

Weekly Economic Update

Merry Christmas and a Happy New Year!

What's hot next week

- The Health Minister announced introduction of new, tighter restrictions between December 28 and January 17: shopping malls, hotels and ski slopes will be closed, there will be restriction on social movement on New Year's Eve. A bit later the PM Morawiecki warned there may be further restrictions down the road. So far, it does not affect our economic forecasts, as we have earlier assumed that the sweeping pandemic will drag economic activity lower in 4Q20 and 1Q21. We have described **our predictions for 2021 in the MACROscope** report released this week. The report consist also a Sectoral Supplement where situation in particular sectors of economy is covered.
- In the coming days market activity will be gradually fading, which does not mean it will be boring time. It is not difficult to get higher volatility on the illiquid market – already today the EURPLN jumped c.1.5% higher, which – according to PAP – **was triggered by NBP intervention**.
- In the calendar for the coming week we will find Polish construction output and retail sales, economic confidence while abroad the US GDP, real estate, consumer incomes and spending will be published. However, the other events could be more important than the data: Brexit (final?), arrangements of the US fiscal package or... more action of the NBP? In early January, we will see final PMIs and the US monthly job report. As far as Polish data, in early 2021 **PMI (Monday) and flash December CPI (date unconfirmed) will be published**.
- In case of PMI, we expect it rose slightly in December following improving activity in the euro zone manufacturing. We think inflation declined more noticeably finally (to 2.6% y/y) owing to strong base effects, among others.

Market implications

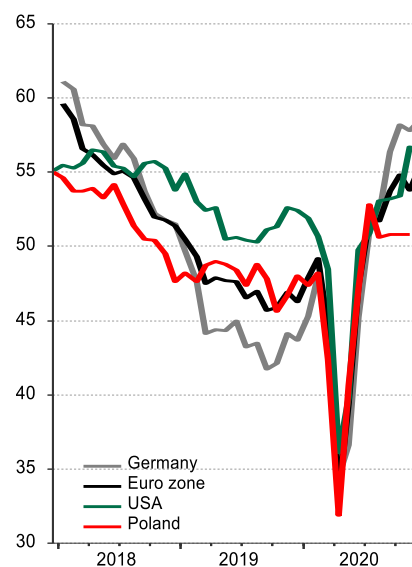
- It is exceptionally challenging to forecast the exchange rate in the final days of the year amid low liquidity, uncertainty related to Brexit and risk of further actions of the central bank. It seems that the market is to some extent already pricing in the positive final of the UK-EU talks since there has been no pressure on the Polish or UK assets (before the NBP' selling zloty). As a result, we think EURPLN could drop to 4.41 for a while in case of a Brexit happy-end and rise at least to 4.60 when there is no agreement. The downside potential could be limited by the central bank's activity.
- Liquidity on the Polish bond market dries up in the final days of the year. The year-end period may mean that we will see a window-dressing activity on the Polish bond market. We expect Polish mid- and long-term bond yields might descend gradually in the remainder of the year provided there is no adverse outcome of the EU-UK talks.

Please be advised that today's Weekly Economic Update will be the last for 2020.

We will resume publication on January 8, 2021.

We wish our readers Merry Christmas and a prosperous New Year!

Manufacturing PMIs



Source: Refinitiv Datastream, Santander Bank Polska

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Last week in economy

This week **we released our year-ahead report** “MACROscope – 2021 Outlook: Just wait for the spring to come” with the updated forecasts for the Polish economy and financial markets. Enjoy the reading.

Health minister announced temporary tightening of restrictions between 28 December and 17 January. On top of the already existing restrictions, hotels and ski slopes will be closed, just like shopping malls (excluding stores with basic goods). All people coming into Poland by organized transport will go into a 10 day quarantine. There will be also strict movement restriction on the New Year's Eve: from 19:00 CET on December 31 until 6:00 on January 1.

Polish November CPI was confirmed at 3.0% y/y vs 3.1% in October. While inflationary pressure in goods was easing (+1.3% y/y vs 1.5% y/y in October), services prices accelerated again to 7.8% y/y from 7.3% y/y. We expect inflation to average slightly below 2.5% y/y in 2021. Downward momentum will be mostly driven by food prices, while there could be some upward push due to administered prices. **Core inflation** ex fuel and energy rose to 4.3% y/y in November from 4.2% owing to acceleration in some services prices like trash collection, hotels and restaurants or communication, but the stubbornly high level is also linked to administered prices as can be seen in the difference between CPI ex food and energy and CPI ex administered prices (the latter staying at 2.1% y/y). In our view, by mid-2021 core CPI ex food and energy will decline to around 2% y/y and stay below this level in 2H.

