26 February 2021

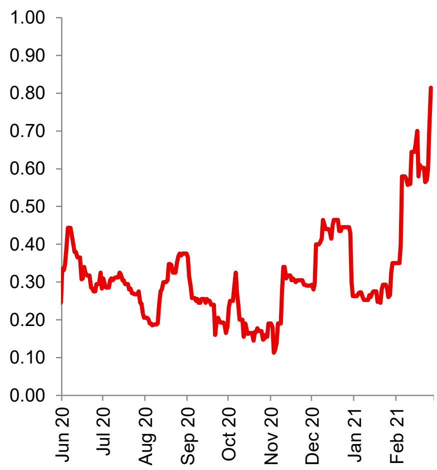
Weekly Economic Update

It is not spring yet

What's hot next week

- Spring is coming but although it is getting warmer outside we would have to wait for the temperature in the economic activity. We already see some evidence of the third wave of the Covid-19 infections so it is quite likely that Poland will have to reintroduce some of the restrictions eased in mid-February. This is actually already happening, for the time being only one region. At the same time, the pace of inoculation is accelerating and Poland looks well when compared to the other EU countries. However, this is still not enough to see any desired effects soon. We still think that in 2H21 we will reach a point when thanks to a massive inoculation the uncertainty will drop meaningfully which will unlock demand and boost economic activity. For now however, we see a rising risk that this may take place at the end rather than at the beginning of the 3Q21.
- Nevertheless, March should start with a positive news – on Monday **Poland manufacturing PMI** will be released. Our forecast points to further improvement to 53.0pts reflecting debt performance of the Polish producers. This scenario is supported by a significant rise of flash PMIs for the euro zone and Germany and pick-up in the other economic activity indexes. Manufacturing is holding strong but recall that this was the case in 4Q21 when the value added in this sector rose by 4.8% y/y (!) but this did not prevent the whole economy from stagnation.
- On Wednesday the **MPC will hold a meeting**. Interest rates are likely to be left unchanged and the statement shall sound similar to the previous ones. The most interesting piece could be the new CPI and GDP forecasts. The GDP path for 2021 is likely to be revised upside since the one from November appeared too pessimistic. Inflation has already been high for 2021 so there could be no changes there. Overall, abovementioned changes will rather not support a rate-cut scenario. On Friday, governor Glapiński might again hold a videoconference to answer journalists questions.
- Next to these two domestic events, numerous **important data will be released abroad**, final PMIs, flash euro zone HICP, monthly job report in the US. The message sent by these figures could affect the financial market that has recently more aggressively started to price in a reflation scenario.

PLN FRA 21x24 rates, %



Source: Bloomberg, Santander

Market implications

- The zloty lost somewhat but this was not a strong sell-off. We think that if the next data do not derail faith in global recovery (like we think), stocks could recover which would be supportive for the EM currencies. We do not expect EURPLN to fall below 4.47.
- The recent days brought sharp rise of bond yields in Poland and abroad. After such strong move we think one could start see bonds quite attractive but it is tough call when and at what level the impulse could pause. Anyway, we expect the yields' upside wave to lose pace at least in the coming days.

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Last week in the economy

Last week the **epidemic restrictions** in the Warmińsko-Mazurskie voivodship will be tightened again due to rising infections. Entities which were recently opened: cinemas, malls, theatres, swimming pools, will be closed again. In other regions the epidemic regime is to remain unchanged until mid-March. Moreover, we got to see detailed data on 4Q20 GDP as well as many business climate indicators, LFS data on labour market, M3 money supply and first fiscal numbers from 2021.

GDP in 4Q20 was confirmed at flash -2.8% y/y and -0.7% q/q sa. Details proved to be roughly in line with our estimates based on the annual data. We think that the GDP growth will remain sluggish in 1Q21 (close to zero in q/q sa terms), there is also an increasing risk that the weakness may be prolonged in to 2Q, as the third wave of Covid-19 seems to be around the corner. Nevertheless, we stick to the view that in 2H21 the economic growth will gain pace significantly as vaccination rollout will be progressing. Our forecast for 2021 sits at +4.6%. Read more in our Economic comment.

According to **LFS data**, in 4Q20 the number of the employed was higher than a year ago by 0.5% after a fall by 1.3% y/y in 2Q and by 0.6% in 3Q. The number of the unemployed also went up – in 4Q20 there were 9.3% more of them than a year earlier, compared to +5.5% y/y in 3Q. The LFS unemployment rate was 3.1% and was slightly lower than in 3Q20 (3.3%). The rise of both employment and unemployment means that the labour market is coming back to life - after the first phase of the crisis there was a large increase of the economically inactive persons, an expression of the fact that active job search was not possible.

