

22 January 2021

# Weekly Economic Update

## Strong 2020 finish in Polish macro data

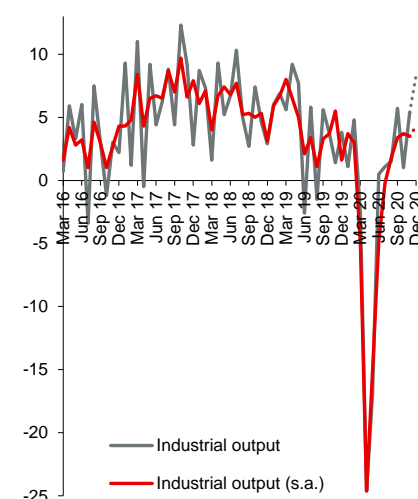
### What's hot next week

- The end of January will be interesting as far as macroeconomic data are concerned: after a series of positive surprises of the December retail sales, construction output, wages and employment, it is quite possible that also sold **industrial output** on Monday might prove better than forecast (consensus 10% y/y). And if so, then **the preliminary full 2020 year GDP estimate** on Friday might end up positively surprising as well. The median of the market forecasts regarding GDP stands at -2.6% while our forecast so far stood at -2.9%, however after recent data we would not be surprised to see -2.6%, meaning that the Q4 growth would be only just slightly below zero (on a seasonally adjusted q/q measure).
- In the meantime we will get to know December M3 money supply data (on Tuesday), statistical bulleting with details regarding many economic sectors (Wednesday) – less important from the market perspective.
- Abroad, the 2020 GDP readings will take place in the US and Germany, among other countries. There will be January business indicators in Europe (Ifo, ESI), consumer confidence and spending indices in the US. Except for that, central banks meet in the US (Wednesday) and in Hungary (Tuesday) – the changes to the monetary policy parameters are not expected.
- The 2021 Budget Act should be passed to the Polish President by the end of January. The works on the act are still in progress, the next Sejm session is planned for 24 February. In theory, in this situation the President could shorten the Sejm term, however (similarly to 1 year ago) we do not expect that he would do so.

### Market implications

- Series of strong local macro data and decent global markets sentiment should help EURPLN move towards 4.50. Will the NBP decide to enter the FX market again? Rather not straight away – this is what Glapinski suggested 1 week ago.
- Long end yields might increase slightly further following the core market yields which will be supported by decent data. As for the short end and belly the liquidity there is still abundant hence the increases are less likely (so far the good series of data makes probability of rate cuts less likely in the near future).

Polish industrial output, % y/y



Source: GUS, Santander

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### Last week in economy

The already published data covering December were surprisingly strong, while most of January sentiment indicators showed some improvement.

**Retail sales** declined by 0.8% y/y in December as compared to -5.3% y/y in November (market consensus at -0.9% y/y, our forecast at -3.8% y/y). We think that January retail sales are likely to deteriorate again given shopping malls were closed. Still, as the labour market situation remains quite robust, in our view epidemic restrictions are the main obstacle for a major rebound in retail sales and private consumption so we are expecting a quick normalisation as soon as these end.

**Construction output** beat forecasts in December rising 3.4% y/y instead of falling 3.2% as we expected or by 0.6% seen by the market. All subsectors contributed to the rebound but mostly the construction of buildings, probably due to a major jump in housing market activity. Read more on construction and retail sales in [Economic Comment](#).

December **labour market statistics** surprised to the upside. Employment in the corporate sector rose by 0.2% m/m to -1.0% y/y (our forecast and consensus at -1.1% y/y), while wages accelerated to 6.6% y/y from 4.9% y/y November and hit the highest pace since February (our forecast and consensus at 4.7% y/y). We are expecting the labour market to be improving over 2021 with average wage growth above 2020 pace, which will build solid fundamentals for a rebound in consumption. More in [Economic Comment](#).

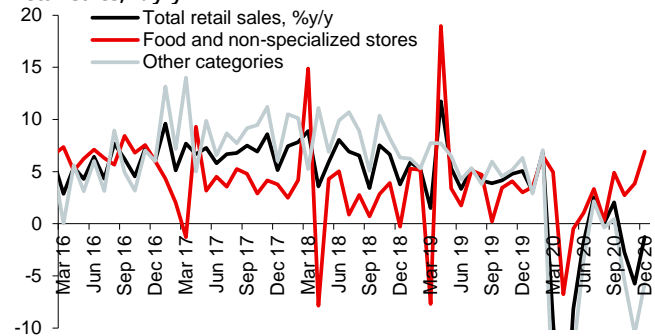
In January **consumer confidence** remained worse than in 3Q20, between the Covid waves. There was a further rise of **business confidence** in January, but more selective than in December.

**Core inflation** ex food and energy prices fell to 3.7% y/y in December from 4.3% in November. Such a strong decline is unusual, and happened last time in early 2014. This development was driven by a major weakening of services inflation, especially in transport and insurance the items that caused a spike in CPI one year before. In our view, core CPI is likely to slide below 2% in mid-2021 and be only a bit above 1% y/y near the end of the year. All other three core inflation measures fell in December to the lowest levels of 2020.

In 3Q20 the Poland's **general government debt** amounted to 56.7% of GDP as compared to 54.8% in 2Q20 and 47.0% PKB in 2019. The annual jump in debt (9.7% of GDP) was only slightly lower than in the EU on average (10.6% of GDP). The general government deficit amounted to 6.3% of GDP in 3Q20 (sum for four quarters). In 3Q20 alone the sector's revenues climbed by 6.2% y/y (as compared to 4.4% y/y in 2Q) and spending by 13.6% y/y (versus 40.9% y/y in 2Q20). In our view these results are likely to deteriorate somewhat in 4Q20 given harsher epidemic restrictions, but in general these numbers support our expectations that 2020 deficit was markedly below 10% of GDP.

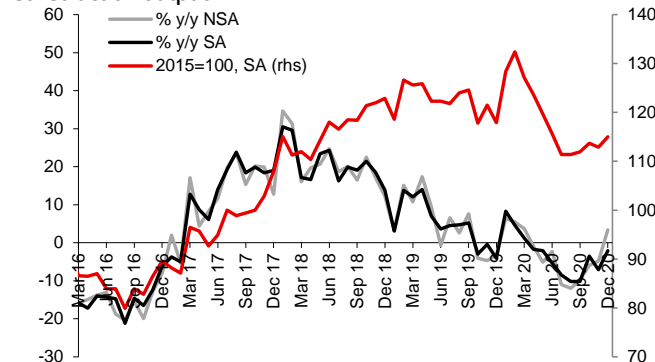
Several **MPC members** spoke, showing divides within the Council. They were stressing that rates are to stay in place unless there is severe deterioration of economic activity (Kochalski, Łon); the fx intervention served to prohibit exporters' profit decline amid strong appreciation pressure and that rising rates while QE is still working would be internally incoherent (Sura); that there is absolutely no room for rate cuts while normalisation should start - when economic conditions allow - with raising reserve requirement rate (Hardt) and signalling upside risks to inflation (Gatnar).

Retail sales, % y/y



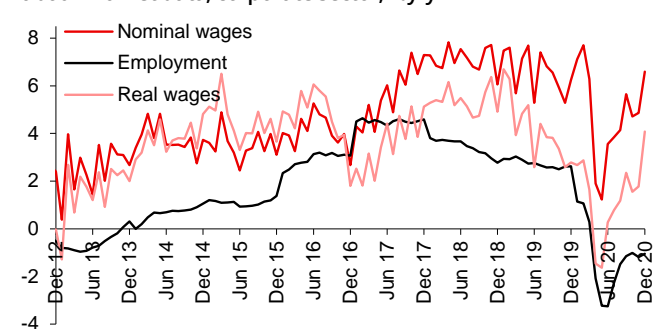
Source: GUS, NBP, Santander

Construction output



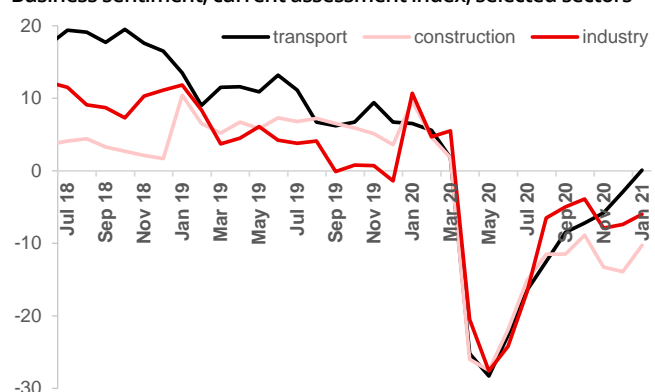
Source: NBP, Santander

Labour market data, corporate sector, %/y



Source: GUS, Santander

Business sentiment, current assessment index, selected sectors



Source: GUS, Santander

## FX and FI market

### Last week on the market

**FX** The zloty barely changed versus euro in the past week. It moved only slightly from 4.54 level on previous Friday close to current week's close at 4.535. In the meantime EURPLN traded as high as 4.548 and as low as 4.523 (an amplitude of just slightly above 0.5%). USDPLN declined by 0.9% to 3.72 over the week as dollar was on the back foot. GBPPLN has not changed at 5.10 while CHFPLN near 4.20. There were no signs of NBP intervention on the FX market in the passing week.

