscal support package**, called the anti-crisis shield with some changes vs the initial announcements. The most important change is that the state will cover all social security contributions of micro-firms and entrepreneurs for three months. The cost of this item was assessed at PLN14bn, which makes the whole package (including increased guarantees and liquidity measures) worth 10% rather than the previously estimated 9% of GDP. The parliament is currently working on the package.

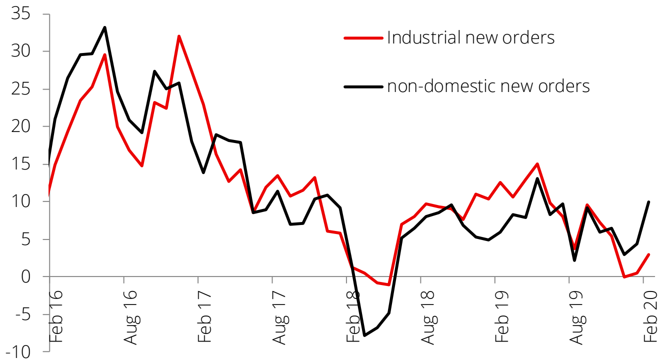
In February, **industrial new orders** growth rose at an even faster rate, 6.9% y/y vs 5.5% in January, with foreign orders reaching 15.6% y/y (one of the strongest prints in the last two years). Data on the book value of **new investments** undertaken in 4Q19 showed a massive rise (50.5% y/y) albeit the projects were heavily concentrated in the transport and storage sector, with also some improvement in investment activity in industry. The disease may thwart the plans and thus the rebound of investments in the coming quarters is not likely to materialise.

In 4Q19 **companies** employing 50 and more people recorded a rise in revenues by 3.5% y/y and costs by 2.6% y/y, which translated into improving margins in y/y terms (yet it was lower than in the remaining quarters of 2019) and rising gross financial results. **Investments in big companies** decelerated strongly to 3.6% y/y from 11.3% y/y in 3Q19. Investment in manufacturing slowed down to 5.8% y/y from 12.7% y/y in 3Q19. Investment in machinery and equipment shrank by 4.8% y/y versus a +12.6% y/y rise in 3Q19. The Eurostat data showed higher growth in this category in 4Q which means either a machinery investment boom in small companies (less probable) or a rise of government spending (more probable).

The details of the **business sentiment survey** conducted in the first decade of March (before the country lockdown) showed that already at that time the transport sector and hotels and restaurants sector felt a significant drop in demand while other sectors (e.g. industry, construction, retail trade) did not. However in all sectors there was already an abrupt large drop in expected demand, activity and financial situation plus a significant deterioration of employment indexes.

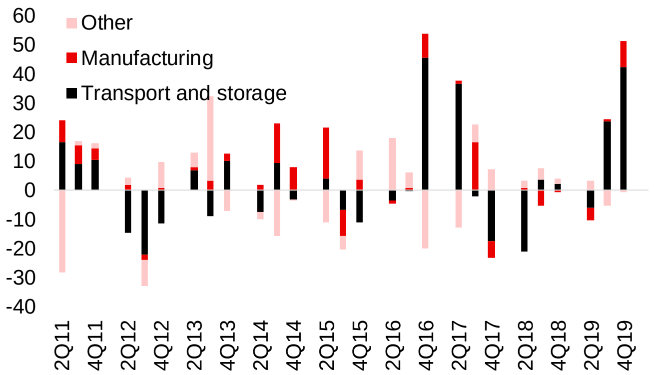
Several **MPC members** commented on monetary policy direction going forward. Eryk Łon supports further rate cuts and an introduction of additional unconventional tools (loans to SMEs and equity purchases). Jerzy Kropiwnicki considers bond purchases by NBP on the primary market provided that a countrywide state of emergency is declared. Both Łukasz Hardt and Cezary Kochalski think inflation is no longer in the spotlight which creates room for a stronger support for the economy via the new NBP instruments. The former stressed that MPC should refrain from any further rate cuts. Kamil Zubelewicz's view is that the focus should be on protection of the domestic currency.

