

05 February 2021

# Weekly Economic Update

## Waiting for GDP

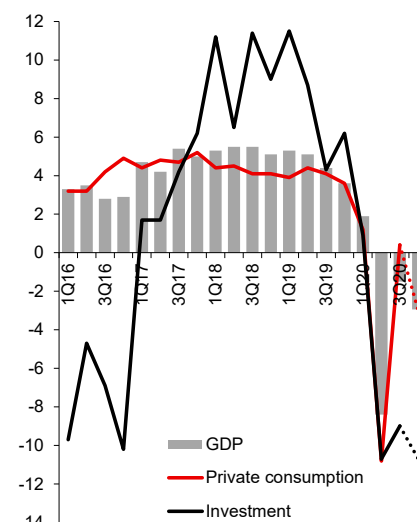
### What's hot next week

- The macroeconomic calendar for the upcoming week is relatively empty. Abroad, several publications of industrial production take place (Germany, Czechia, Eurozone) and inflation (USA, Germany, Hungary, Czechia). In Poland practically only the **4Q GDP flash estimate** (on Friday) – only one number regarding the growth dynamics, without the contributing details. Based on the flash full-year growth estimate published earlier (-2.8%) we estimate the 4Q GDP decline was between -3.1% and -2.8% y/y, which is equivalent to a slight decrease q/q (after adjusting for seasonality).
- The pandemic and the vaccination progress will remain an important topic as well. The government has just announced a gradual and conditional easing of the restrictions from 12 February on. We are also entering a period when it will be possible to assess the impact on Covid statistics of opening the schools for the youngest pupils. Victory vs pandemic still cannot be taken for granted at the moment hence cautious stance is appropriate in the coming weeks.

### Market implications

- EURPLN declined to below 4.50 and the move has stopped without the help of NBP FX interventions. We assume, that given relatively empty calendar the zloty might stabilize a bit in the near term in the vicinity of current levels. In case the PLN appreciation gains speed, one cannot exclude the NBP intervening in the FX market again.
- Domestic bond yields and IRS rates rose significantly and the move was supported by the situation on core bond markets. On the long end the slow rise may continue, but the short end has likely used up all its upside potential. NBP governor Glapiński's remarks at today's video conference in our view mean that the monetary policy bias has changed to less dovish (rate hikes were not excluded, as well as cuts, while back in January the governor called a question about hikes an abstract one), which suggests a lower risk of further rate cuts. Before the conference started the market had already got rid of the pricing-in of a rate cut.

Polish GDP growth, % y/y, 4Q20 implied from flash full-year reading



Source: GUS, Santander

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## Last week in economy

**Polish manufacturing PMI** rose a bit to 51.9 pts in January from 51.7 pts while a descent to 51.3 had been expected (our forecast was 51.0). The headline index was still significantly above the breakeven 50-pt level despite the output component remaining below 50 pts for the third month running. The PMI report explained that demand conditions were strong, especially demand from abroad, but there were capacity constraints – employees’ self-isolation and supply bottlenecks, the latter causing further pressure on input costs. While the overall message of the PMI report looks quite promising, the production issues may lead to temporarily subdued hard data on industrial output.

According to Labour Ministry’s estimates, in January the **registered unemployment** rate rose to 6.5% from 6.2% in December. It is typical for January that the unemployment rate goes up. The monthly rise of the number of the unemployed was 42.3k – the lowest January’s increase in more than 20 years, compared to +160k in the previous crisis years and to c.50k when economy was booming. We expect a stabilisation of unemployment or possibly even some decline in the coming months.

