

03 March 2020

# MACROscope Lite

## CPI beats GDP

Several weeks ago there seemed to be signs of rebound in global economic activity and trade. However, these **hopes need to be put off for now** as the coronavirus keeps spreading and governments try to coordinate action aimed at bringing the situation back under control. What now attracts investors' attention most, is how fast the global supply chains could be restored to avoid more serious logistics and production distractions and how serious would be the growth slowdown before that happens. The market mood may improve sooner than the growth actually picks up if more policymakers follow the Fed that cut interest rates by 50bp at the unscheduled meeting.

In late February, the stat office released detailed 4Q19 GDP data that made us **revise our 2020 GDP growth profile**. Poor result of the domestic demand – and thus lower starting point for 2020 – was the main reason behind pulling down 1Q20 (to 2.8% y/y from 3.1% y/y) and 2Q20 (to 2.9% y/y from 3.1% y/y). Overall, the **headline for 2020 has not changed significantly (3%)** but the quarterly path now looks more upside running instead of roughly flat 3% in each consecutive quarter and the forecasted growth depends now more on net exports and less on private consumption. In our opinion, any attempts to assess the total impact of COVID-2019 on the economic activity bear a significant error, but this is clear that **the risk to our Poland GDP growth forecasts is tilted to the downside**, even after the revision of growth in 1H20.

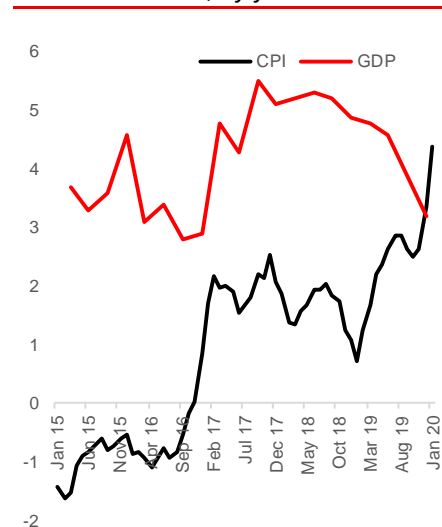
**CPI growth easily went past the 4% y/y mark in January.** At 4.4% y/y it was the highest in eight years, while our estimate of core inflation showed 3.3% y/y, the highest reading in 17 years. We still assume that this was pretty much the peak for headline CPI while the core measure could push a notch higher still in 1Q. A descent towards c3% y/y should follow this year on fading private consumption growth and easing labour market tensions. The upside risks we mentioned in the previous edition of [MACROscope Lite](#) are still there (another round of electricity price hikes, retail tax, food supply disruptions; the “sugar tax” was postponed from April to July). Coronavirus may also result in a quick rise of prices (albeit hopefully short-lived) in some markets if households enter panic mode. While consumer inflation expectations still look only adaptive, companies expressed in business surveys their eagerness to hike prices this year.

Despite the surprisingly rapid rise of inflation, the balance of power within the Monetary Policy Council seems to remain unchanged. The only noticeable difference is a more frequent reference to a possibility of further easing if the economic growth sinks deeper than the MPC thinks. The majority wants to wait the CPI peak out and discredits it as a supply side/regulatory phenomenon. **We expect rates stability to hold for at least another year**, despite the recent pricing by the Polish interest rate market of an imminent cut. Following the G-7 statement on readiness to act to support their economies in the face of the epidemic and the Fed cut, we believe the Polish MPC can be highlighting that negative growth surprises could lead them to cut rates at some point.

**The zloty has performed pretty well** despite the wave of the risk aversion. In YTD terms, nearly all of the main EM currencies have lost vs the euro and the dollar with the zloty recording the 6<sup>th</sup> smallest loss among 21 EM currencies we compared. Overall, in 2020 EURPLN has been so far trading pretty in line with our expectations we outlined in late 2019 in our annual report: after the decline in early 2020, EURPLN has rebounded back into the middle of c4.24-4.35 range observed since mid-2018. **We expect the exchange rate to near the upper end of this range** in the short term and to stay within the range unless the virus sends us into the negative risk scenario for growth.

Polish bonds have benefited from the shift towards safe assets and now the **2Y, 5Y and 10Y benchmarks are trading at or near their all-time-lows in yield terms** and the FRA market is pricing a full 25bp rate cut as soon as in three months and a total 50bp in nine months. The massive equity sell-off that started in mid-February pushed yields down in Poland and abroad. The global market mood is likely to remain unstable in the coming weeks or even months, **helping yields to stay at current or lower levels**. This could be to some extent warranted by expectations that more central banks will follow the Fed move to cut rates. Also, we expect Polish CPI data will show that the upside trend has stopped. What could make the market revert to higher yields could be a large scale of coordinated fiscal expansion. The 10Y PL-DE bond yield spread narrowed in February to c230bp from 260bp and we expect this spread could correct higher in the coming weeks.

Poland GDP and CPI, %y/y



Source: GUS, Santander

### Recently released Economic Comments:

- [Domestic demand hit the brakes](#)
- [Construction output up, weak retail sales](#)
- [Output growth remained positive](#)
- [Consumer confidence down amid robust wages](#)
- [Effects of China-Poland trade disruptions](#)

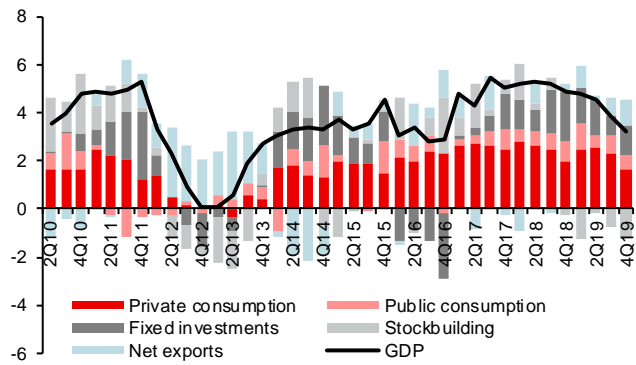
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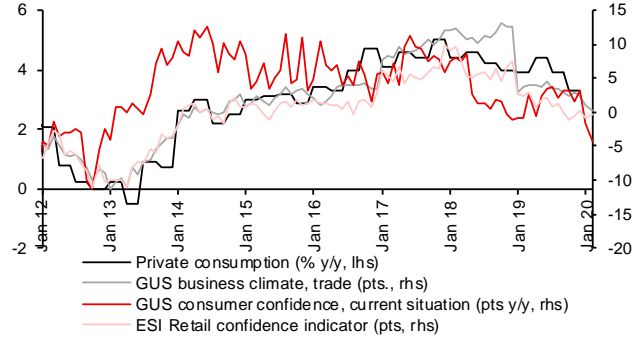
## Economy in charts

Domestic demand, especially priv. consumption, was weak in 4Q



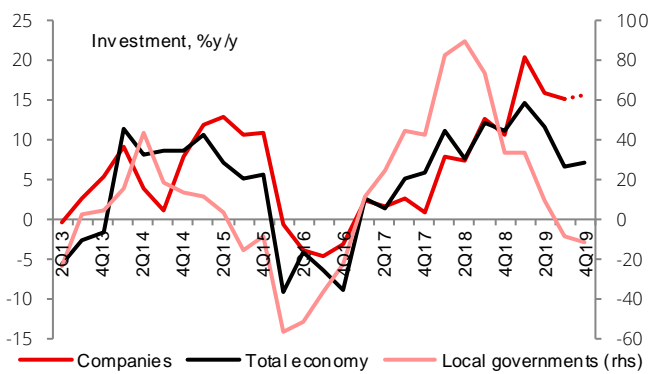
Source: GUS, Santander

Consumption boosters have not worked



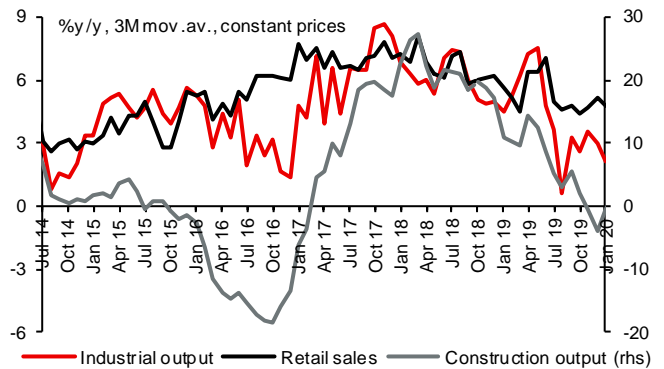
Source: GUS, European Commission, Santander