Value of new orders in industry, %y/y, 3m moving average



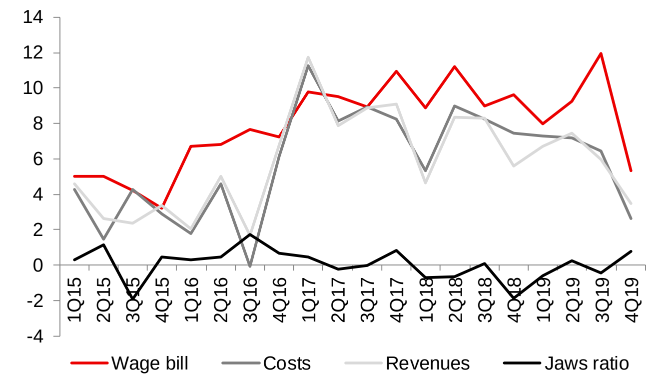
Source: GUS, Santander

Book value of new investments, % y/y, contributions by sectors



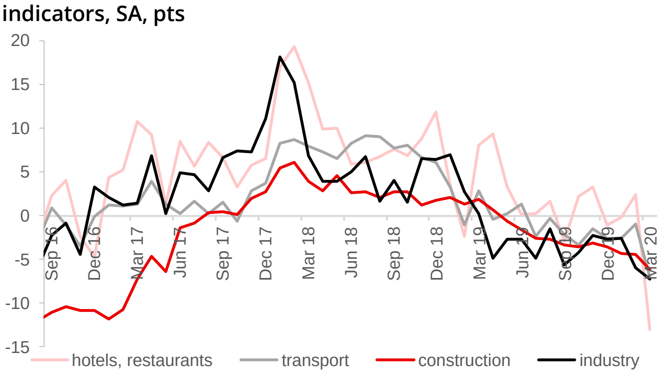
Source: GUS, Santander
Quarterly growth rates implied from year-to-date data; data for 1Q are not released

Enterprise results, %y/y



Source: GUS, Santander

Business sentiment survey: new orders/current demand indicators, SA, pts



Source: GUS, Santander

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FX and FI market

Last week on the market

The global market mood improved in the passing week. The equity indices after having sold off 30-35% since mid-February and 25% in March alone have bounced back by around 15% from troughs, mainly on the news about $2tn fiscal package in the US to help cushion the coronavirus impact on the economy. As a result, dollar index fell, VIX and implieds declined somewhat while risky assets slightly gained.

FX The zloty remained roughly stable on a week on week basis (EURPLN at 4.54) in the meantime trading as high as 4.63 and as low as 4.49. USDPLN declined around 3% due to weakening dollar while CHFPLN by 1% as even EURCHF bounced back above 1.06. Similarly, EURCZK was fairly stable as well as it was hovering around 27.3. The CNB cut rates by 75bp (vs consensus at -50bp) but did not provide any detailed information on the potential liquidity support program it intends to start. Thus the outcome of the meeting was not too dovish. EURHUF was higher 1.4% on the week (NBH has held rates unchanged but promised to support liquidity and government bonds). USDRUB declined by 2.5% to 77.7 mainly due to weakening dollar.

FI Polish IRS and bonds yields have declined in the passing week e.g. 10Y bond 1.75% while both spreads over swaps and Bunds dropped 10bp to 75bp and 220bp. Declines happened for multiple reasons: core yields declined as well (e.g. Bund down 10bp to -0.42%), FRA markets kept pricing in further NBP rate cuts (9x12 another full 50bp cut) and, last but not least, the NBP kept buying POLGBs. In 3 auctions so far, NBP managed to buy a total of PLN 19.0bn (2.7+5.6+10.7bn). The latest auction was effectively focused on DS0726 and DS1029 bond series. Also, MinFin communique was published which states that from now on MinFin can sell bonds (exactly those 2 series) directly, that is without an auction, to BGK (state-owned bank). Our guess is the BGK would then sell the bonds to the NBP. In this way any legal constraints on NBP buying government debt directly from the MinFin would be circumvented.

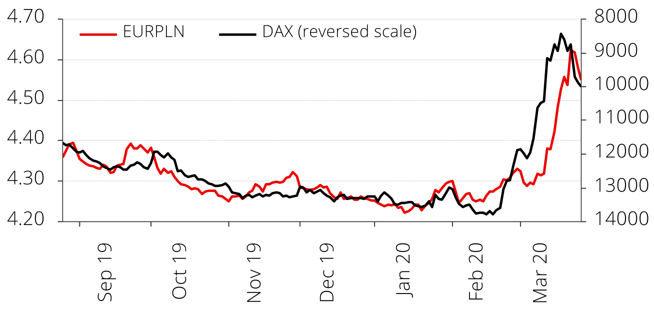
Key events The uncertainty regarding the March data readings next week is huge. In normal circumstances markets would focus the most on Friday US NFP but we would not be surprised if the number swings significantly to the downside and still cause little market reaction (similarly to this week's initial jobless claims rise). In Poland, March CPI is published on Tuesday, we expect 4.4% y/y and main subcomponents moving in opposite directions (food up, energy, restaurants down).

Market implications

FX We expect global risk and markets' volatility to calm down a bit in the coming days. For EURPLN it could mean trading down to or even slightly through the recent important technical level of 4.50. 1mth implied volatilities after having declined from 12.0 to 9.0 could ease even lower to 7.0-8.0. Any such zloty rally should be seen as only temporary, however. In the medium term we expect the zloty to weaken further as the economy slows down and global deleveraging continues.

