27 November 2020

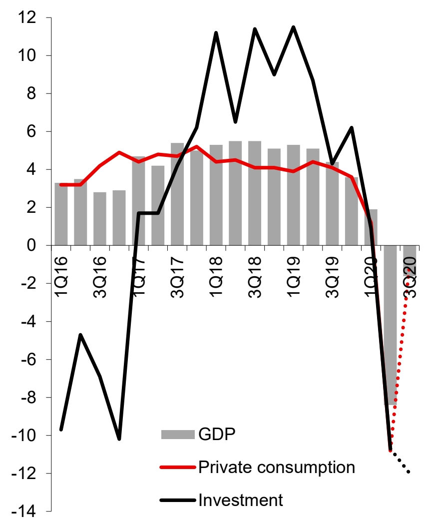
Weekly Economic Update

Calm before the storm?

What's hot next week

- **After the weekend, a lot of economic data will be published**. In Poland, we will see 3Q GDP (Monday), November manufacturing PMI and flash CPI (Tuesday) and decision of the MPC (Wednesday). Calendar of global releases is also rich: in Europe final PMIs, flash inflation, retail sales and industrial orders, in the US ISM and nonfarm payrolls.
- Polish stat office will show a **3Q GDP** breakdown. From the flash release we know that there has been a substantial rebound (+7.7% q/q SA) from the 2Q bottom. The main engine of a revival were likely the consumption demand and better foreign trade balance, investments were less supportive. We know also that this recovery was not sustainable given the new wave of pandemic that pushed the economy towards second bottom the recession in 4Q20. The 1Q21 is likely to be also depressed. Only later in the year (when vaccination will be broadly available) we expect a stronger and persistent economic recovery.
- **Polish manufacturing PMI** might have dropped slightly in November (just like the other economic sentiment indexes owing to the second wave of pandemic) but shall hold above the neutral 50pts mark. Decent performance of German manufacturing supports Polish sector.
- We think **inflation** eased to 3.0% y/y in November mainly owing to boarder and earlier discounts. We expect the down trend to continue in the coming months, to below 2% in 2021.
- The **MPC meeting** shall not bring any meaningful information. From the statements and comments of the Council's members we conclude that there is a broad consensus for a the rates to remain stable for longer, at least until the end of the MPC's term.
- In the background for these events, there is the **EU budget issue** – a ticking time bomb. On the one hand Germany has suggested a compromise is possible soon. On the other hand: Poland and Hungary have united their front and toughened their negotiation stance (Polish PM claims EU budget veto is now a base case), and the European Commission suggests that both countries may resort to the European Court of Justice albeit a resignation from rule of law conditionality seems unrealistic in its view. We are left with hopes that in the end there will be a deal that would protect Poland from losing the sizeable EU funds, but it is less and less likely that it could be reached already at the next European Council meeting on 10 December.

Growth rate of GDP and its main components, % y/y



Source: GUS, Santander

Market implications

- After a few days of exceptionally low volatility of EURPLN exchange rate and no break of an important support, a correction stared on Friday and in our view it is likely to last until the next week. Apart from technical factors, this move could be supported by waning rally on the EM markets. Weakening of the zloty on Friday suggested that Polish assets are likely to be harmed by heated debate before the European Council summit, yet we are not really expecting breaking moves before conclusions.
- Bond yields are likely to stay in a slightly upward trend, supported by global optimism triggered by success in vaccine research.

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Last week in economy

This week we got to see details of new epidemic financial help package as well as data on retail sales, construction output, results of companies, M3 and labour market.

PM Morawiecki announced a **new round of financial help** for companies in response to the second bout of the epidemic. The new package will be available in January and will consist of loans from the Polish Development Fund (PFR). In contrast to the first round of support, aid will be available only for specified sectors (mainly accommodation, gastronomy, recreation and culture). Micro-companies will be allotted PLN3bn under condition of recording a drop of revenues by more than 30% and remission of this loan will be possible if no job cuts take place for 12 months. Small and medium-size companies will have PLN7bn at their disposal to cover 70% of gross loss recorded in November 2020 – April 2021. Loans for smaller companies granted in the first round of the Financial Shield could be completely written off after one year (earlier: up to 75%). Big companies could get up to PLN25bn in the same instruments as in the first round. The government plan is mostly based on unused financial means raised for the first round.

