

20 November 2020

# Weekly Economic Update

## Risks are subsiding (for now)

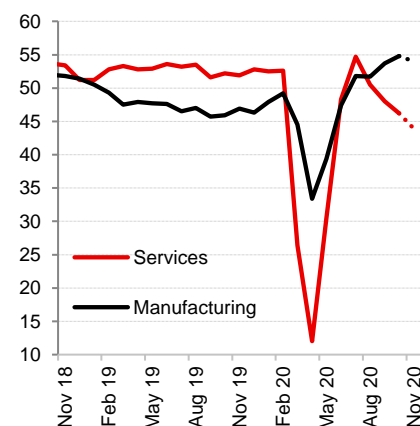
### What's hot next week

- Poland and Hungary's veto to the idea of linking the payments of EU funds to the rule of law and their threat to block the multiannual EU budget and recovery fund talks was quietly received by the markets – which are likely hoping that the deal will be eventually reached. Next meeting of the European Council will be held on December 10 and no big news should be expected until then so this issue could be off the radar for now.
- The second risk factor – the pandemic – seems to be losing strength currently. The number of new Covid-19 cases started to go down in Poland and in many other European countries (the number of deaths is still going up, but this variable is lagged versus new infections). We did not hit the trigger for the 'National Quarantine' (introducing additional severe restrictions), and we are approaching a mark which could mean that some restrictions will be eased – according to the government spokesperson such a decision is possible on 29 November. However, on Saturday, 21 November, PM Mateusz Morawiecki will hold a press conference at which he may announce changes for selected sectors.
- In the final week of November, the attention will focus again on the economic data, mainly on the leading indicators: on Monday flash PMIs in Europe, on Tuesday German Ifo and the US consumer confidence index, on Friday ESI indexes. Consensus point to lower readings owing to the new wave of pandemic, with larger monthly fall in services than in manufacturing, but in our view positive surprises cannot be excluded since the business sentiment might have been supported by the vaccine news. Some US data are on the agenda on Wednesday. The remaining October readings in Poland (construction output, retail sales, unemployment rate) will also be out, but these are unlikely to be breaking news.
- On Thursday, there is US Thanksgiving Day that will be followed by Black Friday that according to some analysts may see record high online buying.

### Market implications

- FX volatility in the coming week might be subdued – EURPLN remains near an important technical level of 4.47, there is bank holiday in the US on Wednesday, other risk factors (EU budget talks) become less relevant for the time being. We expect EURPLN to trade in a horizontal range in the coming week.
- Bond yields might increase a bit in the core markets as well as in Poland: positive surprise from the preliminary PMIs, declining number of Covid-19 cases as well as, perhaps, another round of positive vaccine news all might contribute to the move..

Eurozone PMIs and market consensus for Nov'20



Source: Markit, Bloomberg, 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

October data released so far was not that bad, but November sentiment indexes have been depressed by the pandemic and the restrictions. MPC members' remarks suggest no changes to policy.

**Industrial output** slowed down in October to 1.0% y/y from 5.9% y/y in September, in line with our and market expectations. In our view this slowdown was mostly due to calendar effects - the effects of renewed restrictions were minor. We are expecting industry to remain relatively robust to the second wave of Covid infections, as the global reaction is less harmful to economic activity. Still, all sectoral **business sentiment** indexes dropped severely in November, with some sectors more worried about surviving than in spring. More in [Economic Comment](#).

**Consumer confidence** plummeted in November. Both current and leading indicators fell sharply (from -20 to -29.2 and from -19.2 to -30.1, respectively), yet remaining above the local through established in April (-36.4 and -47.7 respectively). All sub-components of the indices deteriorated, with the biggest decline recorded in the assessment of country's economic situation and in unemployment outlook. There was a significant increase of consumers' worries about coronavirus impact on their personal health, job safety and economic outlook.

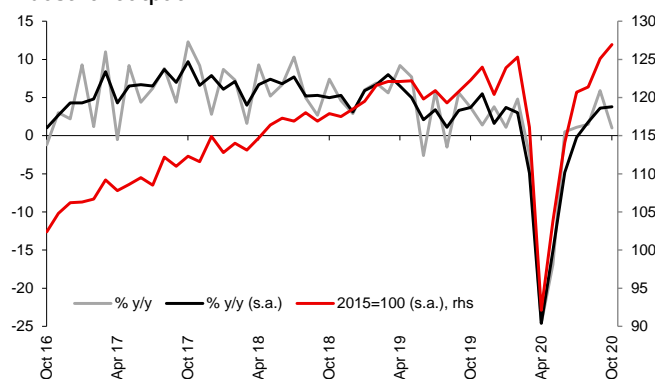
**Employment** in October fell by 1.0% y/y (vs. -1.1% y/y in September), while **wages** rose by 4.7% y/y (vs. 5.6% y/y in September), meaning some slowdown in the corporate sector's labour market recovery. Due to reintroduction of many epidemic restrictions in October and November we are expecting the labour market statistics to deteriorate in the upcoming months again. Wage bill in the corporate sector rose by 0.5% y/y in real terms.

Poland's **core inflation** ex food and energy fell in October to 4.2% y/y from 4.3% - the highest level since late 2001. This measure was only growing during the severe drop of economic activity in 2Q and is still reluctant to fall significantly as the economy is slipping again on new Covid restrictions. It seems the negative effect of reduced domestic demand needs more time to become visible in the data. We believe 2021 will look much different in this respect with core CPI dropping systematically and rather quickly for most of the year and possibly stabilising below 1% in 4Q.

After October the **central budget** recorded a deficit of PLN12.1bn as compared to PLN13.8bn after September. In October alone budget revenues climbed by 7.1% y/y - in line with economic rebound in 3Q20 - with VAT going up by 9.0% y/y, PIT by 3.3% y/y and CIT by 1.0% y/y. Budget spending was -1.3% y/y.

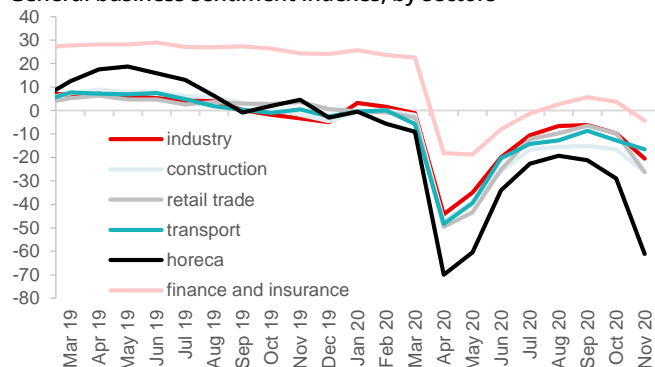
Several **MPC members** (mostly from the minority hawkish camp) spoke recently against cutting interest rates below zero, accepting more QE and considered hiking rates a bit only if the economy is back to its growth path (Kochalski also agreed to the latter). Some of them worry that inflation could push above 3.5% y/y next year.

### Industrial output



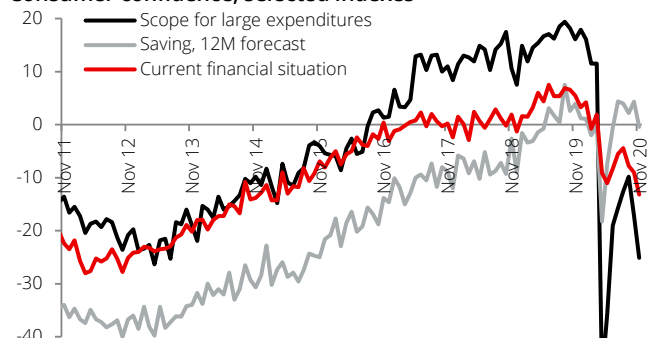
Source: GUS, Santander

### General business sentiment indexes, by sectors



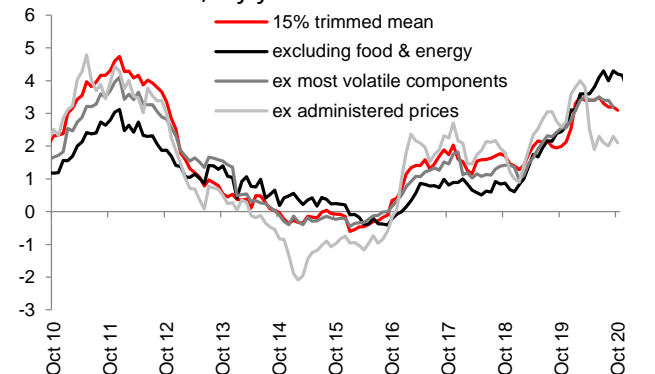
Source: GUS, Santander

### Consumer confidence, selected indexes



Source: GUS, Santander

### Core CPI measures, % y/y



Source: NBP, Santander

## FX and FI market

### Last week on the market

**FX** The global equity markets traded within a horizontal range in the passing week (and so did VIX index), while core yields declined somewhat as the number of Covid-19 cases remains elevated in many countries, including USA. EURPLN fell by 0.4% to 4.465 and is effectively testing the important technical level of 200-day moving average at 4.47. The move lower was helped by a generally positive market mood towards EM currencies after the previous weekend's signing of a new trade deal (called RCEP) in Asia and further yuan gains as well as Turkish lira strengthening post the 475bp rate hike by the CBT. The ongoing negotiations between Polish government and the EU regarding the budget and recovery fund have not had a material impact on the currency. USDPLN have not changed much either as the dollar remained roughly stable: USDPLN closed the week at 3.77. In the CEE region, EURCZK fell 0.2% to 26.3, USDRUB fell 1.8% to 76.1 and it was only EURHUF which traded 0.5% higher w/w after NBH extended its QE and cheap loans programs on Tuesday.

**FI** Polish bond yields at the front end of the curve remained low for most of the week and edged higher by 1bp to 0.03% only on Friday. Both 5Y and 10Y bond yields marched lower and ended the week at 0.41% and 1.19% - a couple of bp lower on the week. The IRS market was pretty stable and this meant that asset swaps (and spread vs Bunds as well) narrowed even further from the current stretched levels to 8bp and 175bp respectively. The NBP bought only PLN 0.2bn on its purchasing auction which might have resulted from elevated price expectations of market participants.

**Key factors to watch this week** should focus in the first part of the week as there is a US bank holiday on Thursday. On Monday retail sales and construction output in Poland are being published as well as November PMIs (both manufacturing and services) in Eurozone, Germany and the US. On Tuesday M3 money supply in Poland, Q3 GDP and IFO indices in Germany while in the US consumer confidence and Richmond Fed. On Wednesday there is a lot of data from the US: durables, consumer confidence (University of Michigan), new home sales, personal spending and PCE deflator as well as minutes from the FOMC meeting. On Friday there are ESI indices in Eurozone and retail sales data in Germany.

### Market implications

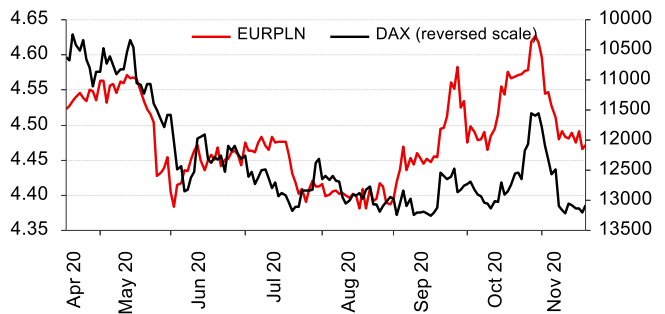
**FX** As the EURPLN is testing very important technical level at 4.47 and there is a long weekend in the US next week - there is high chance of EURPLN to trade horizontally with lowered volatility over the next week. Also one of the main risk factors for the PLN - the result of the ongoing budget negotiations with the EU has been postponed at least till early December. As a result we think that the scenario of EURPLN remaining within 4.45-4.50 range is the most likely one.

The sentiment on the CEE FX market has been pretty similar to the one in Poland, except perhaps for Hungary where the central bank extended its QE programme. But in general barring any significant surprises to the market data next week the CEE currencies are likely to remain range bound next week as well.

**FI** As the winter period's high number of Covid-19 cases is mostly priced in it is becoming more and more likely that any improvements in the data, not to mention any more news regarding vaccines, are likely to improve growth outlook and hence the yields - both in the core markets and in Poland. The first such a possibility occurs on Monday where the November PMIs are being published. Lack of escalation of the negotiations with the EU supports the scenario that this postponement might push yields higher. Very tight spreads (ASW and vs Bund) might also ease a bit helping yields higher.

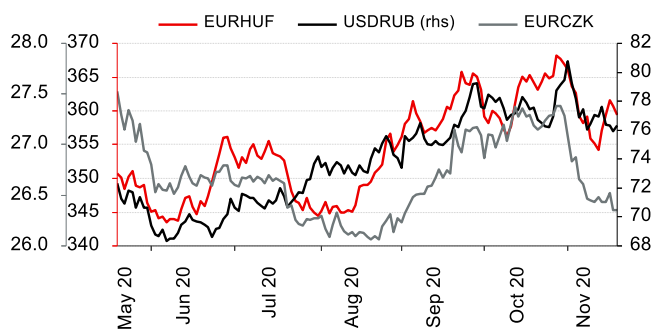
There is second BGK auction this month taking place on Wednesday 25<sup>th</sup> and then there is Ministry of Finance switch auction scheduled for Thursday 26<sup>th</sup>.

### EURPLN and German DAX equity index



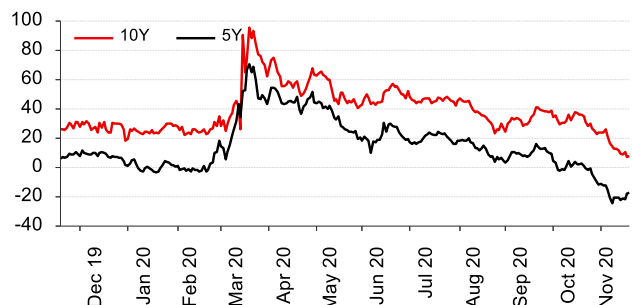
Source: Refinitiv Datastream, Santander Bank Polska

### EURHUF, EURCZK and USDRUB



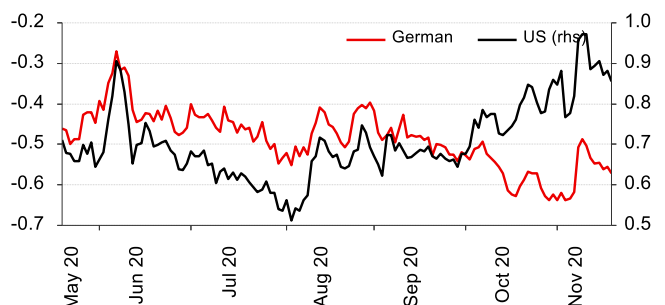
Source: Refinitiv Datastream, Santander Bank Polska

### 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	
<b>MONDAY (23 November)</b>						
09:30	DE	Germany Manufacturing PMI	Nov	pts	57.0	58.2
09:30	DE	Markit Germany Services PMI	Nov	pts	47.0	49.5
10:00	EZ	Eurozone Manufacturing PMI	Nov	pts	54.0	54.8
10:00	EZ	Eurozone Services PMI	Nov	pts	43.9	46.9
<b>10:00</b>	<b>PL</b>	<b>Construction Output</b>	<b>Oct</b>	<b>% y/y</b>	<b>-5.8</b>	<b>-6.5</b>
<b>10:00</b>	<b>PL</b>	<b>Retail Sales Real</b>	<b>Oct</b>	<b>% y/y</b>	<b>-2.0</b>	<b>-1.5</b>
<b>TUESDAY (24 November)</b>						
08:00	DE	GDP WDA	3Q	% y/y	-	-4.3
10:00	DE	Ifo Business Climate	Nov	pts	90.6	92.7
<b>14:00</b>	<b>PL</b>	<b>Money Supply M3</b>	<b>Oct</b>	<b>% y/y</b>	<b>17.0</b>	<b>16.6</b>
16:00	US	Consumer Conference Board	Nov	pts	98.0	100.9
<b>WEDNESDAY (25 November)</b>						
<b>10:00</b>	<b>PL</b>	<b>Unemployment Rate</b>	<b>Oct</b>	<b>%</b>	<b>6.1</b>	<b>6.1</b>
14:30	US	Durable Goods Orders	Oct	% m/m	1.0	1.9
14:30	US	GDP Annualized	3Q	% Q/Q	33.1	33.1
14:30	US	Initial Jobless Claims		k	700.0	742.0
16:00	US	Michigan index	Nov	pts	76.8	77.0
16:00	US	New Home Sales	Oct	% m/m	1.2	-3.5
16:00	US	Personal Spending	Oct	% m/m	0.6	1.4
16:00	US	Personal Income	Oct	% m/m	0.05	0.9
16:00	US	PCE Deflator SA	Oct	% m/m	0.0	0.2
20:00	US	FOMC Meeting Minutes	Nov.20		-	0.0
<b>FRIDAY (27 November)</b>						
	DE	Retail Sales	Oct	% m/m	0.9	-2.2
11:00	EZ	ESI	Nov	pct.	86.2	90.9

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.