

MACROscope Lite

The trough proved deeper than expected

■ Economic data started to show first signs of a rebound and financial markets behave as the pandemic was already contained. Truly, so far we have seen only “soft” indicators for May (sentiment gauges), but we are expecting an improvement in “hard” data as well, given that May saw a gradual relaxation of restrictions.

■ The European Commission's New Generation plan based on common debt issuance fuelled markets to price-in a swift recovery – and this comes as no surprise, as Poland could gain net resources worth even 7% of annual GDP, alleviating worries about less generous EU means after 2020. It is possible that soon forecasts for EU will be showing the 2021 rebound stronger than the 2020 decline and a faster return to pre-COVID GDP levels.

■ As regards Poland, it is a bit more difficult to feel a deep relief due to two factors: (1) the daily infections curve is not bending downwards, and currently it looks worse than in most EU countries, (2) “the worst” that was to happen during the crisis – industrial output for April – was worse than expected (decline by 25% y/y vs expectations at -12% y/y) and even though retail sales with a beyond 20% slump was in line with expectations and construction output seemed to be untouched by the pandemic, we begin to doubt our forecast of 2Q20 GDP at -11.7% y/y. On the other hand, 1Q20 GDP at 2.0% y/y proved higher than our forecast, so the entire-year expectations at -c4% y/y seem valid.

■ Labour market was not as affected as the industrial output and retail sales. The April's decline in employment by 153 thousand, even though it was the largest in the last 20 years, it was primarily due to temporary factors like working time cuts and longer leaves. According to our estimates, at most 1/3 of reductions in employment were due to actual layoffs and many could be older workers, who decided to retire. We stick to our view that the LFS unemployment rate could approach 7% in 2H20 (from 2.9% at the start of the year). However, we would like to stress that the decline of real wage bill was stronger than we feared and this aggravated worries that consumers will not return to their spending fast, when all the restrictions are gone.

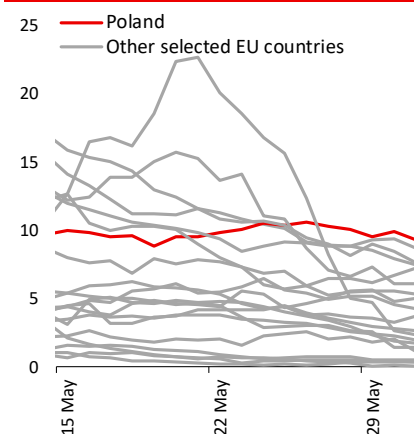
■ Inflation dropped in May to below 3% thanks do lower contributions of fuels and food. Difficulties in conducting inflation surveys during the lockdown as well as increases in prices of those services which were brought back to life after the lockdown (like hairdressers) helped to keep the core inflation at an elevated level. We expect the headline inflation to gradually decline over the coming months to below 2% at the end of the year.

■ MPC decided to cut rates again – the reference rate down by 40bp to 0.1% – despite earlier comments of some MPC members (even the most dovish ones) that there was no need to do so. It seems the cut has at least clarified the situation for incoming months: the NBP should leave the rates unchanged till end of this year (or maybe even till the end of 2021).

■ Zloty, as well as some of the other EM currencies, has not gained after the global stock indices rebounded. Only the acceleration of the dollar weakness helped EURPLN to drop to 4.40 from 4.55 within a few days. We think that the pace and size of the recent zloty appreciation and the fact that stop loss orders of zloty bearish investors have had significant share, suggest that the drop might prove temporary. In June we expect zloty to lose some of the gains and EURPLN to move back to around 4.50.

■ In May, bond yields have declined despite decent supply of bonds both sovereign and those guaranteed by the state. On the short end of the curve it was the increasingly abundant liquidity of the banking sector that was the main factor, on the long end of the curve it was the announcement of the EUR 750bn European Commission's new programme that led to narrower periphery spreads. NBP cut rates at the 28 May meeting which surprised investors and pushed the yields much lower. In the new reality of almost zero NBP rates, the front end of the curve might remain at the additional pressure from hugely abundant liquidity in the banking sector and the yields may slowly drift towards zero. At the long end of the curve we think there is little scope for further yield declines as the PL-DE spread has narrowed significantly already.

Covid-19 new daily infections per 1mn inhabitants, 7 day moving average



Source: Ministry of Health, Hopkins University, Santander

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- [Another emergency rate cut](#)
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- [Record M3, weak budget and lower margins](#)
- [Construction resilient to virus, unlike retail sales](#)
- [A quarter of industrial output gone in April](#)
- [Big hit to wages and employment in April](#)
- [CPI and GDP: calm before the storm](#)
- [Strong March C/A, mild decline of imports](#)

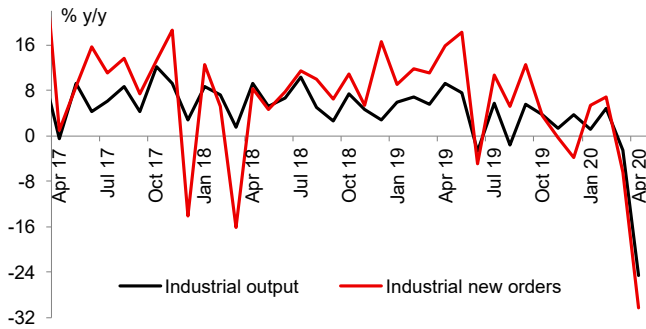
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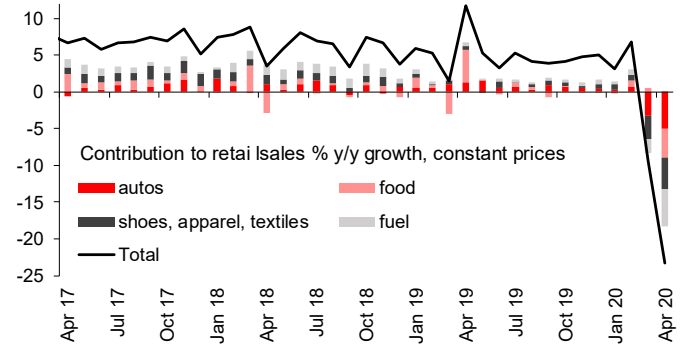
Economy in charts

The sudden stop of industrial activity in April went beyond imagination



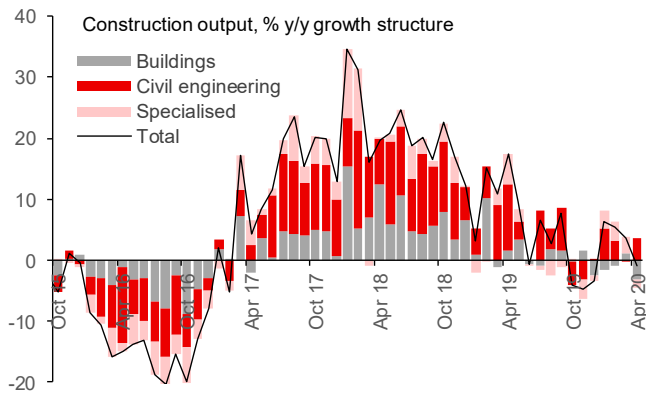
Source: GUS, Santander

Online purchases did not prevent a 20-percent dip in retail sales



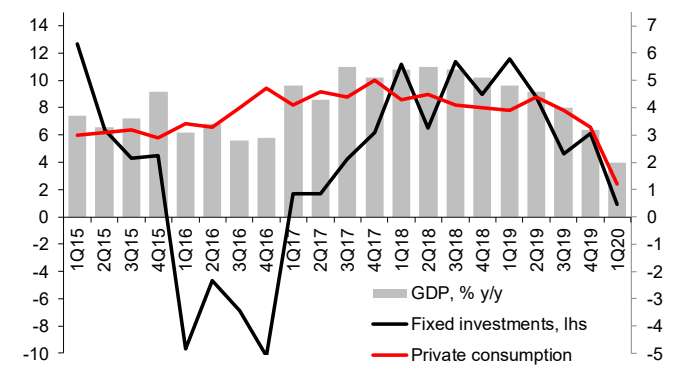
Source: GUS, Santander

Construction sector did not care much about the epidemic



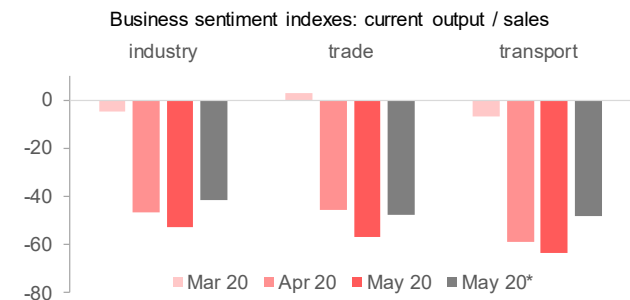
Source: GUS, Santander

Not much room for optimism despite quite positive 1Q results



Source: GUS, Santander

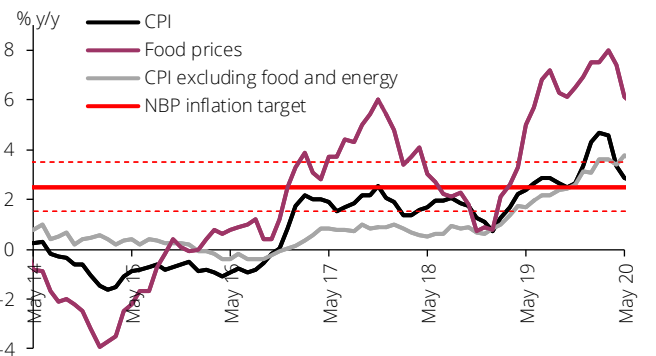
The trough has been marked: firms' expectations are better than current assessment of situation



* Index of output / sales expectations

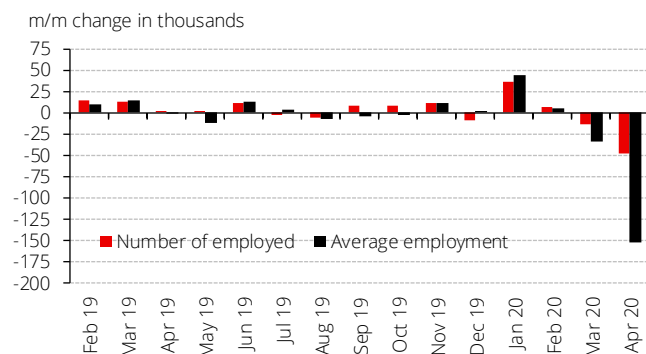
Source: GUS, Santander

Freezing of economy froze (high) core inflation as well



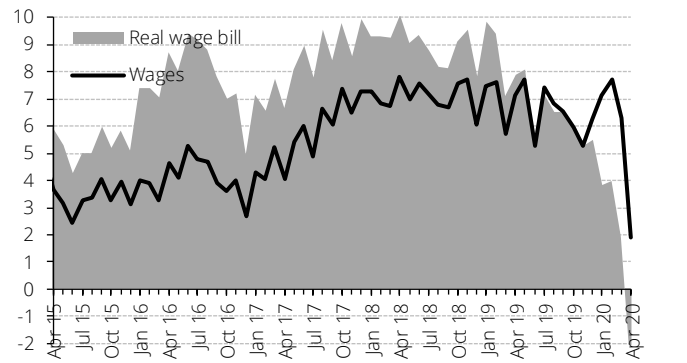
Source: GUS, Santander

(So far) no major labour shedding visible...



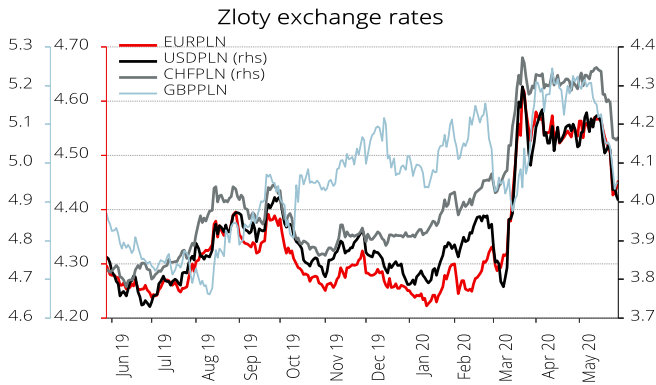
Source: GUS, Santander

...but wage cuts are in place

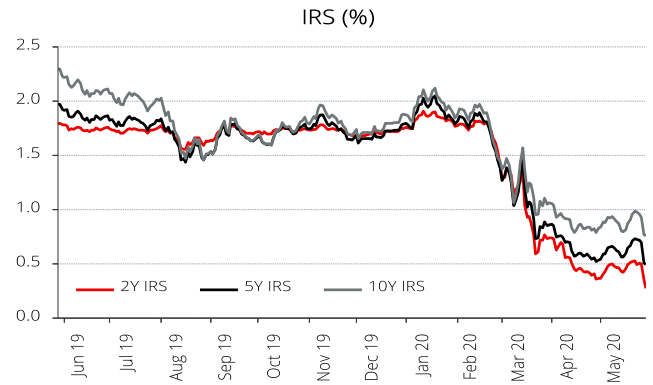


Source: GUS, Santander

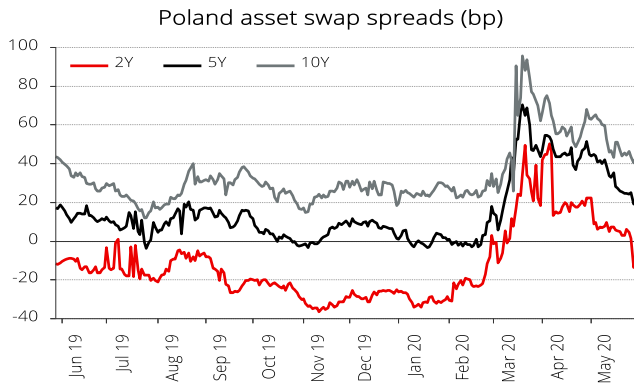
Markets in charts



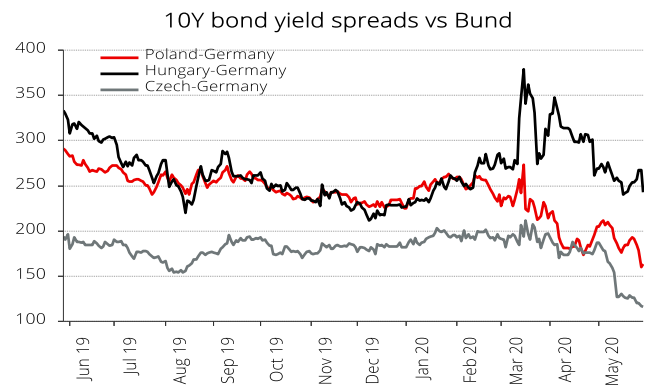
Source: Refinitiv Datastream, Santander Bank Polska



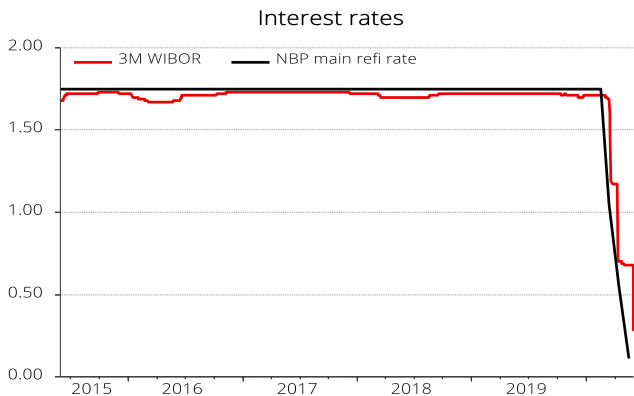
Source: Refinitiv Datastream, Santander Bank Polska



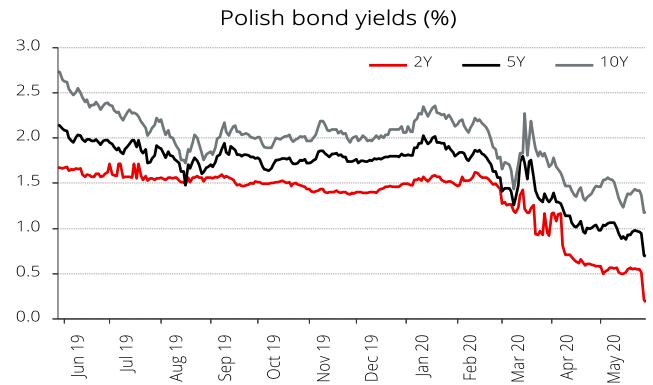
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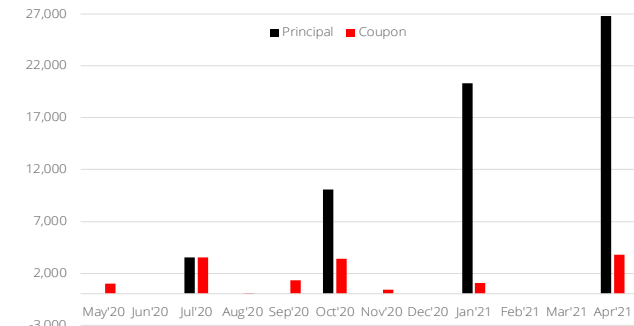
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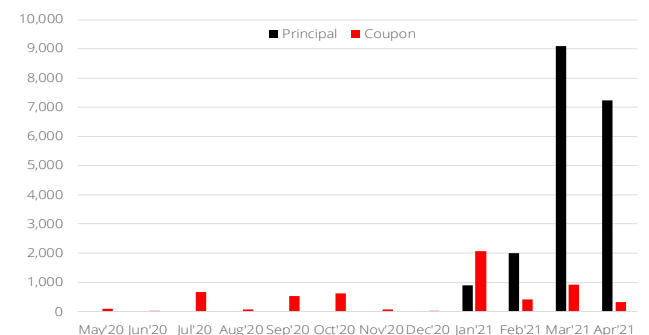
Principal and interest payments

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
1 June PL: PMI – manufacturing (May) EZ: PMI – manufacturing (May) DE: PMI – manufacturing (May) US: ISM – manufacturing (May)	2	3 DE: PMI – services (May) EZ: PMI – services (May) US: ADP report (May) CZ: GDP (I kw) US: Industrial orders (May)	4 CN: PMI – services (Apr) EZ: ECB decision EZ: Retail sales (Apr) US: Trade balance (Apr)	5 PL: FX reserves (May) US: Non-farm payrolls (Apr) HU: Industrial output (Apr) DE: Industrial orders (Apr) CZ: Retail sales (Apr)
8 DE: Industrial output (Apr)	9 EZ: GDP (I kw) HU: CPI (May) DE: Exports (Apr)	10 US: FOMC decision US: CPI (Apr) CZ: CPI (May) HU: minutes	11	12 US: Flash Michigan (Jun) EZ: Industrial output (Apr)
15 PL: CPI (May) PL: Balance of payments (Apr)	16 PL: Core CPI (May) PL: MPC decision US: Retail sales (May) US: Industrial output (May) DE: ZEW (May)	17 US: House starts (May)	18 PL: Employment (May) PL: Wages (May) PL: MPC minutes US: Philly Fed index (Jun)	19 PL: Industrial output (May) PL: PPI (May) EZ: PMI manufacturing (May) EZ: PMI services (May)
22 PL: Retail sales (May) EZ: Consumer confidence (Jun) US: Home sales (May)	23 PL: Money supply M3 (May) PL: Construction and assembly output (May) HU: Central bank decision DE: Flash PMI – manufacturing (Jun) DE: Flash PMI – services (Jun) US: New home sales (May)	24 PL: Unemployment rate (May) CZ: Central bank decision DE: Ifo index (Jun)	25 US: GDP third estimate (Q1) US: Durable goods orders (May)	26 US: Personal incomes and spending (May) US: Michigan index (May) EZ: M3 Money supply (May)
29 US: Pending home sales (May) DE: Flash CPI (Jun)	30 PL: Flash CPI (Jun) US: Consumer confidence (Jun)	1 July PL: PMI – manufacturing (Jun) EZ: PMI manufacturing (Jun) DE: PMI manufacturing (Jun) US: ADP report (Jun) US: ISM manufacturing (Jun) CZ: PMI – manufacturing (Jun)	2 US: Trade balance (May) US: Non-farm payrolls (Jun) EZ: Unemployment rate (May)	3 EZ: PMI services (Jun) DE: PMI services (May)

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	28	16	8	-	9	7	4	2
MPC minutes	23	20	19	-	-	1, 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	-	-	30	-	-				
Balance of payments	13	13	16	14	14	15	14	13				
Money supply	24	24	23	23	25	23	22	24				

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

Economic data and forecasts for Poland

Monthly economic indicators

		May 19	Jun 19	Jul 19	Aug 19	Sep 19	Oct 19	Nov 19	Dec 19	Jan 20	Feb 20	Mar 20	Apr 20	May 20	Jun 20
PMI	pts	48.8	48.4	47.4	48.8	47.8	45.6	46.7	48.0	47.4	48.2	42.4	31.9	40.6	46.0
Industrial production	% y/y	7.7	-2.6	5.8	-1.5	5.6	3.7	1.4	3.8	1.1	4.8	-2.5	-24.6	-16.7	-12.4
Construction production	% y/y	9.5	-0.7	6.6	2.6	7.6	-4.1	-4.7	-3.3	6.4	5.5	3.7	-0.9	-1.6	2.6
Retail sales ^a	% y/y	7.3	5.3	7.4	6.0	5.3	5.4	5.9	7.5	5.7	9.6	-7.0	-22.6	-14.6	-9.9
Unemployment rate	%	5.4	5.3	5.2	5.2	5.1	5.0	5.1	5.2	5.5	5.5	5.4	5.8	6.1	6.7
Gross wages in corporate sector	% y/y	7.7	5.3	7.4	6.8	6.6	5.9	5.3	6.2	7.1	7.7	6.3	1.9	0.3	0.4
Employment in corporate sector	% y/y	2.7	2.8	2.7	2.6	2.6	2.5	2.6	2.6	1.1	1.1	0.3	-2.1	-2.7	-3.4
Exports (€)	% y/y	11.5	-2.4	6.4	-1.2	13.0	4.0	0.8	9.0	3.6	7.5	-7.5	-30.8	-30.2	-23.1
Imports (€)	% y/y	11.5	-5.3	6.7	-3.0	6.2	0.3	-3.5	-0.7	2.4	0.6	-4.5	-28.3	-29.2	-22.1
Trade balance	EUR mn	-260	200	-269	-206	768	340	985	217	480	842	-69	-338	-381	-25
Current account balance	EUR mn	-227	10	-824	-820	846	442	1 412	366	2 348	878	2 438	2 061	2 488	1 897
Current account balance	% GDP	-0.8	-0.7	-0.7	-0.6	-0.3	-0.1	0.1	0.5	0.5	0.8	1.3	1.7	2.2	2.6
Budget balance (cumulative)	PLN bn	-1.9	-5.0	-4.8	-2.0	-1.8	-3.2	-1.9	-13.7	3.4	-3.3	-9.4	-18.9	-29.1	-42.8
Budget balance (cumulative)	% of FY plan	6.8	17.7	16.8	6.9	6.3	11.2	6.6	47.9	-	-	-	-	-	-
CPI	% y/y	2.4	2.6	2.9	2.9	2.6	2.5	2.6	3.4	4.3	4.7	4.6	3.4	2.9	2.9
CPI excluding food and energy	% y/y	1.7	1.9	2.2	2.2	2.4	2.4	2.6	3.1	3.1	3.6	3.6	3.6	3.8	3.6
PPI	% y/y	1.4	0.5	0.5	0.9	0.8	-0.3	-0.1	1.0	0.9	0.2	-0.3	-1.3	-1.4	-0.8
Broad money (M3)	% y/y	9.9	9.3	9.9	9.9	9.4	9.3	9.4	8.3	9.3	9.4	11.8	14.0	15.8	15.0
Deposits	% y/y	10.0	9.3	10.0	9.9	9.9	9.4	9.5	8.5	9.7	9.7	10.6	12.1	13.3	15.8
Loans	% y/y	6.5	6.7	7.4	7.9	7.6	6.6	6.5	5.2	6.3	5.5	6.4	5.9	4.5	3.5
EUR/PLN	PLN	4.30	4.27	4.26	4.35	4.35	4.30	4.29	4.27	4.25	4.28	4.43	4.54	4.53	4.47
USD/PLN	PLN	3.84	3.77	3.80	3.91	3.95	3.89	3.88	3.84	3.83	3.92	4.01	4.18	4.16	4.06
CHF/PLN	PLN	3.80	3.82	3.84	3.98	3.99	3.92	3.91	3.91	3.95	4.02	4.19	4.31	4.29	4.25
Reference rate ^b	%	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.00	0.50	0.10	0.10
3M WIBOR	%	1.72	1.72	1.72	1.72	1.72	1.72	1.71	1.70	1.71	1.71	1.45	0.83	0.66	0.28
Yield on 2-year T-bonds	%	1.69	1.62	1.54	1.53	1.53	1.50	1.41	1.44	1.53	1.53	1.11	0.71	0.51	0.09
Yield on 5-year T-bonds	%	2.26	1.99	1.85	1.72	1.81	1.73	1.79	1.78	1.90	1.76	1.49	1.10	0.94	0.61
Yield on 10-year T-bonds	%	2.89	2.46	2.21	1.93	2.00	1.98	2.06	2.05	2.23	2.08	1.84	1.48	1.41	1.19

Note: ^a in nominal terms, ^b at the end of the period.

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

Quarterly and annual economic indicators

		2018	2019	2020E	2021E	1Q19	2Q19	3Q19	4Q19	1Q20E	2Q20E	3Q20E	4Q20E
GDP	PLN bn	2 120.5	2 273.6	2 258.8	2 411.8	521.7	548.1	565.8	637.9	552.2	506.4	559.4	640.8
GDP	% y/y	5.3	4.1	-3.8	5.8	4.8	4.6	4.0	3.2	2.0	-11.7	-3.8	-1.8
Domestic demand	% y/y	5.6	3.0	-3.6	5.0	3.3	4.7	3.3	1.3	1.7	-10.1	-3.9	-2.2
Private consumption	% y/y	4.2	3.9	-2.8	6.0	3.9	4.4	3.9	3.3	1.2	-8.0	-3.0	-1.3
Fixed investments	% y/y	9.4	7.2	-6.9	6.6	11.6	8.8	4.6	6.1	0.9	-12.0	-9.0	-6.0
Industrial production	% y/y	5.9	4.2	-6.9	5.1	6.1	4.2	3.3	2.4	1.1	-18.0	-6.7	-4.1
Construction production	% y/y	19.7	3.6	2.8	6.4	9.9	7.8	5.7	-4.0	5.0	0.2	0.6	5.6
Retail sales ^a	% y/y	7.8	6.7	-5.1	4.1	5.3	8.7	6.4	6.3	2.4	-15.7	-2.4	-3.9
Unemployment rate ^b	%	5.8	5.2	8.2	8.5	5.9	5.3	5.1	5.2	5.4	6.7	7.8	8.2
Gross wages in the national economy ^a	% y/y	7.2	7.2	3.4	4.8	7.1	7.0	7.7	6.9	7.7	0.8	2.4	2.5
Employment in the national economy	% y/y	2.6	2.2	-2.0	-1.0	2.7	2.3	2.1	1.8	0.5	-2.2	-3.1	-3.3
Exports (€)	% y/y	7.4	6.2	-12.3	7.0	8.7	6.0	6.1	4.2	0.9	-28.2	-13.1	-9.0
Imports (€)	% y/y	10.6	2.8	-12.6	6.3	5.0	4.6	3.3	-1.3	-0.6	-26.7	-13.3	-10.0
Trade balance	EUR mn	-4 782	2 415	2 888	4 526	400	168	301	1 546	1 253	-744	387	1 992
Current account balance	EUR mn	-5 046	2 477	12 047	3 362	1 414	-377	-782	2 222	5 664	6 447	-1 658	1 594
Current account balance	% GDP	-1.0	0.5	2.4	0.6	-0.7	-0.7	-0.3	0.5	1.3	2.6	2.5	2.4
General government balance	% GDP	-0.2	-0.7	-10.2	-2.7	-	-	-	-	-	-	-	-
CPI	% y/y	1.6	2.3	3.0	1.2	1.2	2.4	2.8	2.8	4.5	3.0	2.3	2.0
CPI ^b	% y/y	1.1	3.4	1.7	1.5	1.7	2.6	2.6	3.4	4.6	2.9	2.2	1.7
CPI excluding food and energy	% y/y	0.7	2.0	3.2	1.0	1.1	1.8	2.2	2.7	3.4	3.7	3.1	2.5
PPI	% y/y	2.2	1.2	-0.8	3.0	2.5	1.5	0.7	0.2	0.3	-1.2	-1.2	-1.0
Broad money (M3) ^b	% y/y	9.2	8.3	13.3	6.7	9.9	9.3	9.4	8.3	8.7	9.2	9.6	10.1
Deposits ^b	% y/y	8.7	8.5	10.3	4.7	9.7	9.3	9.9	8.5	10.6	15.8	13.1	10.3
Loans ^b	% y/y	7.6	5.2	0.0	4.7	8.1	6.7	7.6	5.2	6.4	3.5	0.4	0.0
EUR/PLN	PLN	4.26	4.30	4.48	4.50	4.30	4.28	4.32	4.29	4.32	4.51	4.55	4.55
USD/PLN	PLN	3.61	3.84	4.04	3.89	3.79	3.81	3.89	3.87	3.92	4.13	4.08	4.03
CHF/PLN	PLN	3.69	3.86	4.16	3.99	3.80	3.80	3.94	3.91	4.05	4.28	4.21	4.08
Reference rate ^b	%	1.50	1.50	0.10	0.10	1.50	1.50	1.50	1.50	1.00	0.10	0.10	0.10
3M WIBOR	%	1.71	1.72	0.69	0.28	1.72	1.72	1.72	1.71	1.62	0.59	0.28	0.28
Yield on 2-year T-bonds	%	1.59	1.57	0.72	0.15	1.64	1.65	1.53	1.45	1.39	0.43	0.61	0.43
Yield on 5-year T-bonds	%	2.51	1.97	0.84	0.65	2.23	2.14	1.76	1.76	1.55	0.73	0.55	0.55
Yield on 10-year T-bonds	%	3.21	2.38	1.39	1.30	2.84	2.68	1.99	2.03	1.87	1.28	1.20	1.20

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

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