Companies invested in 2020, but the times are quite challenging



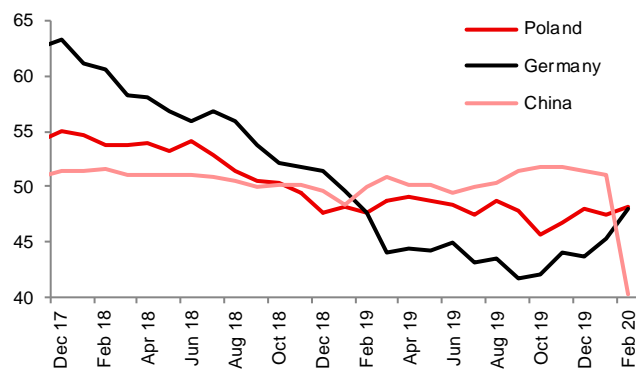
Source: GUS, Eurostat, Santander

First data for 1Q20 suggest more slowdown



Source: GUS, Santander

Coronavirus messed PMI indexes and is a big risk factor...



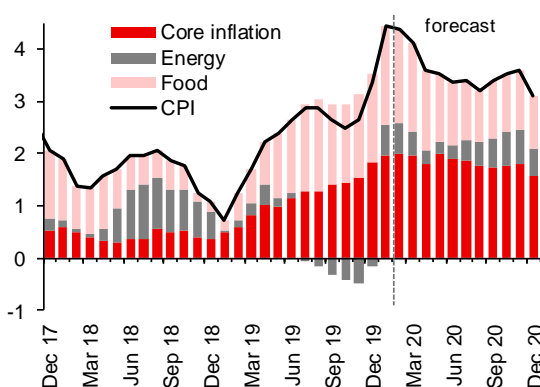
Source: Bloomberg, Santander

...potentially dampening exports growth, among others



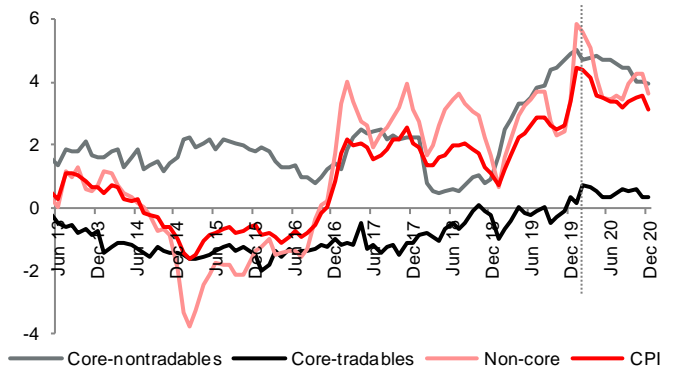
Source: NBP, Santander

Inflation surged to 4.4% y/y in January, but may soon ease...