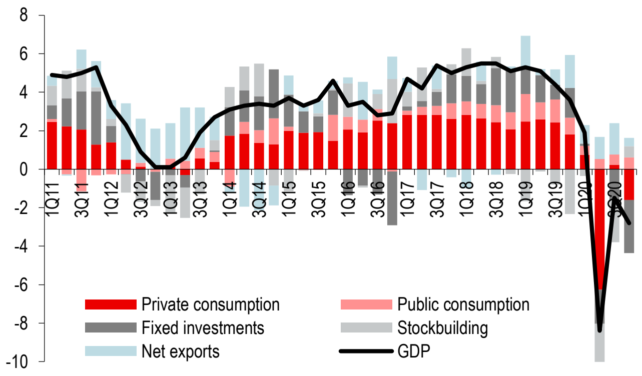
The **GUS business confidence survey** showed that in February there was a broad-based deterioration of assessment of current situation and at the same time all sectors were more optimistic about business prospects. Some sectors expressed less worries about the impact of the pandemic (industry, retail sales, transport) while hotels and restaurants felt even more threatened than a month earlier. All sectors were at least a bit more positive on the inflow of new orders, especially hotels and restaurants (hotels were allowed to reopen for the second part of February at 50% capacity).

The main **ESI business confidence** indicator for Poland rose in February from 82.3 pts to 87 pts, the highest level since March. Attitudes of consumers and firms from the services and retail trade sector improved by most. Consumers were more positive on their future financial situation (the index is now the highest since March) and a bit more positive on economic outlook. The Polish industrial index remained well below the pre-pandemic level unlike its euro zone counterpart which pushed to the highest level since mid-2019.

In January, the **M3 money supply** rose by 16.8% y/y vs 16.4% previously. FX-adjusted value of total loans was 1.1% lower than a year ago (down from -1.0% y/y in December): while loans of individuals continued the deceleration seen since February 2020 (this time down to 2.5% y/y from 2.8%), the growth of credit to businesses – albeit still deeply negative – managed to improved somewhat (to -6.6% y/y from -7.0%). The 10% y/y rise of PLN-denominated mortgage loans is the lowest on record since 2009, consumer loans almost reached -3% y/y, showing the worst print seen 2013.

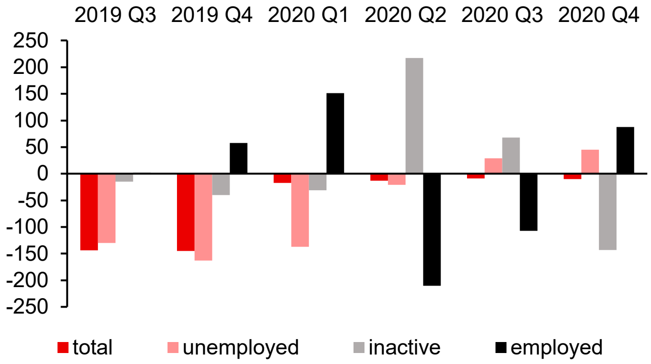
The central budget recorded a PLN6.6bn surplus after January vs PLN3.4bn a year ago. The positive start of the year is in our view due to the creative accounting. Budget expenditures were 7.7% y/y lower and the subsidy for social security fund dropped by almost 90% y/y. As we already had written on numerous occasion – the behaviour of central budget is not reflecting what is going on in the public finances, it is more a result of creative shifting of expenditures between periods and funds. Budget revenues rose by 1.0% y/y, with PIT and CIT rising y/y at a double-digit pace and VAT up by c.6% y/y.

GDP growth and demand components, % y/y



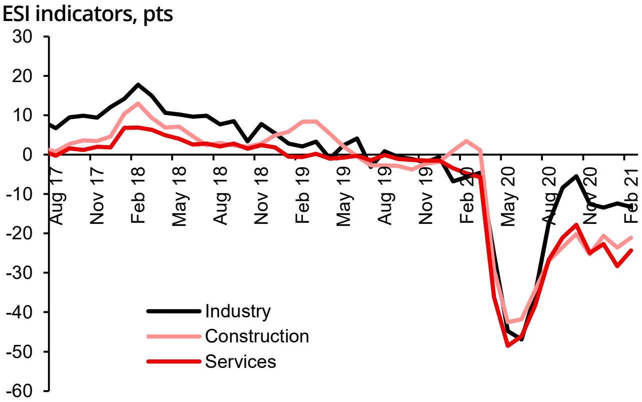
Source: GUS, Santander

LFS populations – y/y change in thousands



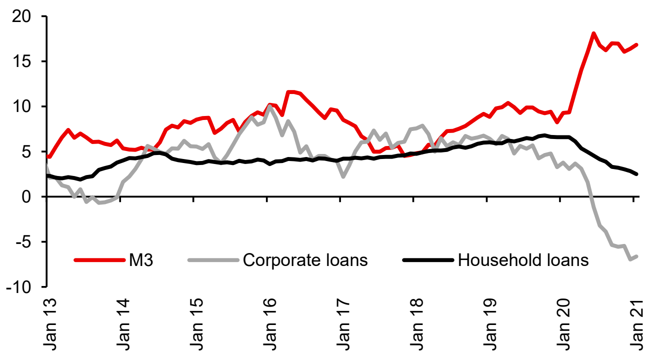
Source: GUS, Santander

ESI indicators, pts



Source: GUS, Santander

M3 and loan growth (FX-adjusted), % y/y



Source: NBP, Santander

FX and FI market

Last week on the market

FX Higher volatility that appeared globally was to some extent present on the domestic FX market. However, despite the sharp sell-off on the bond market and high intraday swings on the equity market, EURPLN was not too volatile. Bigger changes were recorded in case of the zloty's crosses vs USD, CHF and GBP. EURPLN broke the upper end of 4.47-4.51 range but did not continue the upside move and closed the week near 4.51. EURPLN weekly trading range amounted to 1% (0.60% in the previous week), USDPLN 1.44% (1.62%), CHFPLN 1.80% (1.2%), GBPPLN 2% (1.3%).

The other CEE currencies depreciated. EURCZK rose 1% to above 26.0 amid rising number of new Covid-19 cases (nearly 16k on Wednesday vs record-high nearly 18k in early January) and risk of more restrictions (that were supposed to be discussed by the government). USDRUB rose 0.7% temporarily above 75.0 but is still holding relatively close to the 72-73 support area. EURHUF increased by 0.7% temporarily above 362 and left the narrowing consolidation observed in February.

FI Polish IRS and bond yields surged 10-20bp, the most at the long end of the curve, following a sell-off on the core markets. The 10Y Bund yield rose c10bp (-0.25%) and the respective UST c13bp (c1.50%), their highest since February/March. The 10Y bond yield spreads widened to above 180bp vs Bund and 10bp vs the UST. Polish asset swap spreads did not move much while both the IRS and bond curves steepened sharply with 2-10 spreads at their highest levels since January 2019 for bond and since January 2014 for the IRS curve.

Next week we will see important US data (ISM, nonfarm payrolls) and the Polish MPC will decide about the interest rates and will show the updated CPI and GDP forecasts. It is possible that the central bank governor will hold a video-conference on Friday answering journalists' questions, as was the case in the two previous months. In euro zone, flash HICP for February will be released.

Market implications

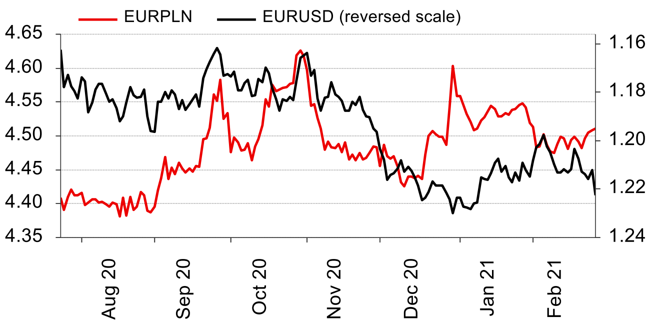
During the passing week, we saw pretty good US data that mostly beat expectations and contributed to the yield's upside momentum and prevented EURUSD from a bigger rise. Consensus for the manufacturing ISM sees the index might have declined a bit but recall that flash manufacturing PMIs in euro zone showed a decent rise (even with prolonged lockdown in Germany). The market expects a slight improvement in the monthly nonfarm payrolls change.

FX EUR/PLN failed to continue the upside impulse after breaking the 4.51 resistance despite noticeable sell-off of the Polish bonds. In our view, the situation when both equities and bonds suffer amid highly accommodative monetary policy is unlikely to prevail for longer. We think that the decent global macro data should finally support stocks making the global mood more supportive for the EM currencies. Still, the room for stronger zloty seems to be limited by the uncertainty related to the FX-loans issue and likely dovish message from the central bank. We do not expect EURPLN to head below 4.47.

FI Polish market interest rates are likely to remain volatile. Spreads vs Bund and UST have been rather tight or trading near strong support levels recently and in these terms there is still room for widening. Still, this could be actually due to the core debt recovering now faster than the POLGBs.