Elsewhere in the CEE region, EURHUF declined as much as 1% to 356.7, EURCZK declined 0.3% to 26.1. The regional outlier was the USDRUB which increased by 1% to 74.4 despite weaker dollar and relatively stable oil price. The reason for the rouble underperformance might be the fact that the Russian central banks started to buy foreign currencies on the market starting January.

**FI** In the passing week IRS and bond yields increased, especially towards the end of the week after publication of stronger macroeconomic data from US drove core yields higher. Polish macroeconomic data at the end of the week also beat expectations. 2Y IRS gained 4bp to 0.27%, 5Y 2bp to 0.68% and 10Y just 1bp to 1.19% as a result the IRS curve bear flattened and 2x10 spread narrowed 3bp to 92bp. Bond yields on the front end of the curve remain low and not overly volatile. The yields of bonds further out the curve have marched higher e.g. 5Y by 4bp to 0.40% and 10Y by 3bp to 1.22%. NBP purchased PLN 1.5bn worth of bonds on its purchase auction (PS0425, WS0428, DS1030) and total purchases currently stand at PLN 108.6bn. On Friday auction Ministry of Finance sold PLN 8bn worth of bonds OK0423, PS0425, DS1030, WZ1126, WZ1131. The auction was strong as market participants bid for PLN 15.6bn anticipating next week's significant bond redemption (PLN 9.4bn on Monday).

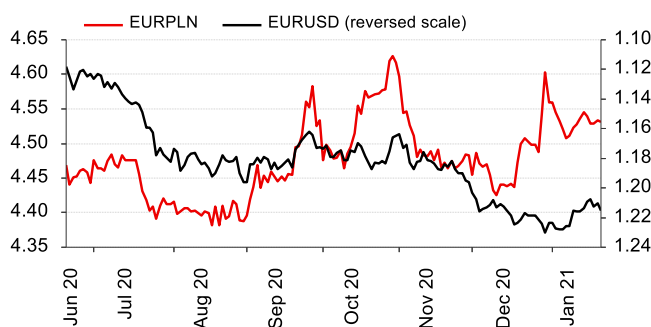
**Key factors** to watch in Poland in the upcoming week is sold industrial output (Monday), M3 money supply (Tuesday), GDP and unemployment rate (Wednesday). Elsewhere, on Monday there is German IFO. On Tuesday Hungary decides on rates, US publishes consumer confidence. On Wednesday there is retail sales in Germany as well as FOMC meeting. On Thursday Eurozone ESI, German GDP and data from the US including PCE deflator, Michigan index and pending home sales.

### Market implications

**FX** After mr. Glapinski interview last Friday the likelihood of NBP FX intervention in the coming week is low, in our opinion, however cannot be completely excluded. The fact that EURPLN remains so stable partly reflects investors' reluctance to participate in a less liquid market. The 1-week realized volatility dropped to below 1% - the lowest since mid-2019. Improving macroeconomic data might make some investors consider going long PLN in the short term. Also, the running current account remains in surplus and corporate flow from exporters slowly impacts the EURPLN rate. In sum, both above factors make us think that EURPLN in the coming week might slowly march towards the 4.50 level.

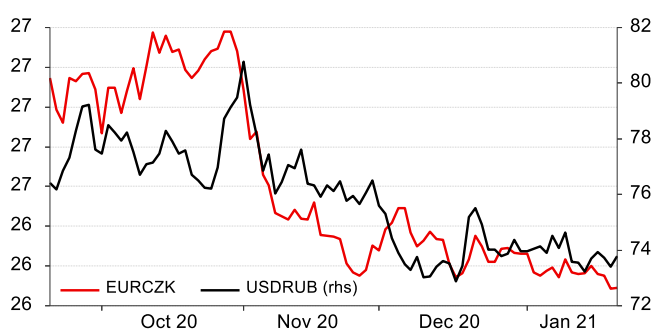
**FI** Rise of Bund yields intra-week contributed to POLGBs yields higher (the 10Y spread vs Bund remains stable at 173bp). We do not expect many yield changes at the front end of the yield curve. Also asset swaps are likely to remain where they are currently (in the vicinity of around zero). However outright yields at the long end of the yield curve might continue to march higher in line with the core market yields. We expect the 10Y yields to end the next week in the range of 1.25-1.30%.

### EURPLN and EURUSD



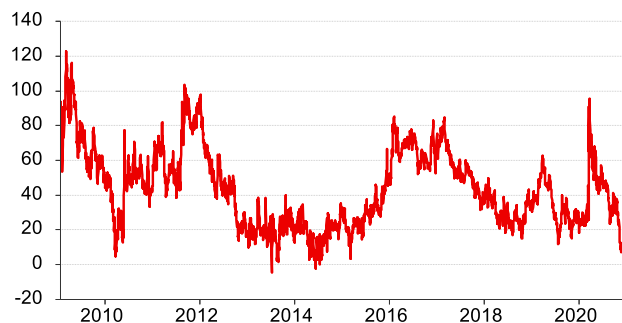
Source: Refinitiv Datastream, Santander Bank Polska

### EURCZK and USDRUB



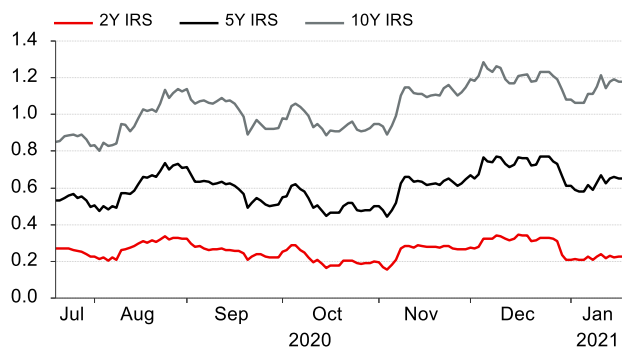
Source: Refinitiv Datastream, Santander Bank Polska

### Poland 10Y asset swap spread



Source: Refinitiv Datastream, Santander Bank Polska

### Poland IRS



Source: Refinitiv Datastream, Santander Bank Polska

## Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE	
				MARKET	SANTANDER		
<b>MONDAY (25 January)</b>							
10:00	DE	IFO Business Climate	Jan	pts	91.0	-	92.1
<b>10:00</b>	<b>PL</b>	<b>Sold Industrial Output</b>	<b>Dec</b>	<b>% y/y</b>	<b>10.0</b>	<b>8.3</b>	<b>5.4</b>
<b>TUESDAY (26 January)</b>							
14:00	HU	Central Bank Rate Decision		%	0.6	-	0.6
<b>14:00</b>	<b>PL</b>	<b>Money Supply M3</b>	<b>Dec</b>	<b>% y/y</b>	<b>16.3</b>	<b>16.2</b>	<b>16.1</b>
16:00	US	Consumer Conference Board	Jan	pts	89.0	-	88.6
<b>WEDNESDAY (27 January)</b>							
	DE	Retail Sales	Dec	% m/m	-2.7	-	1.9
<b>10:00</b>	<b>PL</b>	<b>Unemployment Rate</b>	<b>Dec</b>	<b>%</b>	<b>6.2</b>	<b>6.2</b>	<b>6.1</b>
14:30	US	Durable Goods Orders	Dec	% m/m	1.0	-	1.0
20:00	US	FOMC decision		%	0.25	-	0.25
<b>THURSDAY (28 January)</b>							
11:00	EZ	ESI	Jan	pct.	90.9	-	90.4
14:00	DE	HICP	Jan	% m/m	0.6	-	0.6
14:30	US	GDP Annualized	4Q	% Q/Q	4.1	-	33.4
14:30	US	Initial Jobless Claims	week	k	935	-	900
16:00	US	New Home Sales	Dec	% m/m	2.3	-	-11.0
<b>FRIDAY (29 January)</b>							
08:00	DE	GDP WDA	4Q	% y/y	-4.0	-	-4.0
<b>10:00</b>	<b>PL</b>	<b>GDP</b>	<b>2020</b>	<b>% y/y</b>	<b>-2.6</b>	<b>-2.9</b>	<b>4.5</b>
14:30	US	Personal Spending	Dec	% m/m	-0.5	-	-0.4
14:30	US	Personal Income	Dec	% m/m	0.2	-	-1.1
14:30	US	PCE Deflator SA	Dec	% m/m	0.3	-	0.0
16:00	US	Michigan index	Jan	pts	79.2	-	79.2
16:00	US	Pending Home Sales	Dec	% m/m	-0.3	-	-2.6

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg  
\*\* estimate after full CPI inflation data

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