

31 January 2020

Weekly Economic Update

Growth worries are back

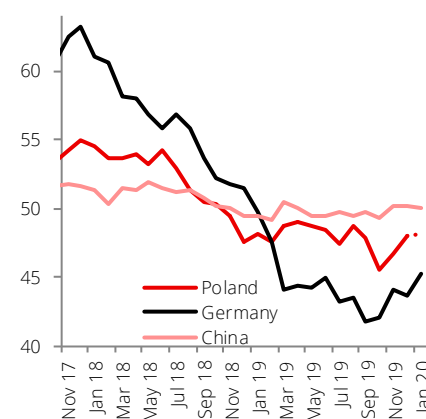
What's hot next week

- Last week was marked by news flow, which was raising worries about economic outlook. GDP growth in 2019 reached 4.0%, which implies that in 4Q19 it has slowed to c.3% y/y (maybe even slightly below), i.e. much below forecasts (market consensus 3.8%). We have warned about negative potential of this release. The business climate surveys from GUS, NBP and European Commission gave even more reasons to worry about economic activity in the coming months. Moreover, information about the spread of coronavirus from China has pushed markets into risk-off mode and triggered considerations about significant disruptions in international trade and economy.
- Under such circumstances, the incoming data on German output, orders and exports, pertinent to the pre-epidemics reality, as well as PMI for January, due for release in the upcoming week, could recede in the background, with news on spread of the virus and chances to contain it taking the centre stage.
- The Wednesday MPC meeting is unlikely to surprise – recent data and virus worries support the Council's stance that there is no need to react to rising inflation, as it is only a temporary development.
- In the first week of February the Sejm speaker should finally announce the official timing of the presidential elections (the most likely date is May 10), which will imply the official launch of the election campaign.

Market implications

- As long as markets remain driven by the global factors it is reasonable to expect further PLN depreciation. We expect EURPLN to rise to 4.31-4.32 level, however in the case of the escalation of global fears the currency pair might reach even 4.40.
- If the EURPLN move happens to be rapid it might influence other markets like government bonds. Next week the macroeconomic calendar in Poland is relatively light hence the Polish yields should follow the German ones and the spread might slightly widen.

Manufacturing PMIs



Source: Bloomberg, Santander

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Last week in economy

What we have learned in the passing week is that GDP growth slowdown was most likely more pronounced in 4Q than expected, while NBP quarterly business survey and sets of monthly business sentiment indexes suggest further growth deterioration in 1Q20.

Poland **GDP growth** in 2019 was 4.0% according to flash estimate, below forecasts, and means that in 4Q19 the economy must have grown by 2.8-3.1% y/y, assuming no revisions of previous quarters. Private consumption, which is supposed to serve as the pillar of economic growth also in 2020, seems to be the cause of poor implied 4Q GDP figure. Net exports might have contributed negatively in the final quarter of 2019, contrary to what the monthly trade data showed. On the other hand, investments most likely accelerated vs 3Q despite a sharp drop in construction confirmed in output data. More in our [Economic comment](#).

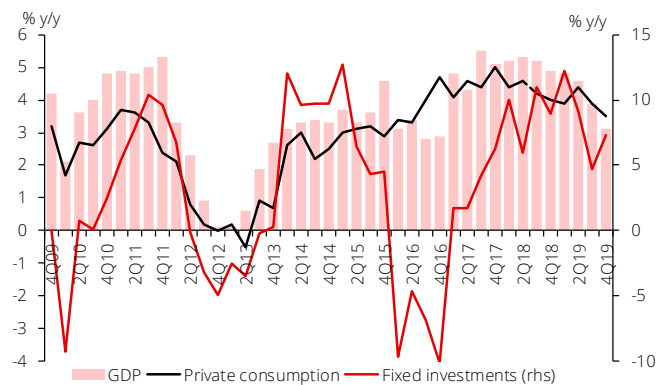
Gross disposable incomes advanced by 9.2% y/y in 3Q19 as compared to 7.4% y/y in 1Q19, mostly thanks to social benefits. The saving rate (four-quarter average) climbed to 2.9% in 3Q19 from 1.9% in 1Q19 showing that rising incomes translate somewhat more than before into saving. This might help explain consumption weakness in late 2019. The fiscal boost to disposable incomes growth should start to fade in 2H20.

NBP „Quick monitoring“ report for 4Q19, based on a survey among enterprises, showed that while there are negative tendencies in many areas (demand, activity, labour demand), the current levels of the indicators are still relatively high. However, the authors drew a conclusion based on the calculated leading indicators that in 2020 there can be a severe deterioration in the situation of enterprises. The part of the report covering investments suits our forecast of their zero growth this year. The index of continuation of ongoing investment projects hit the lowest level since 2009 while new projects are going to be focused more on cost reduction than on capacity expansion.

The main ESI **business sentiment** indicator for Poland and the industrial indicator declined in January despite a rebound of the euro zone indexes and are at the lowest levels in three years. The services sentiment indicator dropped to the lowest level in six years. Consumer confidence and sentiment in the retail trade sector were also worse than in December, on the other hand the construction sentiment gauge registered the third gentle rise in a row. Current level of activity was considered much worse than in December by industry; services and retail trade sectors. Industry There was also a noticeable further decline of expected activity in industry (the index is now the worst in more than six years) and a dip in the index of industrial new orders from abroad (the lowest in three years). GUS business sentiment indexes also declined, with the exception of industry, where a sudden optimism regarding current economic situation, despite poor new orders and output measures, caused a rebound to the highest level in almost a year. Hard data on total new industrial orders showed a fall in December by 3.7% y/y, but foreign orders were up 5.5% y/y. This implies a painful drop in domestic orders (which are not reported directly).

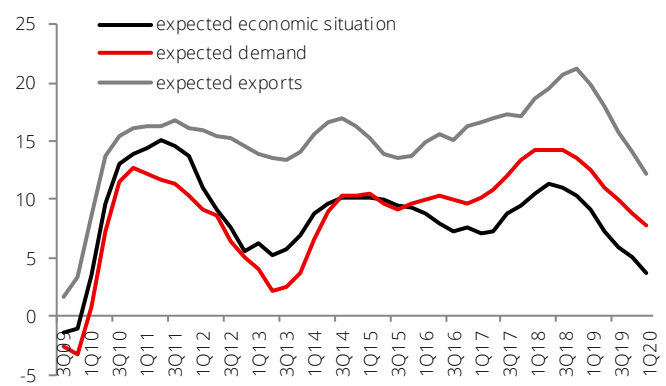
In ESI data, there was also a significant rise of **price expectations** across all business sectors. However, consumer inflation expectations are still moving up only gradually, in line with CPI growth.

GDP growth and selected components, %/y, w/implied 4Q19



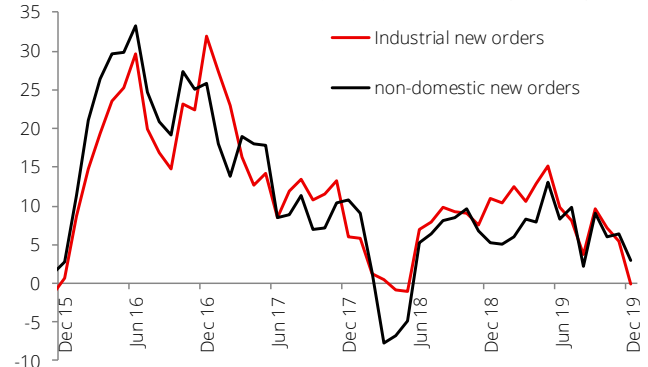
Source: GUS, Santander

NBP „Quick monitoring“ indicators, 4Q moving average



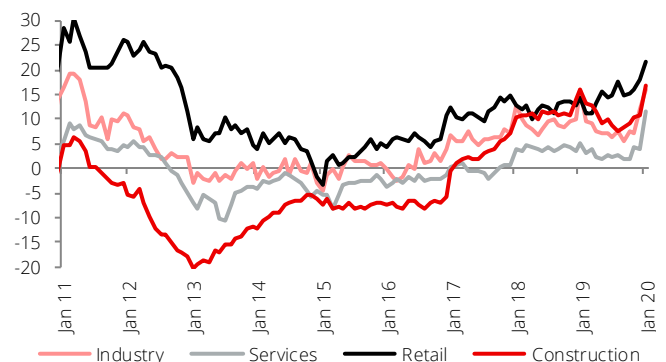
Source: NBP, Santander

Value of new orders in industry, %/y, 3M moving average



Source: GUS, Santander

ESI, Poland, sectoral price expectations indexes



Source: European Commission, Santander

FX and FI market

Last week on the market

FX Markets in the passing week have been under the influence of the spreading of the coronavirus which lead to global growth fears, sent risky assets and core yields lower and to a wave of depreciation in emerging market currencies (0-3% in general, 1% in offshore yuan). On top of the global factors, zloty was under the influence of local data – implied Q4 GDP growth only of around 2.8-3.1%. EURPLN rose by more than 1.1% w/w and broke the 4.30 level. USDPLN closed the week at 3.90, CHFPLN at 4.02 while GBPPLN at 5.12. The Hungarian forint outperformed its CEE peers, for a change – EURHUF tried to break above 338.8 three times this week but failed and closed almost flat w/w. The NBH left the rates unchanged at 0.9%. EURCZK rose 0.4% on the week and closed at 25.25. The regional worst performer was the rouble with both RUB basket and USD RUB up by 2.2% to 66.4 and 63.45 respectively, partly explained by still lower oil prices – Brent down to 58.4.

FI Polish bond yields and IRS rates fell this week closely following the core markets and in particular the German curve where Bund dropped from -33bp to -40bp. 10Y POLGBs followed suit down 7bp to 2.18% so the spread remained roughly unchanged at 259bp w/w. 10Y swaps fell by 9bp to 1.89% (asset swap 2bp wider).

FRA 9x12 declined by 4bp to 3mth WIBOR level giving back any hike expectations there might have been after the December CPI print in early January. FRA 21x24 declined even more by 7bp to 1.65%.

According to Ministry of Finance the supply of bonds in Q2 might be smaller than in Q1. In Q1 MF plans 4-5 auctions totaling PLN17-27bn, of which PLN 11bn have already been sold. The next auction is scheduled for Thursday 6 Feb 2020.

Key events

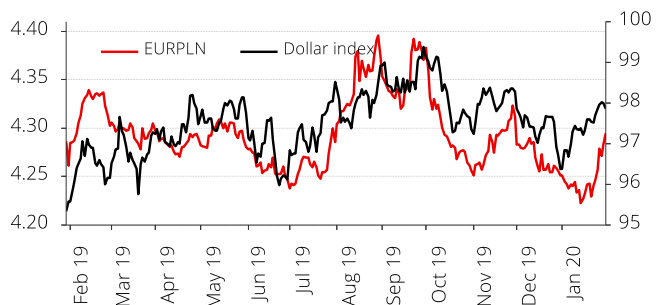
Next week will see a round of PMIs globally but more importantly US ISM manufacturing (Monday), ISM non-manufacturing (Wednesday) and non-farm payrolls (Friday). Central banks will decide about the interest rates in Poland (Wednesday, 1.5%) where we expect no changes, in Czech Republic (Thursday, 2.0%) and Romania and Russia (on Friday, 2.5%, 6.25%). In Poland the coming week is relatively light in terms of macroeconomic data (PMIs are worth mentioning).

Market implications

FX As long as the global sentiment drives the emerging market currencies it is reasonable to expect further weakening of the zloty and especially so in the context of deteriorating macro fundamentals and still relatively negative real rate. If global fears escalate we do not exclude the possibility for EURPLN to temporarily reach 4.40. The weakening in the next week alone, however, might not be as significant, we expect EURPLN to rise only slightly to 4.31-4.32 area. One has to be wary of the pace of the depreciation – if the move turns out to be rapid the currency unhedged investors might liquidate and influence other markets (FX options, POLGBs) as well. On a relative value basis we believe short PLN/HUF might perform next week (target 77.0) given the oversold HUF and weakening PLN.

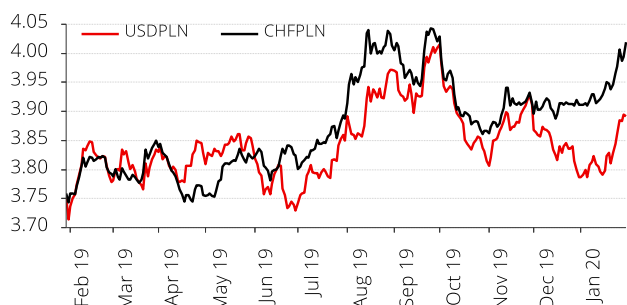
FI Hopes for a steeper curve which occurred after December CPI print in early January have disappeared (PLN 5y5y swaps down to 1.96% from a high of 2.21%, almost flat m/m). For a clearer macro picture in Poland investors will have to wait till 14 Feb (publication date of January CPI) which is only a week after the next week. Given the light macro calendar in Poland next week yields should traditionally follow German bond curve most of the time. With 2 additional thoughts in mind: the 10Y PL-DE spread is on a mid-term widening trend (we see 300bp this year) and a (low likelihood) abrupt FX moves might trigger an equivalent POLGBs move, if happens.

EURPLN and dollar index



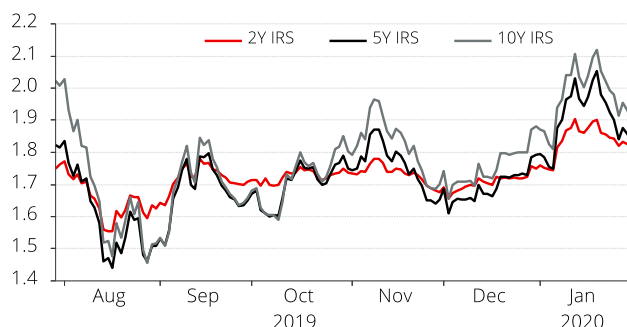
Source: Refinitiv Datastream, Santander Bank Polska

USDPLN and CHFPLN



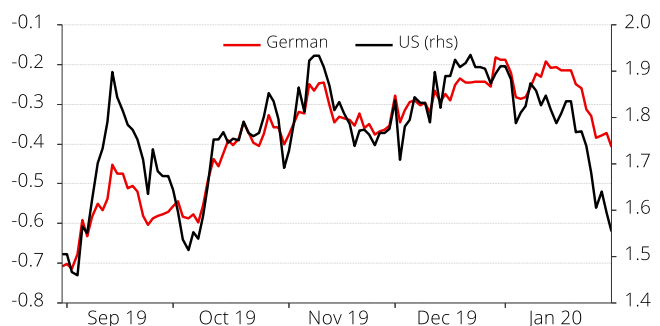
Source: Refinitiv Datastream, Santander Bank Polska

Poland IRS



Source: Refinitiv Datastream, Santander Bank Polska

10Y Bund and UST yields



Source: Refinitiv Datastream, Santander Bank Polska

Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST
					MARKET	SANTANDER	VALUE
MONDAY (3 February)							
09:00	PL	Poland Manufacturing PMI	Jan	pts	48.2	48.2	48.0
09:55	DE	Germany Manufacturing PMI	Jan	pts	45.2		43.7
10:00	EZ	Eurozone Manufacturing PMI	Jan	pts	47.8		46.3
16:00	US	ISM manufacturing	Jan	pts	48.35		47.2
TUESDAY (4 February)							
16:00	US	Durable Goods Orders	Dec	% m/m	2.3		2.4
16:00	US	Factory Orders	Dec	% m/m	0.7		-0.7
WEDNESDAY (5 February)							
	PL	MPC decision		%	1.50	1.50	1.50
02:45	CN	Caixin China PMI Services	Jan	pts	52.0		52.5
09:55	DE	Markit Germany Services PMI	Jan	pts	54.2		52.9
10:00	EZ	Eurozone Services PMI	Jan	pts	52.2		52.8
11:00	EZ	Retail Sales	Dec	% m/m	-0.5		1.0
14:15	US	ADP report	Jan	k	150.0		201.7
16:00	US	ISM services	Jan	pts	55.1		55.0
THURSDAY (6 February)							
08:00	DE	Factory Orders	Dec	% m/m	0.55		-1.3
09:00	CZ	Industrial Production	Dec	% y/y	1.8		-5.7
09:00	HU	Industrial Production SA	Dec	% y/y	0.0		5.7
13:00	CZ	Central Bank Rate Decision	Feb.20		2.0		2.0
14:30	US	Initial Jobless Claims	Feb.20	k	215		216
FRIDAY (7 February)							
08:00	DE	Exports SA	Dec	% m/m	0.3		-2.3
08:00	DE	Industrial Production SA	Dec	% m/m	-0.2		1.1
14:30	US	Change in Nonfarm Payrolls	Jan	k	160		145
14:30	US	Unemployment Rate	Jan	%	3.5		3.5

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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