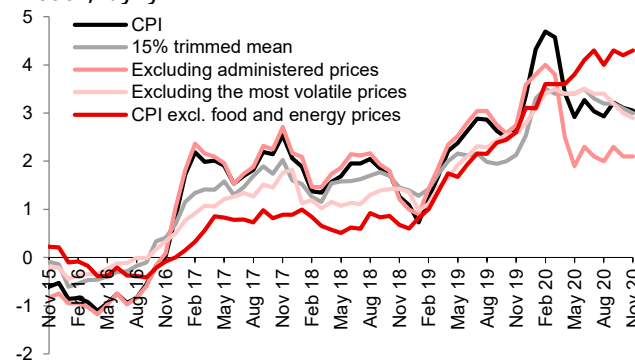
In November average employment in corporate sector fell 1.2% y/y while average wage rose 4.9% y/y. Total wage bill rose 3.6% y/y in current prices or 0.5% y/y in real terms. The data confirm that despite the second wave of coronavirus in autumn was much stronger in terms of new infections in Poland, its influence on the economy was much milder than in the spring. In particular, there was no widespread reduction of working hours – average employment was stable m/m – which suggests that the contraction of business activity was also not dramatic. The labour market reaction to the pandemic disruptions still remains mild, which bodes well for the private consumption outlook later in 2021 once the vaccination process advances and restrictions are lifted again.

Improvement of the **consumer confidence** in December is also a positive sign for consumption. Both current and leading indicators rebounded from the November's bottom thanks to pick-up in nearly all sub-indexes (with exception of assessment of the personal financial situation). Noticeable improvement was recorded, among others, in capacity for major purchases and expected financial situation – which might have been thanks to the optimistic information about vaccination.

Industrial production rose 5.4% y/y in November, which partly was a result of the positive effect of the number of working days (after the seasonal adjustment growth amounted to 3.5% y/y vs 3.8% y/y in October). Nevertheless, the performance of industry confirms our call that the second wave of pandemic does not curb activity much and the coming months should bring further growth fuelled mainly by the foreign demand.

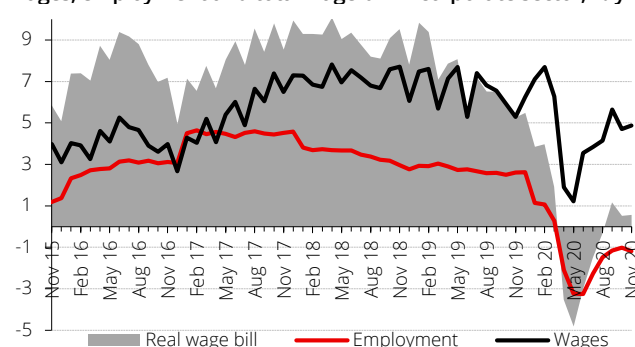
Polish current account registered in October a surplus of EUR2.2bn. The main positive surprise came from exports (+3.7% y/y). Imports were down 3.5% y/y, still depressed by oil (-50% y/y). The services balance saw a surplus of EUR2.0bn – the highest since January, but with both exports and imports growth staying deeply negative. Goods export growth may remain solid in the coming months, while import may keep falling y/y due to weakened domestic demand on tougher restrictions. 12M moving sum of C/A balance rose to 3.5% of GDP.

Inflation, % y/y



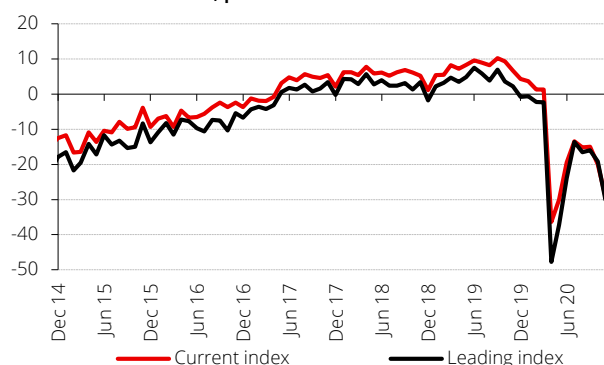
Source: GUS, Santander

Wages, employment and total wage bill in corporate sector, % y/y



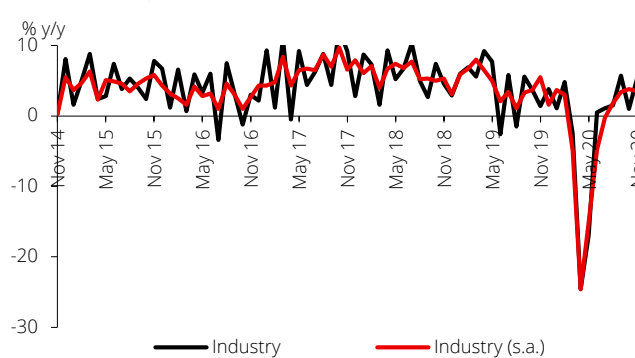
Source: GUS, Santander

Consumer sentiment, pts



Source: GUS, Santander

Industrial output, % y/y



Source: GUS, Santander

FX and FI market

Last week on the market

FX EURPLN was quiet for most of the week with the weekly trading range below average observed recently. Only on Friday the exchange rate jumped to 4.49 from 4.44 which according to anonymous source cited by the Polish Press Agency was owing to the central bank's intervention. USDPLN continued to descend gradually thanks to rising EURUSD and set the weekly low below 3.62, last time seen in mid-2018. GBPPLN rebounded from the last Friday's low of 4.80 to 4.94 owing to the pound appreciation amid hopes for the UE-UK deal.

