

09 October 2020

Weekly Economic Update

What does the IMF say?

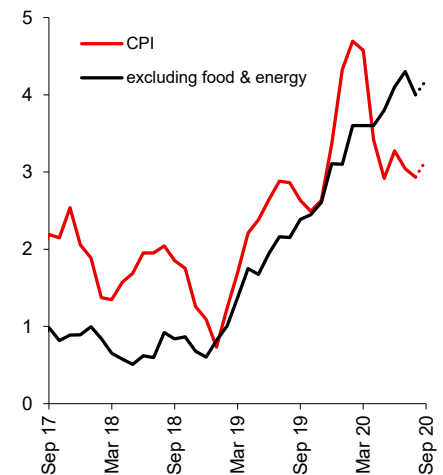
What's hot next week

- Calendar of macroeconomic data releases for the next week is not particularly thick, again. In Poland we will see balance of payments data for August (Wednesday) and inflation and core inflation data for September (Thursday, Friday). The former are likely to show another decent surplus in foreign trade amid stabilisation of export growth. The latter – in line with the flash estimate – re-acceleration of price growth, mainly in the area of core inflation.
- Abroad, there will be a few inflation data releases (Czechia, USA, Eurozone), some production numbers (USA, Eurozone), German ZEW indicator.
- Unless the economic data show major surprises, they are unlikely to determine market sentiment after the weekend. Investors will remain focused on: US presidential elections, chances of additional fiscal stimulus in the US, considerations about policy outlook of major central banks, pandemic development and its impact on economic outlook. All those issues may be in the heart of discussions during the annual (virtual) IMF/IIF meeting starting on Monday. Also, the IMF will release its new World Economic Outlook with the updated forecasts for world economy.
- In Poland we will keep tracking new Covid-19 cases and signals how the extension of restrictions is affecting economic activity. Our estimates based on card transactions suggest that in yellow and red zones consumers' purchases are decreasing notably, which is a risk for economic forecasts for 4Q20. On the other hand, this risk may be offset, at least partly, by improving exports outlook if the improvement of activity in European manufacturing continues.

Market implications

- EURPLN might remain stable at the start of the week and if it were to noticeably move in either direction it would probably be the result of external factors rather than local ones. One of such external factors could possibly be a further rise in UST yields and the stronger dollar – in anticipation of another US fiscal package – which might influence EM currencies negatively.
- Short-term bond yields remain stable in the vicinity of 0%, as the liquidity in the banking sector remains abundant. At the long end of the curve yields might either follow the rising US bond yields or the stable German ones, the question is which scenario is more likely to prevail. We expect POLGB yields to remain range bound in the coming week.

Inflation in Poland, % y/y



Source: GUS, NBP, Santander

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

Last week's top piece of news was expansion of additional Covid restrictions on the entire country. As regards data, we only got to know non-market-movers like revised annual GDP, results of non-financial companies or NBP housing market report.

The government updated its list of powiats (middle size local government units) with Covid-related restrictions. The new list will be valid from Saturday 10 October on. Some restrictions were tightened: in red zones restaurants will be able to operate in 6:00-22:00 timeframe, in yellow zones guest limit on family events (like weddings) will be moved down to 75 from 100 and masks are to be worn in all public places. The red list contains 38 powiats covering 9.1% of Poland's population and 7.3% of PIT revenue. The yellow list contains all the remaining powiats. Our estimates suggest that powiats from the restriction lists witness a decline in consumer spending, especially if it is the red zone. Based on that we estimate that the impact of new restrictions on GDP growth in 4Q20 could amount to -1 percentage point, assuming that they remain in place for the entire quarter (to get the weekly impact we have to divide by 13).

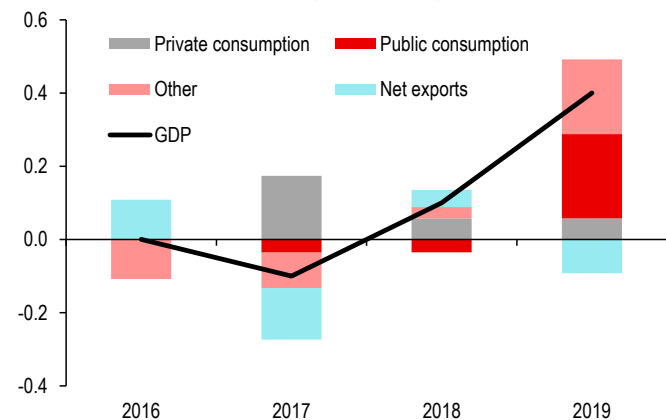
The stats office has **revised GDP data** for 2016-2019. GDP growth in 2019 has been lifted from 4.1% to 4.5%, 2018 from 5.3% to 5.4%, 2017 trimmed from 4.9% to 4.8%. The large upward move in 2019 came mainly from higher estimate of public consumption (raised from 4.9% to 6.2%) and slightly better private consumption (4.0% vs. 3.9%) while net exports was slightly less positive (as was suggested earlier by the balance of payments' data revision). Quarterly data will be released on 22 October.