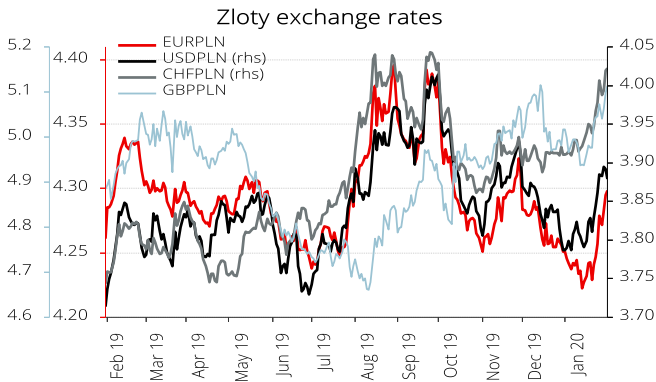
Source: GUS, NBP, Santander

...thanks to cheaper oil and lower food inflation

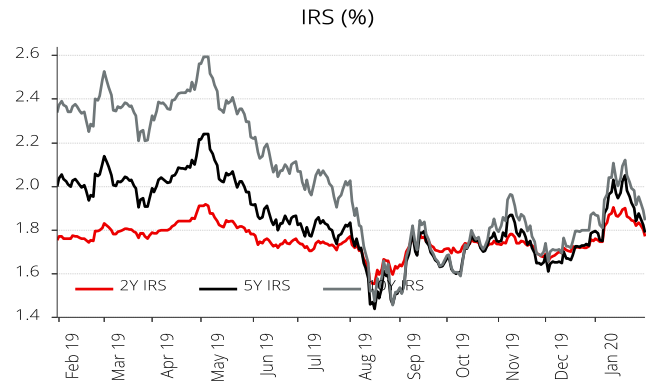


Source: Eurostat, GUS, Santander

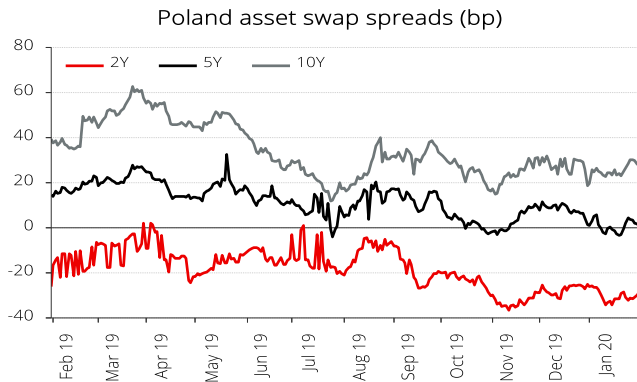
Markets in charts



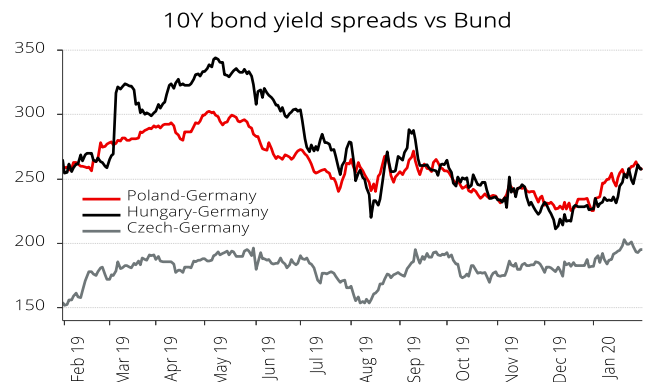
Source: Refinitiv Datastream, Santander Bank Polska