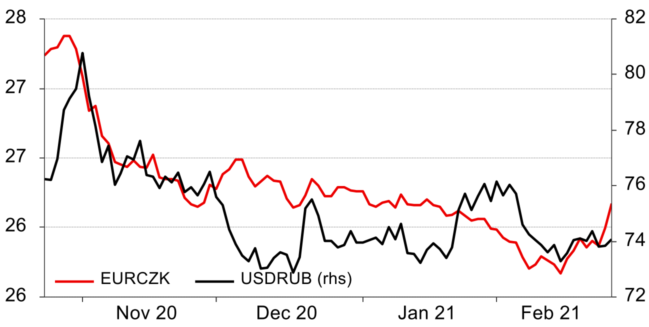
Sell-off on the bond market has been continuing for the last 4-5 weeks. Though it is difficult to point when and at what level the yields peak would be, it is worth to note, that the nominal change of yields within this time frame looks high in historical standards. Thus, there is a chance that the up-trend could now slow a bit.

EURPLN and EURUSD



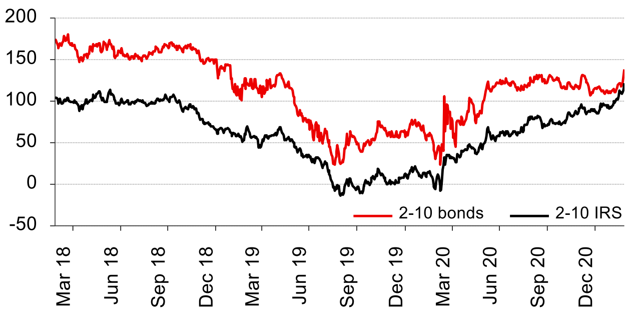
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK and USDRUB



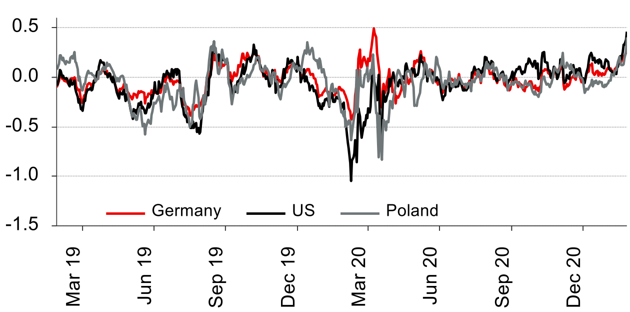
Source: Refinitiv Datastream, Santander Bank Polska

Poland 2-10 spreads



Source: Refinitiv Datastream, Santander Bank Polska

Nominal 4-week change of 10Y bond yields (pp)



Source: Refinitiv Datastream, Santander Bank Polska

Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST SANTANDER	LAST VALUE
			MONDAY (1 March)				
9:00	HU	GDP	4Q	% y/y	-3.7	-	-3.7
9:00	**PL**	**Poland Manufacturing PMI**	**Feb**	**pts**	**53.3**	**53.0**	**51.9**
9:55	DE	Germany Manufacturing PMI	Feb	pts	60.6	-	60.6
10:00	EZ	Eurozone Manufacturing PMI	Feb	pts	57.7	-	57.7
14:00	DE	HICP	Feb	% m/m	0.0	-	1.4
16:00	US	ISM manufacturing	Feb	pts	58.7	-	58.7
			TUESDAY (2 March)				
9:00	CZ	GDP SA	4Q	% y/y	-4.9		-5.0
11:00	EZ	Flash HICP	Feb	% y/y	1.1		0.9
			WEDNESDAY (3 March)				
	PL	**MPC decision**		**%**	**0.1**	**0.1**	**0.1**
2:45	CN	Caixin China PMI Services	Feb	pts	51.5		52.0
9:55	DE	Markit Germany Services PMI	Feb	pts	45.9		45.9
10:00	EZ	Eurozone Services PMI	Feb	pts	44.7		44.7
14:15	US	ADP report	Feb	k	165		174
16:00	US	ISM services	Feb	pts	58.7		58.7
			THURSDAY (4 March)				
11:00	EZ	Retail Sales	Jan	% m/m	-2.0		2.0
11:00	EZ	Unemployment Rate	Jan	%	8.3		8.3
14:30	US	Initial Jobless Claims	week	k	825		730
16:00	US	Factory Orders	Jan	% m/m	1.0		1.1
			FRIDAY (5 March)				
8:00	DE	Factory Orders	Jan	% m/m	1.0		-1.9
9:00	HU	Industrial Production SA	Jan	% y/y	-3.6		1.1
14:30	US	Change in Nonfarm Payrolls	Feb	k	133		49
14:30	US	Unemployment Rate	Feb	%	6.4		6.3

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg