

11 September 2020

# Weekly Economic Update

## Central banks back from holidays

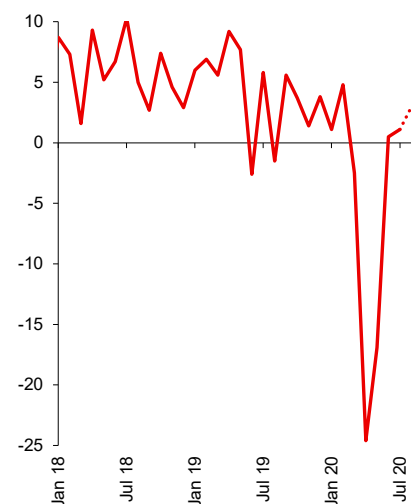
### What's hot next week

- At the first meeting after summer holidays the ECB did not soften its rhetoric, which triggered euro appreciation and pushed yields higher. After the weekend central banks will be still in focus: the Polish MPC meets on Tuesday, US Fed on Wednesday. We do not expect any change in the MPC's monetary policy or message. Although the recent data show that the central bank's economic forecasts released in July were way too pessimistic, but in our view it does not change the fact that majority of Council members (including the NBP governor) still support long stability of interest rates, possibly until the end of their term of office. It will be again one-day meeting, so we guess that there will be no press conference afterwards. As regards the Fed, investors will be interested to see any more details about implementation of its new monetary strategy of average inflation target, and confirmation that it implies "lower for longer" scenario for interest rates. Fed will show its updated economic forecasts.
- There are quite numerous data releases in the agenda. In Poland we will see balance of payments, final CPI inflation and core inflation, wages and employment, industrial production. This time our forecasts are not far from market consensus and in general confirm still solid recovery from the pandemic bottom. Flash inflation estimate dropped more than expected and the final data should confirm that it was mainly due to core components, which heralds further CPI decline.
- Abroad we will see some more data reflecting economic activity (including production, retail sales, housing market).
- Polish parliament returns from summer break and will start work on the 2020 budget amendment. There is some rumour about the approaching legislative offensive, aimed at continuation of controversial changes, including judiciary system. Also, talks about government reshuffle are in progress and we may see some news in this regard.
- While in most of European countries the number of new Covid-19 cases is rising, Poland sees the opposite trend recently. Is it the effect of containing the disease, or simply the reduction of testing? Probably both.
- Today in the evening Moody's may publish its rating review for Poland. We do not expect any change. Two other main agencies will follow soon: Fitch on 25 September, S&P on 2 October.

### Market implications

- Despite dollar depreciation, which is usually supportive for EM currencies, the latter were losing in the recent week. PLN was quite stable and outperformed most of EM peers. We do not expect the zloty to break away from the horizontal band anytime soon, with EURPLN constrained by 4.42 from the bottom and 4.48 from the top.
- Bond yields could increase slightly, following the German Bund and also under influence of solid macro data, confirming that the economy is recovering.

Polish industrial output, % y/y



Source: GUS, Santander

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### Last week in economy

Last week was not really rich in important macro data, but we got to see numbers on Polish public debt metrics in 2Q20, showing a growing discrepancy between domestic and Eurostat definitions, as well as new forecasts from rating agencies and some data from the labour market..

**General government debt** rose in 2Q20 to 55.3% of GDP from 47.9% in 1Q20. In nominal terms, debt rose by PLN158.6bn, mainly owing to bond issuances by the Polish Development Fund (PLN62bn) and state-owned BGK bank (PLN42.6bn). By the end of the year, the debt may rise above 60% of GDP. Public debt, calculated in Polish definition and eligible to constitutional limit of 60% to GDP, amounted to 47.9% of GDP.

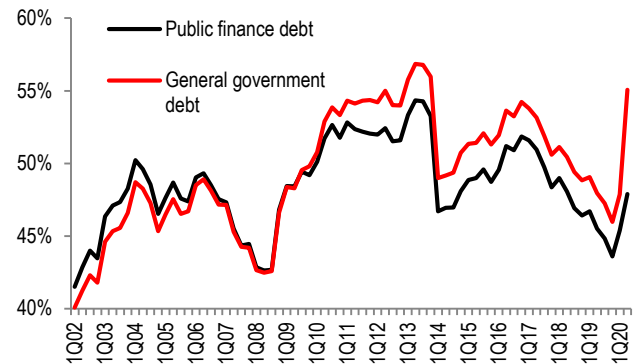
**Fitch rating agency** revised its 2020 GDP forecast for Poland to -3.5% from -3.2% forecasted in June, while S&P predicts Poland's GDP to fall by 4% in 2020 and to rise 5% in 2021, stressing the downward risk for next year's estimate. Fitch Ratings' Paul Gamble pointed to the high fiscal deficit planned by the government for 2021 (GG deficit at 6% of GDP). He noticed that other countries plan to reach or go below the EU's deficit threshold of 3% of GDP. Fitch may review its rating for Poland on 25 September and S&P on 2 October.