Bigger companies took a stronger blow to their financial results than SME in 1H20, according to the fresh GUS data. While decline in revenues was quite similar among different sizes of companies (-5.6% y/y in companies employing 10-49 versus -5.2% y/y in companies employing 50-249 or >250), smaller companies cut down on their costs more. Thus, gross financial results of 10-49 companies improved by 1.9% y/y, of 50-249 companies improved by 4.1% y/y, while results of biggest firms (>250) fell by 28.3% y/y. However, note that the government's aid package was targeted more towards smaller companies. While smaller companies improved their average results, losses booked by SMEs without profits were larger by 30.2% in 10-49 companies and by 33.7% in 50-249 companies, which means that the variance of results increased. Moreover, smaller companies reduced their investment more, with outlays in 10-49 firms falling by 14.1% y/y, in 50-249 by 9.8% and in 250+ by 5.1% y/y.

According to NBP, the housing market was markedly affected by the epidemic restrictions in 2Q20: new building contracts more than halved, while primary market prices in the biggest cities fell. On the other hand, secondary market prices were still going up. While new home sales tumbled, sales of new mortgage loans remained fairly unscathed, so it is estimated that cash purchases of flats almost evaporated.

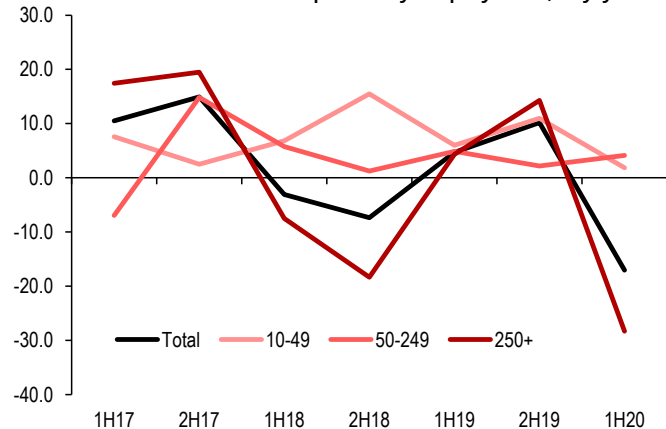
Polish MPC kept interest on hold, as expected. It seems that the central bank's policy stance has not changed much. The MPC recognised the vigorous rebound of economic activity in recent months but at the same time emphasised that the pace of the recovery in the coming months may slow due to high uncertainty and persisting pandemic. The MPC repeated the sentence that lack of clear and persistent zloty depreciation may curb the pace of recovery. The final fragment of the official press release has been shortened a bit, but the general message remained unchanged: there is no reason to think about changes in monetary policy anytime soon. We think that interest rates will remain on hold probably until the end of this MPC's term of office (early 2022).

Revision of annual GDP data, percentage points



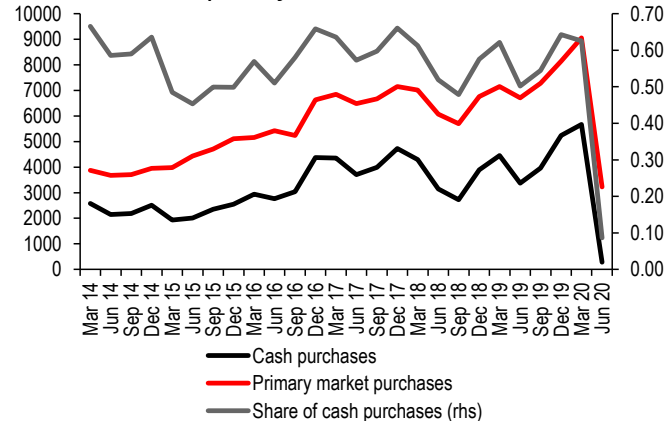
Source: GUS, Santander

Gross financial results in companies by employment, % y/y



Source: GUS, Santander

Home sales on the primary market, PLNmn



Source: NBP, Santander

FX and FI market

Last week on the market

FX The last week was unusually quiet on the EURPLN market. EURPLN started the week in the vicinity of 4.50 and then gradually declined on almost each day finishing the week at 4.47 or 0.6% lower. The 1-week realized volatility dropped to just above 3%. The strengthening of the emerging market currencies (except for lira) was supported by rising equity markets and weakening dollar – the dollar index fell 0.5% on the week. That is why USDPLN dropped by 1.2% to 3.80. CHFPLN declined 0.4% to 4.16 and GBPPLN 1.0% to 4.92. In the CEE region EURHUF declined by 0.4% on mixed macro data (weaker retail sales, but better industrial production) to 357.0. EURCZK remained roughly unchanged at 27.15. Rouble gained noticeably (1.2% vs basket and 1.5% vs USD) due to oil prices (Brent up 11% on week).

FI Domestic IRS rose 5bp at the long end of the curve (e.g. 10Y to 1.02%) while bond yields actually declined a bit (10Y to 1.30%). Front end of the curve remained at the low yield levels or even slightly declined (2Y bond yield are almost zero, 2Y IRS at 0.24%). German Bund yields remained stable at -0.54% hence the spread narrowed by 2bp to 184bp. It was only the US yields which noticeably (6bp) increased over the week as markets awaited the news about US fiscal boost. **At the switch auction**, the Ministry of Finance sold OK0423, PS0425, WZ1126, WZ1129, DS1030 bonds for the total amount of PLN3.83bn and repurchased DS1020, WZ0121, PS0421, OK0521, PS0721 for the total amount of PLN3.77bn. The MF announced that this year's borrowing needs are covered in 99% and 2021's in 9%.

State-owned BGK bank sold 5Y bonds (FPC0725) worth PLN3.3bn. Of which PLN2.8bn on a regular auction with PLN9.4bn demand and PLN0.5bn in a top-up auction. In total, the bank has already sold about PLN85bn bonds.

Key factors to watch: In Poland the August current account data (Wednesday) and September CPI/core inflation (Thursday/Friday). In Europe ZEW indices (Tuesday), Eurozone industrial production (Wednesday) and Czech inflation (Monday). In the US inflation data (Tuesday), PPI (Wednesday) and retail sales, industrial production and University of Michigan consumer sentiment (Friday).

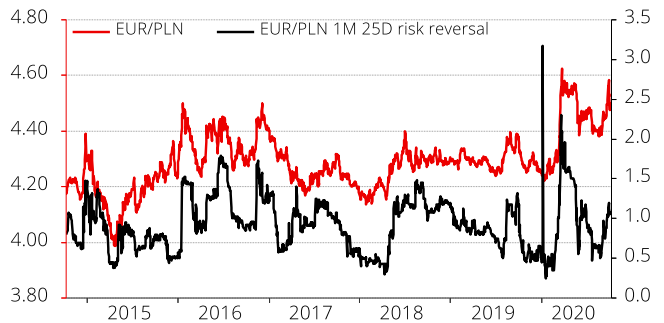
Market implications

FX as most of the important data in Poland are scheduled towards the end of the next week, the EURPLN might continue to trade horizontally with subdued volatility in the first half of the week provided no significant external surprises occur. But the latter is not given for granted, however, and we would like to point to a risk of an even higher US bond yields as the markets keeps pricing in an even higher probability of big fiscal package in the US to be launched after the US presidential election takes place in early November. Higher US yields would likely weaken emerging market currencies, including Polish zloty, helping EURPLN to move well back above 4.50.

Other CEE currencies might as well depend on the US yields in the coming week. Hungarian August industrial production gave some hope for economic rebound and EURHUF might correct lower. USDRUB already performed quite well but if oil prices stay where they are or even march higher the rouble might gain more. EURCZK we expect higher as macro data keeps undershooting expectations.

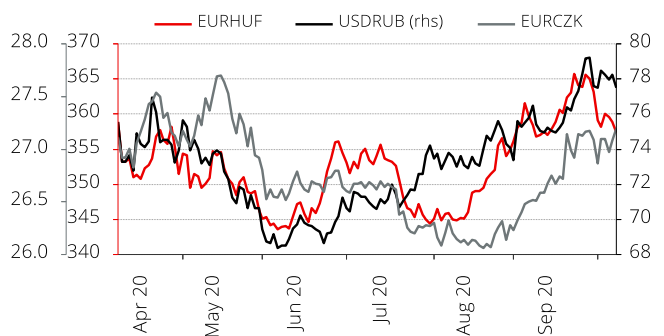
FI in Poland might stay stable at the front end for another week – no significant change to the liquidity situation of the banking sector nor a change of market expectations post the MPC meeting took place (we still expect NBP rates unchanged at 0.1% till the early 2022). On the long end of the curve no significant local factors will be in play till Friday, however as the US-DE yield spread keeps widening (and is currently at the highest since March 2020) it will be interesting to see if Polish bond yields choose to follow the increasing US yields or rather stable German ones. We expect 10Y yields range bound in the coming week.

EURPLN and risk reversal implied volatility



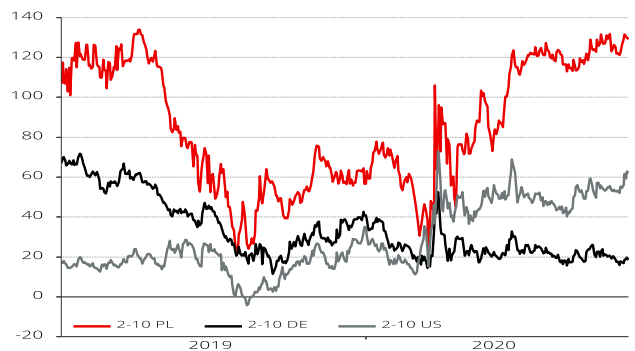
Source: Refinitiv Datastream, Santander Bank Polska

EURHUF, EURCZK and USDRUB



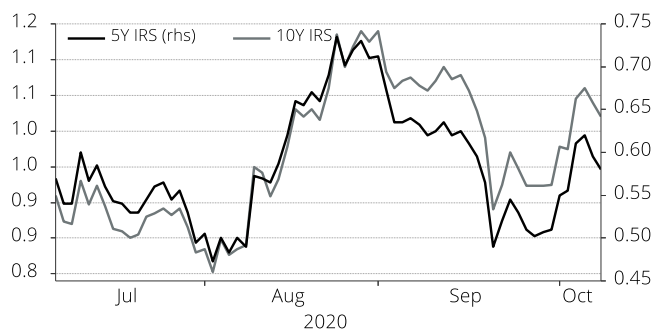
Source: Refinitiv Datastream, Santander Bank Polska

Slope of the bond curves



Source: Refinitiv Datastream, Santander Bank Polska

Poland IRS



Source: Refinitiv Datastream, Santander Bank Polska

Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE	
				MARKET	SANTANDER		
MONDAY (12 October)							
09:00	CZ	CPI	Sep	% y/y	3.5	-	3.3
TUESDAY (13 October)							
08:00	DE	HICP	Sep	% m/m	-0.4	-	-0.4
11:00	DE	ZEW Survey Current Situation	Oct	pts	-63.0	-	-66.2
14:30	US	CPI	Sep	% m/m	0.2	-	0.4
WEDNESDAY (14 October)							
11:00	EZ	Industrial Production SA	Aug	% m/m	0.2	-	4.1
14:00	PL	Current Account Balance	Aug	€mn	1020	1440	1590
14:00	PL	Trade Balance	Aug	€mn	921	649	969
14:00	PL	Exports	Aug	€mn	18078	17803	19637
14:00	PL	Imports	Aug	€mn	17338	17154	18668
THURSDAY (15 October)							
10:00	PL	CPI	Sep	% y/y	3.2	3.2	2.9
14:30	US	Initial Jobless Claims	Oct.20	k	820.0	-	840.0
14:30	US	Index Philly Fed	Oct		14.5	-	15.0
FRIDAY (16 October)							
11:00	EZ	HICP	Sep	% y/y	-0.3	-	-0.3
14:00	PL	CPI Core	Sep	% y/y	4.2	4.2	4.0
14:30	US	Retail Sales Advance	Sep	% m/m	0.7	-	0.6
15:15	US	Industrial Production	Sep	% m/m	0.6	-	0.36
16:00	US	Michigan index	Oct	pts	80.0	-	80.4

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

This publication has been prepared by Santander Bank Polska S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Santander Bank Polska S.A. its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Santander Bank Polska S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Santander Bank Polska S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

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.