CEE Economics

Poland

17 April 2020

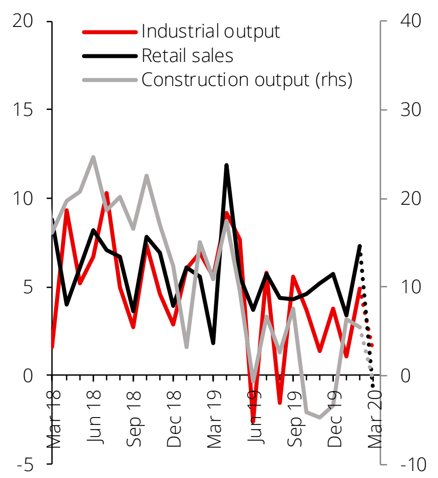
Weekly Economic Update

The first contaminated data

What's hot next week

- We are entering the period of publication of more and more data "contaminated" by the coronavirus effect. However, we should bear in mind that the results for March will be still only partly reflecting the scale of economic activity disruption – the lockdown has been introduced in the middle of the month. March inflation, as we have seen a few days ago, proved to be quite immune to virus-related distortions, which does not change our conviction that it will be declining quickly in the months to come.
- After the weekend in Poland there will be new data released about: wages and employment (Monday), production in industry (Tuesday) and construction (Thursday), retail sales (Wednesday), unemployment (Friday), money supply (Thursday). Data from the labour market are not likely to show a meaningful deterioration yet, but the production and sales will probably slow. The area that was affected the strongest and the fastest by the lockdown was services, but unfortunately the upcoming releases will not tell as much about it.
- MPC will release the minutes from the meeting, at which it surprisingly cut interest rates for the second time and extended the QE programme. We do not expect to learn much from the document as regards the monetary policy outlook..
- Abroad, much attention will go to further business and consumer sentiment indicators, for April: flash PMIs in the USA, Australia and some European countries, German ZEW, Ifo and GfK indexes and the weekly information from the US labour market.
- Market sentiment will most likely still be shaped mainly by news on the spread of the pandemic across countries, the pace of withdrawal from lockdowns and chances of finding a cure against the virus.

Economic activity measures, %y/y



Source: GUS, Santander

Market implications

- We stick to our view that in the medium term zloty could depreciate further reflecting poor growth fundamentals, extensive QE program and strongly negative real rates. Next week however, we expect the EURPLN to decline in order to test the 4.50 level and probably reach 4.45 temporarily, reasons being: excessive bearish positioning and high bar for next week's data to surprise negatively.
- On the long end, bonds might remain stable as NBP QE is in progress. On the short end, yields might decline in our view, awaiting a large inflow of liquidity due to the implementation of the Financial Shield program by Polish Development Fund (PFR) and reduction of reserve requirement, while IRS and FRA rates may go up (pushing asset swap spreads to zero).

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Last two weeks in economy

As we are still waiting for hard data on impact of the coronavirus on the Polish economy, analytical institutions are revising their forecasts of GDP lower.

The IMF expects the global economy to contract by 3.0% instead of expanding 3.3% as expected only in January. In 2021 there should be a rebound to 5.8% vs 2.4% seen previously. The downward revisions were more pronounced in the DM world than in the EM world. In the former group the inflation forecasts have also been significantly lowered, on average by 1.2pp in 2020 and 0.4pp in 2021. As for Polish GDP, in 2020 it was lowered to -4.6% from +3.1% (2021 up to +4.2% from +2.7%). 2020 general government deficit is expected to reach 6.7% of GDP (up from 2.5%) and to 3.5% in 2021.

The S&P rating agency confirmed Poland sovereign rating at A- with a stable outlook. S&P expects -2% GDP growth for 2020 and +4.8% for 2021. The fiscal deficit is expected to rise to 6.1% of GDP this year followed by a drop to 3.1% next year and the agency said it will tolerate this rise. In their view, central bank's bond buying program should secure financing of the deficit.

The government presented main assumptions of **the lockdown easing**. The plan assumes four phases but with no precise timeline, apart from allowing entrance to forests and parks on Monday 20 April. Thus, we see no economic impact of the plan yet.

Polish **CPI inflation** fell in March to 4.6% y/y from 4.7% vs our forecast and market consensus at 4.4%. Core inflation ex food and energy remained at 3.6%. Inflation did not fall in categories where coronavirus should have put a negative pressure, while some price rise occurred in categories where the epidemic should have put upside pressure. The results should be approached with caution, as the inflation measurement during the lockdown is difficult and subject to many errors. We still think that the large-scale contraction of demand is likely to result in strongly disinflationary environment and as a result inflation rate should be descending quite quickly in the following months. The majority of Polish MPC members share a similar view, it seems, which was expressed in their latest press release. Find more in our Economic comment.

In February, Poland's **current account balance** amounted to +€659mn (we expected +€902mn). This was the second positive reading in February since 2004 (since comparable data is available). The goods trade balance recorded a surplus of +€525mn and is running positive for six months already. In February, exports were performing still well (+5.7% y/y vs 6.4% y/y on average in 2019; but less than we expected). At the same time, this was a yet another month with poor imports (+0.5% y/y) but this time mainly due to distortions in deliveries from China (components to computers, RTV and autos). GUS data on foreign trade suggest that imports from China contracted by a couple percent in February from a double-digit growth in January. The 12-month rolling current account balance rose to 0.8% of GDP from 0.5% in January. The next release will include the period of serious distortions in foreign trade spurred by coronavirus pandemic – in our view the impact on the trade balance could be positive in the initial phase although the trade volumes are likely to fall.

Recent remarks by **MPC members:** Cezary Kochalski - the room for interest rate reduction is still there, but getting smaller, non-standard measures should be used as long as needed; Eryk Łon - NBP could grant loans directly to companies, especially SMEs; Jerzy Żyżyński would consider another interest rate cut, but not to zero, he would like to restore main rate to 1.5% relatively quickly after the pandemic and considers NBP purchase of corporate bonds and equities on the secondary market; Grażyna Ancyparowicz sees deflation risk in 2021, she does not exclude further rate cuts, even below zero but without tiering rates for banks; in her view, the MPC will surely not withdraw from anti-crisis measures before the year-end and monetary policy normalization will be a task for the next MPC; Jerzy Kropiwnicki is against further rate cuts, considers NBP buying bonds from the primary market, worries that the epidemic will increase inflation and make the MPC hike rates too quickly.

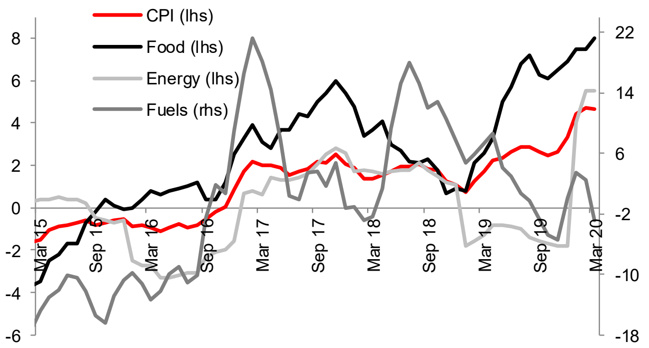
IMF's World Economic Outlook projections

	2020	2021
World Output	**-3.0(-6.3)**	**5.8(2.4)**
Advanced Economies	**-6.1(-7.7)**	**4.5(2.9)**
USA	-5.9(-7.9)	4.7(3.0)
Euro Area	-7.5(-8.8)	4.7(3.3)
Germany	-7.0(-8.1)	5.2(3.8)
France	-7.2(-8.5)	4.5(3.2)
Italy	-9.1(-9.6)	4.8(4.1)
Spain	-8.0(-9.6)	4.3(2.7)
Japan	-5.2(-5.9)	3.0(2.5)
United Kingdom	-6.5(-7.9)	4.0(2.5)
Developing Economies	**-1.0(-5.4)**	**6.6(2.0)**
Developing Europe	-5.2(-7.8)	4.2(1.7)
Poland	-4.6(-7.7)	4.2(1.5)
World Trade Volume	**-11(-13.9)**	**8.4(4.7)**

Note: in parentheses are differences versus January 2020 WEO projections, and for Poland – vs October 2019

Source: IMF, Santander

CPI and main components, %y/y



Source: GUS, Santander

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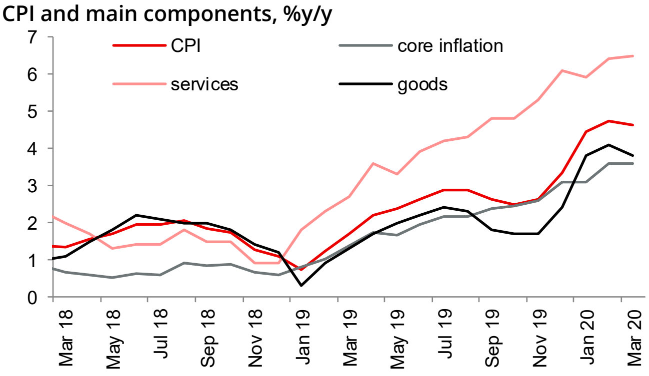
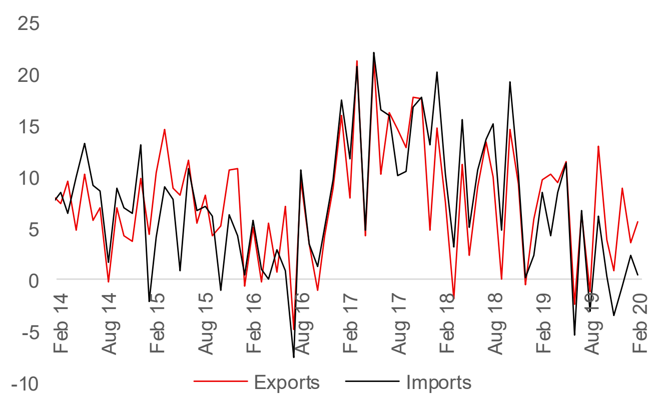


Source: GUS, NBP, Santander

C/A data on international trade in goods, %y/y



Source: NBP, Santander

FX and FI market

Last 2 weeks on the market

FX The last 2 weeks, including the Easter weekend, were relatively calm on most of the global markets: equities rallied, VIX declined over 10pp, most EM currencies, including zloty, corrected stronger, core yields remained flat to slightly declined. Only oil was volatile as markets tried to assess the impact of the new OPEC+ deal (Brent is down c20% on a 2wk basis). EURPLN spot declined 0.9% over the period while the volatility on front end of the curve decreased (1M down 1.5pp to 7.8%) as the pair has behaved well within the 4.50-4.60 range. The long end 1Y volatilities have not changed much at 5.8% but they were not high to start with. On the crosses only USDPLN declined by more -1.2% due to weaker dollar. CHFPLN declined only 0.5% as global capital keeps looking for safe haven in Switzerland and GBPPLN even increased a bit. EURHUF declined by 4.3% after NBH became more hawkish, EURCZK declined 2.2% while rouble basket by 3.5% which is a lot given poor oil performance.

FI Polish IRS curve declined by 15-20bp and bond yields by roughly 30bp along the curve. Declines took place for many reasons working in the same direction, the main ones being: another 50bp rate cut by the NBP (to 0.50% currently), the increased expectations of growth slowdown (FRA markets pricing in another 40bp cut by end-2020), quite significant purchases of POLGBs by the central bank (PLN 53bn to date) which, at the very least, discourages investors from taking paying bets on the long end of the curve, and last but not least expected liquidity increase in the banking system due to lowered reserve requirements (PLN 40bn, effective end of April) and the just launched financial shield (at least another PLN 30bn in April still, we estimate). With German curve stable, the 10Y PL-DE spread narrowed to slightly above 180bp.

Key events in the upcoming week the April flash PMIs are going to be published in Japan, Australia, Eurozone, Germany, France, UK and the US in the second half of the week. In Germany there are ZEW (Tuesday) and IFO (Friday). In Poland busy week data-wise with employment data on Monday, sold industrial output and PPI on Tuesday, retail sales on Wednesday, construction output and M3 money supply on Thursday and unemployment rate on Friday. In the US existing home sales (Tuesday), new home sales (Thursday) and durable goods and University of Michigan sentiment indicator on Friday.

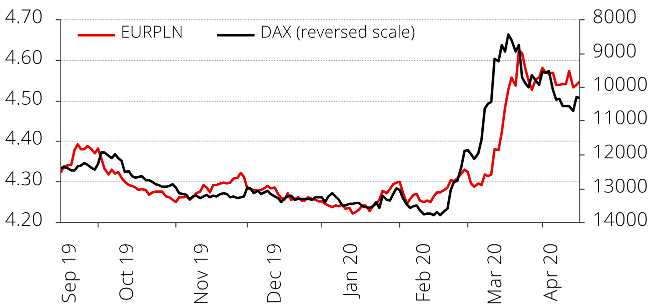
Market implications

The global market mood has stabilized a bit and appears to have changed the mode from abrupt sell-offs and liquidity-seeking panic behaviour to looking for value as damage and implementations of fiscal and monetary actions are being assessed.

FX We stick to our view that in the medium term zloty could depreciate further reflecting poor growth fundamentals, extensive QE program and strongly negative real rates with inflation still high at above 4.5%. Next week however, we expect the EURPLN to decline in order to test the 4.50 level and probably reach 4.45 temporarily. Reasons being: excessive bearish positioning and high-bar for next week's data to surprise negatively.

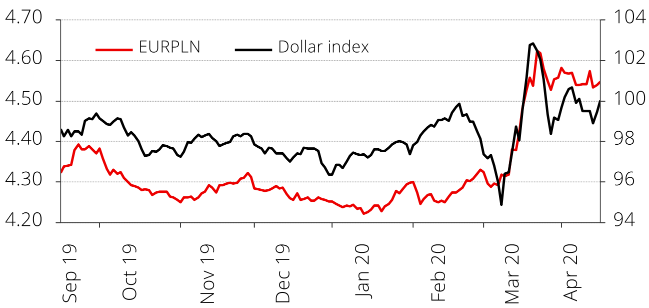
FI with so much rates cuts already priced in and the significant liquidity coming in the next weeks we think the front end ASW might prove interesting (bond yields to decline while FRA/IRS to go up) and move back to zero. On the long end, bonds might remain stable as NBP QE is in progress and effectively have capped yields there. However we think the 10Y IRS decline might have been excessive and would expect a rebound higher from current levels, possibly reaching 1.0% (+27bp).

EURPLN and German DAX index



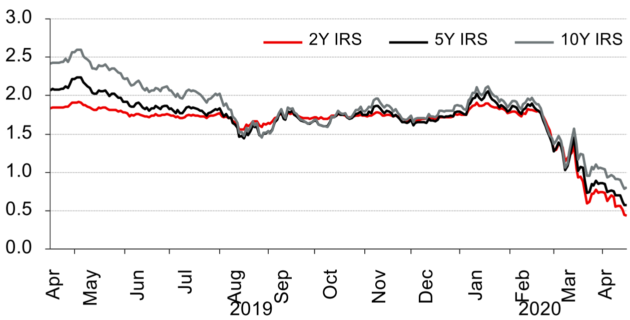
Source: Refinitiv Datastream, Santander Bank Polska

EURPLN and dollar index



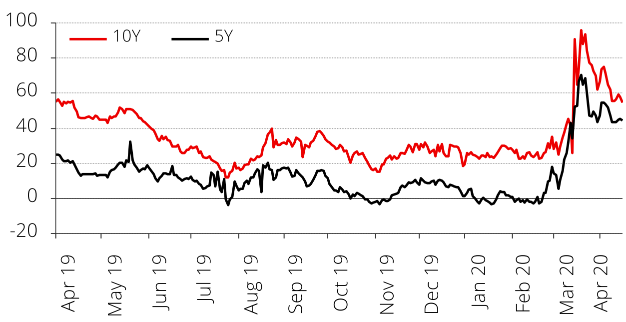
Source: Refinitiv Datastream, Santander Bank Polska

Poland IRS



Source: Refinitiv Datastream, Santander Bank Polska

Poland asset swap spreads



Source: Refinitiv Datastream, Santander Bank Polska

Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST SANTANDER	LAST VALUE
			MONDAY (20 April)				
08:00	DE	PPI	Mar	% y/y	-0.8	-	-0.4
10:00	PL	Average Gross Wages	Mar	% y/y	6.6	7.0	7.7
10:00	PL	Employment	Mar	% y/y	0.8	0.8	1.1
			TUESDAY (21 April)				
11:00	DE	ZEW Expectations	Apr		-41.0	-	-49.5
10:00	PL	Sold Industrial Output	Mar	% y/y	-4.5	1.4	4.8
10:00	PL	PPI	Mar	%y/y	-0.5	-0.9	0.1
16:00	US	Existing Home Sales	Mar	Mio	5.35		5.77
			WEDNESDAY (22 April)				
16:00	EZ	Consumer Confidence	Apr	pts	-19.8		-11.6
10:00	PL	Retail Sales	Mar	% y/y	-1.8	-0.8	9.6
13:00	US	MBA Mortgage Applications	Apr 17th	%			7.3
			THURSDAY (23 April)				
10:00	EZ	PMI manufacturing	Apr	pts	38.5	-	44.5
09:30	DE	PMI manufacturing	Apr	pts	-	-	45.4
08:00	DE	GfK Consumer Confidence	May		-1.8	-	2.7
14:00	PL	Minutes					
10:00	PL	Construction Output	Mar	% y/y	2.5	-0.5	5.5
14:00	PL	M3 Money Supply	Mar	% y/y	9.6	10.0	9.4
14:30	US	Initial Jobless Claims	Apr 18th	k	4500		5245
16:00	US	New Home Sales	Mar	K	661		765
15:45	US	PMI manufacturing	Apr	Pts			48.5
			FRIDAY (24 April)				
10:00	DE	IFO Business Climate	Apr		80.0	-	86.1
10:00	PL	Unemployment Rate	Mar	%	5.6	5.5	5.5
14:30	US	Durable Goods Order	Mar	%	-11.0		1.2
16:00	US	University of Michigan Sentiment	Apr	pts	69		71

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division. Economic Analysis Department. al. Jana Pawła II 17. 00-854 Warsaw. Poland. phone +48 22 534 18 87. email ekonomia@santander.pl. http://www.santander.pl.