According to the GUS report on **labour demand**, at the end of June, 10.2% of workers were working remotely vs 11.0% at the end of March. The care allowance was paid to 2.1% of workers (vs 2.3% in March). In 2Q20, 81.9k of the new workplaces were created (vs 146.8k in 2Q19), the least since 4Q12. 93.6k of workplaces were destroyed (vs 81.9k in 2Q19) and the number of job destructions was larger than creations for the first since 4Q12. Pandemic has affected noticeably mainly the job creation. We think that in 3Q the situation could improve but we do not expect imminent return to the pre-crisis level.

According to state Social Security Fund (ZUS), the number of **non-residents registered for social insurance** (i.e. mostly working) rose in August by 30.5k m/m to 658k. This year, the lowest number of registrations was reported in June (605k), the highest in February (670k). This rise of this number is in line with the economic activity normalisation trend observed in Poland.

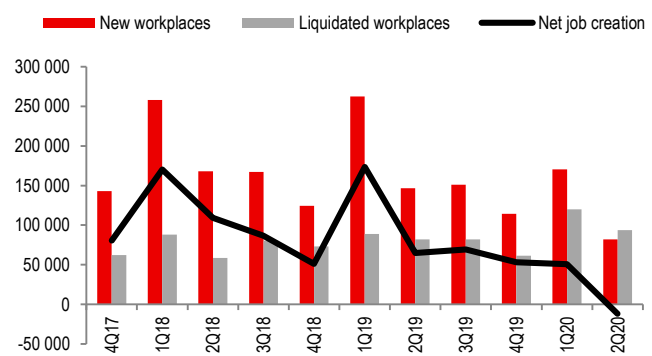
**MPC member Rafał Sura** said that the looming inflation decrease and the need to support the economy's recovery from recession supports the scenario of stable interest rates. He also stressed that the inflationary trends should be analysed with caution. Meanwhile, **Eryk Łon** said that the baseline scenario assumes stable interest rates until the end of this MPC's term of office, but he did not rule out submitting a rate cut motion if the risk of consumer moods' deterioration appears.

### Polish debt metrics, % of GDP



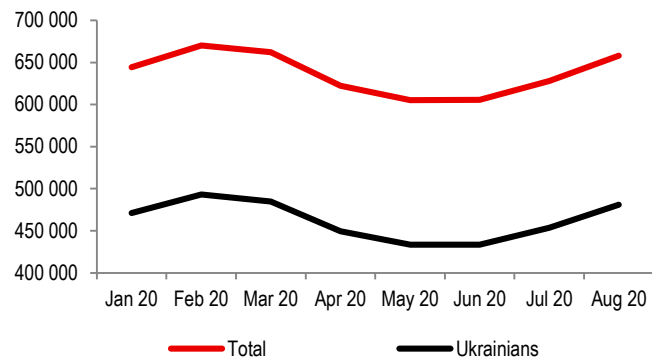
Source: Finance Ministry, GUS, Santander

### Workplaces creation and destruction



Source: GUS, Santander

### Foreigners registered in Polish social security



Source: ZUS, Santander

## FX and FI market

### Last week on the market

**FX** Although in case of some CEE and G10 currencies the passing week saw some rise of volatility, EURPLN remained pretty stable hovering between the last Friday's peak (4.47) and low (4.425). The zloty did not show any meaningful reaction to neither dollar appreciation ahead of the ECB meeting nor to its fast weakening after. The pound lost ground amid still lack of progress in UK-EU talks and the Turkish lira reached its fresh all-time-low vs the dollar.

In the CEE region, the koruna underperformed its peers with EURCZK rising to 26.6, its highest since late July. Czech August CPI declined only slightly to 3.3% y/y from 3.4% and remained above the upper end of the central bank's tolerance band. Also, Czechia recorded a sharp rise of the new COVID-19 cases (more than 1k of new infections daily for three days in a row). EURHUF eased to 357 from 361 mainly thanks to the information that the Hungarian central bank said it will run FX swap tenders making the foreign currencies more available for the commercial banks. USDRUB ended the week at 75.0 after it first rose to 76.57, its highest since mid-April. The ruble's recovery was supported by the weaker dollar.

