

04 December 2020

Weekly Economic Update

Stimulating discussions

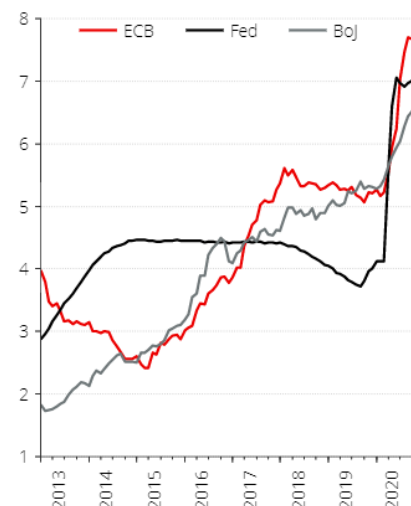
What's hot next week

- In the coming week we will again take a rest from macro data (no local releases in the calendar, just a few abroad – German output and exports, inflation in the USA, Czechia and Hungary look the most interesting). Investors' focus will likely be on **ECB meeting** (Thursday) and **European Council summit** (Thursday-Friday), where the EU budget and Brexit are to be discussed.
- ECB was clear about its willingness to broaden the support for the European economy at this meeting (PEPP, TLTRO) and such a decision is widely expected and priced in, so should not be a surprise. It might however happen that EURUSD, which was rising quickly ahead of the meeting, corrects on ECB communication (along the market principle of "buy rumours, sell facts").
- The key issue for Poland at the European Council summit will be the EU budget negotiations. Let's remind: Poland and Hungary are against conditioning the EU funds on the rule of law. In recent days, instead of news about nearing compromise, we have seen hardening positions on both sides: Poland and Hungary stressed that they are ready to veto the EU budget and the Recovery Programme if the rule of law conditionality is maintained. Meanwhile, the European Commission ruled out a return to talks about the EP resolution and signalled readiness to launch the Recovery Programme without Poland and Hungary if needed. Obviously, there was only building the negotiation positions between the summit and does not imply that the compromise cannot be reached. For Poland blocking the EU medium-term budget and losing access to the Recovery Programme would be very costly and painful in economic terms, therefore we still claim that it is rational to expect it is not going to happen after all (especially that the conditions for suspending the EU funds have been narrowed substantially in the [last version of the resolution](#), which means it is not likely it will be effectively used against Poland). Markets also seem to think this way, which is reflected in stability of the zloty, despite confrontational poses on both sides. However, if it turns out that there is no agreement at the European Council summit and the row even intensifies, markets are likely to start pricing-in higher risk premium for Polish assets. Another possible scenario is that the summit may be prolonged and we will not see any breaking news before the weekend.

Market implications

- We expect EURPLN to remain range bound for the most part of the week. The level of EURPLN at the end of the week will be a function of market reaction to the ECB meeting (stronger dollar usually does not support the zloty) as well as to the results, if any, from the EU summit. In case of negative news for Poland, the zloty will weaken. If however the summit is inconclusive – then EURPLN is more likely to remain range bound as market participants await the news before taking action.
- The yield curve bear steepened at the end of the current week, plausibly in part due to investors reducing their positions ahead of the EU summit and taking profits ahead of the year end. In case of lack of negative news from Brussels, part of the move might retrace if rising core yields allow.

Central bank balance sheets, total assets, USD trillions



Source: Refinitiv Datastream, Santander

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Last week in economy

This week's data showed that the 3Q GDP rebound was consumption-led, inflation continued to decrease unwillingly in November while PMI refused to fall. The MPC meeting introduced no changes to parameters and rhetoric.

GDP rebounded in 3Q by 7.9% q/q in SA terms to -1.5% y/y from -8.4% y/y in 2Q20. As we expected, the recovery was driven by private consumption (+0.4% y/y vs -10.8% y/y in 2Q20) and by foreign demand (net exports contributing +1.7 pp to GDP growth), while investments remained dented (-9.0% y/y vs -10.7% y/y in 2Q20). We expect the 4Q20 GDP to go down by about 4% y/y, mostly due to weaker private consumption. For 2021 we are hoping for a marked recovery in 2H21, while 1Q may be still subdued due to recurring pandemic in the winter season. Read more in [Economic Comment](#).

In November Polish **manufacturing PMI** remained at 50.8 pts. Output and new orders components weakened but this was offset by strong job creation (the fastest in 2.5 years, a response to higher share of quarantined employees which caused capacity constraints) and severe delays in delivery times (this pushes the headline index up).

Flash **CPI inflation** showed 3.0% y/y in November vs. 3.1% in October, in line with our and market expectations. Food prices declined by 0.1% m/m and we assume it was mostly due to falling meat prices (effect of ASF in Germany). Fuel prices went up by 0.2% m/m. Core inflation is likely to fall into 4.1-4.2% y/y range suggesting again that the new lockdown did not trigger strong price movements. We expect inflation to go further down in the months to come. The path for 2021 depends much on URE (electricity market regulator) decision about electricity tariffs, to be announced soon.

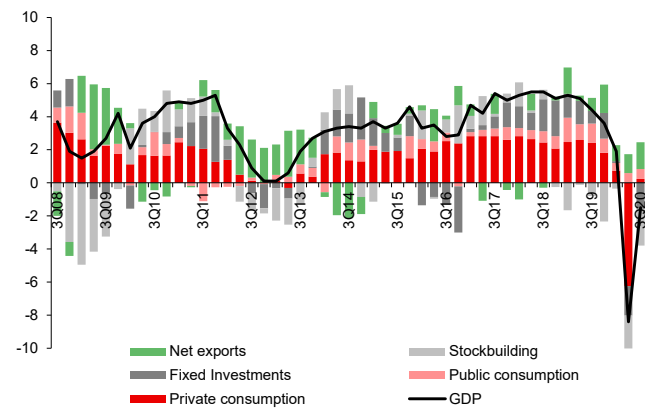
According to Eurostat the **LFS unemployment** rate in Poland stood at 3.5% in seasonally adjusted terms. At the same time the previous values were revised and showed that during the first wave of the pandemic there was actually an increase in unemployment (earlier Eurostat claimed that the unemployment rate had not changed during the first wave).

After 3Q **local governments** registered a surplus of PLN18.8bn vs PLN14.0bn after 3Q19. In the 3Q alone the revenues rose by 12.3% y/y and expenditures by 3.5% y/y. Despite the pandemic, revenues of this sector look quite solid, own incomes went up in 1-3Q20 by 5.4% y/y while PIT revenues dropped by 5.4% y/y at this time. There was a strong rise of subsidies to carry central government tasks. The improving financial result was also caused by reduced investments: outlays fell by 10.7% y/y in 3Q after +2.1% y/y in 2Q.

The Ministry of Finance said that the **budget deficit** will rise to c.PLN100bn from PLN12.1bn at the end of October. Finance minister Tadeusz Kościński explained that the huge increase will be due to preparation of financial buffer for 2021 (subsidies covering the costs of child benefit program in 2021, the 13. and 14. pensions).

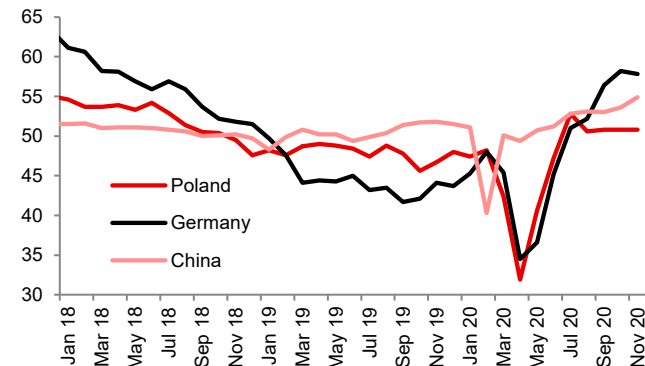
MPC meeting brought no new insights into the monetary policy. Interest rates were left unchanged, the main one at 0.1%. The communique after the meeting was essentially the same as the previous one. We think that the monetary policy will not be changed at least until the end of MPC term in early 2022.

GDP growth structure, % y/y



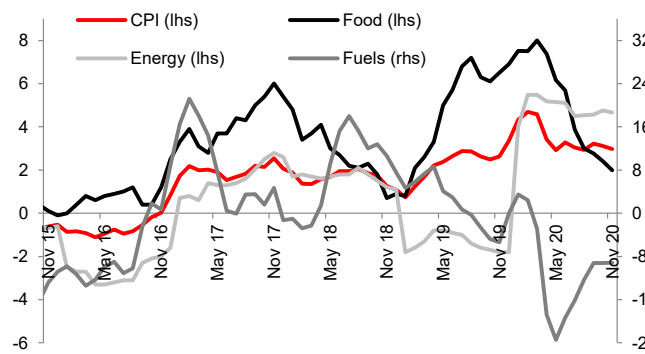
Source: GUS, Santander

Manufacturing PMIs



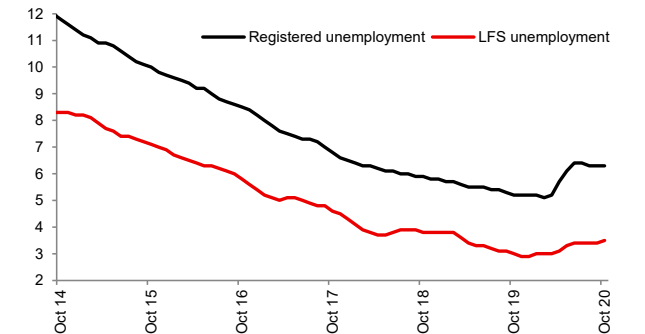
Source: Markit, Santander

Inflation and main components, %y/y



Source: GUS, Santander

Unemployment rate, seasonally adjusted, %



Source: GUS, Eurostat, Santander

FX and FI market

Last week on the market

FX EURPLN has barely changed over the week and currently trades at 4.47 - just 0.3% below the close from previous Friday. In the meantime however thanks to the weakening dollar (EURUSD up 1.6% w/w) and higher oil prices (+2.3% w/w) which both usually support emerging market currencies, EURPLN traded temporarily below 4.45. USDPLN declined almost 2% to 3.75, CHFPLN 1.8% to 4.13 and GBPPLN just 1% to 4.94 as the pound strengthened before the upcoming EU summit where the Brexit issue will be debated.

In case of the other CEE currencies, the EURHUF declined by 0.7% w/w as November manufacturing PMI increased by 1.8pp to 51.9. Czech PMI also increased (+2pp) to 53.9, also the Q3 GDP printed above expectations. The koruna lost however and the EURCZK increased by 1% w/w to 26.46. USDRUB declined as much as 2.2% w/w helped by higher oil prices and weaker dollar.

FI Polish yields traded horizontally for most of the passing week with 10Y yields in the vicinity of 1.25%, asset swaps on historically tight levels and spread to Bund at 180bp. On Wednesday National Bank of Poland left the rates unchanged and yields have not changed much. On Friday however significant IRS paying interest and increased interest to sell POLGBs sent 10Y yields to 1.36% in a matter of half a day, while the spread to Bund widened to c190bp. The IRS curve got steeper (steepest since 2018) as the front end of the curve remains anchored at 0.29% while 10Y increased to 1.25%.

Key factors the market will watch this week may be the ECB meeting on Thursday as well as EU summit on Thursday and Friday where both the Brexit issue and the Polish and Hungarian vetoes would be discussed.

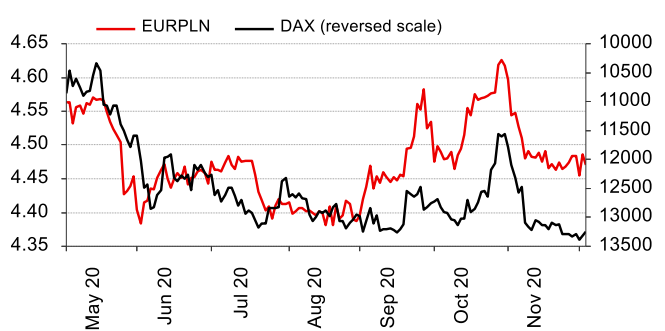
In Poland there is no significant data in the upcoming week. In Germany, there is October industrial production (Monday), ZEW index (Tuesday) and trade balance (Wednesday). In the US, November CPI is published (Thursday) as well as University of Michigan consumer sentiment (Friday). Other November inflation prints occur in Hungary (Tuesday), China (Wednesday) and Czechia (Thursday).

Market implications

FX We expect EURPLN to remain rangebound in the first half of the upcoming week and see it rising higher (first important level lies at 4.52 - the 50-day moving average) only in the second half of the week conditional on bad news flow from the EU summit. The EU summit will be in focus and the risk premium in Polish (and Hungarian) assets might increase a bit in anticipation of the meeting as investors square their positions awaiting the news. If however the summit turns out inconclusive then EURPLN might remain in a horizontal trend throughout the whole week. Thursday ECB meeting is well advertised and the ECB is expected to expand PEPP and TLTRO programs. As the EURUSD keeps trending dynamically higher ahead of the meeting, the chances are that EURUSD might correct in the latter part of the week and stronger USD historically is not supportive for emerging market currencies.

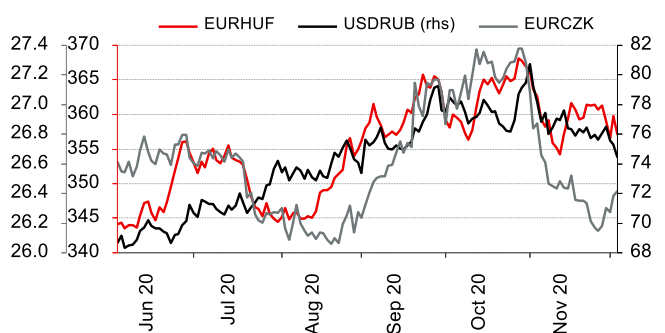
FI We think Polish yield curve in the coming week will become even more steep with the front end of the curve well anchored while belly and long-end of the curves will march higher on a mix of reasons. Locally, this week we have seen IRS corporate hedging flows and stop losses in bonds. Those are likely to continue. Abroad, core market yields keep marching higher since the positive Covid-19 vaccine news with UST 10Y already at 0.93% (up 8bp on the week) and are likely to continue do so in the coming week. Markets might start to price in slightly higher risk premium in Polish and Hungarian assets toward the EU summit. This behaviour could actually be seen already this Friday as the spread to Bund widened 8bp to 190bp. POLGB 10Y yields are likely to reach 1.40%, we believe. The BGK will issue 10Y, 13Y and 20Y bonds on Wednesday on its 16th auction (so far PLN 96,1bn issues by BGK).

EURPLN and German DAX equity index



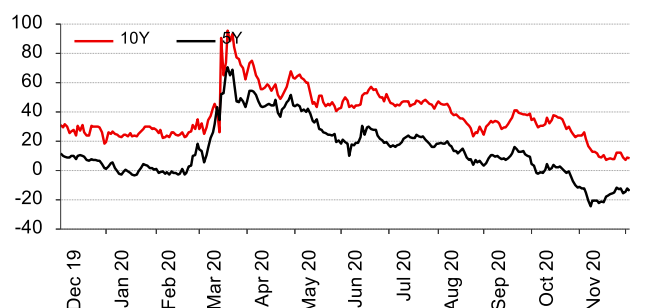
Source: Refinitiv Datastream, Santander Bank Polska

EURHUF, EURCZK and USDRUB



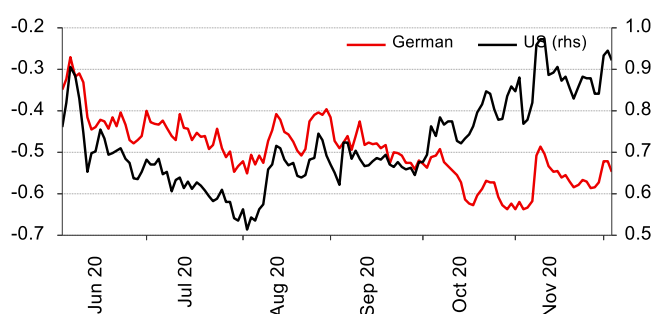
Source: Refinitiv Datastream, Santander Bank Polska

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 (7 December)						
08:00	DE	Industrial Production SA	Oct	% m/m	0.7	1.6
TUESDAY (8 December)						
09:00	CZ	Industrial Production	Oct	% y/y	-2.9	-1.5
09:00	HU	CPI	Nov	% y/y	3.0	3.0
11:00	EZ	GDP SA	3Q	% y/y	-4.3	-4.4
11:00	DE	ZEW Survey Current Situation	Dec	pts	-69.0	-64.3
WEDNESDAY (9 December)						
08:00	DE	Exports SA	Oct	% m/m	-	2.3
THURSDAY (10 December)						
09:00	CZ	CPI	Nov	% y/y	2.8	2.9
13:45	EZ	ECB Main Refinancing Rate	Dec.20	%	-	0.0
14:30	US	CPI	Nov	% m/m	0.1	0.0
14:30	US	Initial Jobless Claims		k	700.0	712.0
FRIDAY (11 December)						
16:00	US	Michigan index	Dec	pts	76.3	76.9

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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