

23 October 2020

Weekly Economic Update

Red October

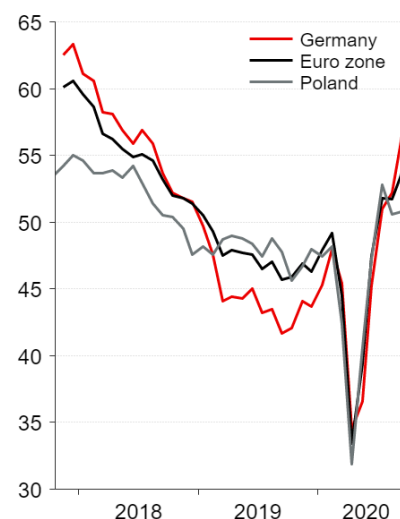
What's hot next week

- October ends in red in Poland. The government has just extended the pandemic restrictions, covering the entire country with rules applying earlier to red zones, and additionally forbidding eat-in services in bars and restaurants, shutting down sanatoriums, and advising senior citizens to stay home. The Prime Minister admitted for the first time in public that if the pandemic does not decelerate, more drastic steps may be needed, including "deep lockdown".
- We estimate that if today's additional restrictions are kept until the end of the year, it would reduce GDP forecast for 4Q by additional 1pp (the share of gastronomy in gross value added is around 1%, while its share in total employment is twice as high).
- For now, what makes this coronavirus wave very different from the spring one is the outlook for foreign trade. European manufacturing, the German one in particular, is still in expansion (German manufacturing PMI was at 58 pts in October) and the EU countries are far from closing their borders, which should help Polish producers and mitigate the 4Q GDP drop.
- It is hardly surprising if we say that news about the spread of the pandemic will be still the key issue next week. Especially that there are almost no local data releases – only on Friday flash CPI for October will be out (we expect a mild decline to 3.1% y/y).

Market implications

- Zloty will be under influence of conflicting factors: on the one hand, quickly rising number of Covid-19 cases, on the other hand the potentially positive global markets in anticipation of US elections and the new fiscal stimulus. We do not rule out the testing (and breaching, but not by a large margin) of 4.60 by EURPLN.
- Polish bond yields at the short end of the curve remain unchanged and at low levels being under influence of the huge excess liquidity of the banking sector. At the long end of the curve, the yields decline might continue into the next week as fears about the growth outlook grow, at the end of the week might rebound a bit in line with rising core market yields.

PMI manufacturing



Source: Refinitiv Datastream

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Last week in economy

September data on economic activity beat expectations, giving a reason to revise higher 3Q GDP estimates. On the other hand the soaring COVID-19 statistics raise worries about the performance of the economy in 4Q. The new business and consumer sentiment indexes have already captured a change to the worse, but mainly in expectations sub-indexes and of a much smaller scale than the initial collapse in spring.

Industrial output climbed by 5.9% y/y in September vs 1.5% y/y in August, beating the market consensus (we: 3.1%, market: 3.7%). Data corrected for seasonality showed a rise by 3.0% m/m and 3.6% y/y. Data show a quite good performance of export-oriented sectors. Rebound in industry proved stronger than expected, but it is likely to slow down in October due to rising Covid-19 numbers and wider range of restrictions. Still, we are expecting the sector to suffer a markedly weaker blow than during the Great Lockdown in April. Read more in our [Economic Comment](#).

Poland September **retail sales** accelerated to 2.5% y/y from 0.5% y/y in August (we: 0.3% y/y, market: 2.4%). While in general sales in most categories were better than we assumed, in general the numbers confirmed our call that the signal stemming from postponed demand is running out. Due to tighter pandemic-related restrictions it is likely to move back into negative territory in the following months.

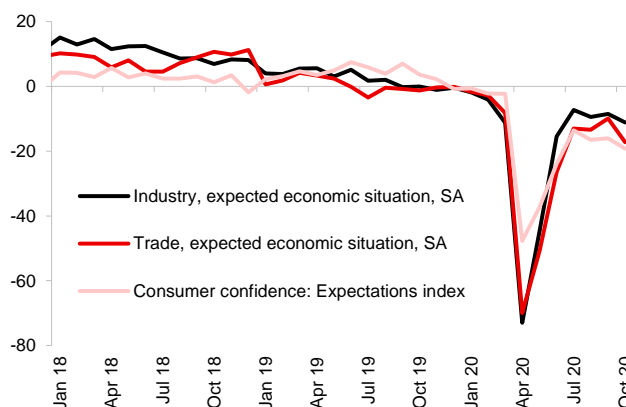
Construction output fell in September 9.8% y/y, less than expected (we: -15%, consensus: -11.2% y/y). We think that the activity in the construction sector will remain subdued in the next few quarters and will be recovering at much slower pace than in manufacturing. Find more in our [Economic Comment](#).

In September, Polish corporate sector **average employment** decreased by -1.2% y/y vs -1.5% previously, slightly more than expected. At the same time the number of the employed rose m/m, by 17k, for the first time since the pandemic. Labour demand proved strong enough to prevent a rise on unemployment despite expiration of solidarity benefit that discouraged registrations during summer. **Wage growth** surprised positively, rising to 5.6% y/y from 4.1%, vs market consensus of 4.3% and our 4.8% call and improvement was seen quite broadly across sectors. As a result corporate sector wage bill started growing again in real terms, +1.2% y/y (the first positive reading since April). It seems this was the last of positive surprises from the labour market for some time, and activity in 4Q will be reduced by the pandemic and the new related restrictions.

GUS slightly **revised down GDP growth** for 1Q20 to 1.9% y/y from 2.0% in 1Q20 and for 2Q20 to -8.4% y/y from -8.2%. Estimates for public consumption and inventories went down, while net export estimates were moved upwards.

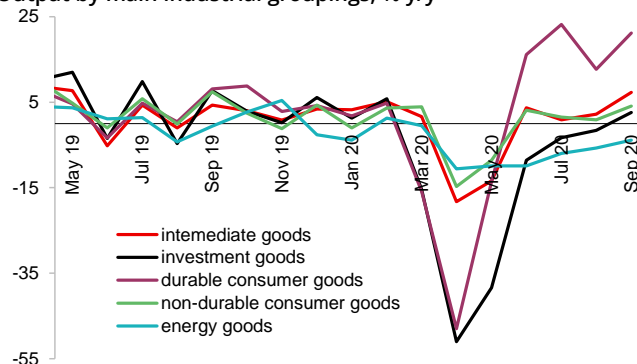
M3 money supply rose by 17% y/y in September accelerating from 16.2% y/y in August. Deposits rose by 14.8% y/y with a jump by PLN6.8bn in corporate deposits, possibly due to payments from the Financial Shield for big companies. Total loan growth rate corrected for FX changes turned negative (-0.2% y/y as compared to 5% y/y on average in 1Q20) due to deepening decline in corporate loans (to -5.3% y/y from -3.9% y/y previously) and gradual slowdown of household loans (to 3.3% y/y from 3.9% y/y).

Selected business and consumer sentiment indexes



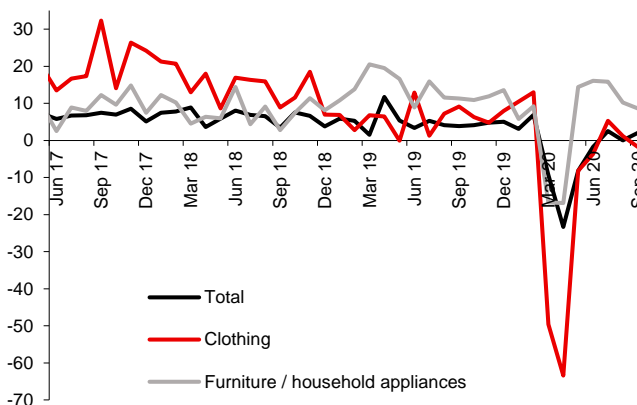
Source: GUS, Santander

Output by main industrial groupings, % y/y



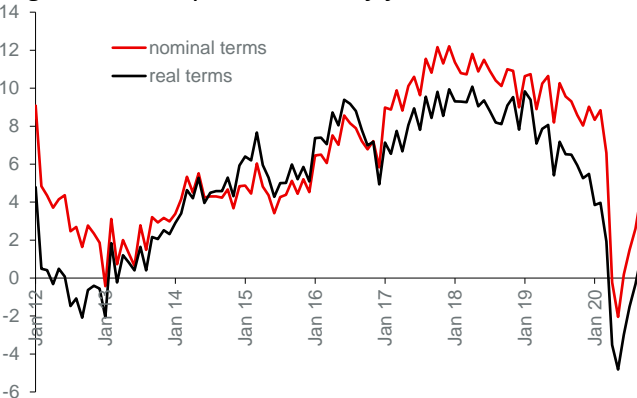
Source: GUS, Santander

Retail sales and selected categories, constant prices, % y/y



Source: GUS, Santander

Wage bill in the corporate sector, % y/y



Source: GUS, Santander

FX and FI market

Last week on the market

FX The zloty continued its depreciation at a slightly slower pace than in the week before however the sharply increasing number of new Covid-19 cases (over 13k as of Friday) has kept the zloty on the back foot. EURPLN finished the week near 4.58 or 0,7% higher w/w. The weakening dollar helped USDPLN to stay unchanged at 3.88, while CHFPLN and GBPPLN increased by 0.8% to 4.275 and 1.2% to 5,07, respectively. EURPLN performed worse than the other CEE currencies: EURHUF remained unchanged at 364.3 after Hungarian central bank kept rates unchanged. Similarly, EURCZK barely changed on the week, or even slightly fell, and this despite Prime Minister Babis having introduced new curbs on schools and shops in the passing week. The rouble gained slightly over 1% vs the basket and 1.3% vs the dollar possibly showing first signs of being oversold.

FI Polish government bonds have traded pretty firm towards the end of the week. E.g. the 10Y yield dropped to 1.25% or 3bp w/w which contrasted with the long end yields in the core markets where Bund gained 5bp w/w to -0.57% and UST as much as 11bp w/w to 0.86% as markets kept pricing in the increasingly likely chance of a US fiscal stimulus. The front end of the curve – both the government bond and IRS were pretty stable with barely any changes in a %w/w terms. Similarly the FRA remain pretty stable and remain around 8bp below 3M Wibor as customer flows (forward IRS) keeps them depressed. **The Ministry of Finance** on a switch auction sold the bonds of five series (OK0423, PS0425, WZ1126, WZ1129, DS1030) for PLN 4.56bn, while bought bonds of five series (DS1021, WZ0121, PS0421, OK0521, PS0721) for PLN 4.49bn. After the switch auction the 2021 year financing needs have been financed in 11%, the Ministry said.

Key factors to watch this week would, again, be the pace of the coronavirus spreading in the CEE region, and in Poland in particular. Polish Health Minister announced that in the forthcoming week we should expect between 15k-20k daily cases (slightly over 13k on Friday as we write). As to the data in Poland, after a busy week, the next one will be pretty empty in data – on Friday we will get to know the October CPI.

Abroad, ECB decides on rates on Thursday, German IFO (Monday), and inflation and GDP (Thursday) as well as Eurozone ESI (Thursday) and inflation and GDP (Friday) will matter for markets in Europe.

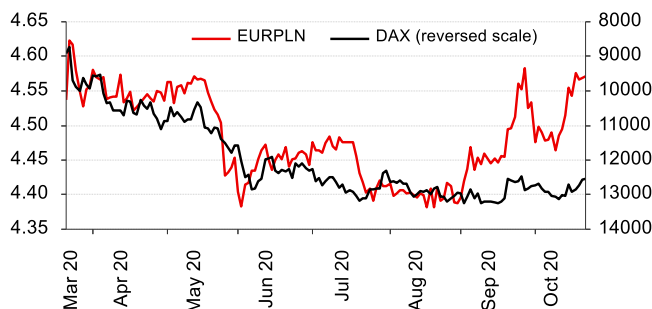
In the US new home sales (Monday), durables and consumer confidence (Tuesday), Q3 GDP (Thursday) as well as University of Michigan sentiment (Friday) will all be important.

Market implications

FX We think that in case of the FX market, the strength of the zloty might be a function of both – the elevated number of Covid-19 cases which naturally keeps weakening the Polish currency (albeit at an apparently slowing pace) versus the increasing hopes by markets that the Democratic win in the US presidential elections would result in fresh fiscal spending and contribute to broad risk-on environment. In the following week we expect EURPLN to test the 4.60 – a level which it failed to even reach in September and broke, but only briefly, back in March. We expect EURPLN to rise above the 4.60.

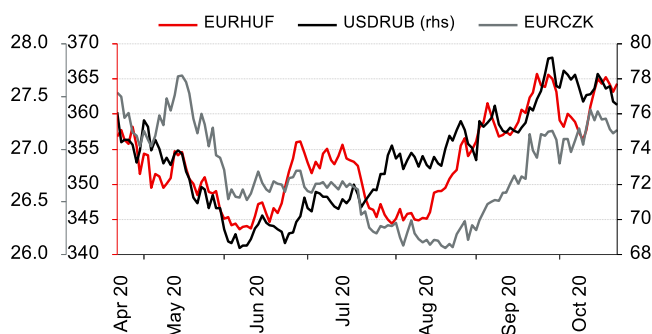
FI The 10Y bond yield has broken below the lower end of 1.26-1.40% range in which it has been trading since mid-2020. The yield downward momentum since early October might be a function of still abundant liquidity in the banking sector (PLN 175.1bn as of Friday) as well as the impact of Covid-19 cases on growth outlook. Given the strength of the momentum we think the yield decline might continue in the following week towards 1.20% but then rebound to 1.25-1.30% towards the end of the week as the core market yields continue to increase. On Wednesday 28th October there is going to be another auction of BGK papers with announced series being sold: FPC0630, FPC0733 and possibly one new series.

EURPLN and German DAX equity index



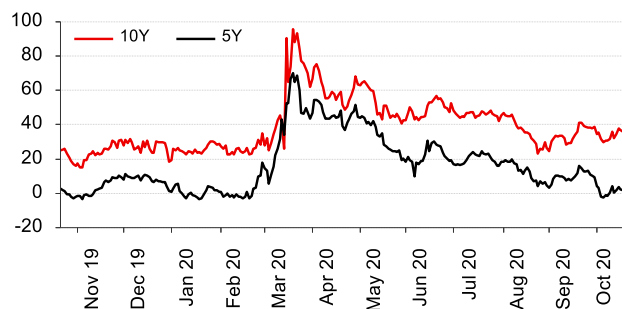
Source: Refinitiv Datastream, Santander Bank Polska

EURHUF, EURCZK and USDRUB



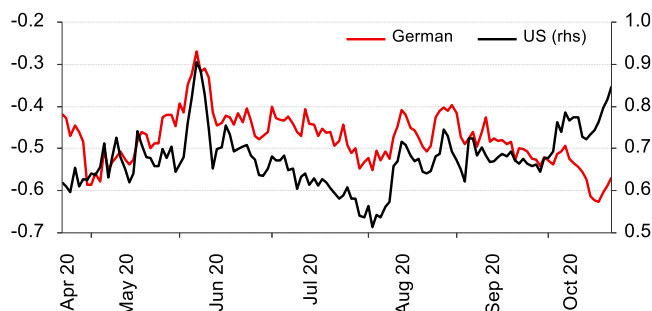
Source: Refinitiv Datastream, Santander Bank Polska

Poland asset swap spreads



Source: Refinitiv Datastream, Santander Bank Polska

10Y German and US bond yields



Source: Refinitiv Datastream, Santander Bank Polska

Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE
				MARKET	SANTANDER	
MONDAY (26 October)						
10:00	DE	IFO Business Climate	Oct	pts	93.0	93.4
15:00	US	New Home Sales	Sep	% m/m	-0.1	4.8
TUESDAY (27 October)						
	DE	Retail Sales	Sep	% m/m	-0.8	1.8
13:30	US	Durable Goods Orders	Sep	% m/m	0.5	0.5
15:00	US	Consumer Conference Board	Oct	pts	101.9	101.8
THURSDAY (29 October)						
11:00	EZ	ESI	Oct	pct.	89.6	91.1
13:30	US	GDP Annualized	3Q	% Q/Q	31.9	-31.4
13:45	EZ	ECB Main Refinancing Rate	Oct.20	%	0.0	0.0
14:00	DE	HICP	Oct	% m/m	-0.2	-0.4
14:30	US	Initial Jobless Claims		k	870.0	787.0
15:00	US	Pending Home Sales	Sep	% m/m	3.5	8.8
FRIDAY (30 October)						
08:00	DE	GDP WDA	3Q	% y/y	-4.3	-11.3
09:00	CZ	GDP SA	3Q	% y/y	-6.6	-10.9
10:00	PL	CPI	Oct	% y/y	3.2	3.1
11:00	EZ	Flash HICP	Oct	% y/y	-0.4	-0.3
11:00	EZ	GDP SA	3Q	% y/y	-7.4	-14.7
11:00	EZ	Unemployment Rate	Sep	%	8.3	8.1
13:30	US	Personal Spending	Sep	% m/m	1.0	1.0
13:30	US	Personal Income	Sep	% m/m	0.3	-2.7
13:30	US	PCE Deflator SA	Sep	% m/m	0.2	0.3
15:00	US	Michigan index	Oct	pts	81.2	81.2

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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