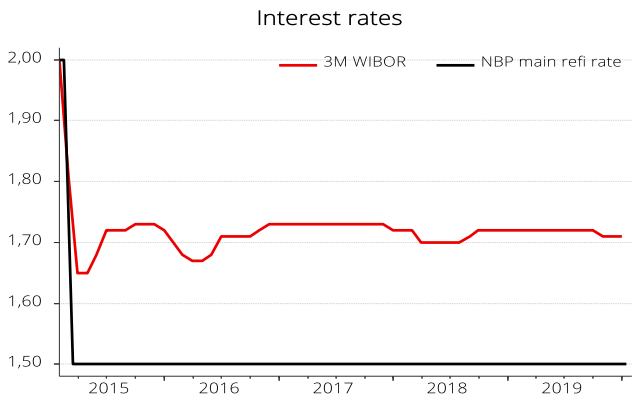
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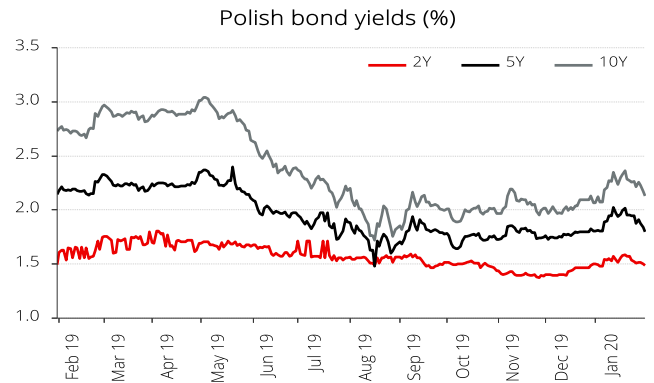
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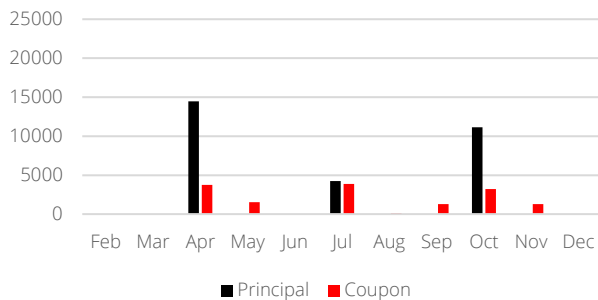
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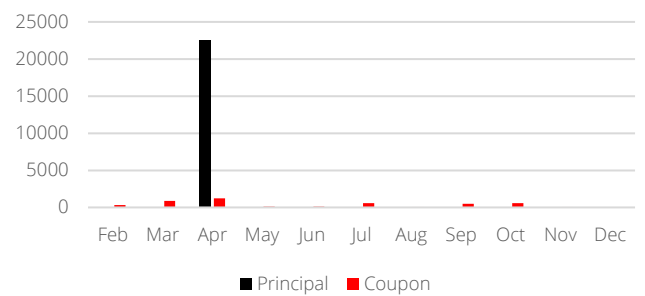
Principal and interest payments

PLN-denominated bond redemptions and interest payments, PLNm



Source: Ministry of Finance, Santander

FX denominated bond redemptions and interest payments, PLNm



Source: Ministry of Finance, Santander

## Economic Calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
<b>2 March</b> <b>PL: PMI – manufacturing (Feb)</b> EZ: PMI – manufacturing (Feb) DE: PMI – manufacturing (Feb) CN: PMI – manufacturing (Feb) US: ISM – manufacturing (Feb)	3 EZ: Flash HICP (Feb) CZ: Flash GDP (Q4)	4 <b>PL: MPC decision</b> DE: PMI – services (Feb) EZ: PMI – services (Feb) US: ISM – services (Feb) US: ADP report (Feb) US: Fed Beige Book	5 US: Industrial orders (Jan)	6 DE: Industrial orders (Jan) HU: Industrial output (Jan) US: Non-farm payrolls (Jan)
9 DE: Exports (Jan) DE: Industrial output (Jan)	10 CZ: CPI (Feb) HU: CPI (Feb) EZ: GDP (Q4)	11 US: CPI (Feb)	12 EZ: ECB decision CZ: Industrial output (Jan) EZ: Industrial output (Jan)	13 <b>PL: CPI (Feb)</b> <b>PL: Poland rating review by Moody's</b> US: Flash Michigan (Mar)
16 <b>PL: Balance of payments (Jan)</b> <b>PL: Core inflation (Feb)</b>	17 DE: ZEW (Mar) US: Retail sales (Feb) US: Industrial output (Feb)	18 <b>PL: Employment (Feb)</b> <b>PL: Wages (Feb)</b> EZ: HICP (Feb) US: House starts (Feb) US: Building permits (Feb) <b>US: FOMC decision</b>	19 <b>PL: Industrial output (Feb)</b> <b>PL: PPI (Feb)</b> <b>PL: MPC minutes</b> US: Philly Fed index (Mar)	20 <b>PL: Construction and assembly output (Feb)</b> <b>PL: Retail sales (Feb)</b> US: Home sales (Feb)
23 <b>PL: Money supply M3 (Feb)</b>	24 DE: Flash PMI – manufacturing (Mar) EZ: Flash PMI – manufacturing (Mar) DE: Flash PMI – services (Mar) EZ: Flash PMI – services (Mar) HU: Central bank decision US: New home sales (Feb)	25 DE: Ifo index (Mar) US: Durable goods orders (Feb)	26 CZ: Central bank decision US: GDP 3rd estimate (Q4)	27 <b>PL: Poland rating review by Fitch</b> US: Personal incomes and spending (Feb) US: Michigan index (Mar)
30 US: Pending home sales (Feb)	31 <b>PL: Flash CPI (Mar)</b> EZ: Flash HICP (Mar) CZ: GDP (1w kw.) US: Consumer confidence index (Mar)	<b>1 April</b> <b>PL: PMI – manufacturing (Mar)</b> EZ: PMI – manufacturing (Mar) DE: PMI – manufacturing (Mar) CN: PMI – manufacturing (Mar) US: ISM – manufacturing (Mar) US: ADP report (Mar)	2 US: Industrial orders (Feb)	3 DE: PMI – services (Mar) EZ: PMI – services (Mar) US: ISM – services (Mar) US: Non-farm payrolls (Mar)
6 DE: Industrial orders (Feb) DE: Industrial output (Feb)	7 DE: Industrial output (Feb) HU: Industrial output (Feb)	8 <b>PL: MPC decision</b> HU: CPI (Mar) US: FOMC minutes	9 DE: Exports (Feb) US: Flash Michigan (Apr)	10 <b>PL: Poland rating review by S&amp;P</b> US: CPI (Mar)