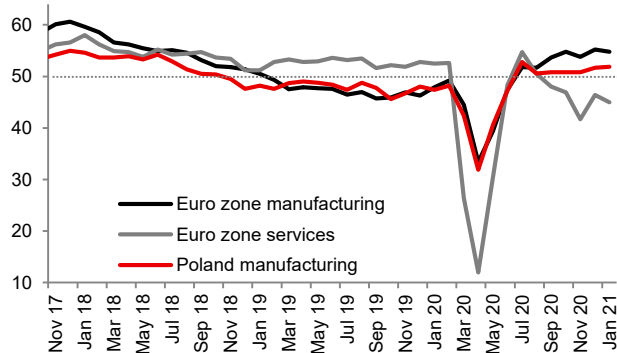
**NBP quarterly Quick Monitoring report** showed quite positive picture of the corporate sector in 4Q20, with the exception of businesses affected the most by Covid restrictions. No pressure on supply chains was recorded in 3Q and 4Q. The main obstacle to growth was still the coronavirus and insufficient demand. At the same time most indexes of companies’ demand forecasts improved q/q, especially among exporters. Despite this, companies expressed lower labour demand and reduced their employment plans. Wage pressure also eased somewhat. On the other hand, companies entered 2021 more open to investments.

According to latest **NBP credit survey**, in Q4 2020 the banking sector observed further decline in the demand for corporate loans, especially from the SMEs. The details of the demand decline point to lower financing needs for investments and current operations. What increased is the demand for financing of restructurings. In Q1 2021 banks expect an increase in demand for credit as well as easing of credit policy for corporate loans and mortgages. Consumer loans criteria are the only ones expected to be tightened.

PM Mateusz Morawiecki said that the **budget deficit** in 2020 amounted to PLN 84bn (c.PLN 25bn less than was planned in the budget amendment), which implies that in December 2020 alone the deficit increased by a record PLN 71bn. The central budget balance in 2020 stood at 3.6% of GDP. The whole public finance deficit was in 2020 however at least twice as wide due to pushing out of anti-crisis measures into the government agencies and units.

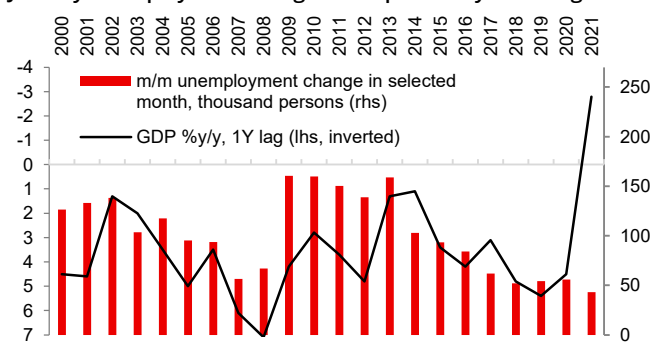
Polish **MPC kept interest rates on hold**, as expected. The official press release has barely changed versus its January version. The central bank repeated the view that the economy should be reviving in 2021, the pace of recovery will depend on pandemic situation and may be slowed by the lack of major zloty depreciation. Basically, it shows no indication whatsoever that the Council’s view about monetary policy outlook is changing. We still think that the main interest rates will remain on hold at least until early 2022. In March the NBP will release the new inflation projection and in our view it will show a major upward revision of GDP forecast, at least for 2021. At the same time, its inflation forecast should remain near or slightly above the 2.5% target. No reason to cut interest rates, in our view.

## PMI indexes



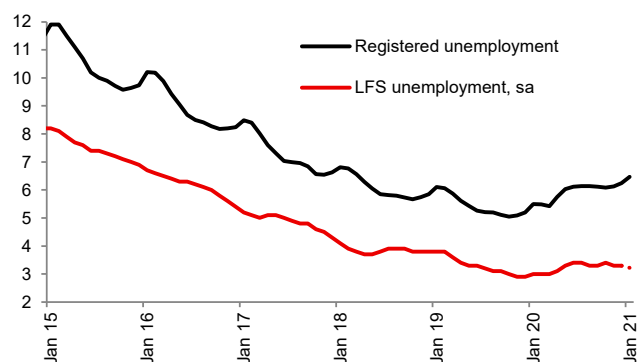
Source: Markit, Santander

## January unemployment change vs the previous year GDP growth



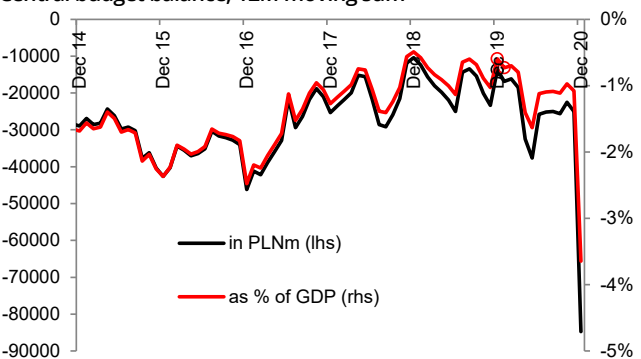
Source: GUS, Labour Ministry, Santander

## Unemployment rate, %



Source: GUS, Eurostat, Santander

## Central budget balance, 12M moving sum



Source: Ministry of Finance, Santander

## FX and FI market

### Last week on the market

**FX** EURPLN was moving lower over the previous week from 4.52 at last Friday's close to 4.494 as we write (a weekly drop of 0.6%). On Tuesday the currency pair broke the important 4.50 level at which some market participants expected the NBP to resume FX interventions. The latter has not happened however and the EURPLN was allowed fall to 4.473 on Tuesday and then again on Wednesday. Since then EURPLN rebounded slightly as the dollar kept strengthening. USDPLN is up 0.7% on the week closing at 3.75. Also the GBPPLN increased by 0.7% to 5.14 as the pound gained posted the BoE meeting on Thursday. The CHFPLN dropped 0.6% to 4.157.

Elsewhere in the CEE region, changes were positive. EURCZK tested and broke the 26.0 support as market keeps expecting up to 2 rate hikes this year from CNB (CNB has not changed rates at Thursday's meeting) while the Q4 GDP data beat expectations. EURCZK dropped 0.8% to 25.82. EURHUF also slightly declined – by 0.4% – but was more stable throughout the week as it was comfortably sitting on the 200-day moving average. Hungarian data surprised to the downside with both retail sales and industrial production missing estimates by a lot. USDRUB dropped by 1% to 74.92 while the rouble basket dropped by significant c2%. Russian services PMI increased by 4pp.

**FI** The IRS rates and bond yields have risen noticeably in the passing week. Through majority of the week the rises resulted mainly from following yields on the core markets. But on Friday an aggressive wave of SL pushed IRS significantly higher still. 5Y IRS moved +17bp w/w to 0.86%, 10Y also +17bp w/w to 1.38%. 10Y bond yields increased 12bp to 1.28%. The 10Y spread to Bund has not changed over week at 172bp but temporarily narrowed to 167bp. Ministry of Finance on Thursday switch auction bought bonds worth PLN4.5bn (PS0421, OK0521, PS0721, DS1021) and sold the same amount of OK0423, PS0425, WZ1126, DS1030, WZ1131. Including the auction result, 2021 borrowing needs are already covered in 51%.

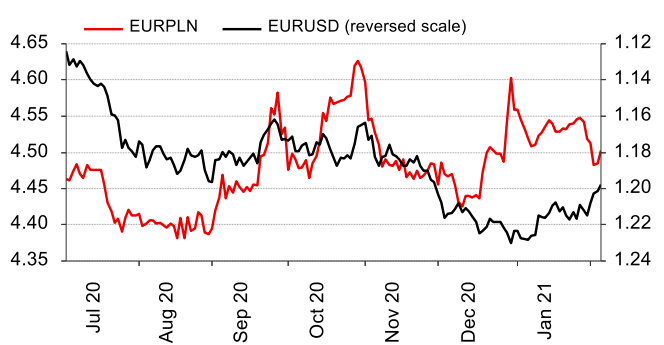
**Key factor** for the upcoming week is the Q4 GDP in Poland on Friday. Elsewhere, Monday starts with industrial production in Germany and Czechia. On Tuesday there is Germany exports data. Inflation data will be published in Germany and the US (Wednesday) and Hungary and Czechia (on Friday). On Friday US University of Michigan indices are published.

### Market implications

**FX** The NBP has not been seen in the markets as the EURPLN was moving lower through the 4.50 level. The pair bottomed and rebounded without the help of the central bank. This probably means that the market has regained most of its liquidity which it lost during the late December volatile period and also that it found some form of equilibrium. The Polish calendar is relatively empty next week (Q4 GDP data on Friday) that is why we think EURPLN is most likely to trade horizontally near 4.50 within the 4.48-4.52 range. Only if the dollar strengthened further significantly could the EURPLN move to 4.55 area (roughly January highs).

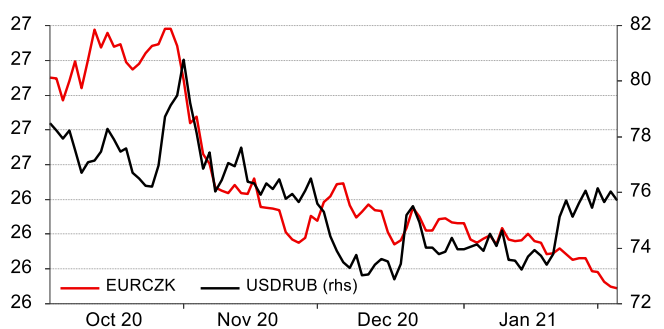
**FI** Core market yields rise might be the major force behind the local yields moves in the coming week. The 10Y UST and Bund are a few bp ahead of important technical levels (1.20% and -0.40% respectively) hence it is likely that they will slowly approach those levels in the coming days as improving data keeps incoming. For Polish bond yields at the long end of the curve it probably means a slow upward march and crossing of the 1.30% level for 10Y bonds. Front end IRS and FRA have much less room for increases in our opinion as the curve almost completely priced away the probability of the 10bp rate cut and the hikes are not coming anytime soon.

### EURPLN and EURUSD



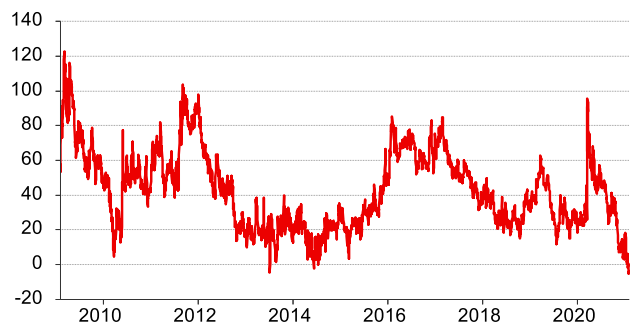
Source: Refinitiv Datastream, Santander Bank Polska

### EURCZK and USDRUB



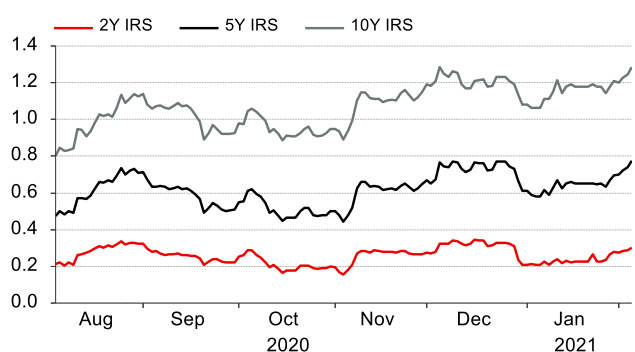
Source: Refinitiv Datastream, Santander Bank Polska

### 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 (8 February)</b>						
08:00	DE	Industrial Production SA	Dec	% m/m	0.0	0.9
09:00	CZ	Industrial Production	Dec	% y/y	5.8	-2.2
<b>TUESDAY (9 February)</b>						
08:00	DE	Exports SA	Dec	% m/m	0.0	2.3
<b>WEDNESDAY (10 February)</b>						
08:00	DE	HICP	Jan	% m/m	1.4	1.4
14:30	US	CPI	Jan	% m/m	0.4	0.4
<b>THURSDAY (11 February)</b>						
14:30	US	Initial Jobless Claims	week	k		779.0
<b>FRIDAY (12 February)</b>						
09:00	CZ	CPI	Jan	% y/y	1.7	2.3
09:00	HU	CPI	Jan	% y/y	-	2.7
<b>10:00</b>	<b>PL</b>	<b>GDP</b>	<b>4Q</b>	<b>% y/y</b>	<b>-3.0</b>	<b>-2.9</b>
16:00	US	Michigan index	Feb	pts	80.5	79.0

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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