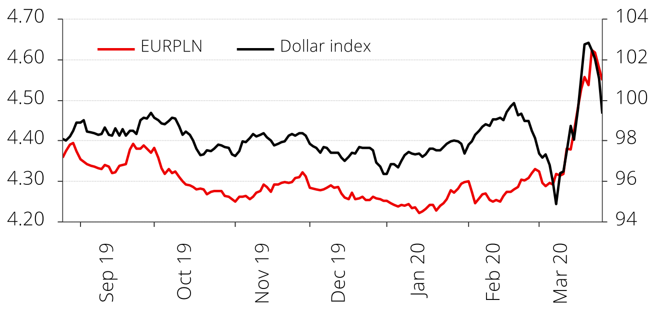
FI We expect Polish bond yields to broadly follow core markets in the week ahead. In lack of significant surprises either in March inflation or on Thursday auction we would expect spreads to tighten a bit versus both IRS and Bunds as risk sentiment improves in the first half of the week. The MinFin auction is scheduled for Thursday, while the supply of bonds to be offered on the auction will be published 2 days before, as usual, on Tuesday. Regarding CPI we expect asymmetric market reaction if the actual print deviates by a lot: reading strongly to the upside (say, 5%+) would be regarded as temporary, while the reading strongly to the downside (low 4%) would reinforce rate-cut expectations and would contribute to the POLGBs rally, in our opinion.

EURPLN and German DAX index



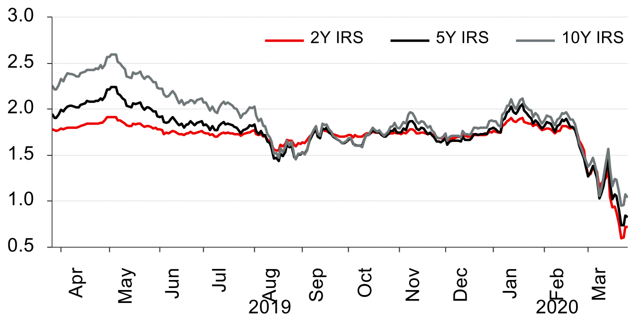
Source: Refinitiv Datastream, Santander Bank Polska

EURPLN and dollar index



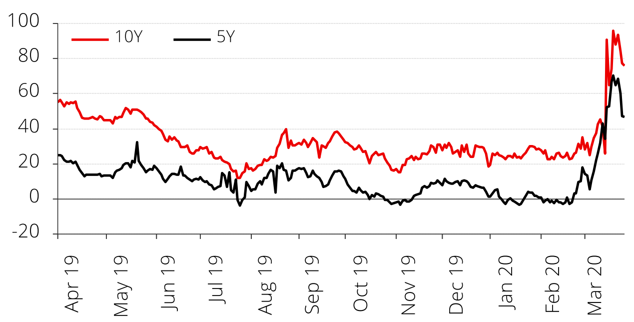
Source: Refinitiv Datastream, Santander Bank Polska

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 (30 March)				
	DE	Retail Sales	Feb	% m/m	0.15		1.0
11:00	EZ	ESI	Mar	pct.	93.05		103.5
14:00	DE	HICP	Mar	% m/m	0.1		0.6
16:00	US	Pending Home Sales	Feb	% m/m	-1.75		5.2
			TUESDAY (31 March)				
09:00	CZ	GDP SA	4Q	% y/y	1.8		1.8
10:00	**PL**	**CPI**	**Mar**	**% y/y**	**0.0**	**4.4**	**4.7**
11:00	EZ	Flash HICP	Mar	% y/y	0.8		1.2
16:00	US	Consumer Conference Board	Mar	pts	115.0		130.7
			WEDNESDAY (1 April)				
09:00	**PL**	**Poland Manufacturing PMI**	**Mar**	**pts**	**0.0**	**44.5**	**48.2**
09:55	DE	Germany Manufacturing PMI	Mar	pts	45.5		45.7
10:00	EZ	Eurozone Manufacturing PMI	Mar	pts	44.6		44.8
11:00	EZ	Unemployment Rate	Feb	%	7.4		7.4
14:15	US	ADP report	Mar	k	-100.0		182.8
16:00	US	ISM manufacturing	Mar	pts	46.0		50.1
			THURSDAY (2 April)				
14:30	US	Initial Jobless Claims	Mar.20	k	1700.0		3283.0
16:00	US	Durable Goods Orders	Feb	% m/m	0.0		1.2
16:00	US	Factory Orders	Feb	% m/m	-0.3		-0.5
			FRIDAY (3 April)				
03:45	CN	Caixin China PMI Services	Mar	pts	39.5		26.5
09:55	DE	Markit Germany Services PMI	Mar	pts	34.3		34.5
10:00	EZ	Eurozone Services PMI	Mar	pts	28.2		28.4
11:00	EZ	Retail Sales	Feb	% m/m	0.2		0.6
14:30	US	Change in Nonfarm Payrolls	Mar	k	-61.0		273.0
14:30	US	Unemployment Rate	Mar	%	3.8		3.5
16:00	US	ISM services	Mar	pts	48.0		57.3

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.