Source: GUS, NBP, Ministry of Finance, Bloomberg

## Calendar of MPC meetings and data releases for 2020

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
ECB decision	23	-	12	30	-	4	16	-	10	29	-	10
Fed decision	29	-	18	29	-	10	29	-	16	-	5	16
MPC decision	8	5	4	8	6	3	8	-	9	7	4	2
MPC minutes	23	20	19	23	21	18	-	20	24	22	19	17
Flash GDP*	-	14	-	-	15	-	-	14	-	-	13	-
GDP*	-	28	-	-	29	-	-	31	-	-	30	-
CPI	15	14	13	15	15	15	15	14	15	15	13	15
Core inflation	-	-	16	16	18	16	16	17	16	16	16	16
PPI	22	20	19	21	21	19	20	20	18	20	20	18
Industrial output	22	20	19	21	21	19	20	20	18	20	20	18
Retail sales	23	21	20	22	22	22	21	21	21	21	23	21
Gross wages, employment	21	19	18	20	20	18	17	19	17	19	19	17
Foreign trade	about 50 days after reported period											
Balance of payments*	-	-	31									
Balance of payments	13	13	16	14	14							
Money supply	24	24	23	23	25							

Source: GUS, NBP, Ministry of Finance, \* quarterly data

## Economic data and forecasts for Poland

### Monthly economic indicators

		Feb 19	Mar 19	Apr 19	May 19	Jun 19	Jul 19	Aug 19	Sep 19	Oct 19	Nov 19	Dec 19	Jan 20	Feb 20	Mar 20
PMI	pts	47.6	48.7	49.0	48.8	48.4	47.4	48.8	47.8	45.6	46.7	48.0	47.4	48.2	47.5
Industrial production	% y/y	6.9	5.6	9.2	7.7	-2.6	5.8	-1.5	5.6	3.7	1.4	3.8	1.1	2.4	2.5
Construction production	% y/y	15.1	10.8	17.4	9.5	-0.7	6.6	2.6	7.6	-4.1	-4.7	-3.3	6.5	0.9	-4.8
Retail sales <sup>a</sup>	% y/y	6.5	3.1	13.6	7.3	5.3	7.4	6.0	5.3	5.4	5.9	7.5	5.7	5.9	3.9
Unemployment rate	%	6.1	5.9	5.6	5.4	5.3	5.2	5.2	5.1	5.0	5.1	5.2	5.5	5.5	5.3
Gross wages in corporate sector	% y/y	7.6	5.7	7.1	7.7	5.3	7.4	6.8	6.6	5.9	5.3	6.2	7.1	7.1	7.0
Employment in corporate sector	% y/y	2.9	3.0	2.9	2.7	2.8	2.7	2.6	2.6	2.5	2.6	2.6	1.1	1.0	0.9
Exports (€)	% y/y	10.5	7.8	9.6	11.5	-2.6	5.9	-1.8	13.5	3.8	-0.2	10.6	5.0	4.0	2.4
Imports (€)	% y/y	8.4	2.8	8.0	11.1	-5.4	6.9	-3.4	6.4	-0.2	-4.1	0.8	1.5	2.9	1.2
Trade balance	EUR mn	-288	399	334	-189	163	-404	-250	830	427	893	224	973	-75	644
Current account balance	EUR mn	-630	217	542	430	-114	-915	-246	962	573	1 564	990	3 043	-288	589
Current account balance	% GDP	-0.9	-0.6	-0.5	-0.4	-0.4	-0.3	-0.2	0.2	0.4	0.6	1.1	1.2	1.3	1.3
Budget balance (cumulative)	PLN bn	-0.8	-4.5	-0.1	-1.9	-5.0	-4.8	-2.0	-1.8	-3.2	-1.9	-13.7	3.4	-8.0	-10.5
Budget balance (cumulative)	% of FY plan	2.8	15.7	0.3	6.8	17.7	16.8	6.9	6.3	11.2	6.6	47.9	-	-	-
CPI	% y/y	1.2	1.7	2.2	2.4	2.6	2.9	2.9	2.6	2.5	2.6	3.4	4.4	4.4	4.1
CPI excluding food and energy	% y/y	1.0	1.4	1.7	1.7	1.9	2.2	2.2	2.4	2.4	2.6	3.1	3.3	3.4	3.3
PPI	% y/y	2.9	2.5	2.6	1.4	0.5	0.5	0.9	0.8	-0.3	-0.1	1.0	0.8	0.3	0.7
Broad money (M3)	% y/y	9.8	9.9	10.4	9.9	9.3	9.9	9.9	9.4	9.3	9.4	8.3	9.3	9.1	9.0
Deposits	% y/y	9.3	9.7	10.5	10.0	9.3	10.0	9.9	9.9	9.4	9.5	8.5	9.7	8.4	7.9
Loans	% y/y	7.5	8.1	7.7	6.5	6.7	7.4	7.9	7.6	6.6	6.5	5.2	6.3	6.0	5.6
EUR/PLN	PLN	4.31	4.30	4.29	4.30	4.27	4.26	4.35	4.35	4.30	4.29	4.27	4.25	4.27	4.33
USD/PLN	PLN	3.80	3.80	3.81	3.84	3.77	3.80	3.91	3.95	3.89	3.88	3.84	3.83	3.92	3.96
CHF/PLN	PLN	3.79	3.80	3.79	3.80	3.82	3.84	3.98	3.99	3.92	3.91	3.91	3.95	4.00	4.06
Reference rate <sup>b</sup>	%	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
3M WIBOR	%	1.72	1.72	1.72	1.72	1.72	1.72	1.72	1.72	1.72	1.71	1.70	1.71	1.71	1.71
Yield on 2-year T-bonds	%	1.62	1.71	1.71	1.69	1.62	1.54	1.53	1.53	1.50	1.41	1.44	1.53	1.51	1.36
Yield on 5-year T-bonds	%	2.19	2.23	2.24	2.26	1.99	1.85	1.72	1.81	1.73	1.79	1.78	1.90	1.75	1.51
Yield on 10-year T-bonds	%	2.75	2.88	2.91	2.89	2.46	2.21	1.93	2.00	1.98	2.06	2.05	2.23	2.07	1.79

Note: <sup>a</sup> in nominal terms, <sup>b</sup> at the end of the period.

Source: GUS, NBP, Finance Ministry, Santander Bank Polska estimates.

Quarterly and annual economic indicators

		2017	2018	2019	2020	1Q19	2Q19	3Q19	4Q19	1Q20E	2Q20E	3Q20E	4Q20E
GDP	PLN bn	1 989.4	2 115.2	2 265.0	2 412.4	520.0	545.7	561.0	638.3	558.3	578.7	595.0	680.3
GDP	% y/y	4.9	5.1	4.1	3.0	4.8	4.6	3.9	3.2	2.8	2.9	3.1	3.2
Domestic demand	% y/y	4.9	5.1	4.1	1.9	3.9	4.6	3.3	2.2	1.4	2.1	2.2	2.0
Private consumption	% y/y	4.5	4.3	3.9	3.1	3.9	4.4	3.9	3.3	3.0	3.0	3.1	3.2
Fixed investments	% y/y	4.0	8.9	6.9	0.3	12.2	9.1	4.7	4.9	2.0	0.0	0.0	0.0
Industrial production	% y/y	6.5	5.9	4.2	2.3	6.1	4.2	3.3	2.4	2.0	1.7	2.1	3.4
Construction production	% y/y	13.7	19.7	3.6	0.0	9.9	7.8	5.7	-4.0	0.1	-1.1	-2.1	2.7
Retail sales <sup>a</sup>	% y/y	8.2	7.8	6.7	4.2	5.3	8.7	6.4	6.3	5.2	3.8	5.4	2.4
Unemployment rate <sup>b</sup>	%	6.6	5.8	5.2	5.0	5.9	5.3	5.1	5.2	5.3	4.8	4.8	5.0
Gross wages in the national economy <sup>a</sup>	% y/y	5.3	7.2	7.2	6.2	7.1	7.0	7.7	6.9	7.0	6.2	5.7	5.9
Employment in the national economy	% y/y	3.3	2.6	2.2	0.3	2.7	2.3	2.1	1.9	0.7	0.4	0.2	0.0
Exports (€)	% y/y	13.8	7.4	6.0	2.5	8.0	6.0	5.9	4.2	3.8	0.8	1.9	3.5
Imports (€)	% y/y	14.9	10.6	2.6	1.6	4.3	4.3	3.3	-1.3	1.8	0.3	1.7	2.5
Trade balance	EUR mn	1 426	-4 782	2 461	4 644	425	308	184	1 544	1 541	620	312	2 171
Current account balance	EUR mn	290	-5 046	5 915	8 844	2 110	859	-181	3 127	3 344	1 482	111	3 907
Current account balance	% GDP	0.1	-1.0	1.1	1.6	-0.6	-0.4	0.2	1.1	1.3	1.4	1.5	1.6
General government balance	% GDP	-1.5	-0.2	-0.8	-1.2	-	-	-	-	-	-	-	-
CPI	% y/y	2.0	1.6	2.3	3.6	1.2	2.4	2.8	2.8	4.3	3.5	3.3	3.4
CPI <sup>b</sup>	% y/y	2.1	1.1	3.4	3.1	1.7	2.6	2.6	3.4	4.1	3.4	3.4	3.1
CPI excluding food and energy	% y/y	0.7	0.7	2.0	3.1	1.1	1.8	2.2	2.7	3.3	3.2	3.0	2.9
PPI	% y/y	2.9	2.2	1.2	0.9	2.5	1.5	0.7	0.2	0.6	0.8	0.8	1.3
Broad money (M3) <sup>b</sup>	% y/y	4.6	9.2	8.3	7.7	9.9	9.3	9.4	8.3	7.9	7.5	7.1	6.7
Deposits <sup>b</sup>	% y/y	4.1	8.7	8.5	6.3	9.7	9.3	9.9	8.5	7.9	7.6	6.9	6.3
Loans <sup>b</sup>	% y/y	3.6	7.6	5.2	9.0	8.1	6.7	7.6	5.2	5.6	5.5	5.1	6.2
EUR/PLN	PLN	4.26	4.26	4.30	4.31	4.30	4.28	4.32	4.29	4.28	4.33	4.31	4.30
USD/PLN	PLN	3.78	3.61	3.84	3.89	3.79	3.81	3.89	3.87	3.89	3.99	3.90	3.81
CHF/PLN	PLN	3.84	3.69	3.86	3.94	3.80	3.80	3.94	3.91	4.00	3.99	3.90	3.86
Reference rate <sup>b</sup>	%	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
3M WIBOR	%	1.73	1.71	1.72	1.71	1.72	1.72	1.72	1.71	1.71	1.71	1.71	1.71
Yield on 2-year T-bonds	%	1.89	1.59	1.57	1.44	1.64	1.65	1.53	1.45	1.47	1.32	1.46	1.51
Yield on 5-year T-bonds	%	2.78	2.51	1.97	1.77	2.23	2.14	1.76	1.76	1.61	1.56	1.80	2.10
Yield on 10-year T-bonds	%	3.44	3.21	2.38	2.05	2.84	2.68	1.99	2.03	1.91	1.83	2.08	2.38

Note: <sup>a</sup> in nominal terms, <sup>b</sup> at the end of period. Source: GUS, NBP, Finance Ministry, Santander Bank Polska estimates.

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#1 BEST OVERALL FORECASTER - POLAND



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