In case of the other CEE currencies, the ruble was stable while the koruna benefited from decent global mood. USDRUB was hovering slightly above the 72.0 support and EURCZK fell c0.7% to 26.2 at the end of the week. EURHUF was long stable near 355 and jumped above 357 on Friday, just like EURPLN.

FI The passing week brought – like we expected – a correction of the recently observe rise of the asset swap and Bund spreads. Polish bonds started to catch up the lack of strengthening after the EU budget deal and the ECB decision while IRS remained at an elevated level due to the pressure from the core markets where yields jumped after the strong flash PMI readings. As a result, the 10Y asset swap spread narrowed to c6bp (its lowest since 2015) and the respective spread vs Bund fell to c185bp from c200bp. In our previous Weekly we suggested that the pace at which the 10Y PL-DE bond yield spread was rising in the last four weeks made Polish bonds attractive and indeed 10Y domestic bond yield fell c10bp since then.

Key factors for the market at the turn of the year could be Brexit (still), the US data and final European PMIs.

The UK and the EU have not reached an agreement until Sunday but decided to continue talks. Willingness to utilize the scare time that is left was perceived by the market as good omen that both sides seek to end the year with a deal.

Numerous US data will be released in late 2020 and early 2021 with the 3Q GDP, ISM and monthly nonfarm payrolls being the most awaited.

As far as the final PMIs are concerned, one should not be surprised when numbers released in early-January differ more than usually from the flash releases since the latter have been published roughly a week earlier this month than usually.

In Poland, flash December inflation may attract some of the attention since we expect a bigger drop owing to the base effects.

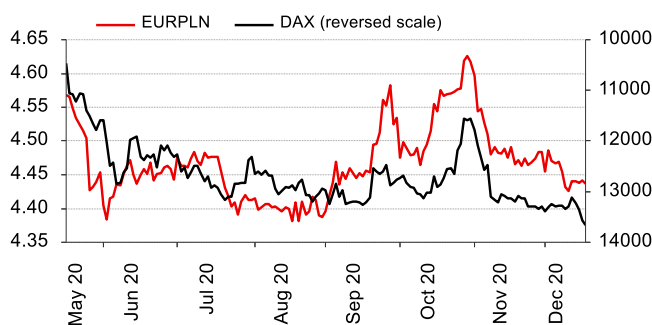
Market implications

Since the Brexit issue remains unsolved we may only repeat our call from the previous week – depending how the talks end, the zloty and bonds will gain or lose.

FX It seems that the positive Brexit scenario is already to some extent priced in since we are not observing any particular pressure on the UK or Polish assets although the time is clearly running out. Thus, in our view EURPLN could fall to 4.41 in the positive scenario and rise at least to 4.60 when there is no happy end.

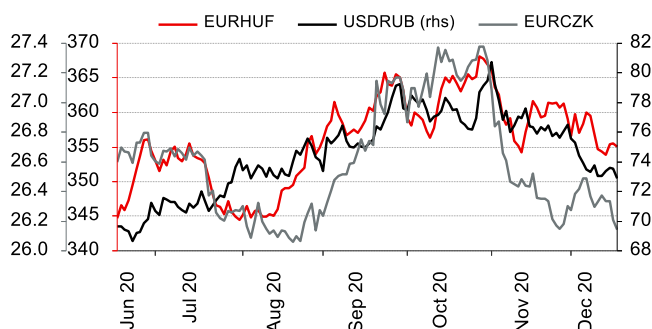
FI Liquidity on the Polish bond market dries up in the final days of the year. The year-end period may mean that we will see a window-dressing activity on the Polish bond market. We expect Polish mid- and long-term bond yields might descend gradually in the remainder of the year provided there is no adverse outcome of the EU-UK talks.

EURPLN and German DAX equity index



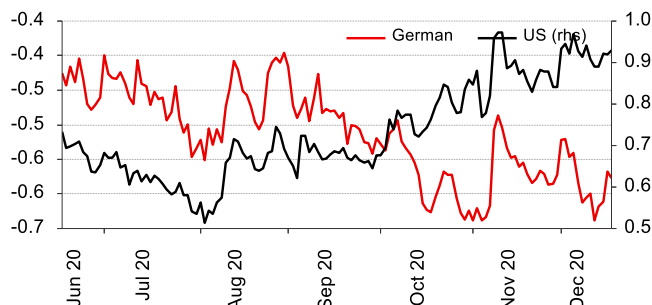
Source: Refinitiv Datastream, Santander Bank Polska

EURHUF, EURCZK and USDRUB



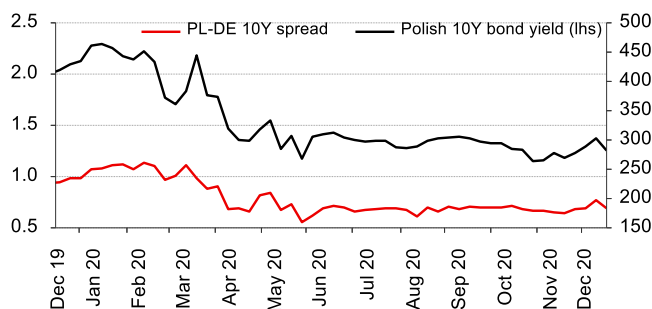
Source: Refinitiv Datastream, Santander Bank Polska

10Y German and US bond yields



Source: Refinitiv Datastream, Santander Bank Polska

10Y PL-DE yield spread and PL 10Y bond yield



Source: Refinitiv Datastream, Santander Bank Polska

Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST	
				MARKET	SANTANDER	VALUE	
MONDAY (21 December)							
10:00	PL	Construction Output	Nov	% y/y	-	-5.5	-5.9
10:00	PL	Retail Sales Real	Nov	% y/y	-	-8.1	-2.3
TUESDAY (22 December)							
14:00	PL	Money Supply M3	Nov	% y/y	16.7	15.1	17.0
14:30	US	GDP Annualized	3Q	% q/q	33.1	-	33.1
16:00	US	Consumer Conference Board	Dec	pts	-	-	96.1
16:00	US	Existing Home Sales	Nov	% m/m	-1.8	-	4.3
WEDNESDAY (23 December)							
10:00	PL	Unemployment Rate	Nov	%	6.2	6.1	6.1
14:30	US	Personal Spending/Personal Income	Nov	% m/m	0.3/-0.3	-	0.5/-0.7
14:30	US	PCE Deflator SA	Nov	% m/m	0.0	-	0.0
14:30	US	Durable Goods Orders	Nov	% m/m	0.7	-	1.3
14:30	US	Initial Jobless Claims	week	k	-	-	-
16:00	US	Michigan index	Dec	pts	79.0	-	81.4
16:00	US	New Home Sales	Nov	% m/m	-1.4	-	-0.3
WEDNESDAY (30 December)							
16:00	US	Pending Home Sales	Nov	% m/m	-	-	-1.1
MONDAY (4 January)							
09:00	PL	Poland Manufacturing PMI	Dec	pts	-	51.1	50.8
09:00	HU	Industrial Production	Nov	% y/y	-	-	0.6
09:30	DE	Germany Manufacturing PMI	Dec	pts	-	-	58.6
10:00	PL	Flash CPI (date still unconfirmed)	Dec	% y/y	-	2.6	3.0
10:00	EZ	Eurozone Manufacturing PMI	Dec	pts	-	-	53.8
TUESDAY (5 January)							
8:00	DE	Retail sales	Nov	% m/m	-	-	2.6
16:00	US	ISM manufacturing	Dec	pts	-	-	57.5
WEDNESDAY (6 January)							
09:30	DE	Markit Germany Services PMI	Dec	pts	-	-	47.7
10:00	EZ	Eurozone Services PMI	Dec	pts	-	-	47.3
14:15	US	ADP report	Dec	k	-	-	307
16:00	US	Factory Orders	Nov	% m/m	-	-	1.0
20:00	US	FOMC Meeting Minutes					
THURSDAY (7 January)							
08:00	DE	Factory Orders	Nov	% m/m	-	-	2.9
11:00	EZ	Flash HICP	Dec	% y/y	-	-	-0.3
11:00	EZ	Retail Sales	Nov	% m/m	-	-	1.5
11:00	EZ	ESI	Dec	pts	-	-	87.6
16:00	US	ISM services	Dec	pts	-	-	55.9
FRIDAY (8 January)							
08:00	DE	Exports SA	Nov	% m/m	1.3	-	0.8
08:00	DE	Industrial Production SA	Nov	% m/m	1.6	-	3.2
09:00	CZ	GDP SA	3Q	% y/y	-	-	-5.0
09:00	CZ	Industrial Production	Nov	% y/y	-2.8	-	1.3
09:00	HU	CPI	Dec	% y/y	-	-	2.7
14:30	US	Change in Nonfarm Payrolls	Dec	k	-	-	245
14:30	US	Unemployment Rate	Dec	%	-	-	6.7

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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