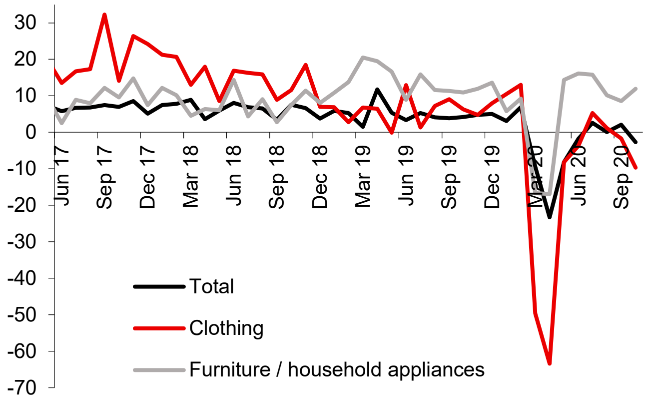
October retail sales contracted by 2.3% y/y, somewhat stronger than expected and versus +2.5% y/y in September. A slowdown was widely expected due to resurgence of pandemic in October. Thus, in November retail sales are likely to slow down even further. **Results of companies employing 50+** improved in 3Q20, mainly thanks to cost-cutting amid falling revenues, while investment improved somewhat versus 2Q20, but mostly due to strong rebounds in a few sectors. **Construction output** declined in October a bit more than expected (-5.9% y/y), but much less than in September (-9.8%). Read more in Economic Comment.

In 3Q the **LFS unemployment rate** rose to 3.4% from 3.1% in 2Q and employment rate to 55.0% from 53.8%. Labour participation rate was 56.9%, up from 55.5%, which means that it returned close to last year's levels (56.7% in 3Q20. No increase in unemployment rate during the lockdown was partly caused by a methodological issue – one has to actively seek a job and this condition was hard to meet when the economy was closed. Thus, normalisation of the situation on the labour market resulted in both employment and unemployment going up. Still, 124k of the inactive admitted that the pandemic is the reason why they are not searching for a job. The normalisation was also seen in a decrease of the number of the employed that were not doing any work, the number of people on reduced worktime and working from home. The new restrictions introduced in 4Q will likely reverse these changes.

M3 money supply growth amounted to 17% y/y in October, unchanged vs September. Cash in circulation accelerated to 34.8% y/y from 31.7% y/y. In monthly terms, the stock of cash rose PLN7.9bn and this was the biggest October rise since 2008. Most likely, this was due to the reintroduction of pandemic restrictions but this time the effect was much weaker than in March (when cash in circulation rose PLN26.3bn). Pace of deposits growth eased to 14.4% y/y from 14.8% y/y with deposits of corporates and nonmonetary financial institutions recording slower growth. Value of loans fell 0.4% y/y (after the FX effect adjustment) vs -0.2% y/y in September.

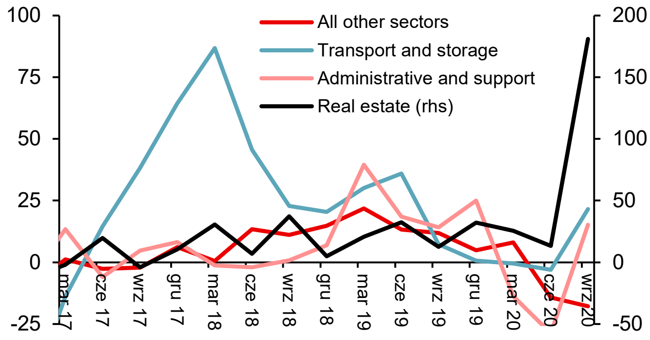
The NBP governor Adam Glapiński said that the 4Q20 economic situation is challenging, especially for some sectors. Glapiński assessed there is a rising risk that inflation will fall below target in the years to come. **Rafał Sura** and **Eryk Łon** reiterated their earlier calls that rates should remain stable, while **Kamil Zubelewicz** stated that rate cuts cannot be ruled out, as CPI will remain low in 2021.

Retail sales, % y/y



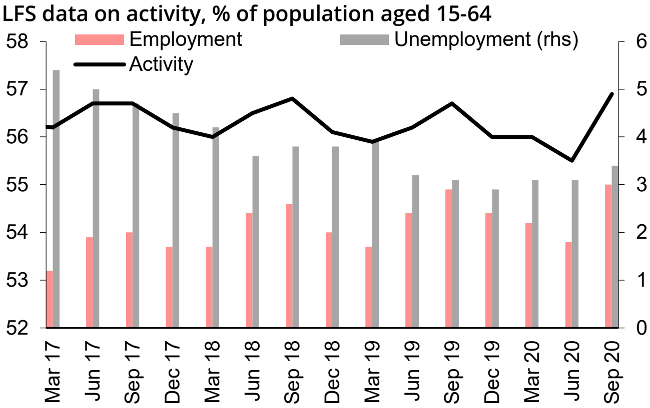
Source: GUS, Santander

Investment in 50+ companies, by sector, % y/y



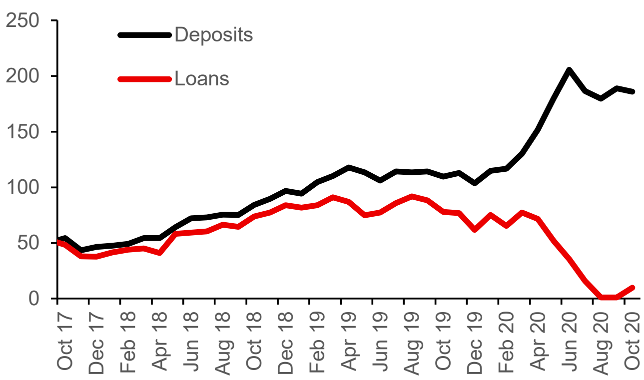
Source: GUS, Santander

LFS data on activity, % of population aged 15-64



Source: GUS, Santander

Loans and deposits – y/y change in PLNbn



Source: NBP, Santander

FX and FI market

Last week on the market

FX EURPLN has been virtually flat in 4.46-4.48 range for the better part of the week and only on Friday it rose to 4.49. Still, at the time of writing, the weekly high-low spread for EURPLN is the smallest since mid-September. USDPLN was not much more volatile trading around 3.76 with a slight down bias owing to rising EURUSD.

In case of the other CEE currencies, the koruna gained at the beginning of the week thanks to the personal tax rate cut in Czechia. EURCZK fell to 26.1, its lowest since August, and remained stable later on. EURHUF was hovering near 361 and the weekly trading range was the smallest since mid-August. USDRUB should end the week near the last Fridays' close which does not look to be a great achievement given the 0.6% EURUSD rise and 6% Brent oil price jump.

FI Polish yields trended somewhat up while the IRS rates remained stable at an elevated level reached in early November after the first vaccination news. Thus, the 10Y asset swap spread corrected slightly up after if fell to its multi-year-low level of c10bp in the previous week. Both curves steepened at bit on weekly basis. The 10Y PL-DE bond yield spread rose 7bp to 184bp since the Bund was trading in a horizontal trend in the passing week.

At the switch auction, the Ministry of Finance sold bonds for PLN3.75bn (the most of PS0425: PLN1.6bn) and repurchased bonds for PLN3.7bn (most of PS0721: PLN1.2bn). The Ministry said that after the auction next year's gross borrowing needs are covered in c13%.

Key factors the market will watch this week may be the US data with the November ISMs and nonfarm payrolls being the most awaited. Flash manufacturing PMI showed a decent rise while the consensus for the ISM is now slightly below the October print. Market expects further normalization of monthly nonfarm payrolls number.

In Poland, we will see November flash CPI, manufacturing PMI and final 3Q GDP with detailed breakdown. We think inflation inched further slightly down (to 3% y/y) and pace of the economic growth shall be close to the flash estimate Thus, Polish releases should be market-neutral, just like the outcome of the MPC meeting.

Talks about the EU budget shall carry on but rather on the backstage.

Market implications

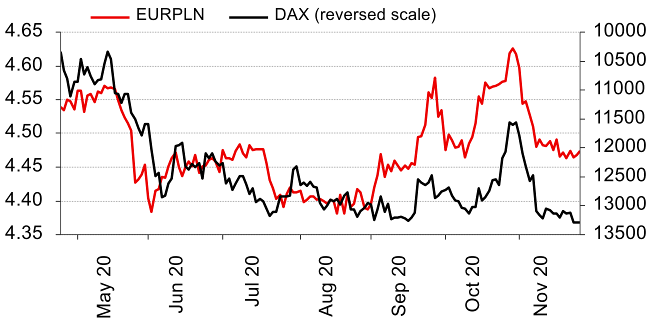
FX We expect some profit taking activity on the EURPLN market after the drop seen in the first half of November. The exchange rate failed to break the 4.45-4.46 support area and in the case of the EM currencies very low volatility is often a harbinger of an upcoming pressure. Note that last week the ruble did not benefit from an oil price rise and weaker dollar.

There has been no noticeable reaction of the zloty (and forint) to the Poland and Hungarian to the EU budget veto but since the next summit is nearing (10 December), some risk premium that talks will not bring an agreement could start to be seen.

FI We think Polish bond yields could stay in a slow upside trend. In the previous week, the 10Y asset swap spread reached its multi-year low level of c10bp and has corrected to c16bp in the last days and we think this move could continue. This could partly be owing to the market pricing the risk that EU budget talks could fail. The recent widening of the PL-DE bond yield spread could have been an another sign of a market being more cautious ahead of the budget negotiations.

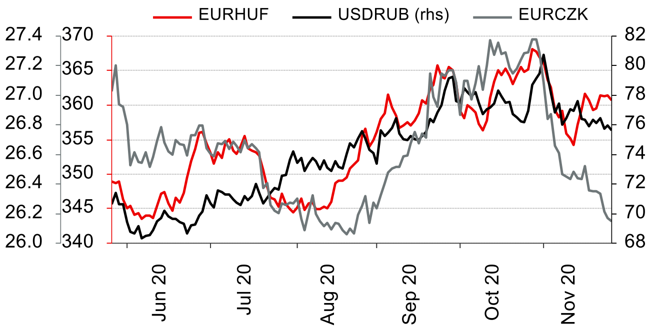
Also, announcement of the new Polish Anti-crisis shield could result in more issuances of bonds by the Polish Development Fund that have higher yield than the government bonds.

EURPLN and German DAX equity index



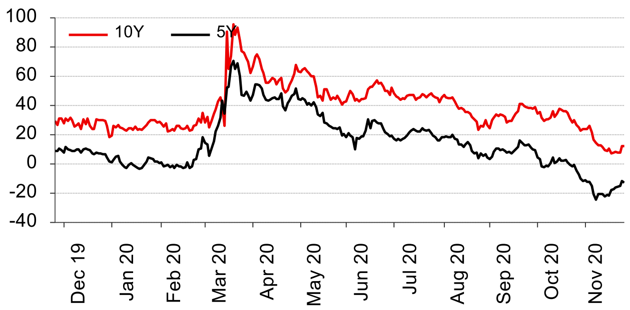
Source: Refinitiv Datastream, Santander Bank Polska

EURHUF, EURCZK and USDRUB



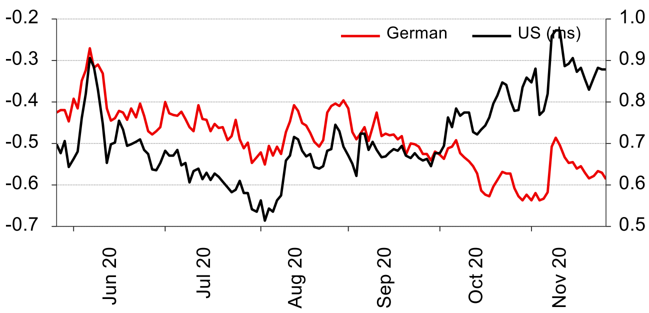
Source: Refinitiv Datastream, Santander Bank Polska

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 MARKET	FORECAST SANTANDER	LAST VALUE
			MONDAY (30 November)				
10:00	**PL**	**GDP**	**3Q**	**% y/y**	**-1.6**	**-1.6**	**-8.4**
14:00	DE	HICP	Nov	% m/m	-0.6	-	0.0
16:00	US	Pending Home Sales	Oct	% m/m	1.0	-	-2.2
			TUESDAY (1 December)				
9:00	CZ	GDP SA	3Q	% y/y	-5.8	-	-5.8
9:00	**PL**	**Poland Manufacturing PMI**	**Nov**	**pts**	**50.9**	**50.4**	**50.8**
9:00	HU	GDP	3Q	% y/y	-	-	-4.6
9:55	DE	Germany Manufacturing PMI	Nov	pts	57.9	-	58.2
10:00	EZ	Eurozone Manufacturing PMI	Nov	pts	53.6	-	54.8
10:00	**PL**	**Flash CPI**	**Nov**	**% y/y**	**3.1**	**3.0**	**3.1**
11:00	EZ	Flash HICP	Nov	% y/y	-0.2	-	-0.3
16:00	US	ISM manufacturing	Nov	pts	58.0	-	59.3
			WEDNESDAY (2 December)				
	PL	**MPC decision**		**%**	**0.10**	**0.10**	**0.10**
11:00	EZ	Unemployment Rate	Oct	%	8.5	-	8.3
14:15	US	ADP report	Nov	k	500	-	364
20:00	US	Fed Beige Book					
			THURSDAY (3 December)				
2:45	CN	Caixin China PMI Services	Nov	pts	56.4	-	56.8
9:55	DE	Markit Germany Services PMI	Nov	pts	46.2	-	49.5
10:00	EZ	Eurozone Services PMI	Nov	pts	41.3	-	46.9
11:00	EZ	Retail Sales	Oct	% m/m	0.5	-	-2.0
14:30	US	Initial Jobless Claims	week	k	-	-	778
16:00	US	ISM services	Nov	pts	56.0	-	56.6
			FRIDAY (4 December)				
8:00	DE	Factory Orders	Oct	% m/m	2.0	-	0.5
9:00	HU	Industrial Production SA	Oct	% y/y	-2.0	-	-2.2
14:30	US	Change in Nonfarm Payrolls	Nov	k	520	-	638
14:30	US	Unemployment Rate	Nov	%	6.8	-	6.9
16:00	US	Durable Goods Orders	Oct	% m/m	0.8	-	1.3
16:00	US	Factory Orders	Oct	% m/m	0.8	-	1.1

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg