Bi-Weekly Economic Update

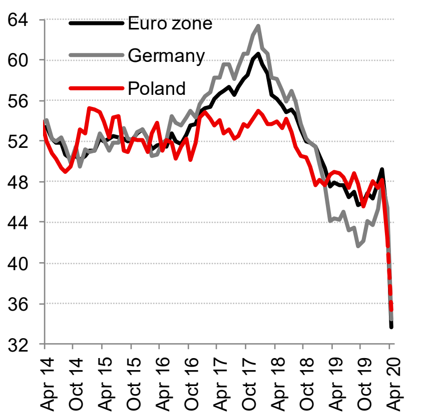
24 April 2020

In the tide of negative data

What's hot in next two weeks

- As we get new data releases, more and more of them show the drastic influence of Covid-19 on the economic activity. Domestic data released recently also confirmed that we are heading towards a deep recession, with the trough most likely in 2Q20.
- The agenda for the next two weeks includes many more data releases abroad (final PMIs, first estimate of US GDP for 1Q20, April's NFP), but also meetings of FOMC and ECB. In Poland the calendar is almost empty: the only data releases include manufacturing PMI (May 4) and NBP foreign reserves (May 7). The MPC meeting, which was initially planned on May 5-6, has been postponed until May 28. Politics may be a bit more busy in the coming days – at the start of May at the latest we should finally see some final decisions regarding the timing and the way of conducting presidential elections.
- April's PMI for Polish manufacturing is likely to drop sharply, testing or even breaking the trough from 2009 – similarly as did PMIs for other European countries, or GUS business climate indicators. The fall of activity is even bigger in services than in manufacturing, but we do not have PMI services index available in Poland.
- As regards FOMC and ECB meetings, we do not expect any important changes at the nearest meetings after both banks introduced large scale policy easing in the recent weeks.

PMI indices, pts



Source: Markit, Santander

Market implications

- We keep the view that EURPLN is rather more likely to rise above 4.60 than to fall below 4.50 in the coming weeks. The zloty weakening could be supported by worsening moods on equity markets (global relief seems to be running out of steam) and on EM markets (stronger dollar), plus large scale of monetary expansion (record low real interest rates, quick NBP balance sheet expansion).
- Bond yields, especially at the short end of the curve, will be under the downward pressure of huge liquidity boost, after the reduction of reserve requirement rate and the launch of PFR financial shield.

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Last week in economy

This week we got to see a bunch of important data from March, reflecting impact of two-week long lockdown. Most statistics surprised to the downside. Falls will surely deepen in April, confirming that the 2Q20 GDP is very likely to be deep in the negative territory.

Industrial output fell in March by 2.3% y/y, down from +4.9% y/y in February. In seasonally adjusted terms, industrial output shrank by 4.8% y/y vs +3.2% previously. Some industries came to a standstill while some saw improved demand. The March data have not shown the full scale of the shock yet as the lockdown was introduced in the middle of the month and we predict that the output decline may exceed 10% y/y in the following months. Read more in Economic Comment.

Construction output rose in March by 3.5% y/y, more than expected. Seasonally adjusted growth was much below January-February readings, but still positive. The sector is suffering from limited workforce availability, but in the medium term may be shielded from demand collapse by the government investment program. More details in Economic Comment.

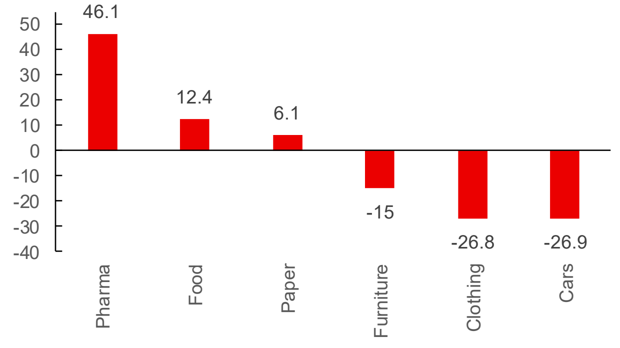
Retail sales dropped by 9% y/y in March in real terms, while the market had expected a decline of 5.2% and we of 4.2%. Several categories showed a massive drop of sales as the lockdown was announced, and the extra spending on food and pharmaceuticals did little to offset this. In our view the next months will show a much greater decline of retail sales. More in our Economic Comment.

March **employment growth** slowed down to 0.3% y/y from 1.1% y/y. With monthly decline of 34 thousand jobs (-0.5% m/m), this was the worst March since comparable data are available (early 90s). Note that these data cover only companies employing 10+ and leave out many strongly affected by coronavirus-related restrictions, e.g. restaurants or retail trade. It also does not take into account workers on civil contracts, which are typically the first to be laid off. While the numbers described above reflect the average employment counted in full-time jobs (thus deducting people on quarantine, unpaid holidays, sick and childcare leaves), the simple **number of the employed** showed a decline by 14 thousand in monthly terms. **Registered unemployment rate** was at 5.4% in March, down versus 5.5% in February. Detailed statistics showed a major drop in new registrations (-25k y/y), de-registrations (-46.5k), de-registrations due to taking up jobs (-16.3k) as well as in new job offers (-51.3k). **Wage growth** declined in March to 6.3% from 7.7% y/y.

Business and consumer confidence indices tumbled to the lowest levels in history. Entrepreneurs claim the stability of their business is threatened in 17% (industry) to 36% (transport) of cases, with additional 45-56% claiming there are serious consequences to their business due to the epidemic. Firms reported that in April they cut theirs orders at suppliers by 22-39% while their clients' orders dropped by 26-38%. Investment plans were already reduced by 30-40% compared to the start of the year. As regards consumers, 19% are seriously worried about losing a job or closing a business; 44% say the epidemic is a serious threat to their financial situation.

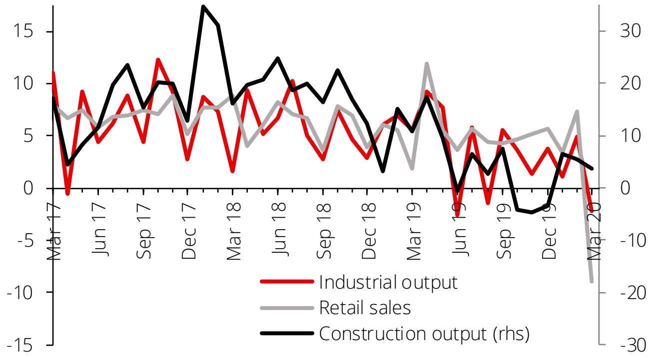
M3 money supply grew by 11.8% y/y in March, much more than expected (9.6%), up from 9.4% y/y for February. PLN weakness was partly responsible, and other culprits are in our view: higher demand for liquidity loans from companies, loan payment holidays for companies and households as well as banks' purchases of government bonds (possibly from mutual funds which were selling massively). We are expecting loan growth to remain muted in the months to come, while M3 growth could be elevated due to the fiscal stimulus.

Change in production in March 2020 in selected categories, % y/y, in current prices



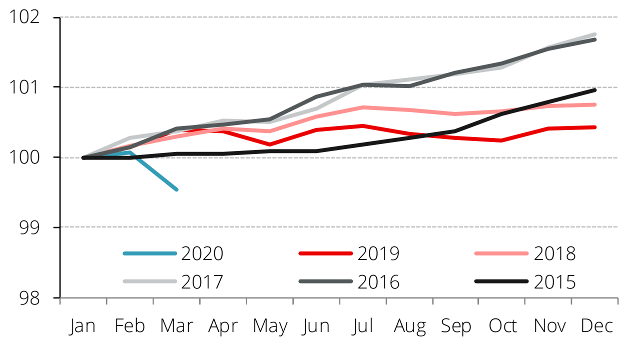
Source: GUS, Santander

Output and retail sales, % y/y



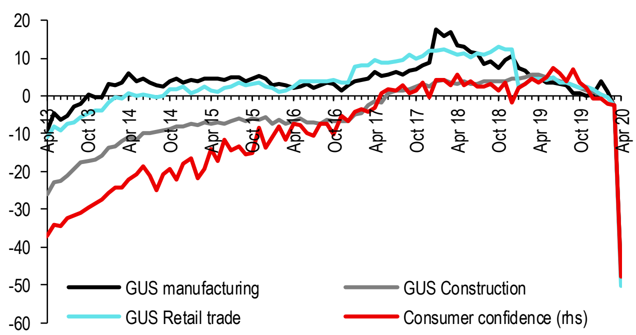
Source: GUS, Santander

Employment in the corporate sector (Jan=100)



Source: GUS, NBP, Santander

Consumer and business sentiments, pts



Source: GUS, Santander

FX and FI market

Last weeks on the market

FX EURPLN held comfortably within the 4.50-4.60 trading range amid main world stock indexes hovering in a horizontal trend, VIX falling and despite the dollar adding some gains. GBPPLN and CHFPLN remained stable while USDPLN rose to 4.20 from 4.15.

Elsewhere in the CEE region, EURHUF and EURCZK performed similar to EURPLN. USDRUB witnessed somewhat higher volatility amid sharp changes of the oil price.

FI Polish IRS and bond yields fell in the first part of the week but later some correction was recorded. The rates downtrend was supported by the Ministry of Finance decision to cancel the bond auction planned for the last week of April. Polish bonds outperformed Bunds and the PL-DE 10Y bond yield spread reached 173bp for a while. Polish 5Y and 10Y asset swap spreads narrowed slightly.

Key events in the upcoming two weeks are the ECB and Fed decisions and the US macro data: mainly the first estimate of 1Q20 GDP and labour market related figures. In Poland, only April PMI is scheduled.

In March, the Fed cut interest rates twice and expanded significantly its asset purchase program. The ECB left interest rates unchanged but also increased the size of its monthly bond purchases. Since then, the market tensions have eased and there seems to be less need for the central banks to take more action in order to improve confidence. Thus, we do not expect any new bold measures to be announced in the final week or April and the ammunition will be saved for later.

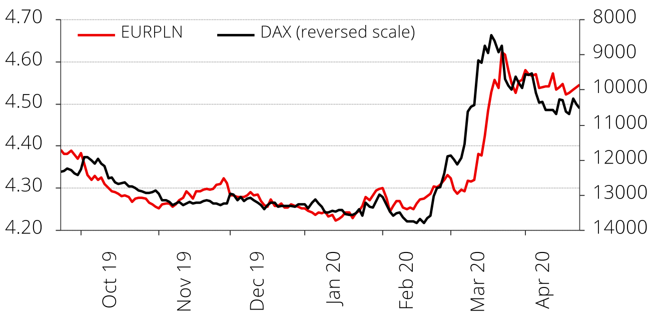
Market implications

After a rebound observed since mid-March, the global stock indexes stabilized. Investors focused on information that the Covid-19 epidemic is losing momentum in some regions of the world and that governments and central banks announced further measures to limit the scale of the economic recession. Some nations have also already started to consider easing lockdown restrictions but apparently this information may not be enough to end stabilization and push stock prices further up. The WHO says there could be a yet another wave of coronavirus infections in autumn and sooner than later investors might realize that the April stock price rise could have been premature.

FX We sustain our view that EURPLN is rather likely to rise above 4.60 than to fall below 4.50 in the coming weeks. Global relief after March risk aversion seems to have run out of fuel and we expect global equities could resume down move in the short term. Recently, the zloty has lost its real interest rate advantage vs its CEE peers and currently is the least attractive in the region under this approach. This may make EURPLN more prone to rise in case of another wave of risk aversion and less eager to fall if global equity market remains calm.

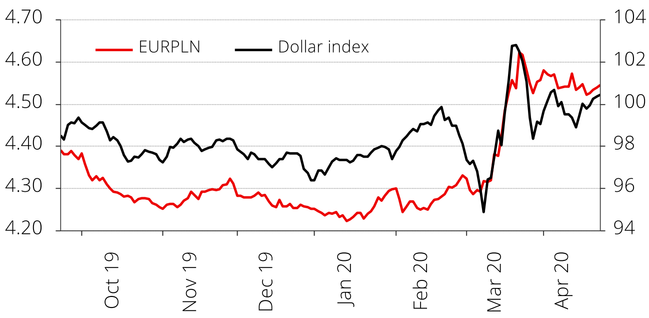
FI Bond yields witnessed a brief upside correction and we think this pattern may hold in the coming days – the main down trend will hold and any corrections could be short lived. Since the beginning of May, the required reserve ratio for the commercial banks goes down (releasing cPLN40bn of cash) and in the market's view, the bond supply at the official tenders may remain low. The Ministry of Finance, the state owned BGK bank and the central bank seems to have become more active in their cooperation to cover rising borrowing needs via large private placement offers and skipping the interbank market. The demand/supply imbalance could become even more visible helping bond yields to stay low. At the same time, the down trend of IRS might lose pace and the assets swap spread might widen, in our view.

EURPLN and German DAX index



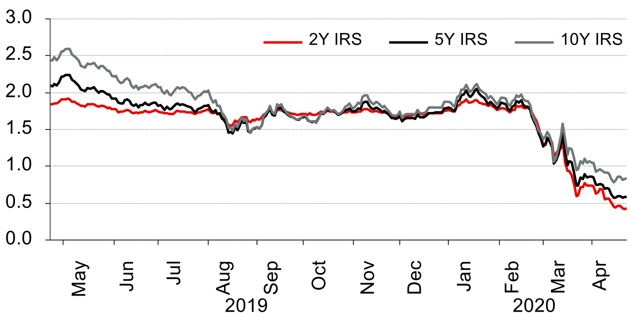
Source: Refinitiv Datastream, Santander Bank Polska

EURPLN and dollar index



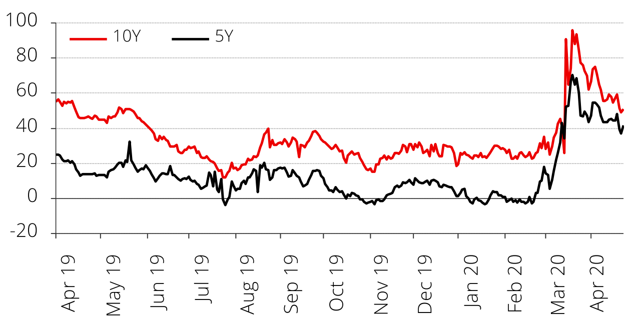
Source: Refinitiv Datastream, Santander Bank Polska

Poland IRS



Source: Refinitiv Datastream, Santander Bank Polska

Poland asset swap spreads



Source: Refinitiv Datastream, Santander Bank Polska

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Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST SANTANDER	LAST VALUE
		MONDAY (27 April)					
15:00	RU	Retail sales	Mar	% y/y	2.6	-	4.7
		TUESDAY (28 April)					
16:00	US	Consumer confidence index	Apr	pts	87.8	-	120.0
		WEDNESDAY (29 April)					
14:30	US	Advance GDP	Q1	% q/q	-3.7	-	2.1
16:00	US	Pending home sales	Mar	% m/m	-12.5	-	2.4
20:00	US	Fed decision		%	0.0	-	0.0
		THURSDAY (30 April)					
8:00	DE	Retail sales	Mar	% m/m	-8.4	-	1.2
13:45	EZ	ECB decision		%	0.0	-	0.0
14:30	US	Initial jobless claims	week	k	3250	-	4427
		FRIDAY (1 May)					
	PL	**Market holiday**					
16:00	US	ISM – manufacturing	Apr	pts	36.7	-	49.1
		MONDAY (4 May)					
3:45	CN	PMI – manufacturing	Apr	pts	-	-	50.1
9:00	**PL**	**PMI – manufacturing**	**Apr**	**pts**	**-**	**35.3**	**42.4**
9:55	DE	PMI – manufacturing	Apr	pts	45.5	-	34.4
10:00	EZ	PMI – manufacturing	Apr	pts	44.7	-	33.6
		WEDNESDAY (6 May)					
8:00	DE	Factory orders	Mar	% m/m	-	-	-1.4
9:55	DE	PMI – services	Apr	pts	34.3	-	15.9
10:00	EZ	PMI – services	Apr	pts	28.4	-	11.7
14:15	US	ADP report	Apr	k	-150	-	-27
		THURSDAY (7 May)					
4:00	CN	Exports	Apr	% y/y	-	-	-6.6
15:00	RU	CPI	Apr	% y/y	2.7	-	2.5
		FRIDAY (8 May)					
14:30	US	Nonfarm payrolls	Apr	k	-190	-	-701
14:30	US	Unemployment rate	Apr	%	3.8	-	4.4

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg