

# Weekly Economic Update

## Fasten your seatbelt

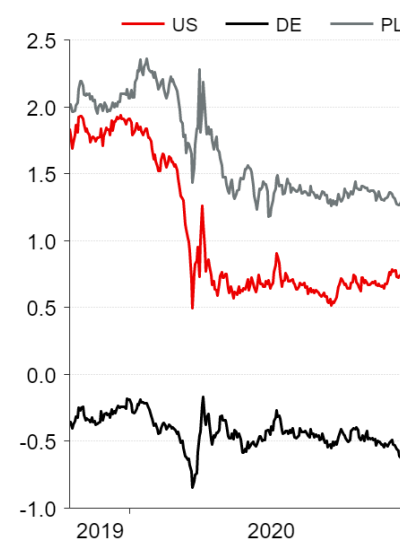
### What's hot next week

- If you thought that the passing week has been turbulent... think again and wait for the next one. A lot of data releases is in the agenda, mainly abroad: PMIs, US monthly job report, European output and retail sales, central banks meetings (Poland, Czechia, USA) and – perhaps even most importantly – the political events. Global investors' attention will focus on the US presidential elections while in Poland, the pandemic trends and the consequences of the social protests could be important.
- The economic data are likely to be increasingly affected by the new wave of pandemic. So far, like we wrote earlier, the situation deteriorates mainly in services and branches that rely on the consumer behaviour, while situation in the European manufacturing is way better, which is a good news for the Polish exporters and transport sector. These are, among others, reasons why we expect **Polish manufacturing PMI stabilised** in October slightly above 50pt.
- **Monetary Policy Council** at the meeting on Wednesday will get the new NBP projections. The previous forecasts of the central bank were clearly more pessimistic than market consensus and we guess that this time the estimates will be also quite cautious. Still, we think it will not be the argument for the MPC to consider any interest rate changes. In the recent interviews MPC members suggested that even with quite pessimistic expectations about the consequences of new wave of pandemic they do not see rationale for further interest rate cuts, and the central bank should focus on supporting the government via its QE operations.
- Central banks in the USA and Czechia (Thursday, Friday) also should not surprise with monetary policy changes
- On Wednesday, 4 November, the **US elections** voting will be over. The result may have high influence on market sentiment, and the uncertainty related to the event is not only about who wins (who becomes the next president, as well as what is the new balance of power in the parliament), but also when the final result is to be known and if the losing side will accept it. There are plenty of possible outcomes and the potential resulting market responses: with a surge of global risk appetite on one end of the spectrum and a further increase of uncertainty and sour mood on the other.
- In Poland a very **big number of Covid-19** cases is still to be expected, as well as heightened social unrest and possibly more stages of restrictions. This could result in further pressure on weaker zloty and stronger bonds.

### Market implications

- EURPLN decoupled from EURUSD or stock indexes which could be a hint that the country specific risk factors started to play the main role and we think it is likely to stay at an elevated level amid rising Covid-19 wave and worsening economic outlook. The temporary support for the zloty may come from the risk-on global mood after US elections (if it happens).
- The dovish message from the ECB and expectations for even higher overliquidity in the Polish banking sector (if the anti-crisis measures are extended) could help yields to stay low. If the market starts pricing-in higher chances for new US fiscal package, some it could be a reason for small correction.

### Bond yields, %



Źródło: Refinitiv Datastream

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## Last week in economy

The week brought news about further quick rise of infections, some aid for selected sectors affected by recently introduced restrictions, robust business sentiment indexes for October and some easing of inflation.

**Flash CPI** print for October was 3.0% y/y, down from 3.2%. Market consensus was around 3.1-3.2% and our estimate was 3.1%. Some of the downside surprise came from faster food inflation decline, some from easing core CPI – after the release our estimate of inflation ex food and energy moved to 4.1% y/y from 4.3%, which would offset most of its unexpected September rise. Headline CPI should be now moving towards the 2.5% y/y target in December and dip below 2% in the course of 1Q21. Core inflation should also be falling, possibly going to around 3.5% y/y still this year and below 2% by the middle of next year as the pandemic keeps weighing on domestic demand.

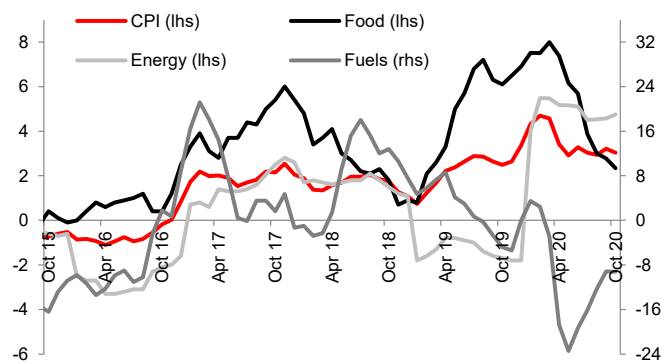
Most of sectoral **ESI indicators** for Poland improved in October, supported by stronger current activity and new orders. The outlook of doing business worsened: in industry the index of expected output was much below the assessment of current trend which is unusual, and in retail trade the index of expected orders in the next three months dropped so much that it brought the whole sectoral index down. Worse view on the business outlook did not translate to weaker employment indexes (with the exception of retail trade). Consumer sentiment remained significantly worse than in July and August and the share of answers that now is good time for major purchases was the second lowest since 2004.

**Quarterly NBP report Quick Monitoring** showed that in 3Q business sentiment improvement partly offset the 2Q decline. Companies were more positive on future demand, especially from abroad and were more interested in raising employment, wage hike plans were also slightly broader than previously. Indicators describing investment attitude improved only a little, and the implied share of discontinued projects is still larger than in the worst phase of global financial crisis. On the other hand the index of annual economic situation forecasts rebounded above the pre-pandemic level, however this result was based on opinions from the middle of September – before the jump in infections and tightening of restrictions.

Dovish **MPC member Jerzy Żyżyński** said that he sees no scope for monetary policy tightening in this term (until early 2022). He is also not in favour of further rate cuts, in his opinion the asset purchase program could be increased if necessary. **Grażyna Ancyparowicz** said that NBP may help the economy by supporting the financing of government aid packages. She worries that GDP decline in 4Q may be even worse than in 2Q, the negative economic impact of the pandemic might extend into 2021 and the return to the growth path might occur only in 2H21. Despite this, in her opinion, interest rates should remain at the current level as cutting them would have negligible impact.

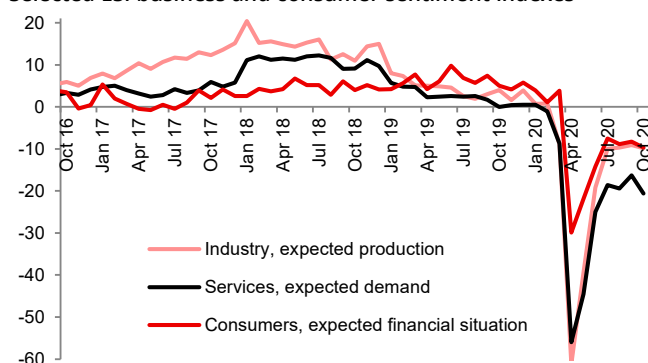
PM Mateusz Morawiecki announced that the **aid package** aimed at the sectors hit by new Covid-19-related curbs will be worth PLN 1.8-2.0bn. The package is to include: relief from social contributions for November, furlough compensation (condition: revenue drop by 40% y/y), subsidies worth PLN5k and suspension of trade fee. The support will be extended if restrictions are maintained after November.

CPI and main components, %y/y



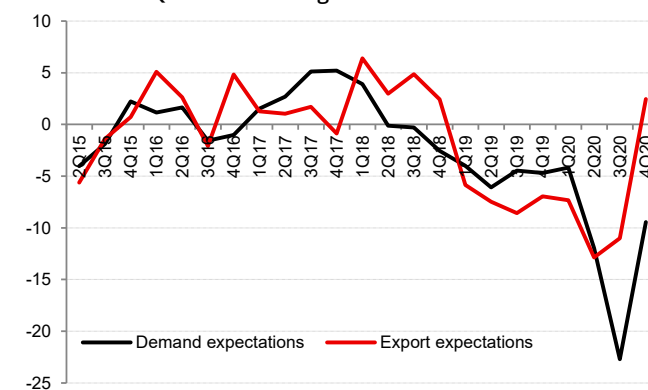
Source: GUS, Santander

Selected ESI business and consumer sentiment indexes



Source: European Commission, Santander

Selected NBP Quick Monitoring indexes of business climate



Source: NBP, Santander

## FX and FI market

### Last week on the market

**FX** The zloty lost vs the euro, pound and Swiss franc for the third week in a row amid another wave of the global risk aversion spurred by the sharp rise of new Covid-19 infections and next round of lockdowns in some countries. Only the dovish ECB rhetoric managed to provide some relief for the zloty and its CEE peers. EURPLN rose temporarily above the March peak but closed the week only slightly above 4.60. USDPLN reached new October peak at 3.97. CHFPLN neared 4.35, its highest since late May, GBPPLN approached 5.15, its highest since mid-May. Elsewhere in the CEE region, EURHUF and EURCZK rose above their September peak to 369 (+1.15% on weekly basis) and 27.48 (+0.90%), respectively. USDRUB jumped c4% since previous Friday to c79.0, its highest since late September. Next to the global risk aversion, the ruble was pressured by the falling oil price, Brent was the cheapest since June.

**FI** Polish bond yields remained in the strong down trend thanks to the inflow of PLN11bn from bond redemptions and coupon payments, global risk aversion and market pricing that the issuances of the anti-crisis bonds could rise amid mounting number of new Covid-19 case in Poland leading to further rise of overliquidity in the banking sector. As a result, the 10Y bond yield fell to 1.14%, 5Y to 0.36%, both their new all-time-lows. The 2Y yield was hovering around 0% and so the 2-10 spread fell to 114bp, its lowest since August. IRS rates also declined but the scale of move was smaller allowing the asset swap spread to fall.

**Key factors to watch this week** are related mainly to the US events. On November 3 the US presidential voting will end and at last partial results could be published in the next days. For weeks already Republicans and Democrats are unsuccessfully negotiating the next fiscal package. If it becomes more likely that one party wins the presidential office, the House and the Senate, chances for a support to be delivered will rise. On Thursday, the FOMC will decide about the interest rates. We do not expect any game-changing signals.

On Wednesday, Polish MPC will hold a meeting that will be concluded with the release of the updated CPI and GDP forecasts. New numbers shall justify keeping rates unchanged in the coming quarters.

In terms of the date releases, US ISM and nonfarm payrolls should be the most awaited.

### Market implications

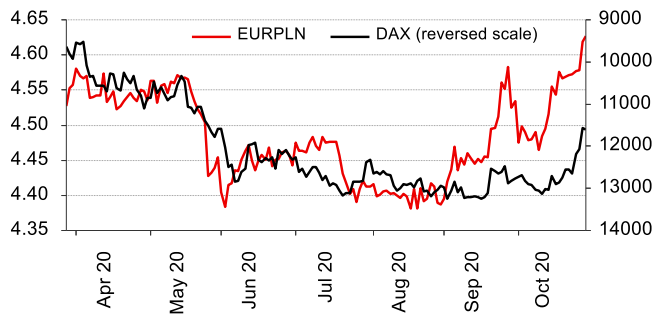
**FX** EURPLN is likely to stay at an elevated level, in our view. The zloty has diverged from EURUSD or stock indexes which could be a hint that the country specific risk factors started to play the main role. Covid-19 cases in Poland are rising very fast and this could continue to pressure the zloty. Also, in contrast to the other EM central banks that recently adopted a less dovish approach and took some action aimed at stabilizing their currencies, rhetoric of the Polish MPC is not likely to change.

If it appears that one of the US parties may win the presidential office, the House and the Senate, the dollar could gain since the market could start to price in a higher chances for the fiscal package to be delivered soon. Although we view the potential dollar appreciation to be only temporary, this could be enough to keep EURPLN close to or above 4.60 in the short term.

**FI** The dovish message from the ECB and expectations for more liquidity in the Polish banking sector could help yield to stay low but the room for further drop could be limited for now. The last pause/correction in this tendency was recorded in mid-October and there is a risk that we could see a slight yield's rebound in case the market starts to price in bigger chances for the US fiscal package to be launched soon after the elections.

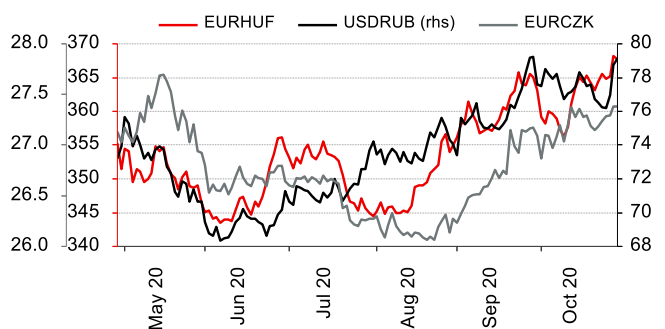
Note also, that the Bund did not react much to the ECB rhetoric and the 10Y PL-DE bond yield spread fell c8% in the last two weeks which starts to look much in historical terms. Thus, it could be difficult for the Polish 10Y bond to add gains without Bund strengthening.

### EURPLN and German DAX equity index



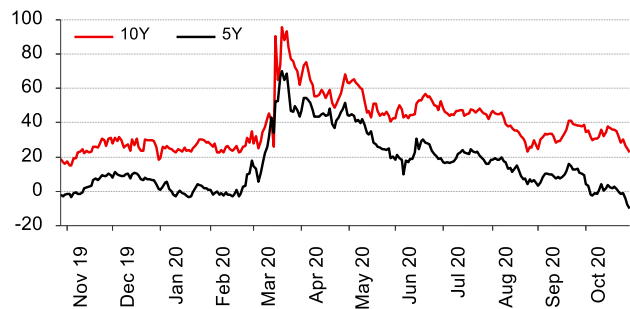
Source: Refinitiv Datastream, Santander Bank Polska

### EURHUF, EURCZK and USDRUB



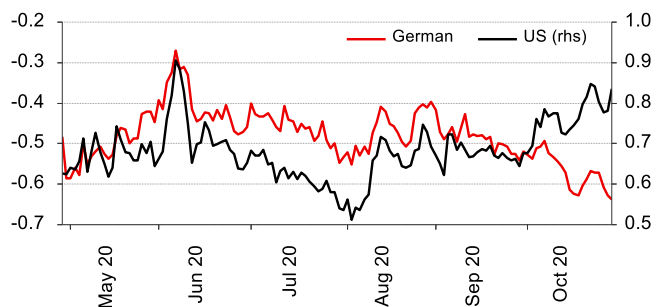
Source: Refinitiv Datastream, Santander Bank Polska

### 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	
				MARKET	SANTANDER	VALUE	
<b>MONDAY (2 November)</b>							
09:00	PL	Poland Manufacturing PMI	Oct	pts	51.2	50.7	50.8
09:55	DE	Germany Manufacturing PMI	Oct	pts	58.8	-	58.0
10:00	EZ	Eurozone Manufacturing PMI	Oct	pts	54.4	-	54.4
16:00	US	ISM manufacturing	Oct	pts	55.6	-	55.4
<b>TUESDAY (3 November)</b>							
16:00	US	Durable Goods Orders	Sep	% m/m	0.0	-	1.9
16:00	US	Factory Orders	Sep	% m/m	0.3	-	0.7
<b>WEDNESDAY (4 November)</b>							
	PL	MPC decision		%	0.1	0.1	0.1
02:45	CN	Caixin China PMI Services	Oct	pts	55.0	-	54.8
09:55	DE	Markit Germany Services PMI	Oct	pts	48.9	-	48.9
10:00	EZ	Eurozone Services PMI	Oct	pts	46.2	-	46.2
14:15	US	ADP report	Oct	k	750	-	748
16:00	US	ISM services	Oct	pts	57.5	-	57.8
<b>THURSDAY (5 November)</b>							
08:00	DE	Factory Orders	Sep	% m/m	2.0	-	4.5
11:00	EZ	Retail Sales	Sep	% m/m	-1.5	-	4.4
13:30	US	Initial Jobless Claims	week	k	770	-	787
14:30	CZ	Central Bank Rate Decision		%	-	-	0.25
20:00	US	FOMC decision		%	0.25	-	0.25
<b>FRIDAY (6 November)</b>							
08:00	DE	Industrial Production SA	Sep	% m/m	3.5	-	-0.2
09:00	CZ	Industrial Production	Sep	% y/y	-	-	-8.0
09:00	HU	Industrial Production SA	Sep	% y/y	-	-	-0.2
14:30	US	Change in Nonfarm Payrolls	Oct	k	610	-	661
14:30	US	Unemployment Rate	Oct	%	7.7	-	7.9

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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