**FI** Polish bond yields and IRS continued the down move started at the beginning of September. As for now, the belly of the curve is the most advanced in neutralizing the upside move (50% for IRS, 80% for yields) while the long end is lagging slightly (25% for IRS, 50% for yields). Both Polish curves are becoming more steeper. Bond 2-10 spread reached c130bp (its highest since May 2019) and IRS climbed to c80bp (its highest since November 2018). The 10Y PL-DE bond yield spread fell 6bp to 182bp mainly thanks to lower Polish bond yields.

**Key events** of the coming week could be the meetings of the US and Polish central banks. In late August, Jerome Powell outlined the new FOMC strategy that was received by the market as a dovish turn. At the upcoming meeting the new CPI and GDP will be released. We guess that the overall message should be unsurprisingly dovish.

Polish MPC meets after the August break during which they saw the domestic economy contracting less than the central bank expected and reviving faster than many in the market forecasted. However, the tone of the statement should sound similarly to the previous ones.

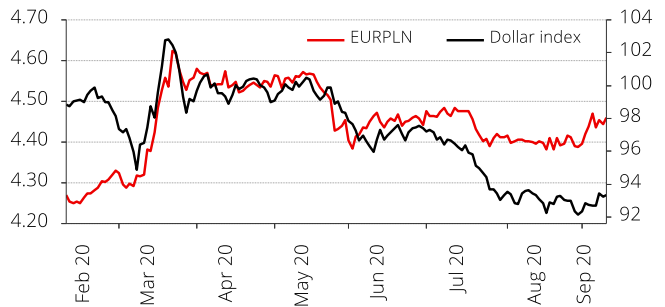
### Market implications

**FX** After an upside leg that took EURPLN from 4.38 to nearly 4.48 in early September, the exchange rate has stabilized around 4.45 since then. Not only zloty but also the koruna and forint did not show big positive reaction to the dollar depreciation after the ECB meeting and to recovery on the equity market after the sell-off that started at the end of the previous week.

Interestingly, only minor changes seen in the recent days allowed the zloty, ruble and forint to outperform all but one of their EM peers with the vast majority of the emerging currencies depreciating vs the euro in the passing week. Apparently, global investors may be reluctant to bet for persistent appreciation of the EM currencies given the still valid risk factors: rise of COVID-19 infections in some countries and mounting tensions in UK-EU talks. Thus, although we believe EURUSD may now rise after it rebounded from the lower end of the consolidation, the effect of weaker dollar may not be enough to push EURPLN below 4.42. At the same time, we do not expect it to rise above 4.48.

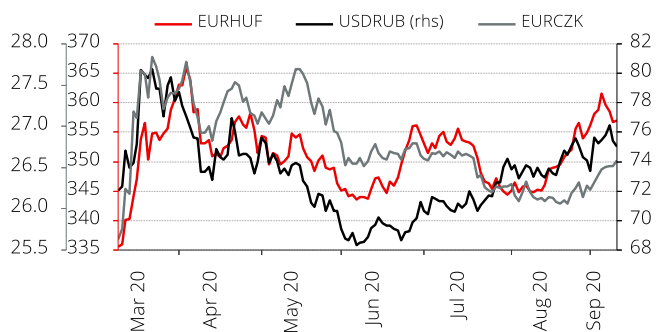
**FI** We think that the yield of 10Y Bund might rise in the coming days after it rebounded from the lower end of consolidation observed since mid-August. This may be supported by not that dovish like expected outcome of the ECB meeting and it seems that the soft message from the FOMC could already be priced in. Should this scenario for Bund materialize, Polish yields may also rise, particularly on the belly of the curve that recently saw the biggest decline.

### EURPLN and dollar index



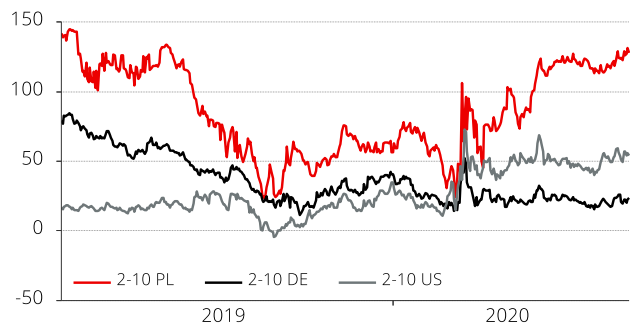
Source: Refinitiv Datastream, Santander Bank Polska

### EURHUF, EURCZK and USDRUB



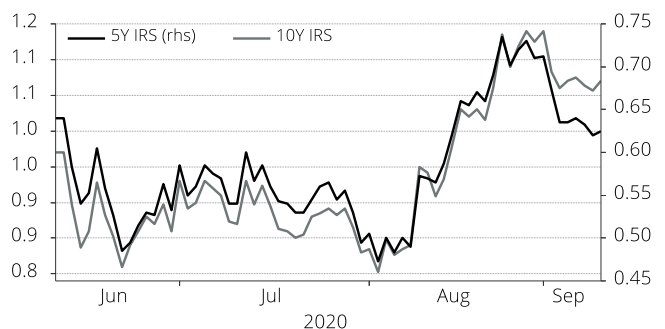
Source: Refinitiv Datastream, Santander Bank Polska

### Slope of the bond curves



Source: Refinitiv Datastream, Santander Bank Polska

### Poland IRS



Source: Refinitiv Datastream, Santander Bank Polska

## Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE
				MARKET	SANTANDER	
<b>MONDAY (14 September)</b>						
11:00	EZ	Industrial Production SA	Jul	% m/m	2.7	- 9.1
<b>14:00</b>	<b>PL</b>	<b>Current Account Balance</b>	<b>Jul</b>	<b>€mn</b>	<b>2 777</b>	<b>1 573 2 842</b>
<b>14:00</b>	<b>PL</b>	<b>Trade Balance</b>	<b>Jul</b>	<b>€mn</b>	<b>2 134</b>	<b>1 642 2 666</b>
<b>14:00</b>	<b>PL</b>	<b>Exports</b>	<b>Jul</b>	<b>€mn</b>	<b>19 830</b>	<b>19 487 18 689</b>
<b>14:00</b>	<b>PL</b>	<b>Imports</b>	<b>Jul</b>	<b>€mn</b>	<b>17 291</b>	<b>17 845 16 023</b>
<b>TUESDAY (15 September)</b>						
	<b>PL</b>	<b>MPC decision</b>		<b>%</b>	<b>0.10</b>	<b>0.10 0.10</b>
<b>10:00</b>	<b>PL</b>	<b>CPI</b>	<b>Aug</b>	<b>% y/y</b>	<b>2.9</b>	<b>2.9 2.9</b>
11:00	DE	ZEW Survey Current Situation	Sep	pts	-72.5	- -81.3
15:15	US	Industrial Production	Aug	% m/m	1.0	- 3.03
<b>WEDNESDAY (16 September)</b>						
<b>14:00</b>	<b>PL</b>	<b>CPI Core</b>	<b>Aug</b>	<b>% y/y</b>	<b>4.1</b>	<b>4.1 4.3</b>
14:30	US	Retail Sales Advance	Aug	% m/m	1.0	- 1.2
20:00	US	FOMC decision		%	0.25	- 0.25
<b>THURSDAY (17 September)</b>						
<b>10:00</b>	<b>PL</b>	<b>Employment in corporate sector</b>	<b>Aug</b>	<b>% y/y</b>	<b>-1.35</b>	<b>-1.6 -2.3</b>
<b>10:00</b>	<b>PL</b>	<b>Average Gross Wages</b>	<b>Aug</b>	<b>% y/y</b>	<b>4.1</b>	<b>4.1 3.8</b>
11:00	EZ	HICP	Aug	% y/y	-0.2	- -0.2
14:30	US	Initial jobless claims	week	k	-	- 884
14:30	US	Building permits	Aug	k	1 530	- 1 483
14:30	US	House starts	Aug	k	1 450	- 1496
14:30	US	Philly Fed index	Sep	pts	15.0	- 17.2
<b>FRIDAY (18 September)</b>						
<b>10:00</b>	<b>PL</b>	<b>Industrial output</b>	<b>Aug</b>	<b>% y/y</b>	<b>3.4</b>	<b>2.9 1.1</b>
<b>10:00</b>	<b>PL</b>	<b>PPI</b>	<b>Aug</b>	<b>% y/y</b>	<b>-1.0</b>	<b>-1.2 -0.6</b>
16:00	US	Flash Michigan index	Sep	pts	76.0	- 74.1

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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