

25 September 2020

Weekly Economic Update

Markets worried about pandemics

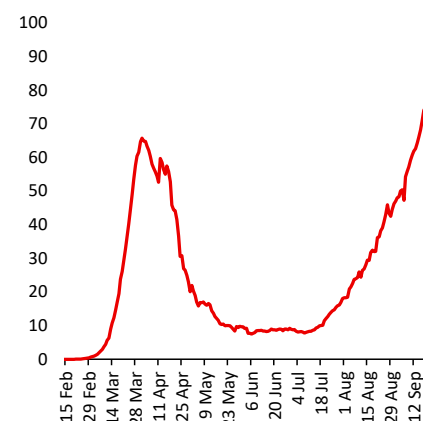
What's hot next week

- The pandemic resurgence is the number one issue again. Most European countries (including CEE) see the number of Covid-19 cases rising to new record highs, which triggers worries about the economic outlook. Even if governments will be quite reluctant to re-impose tight restrictions (which seems likely), the economic activity may suffer due to psychological effects (likely to affect consumer behaviour) and/or quickly rising number of people in quarantine (effectively reducing the available workforce across branches). It is too early to say precisely what will be the economic impact, but we think it is too early to adjust 4Q forecasts lower.
- Domestic politics recedes to the background, at least for now. It looks like the risk of coalition breakdown has decreased – on Saturday the new coalition agreement is to be signed and the government reshuffle is expected after the weekend.
- Political issues will be important abroad: on Tuesday the first presidential debate takes place in the USA, which may affect the market perception of Donald Trump's chances for reelection; in Europe the Brexit negotiations will continue
- The calendar of domestic data publications is almost empty: on Thursday flash September inflation and PMI are due, quarterly balance of payments data are out a day earlier. We expect a further decline of CPI, to even 2.8% y/y, mostly thanks to falling core inflation. Polish PMI may have risen in September, following most of other European country indexes. This would confirm the rebound in industry. In Europe, final PMIs, ESI indexes and flash inflation readings will be out, in the USA the focus will be on employment, inflation and ISM indexes.
- Already this evening, Fitch may review the Polish rating and next Friday is S&P's turn. We still do not expect any changes to the country credit score.

Market implications

- Zloty weakened in line with other EM currencies. Despite the fact that the weakening looks like a temporary phenomenon, we expect no breakthrough the next week. Fears related to the new wave of Covid-19 cases, stronger dollar and lower equity indices – if those factors persist, EURPLN will rather remain at the elevated level of 4.55
- Higher risk aversion supports bond prices, hence the long end of the yield curve might slightly decline a bit. Short term of the curve remains at the lows under the pressure of structurally very liquid banking system.

New Covid-19 cases in the EU per 1 million inhabitants, 7-day moving average



Source: John Hopkins, Santander

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Last week in economy

Last week's data were rather disappointing, with retail sales and construction output coming in below expectations and confidence indices stabilising at relatively low levels.

Poland **retail sales** in constant prices slowed to 0.5% y/y in August from 3.0% y/y in July and were below expectations. Details confirm that the postponed demand for durables that has driven the recovery is waning. We are expecting retail sales to record a rather paltry growth in the months to come as delayed effects of Covid-19 lockdown and labour market weakness will be becoming more apparent. In August Polish **construction output** dropped by 12.1% y/y, clearly below market expectations again – a rebound from declines of c.10% y/y or more is not going to come as easily as in industry. Find more in our [Economic comment](#).

After August, the **central budget** showed a deficit of PLN13.3bn after PLN16.3bn in July (deficit fell for the second month in a row). The spending side is still affected by effects of shift in major positions away from the central budget (e.g. subsidy to Social Security fell by 27.6% y/y in August). The revenue side surprised to the upside, like in July, and mostly thanks to VAT, which improved by 19% y/y (9.6% y/y earlier) which in our view is due to two factors: economic rebound and lower possibilities of accelerated tax returns. CIT, after having risen by over 20% y/y now fell by -17.8% y/y in August. PIT revenues are still in the negative territory (-2.9% y/y).

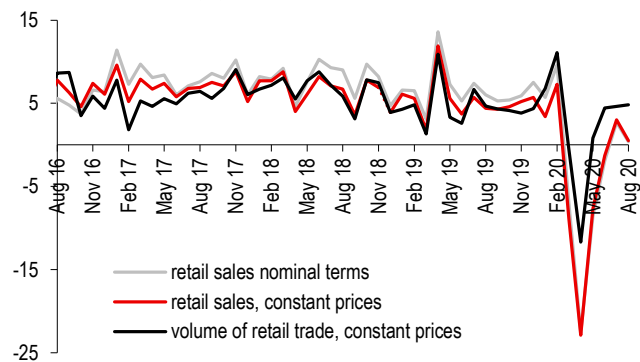
September **consumer confidence** has not changed much m/m, after a slight deterioration in August and swift increases in the previous 3 months. Many of the contributing parts have already stabilised below the pre-pandemic level, but are not really depressed (during the 2012-2013 slowdown, the sentiment was much worse). It is worth noting a significant decline in the assessment of the current financial situation, however its potential impact on the consumption is balanced by further material improvement in expectations of big expenditures (it is the only factor contributing to consumer confidence which kept steadily improving since May). There was also no sign of health fears, recorded in the previous edition in August. However, the current spike in infections is likely to revive these fears.

GUS **business sentiment** indicators for September showed a further improvement. The m/m rise was smaller than in the previous months but quite broad. Current situation was seen as worse than in August only in wholesale trade and among financials and insurance companies, while outlook was considered worse only by HoReCa sector (the second significant deterioration in a row) and to some extent by industry. The sectoral indexes are stabilising well below pre-pandemic levels albeit above the trough from the 2012-2013 slowdown (with the exception of HoReCa).

In August **the number of employees** in the enterprise sector fell by 3k and this was the sixth downward month in a row. The decline was visible mostly in industry and trade, while administrative and supporting activities saw an increase. We are expecting further decline of this measure. Employment (number of full-time jobs) is likely to go up further, but its upward potential is running out.

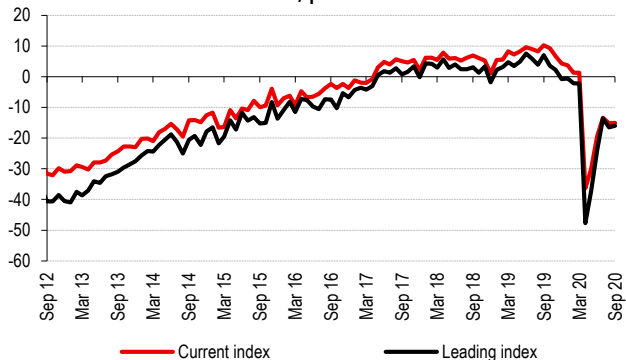
MPC member Kamil Zubelewicz in an interview for Polish Press Agency that he would support motions for a rate hike if such were proposed. He added however that he does not expect such a motion in the near future. According to MPC member Cezary Kochalski interest rates should remain unchanged as long as Polish economy does not enter the path of stable and durable growth. There is no need of a theoretical discussion if rates could possibly be cut even further. We are expecting rates to remain unchanged in the upcoming quarters. NBP released its **monetary policy guidelines** for 2021. No important changes were introduced.

Retail sales data, % y/y



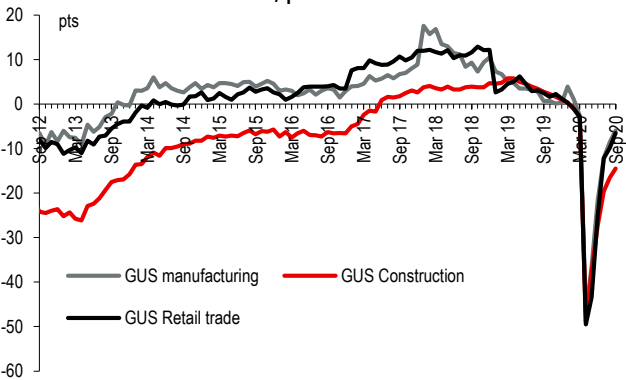
Source: GUS, Santander

Consumer confidence indices, pts



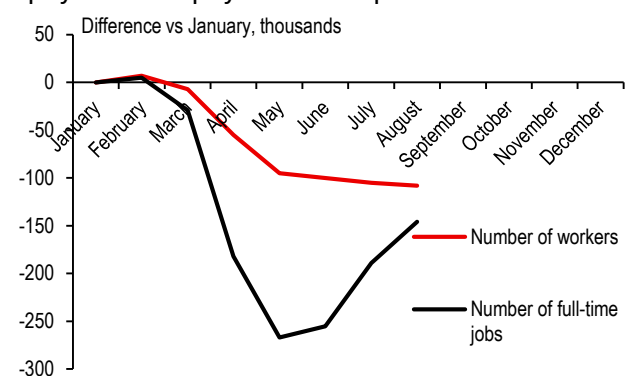
Source: GUS, Santander

Business sentiment indices, pts



Source: GUS, Santander

Employment vs employees in the corporate sector



Source: GUS, NBP, Santander

FX and FI market

Last week on the market

FX The passing week saw a deterioration in risk appetite globally on the fears that the so-much-needed fiscal package in the US might not come to fruition anytime soon. Also some investors challenged the sky-high valuations of tech companies. As a result the dollar strengthened while CEE FX weakened noticeably and with a high volatility. The weekly price changes: EURCZK 1.3%, EURHUF 1.0%, USDRUB 2.3%. EURPLN increased 2.0% to 4.55, USDPLN as much as 4.0% to 3.90 while CHFPLN also 2% to 4.21, Polish macroeconomic data (e.g. August retail sales) have been weaker on the margin. There were central bank meetings in Czechia (unchanged at 0.25%, no suggestion as to the next rates moves) and Hungary (unchanged at 0.60%, no additional stimulus announced). However, just 2 days after the meeting Hungarian central bank decided to hike by 0.15% to 0.75% in order to slow down abrupt forint depreciation.

FI Polish bond yields at the front end of the curve remained stable as usual with the 2Y yield slightly below 0.10%. On last Friday's NBP bills auction a record PLN 178bn was sold indicating the abundant liquidity situation persists. Front end IRS declined somewhat (possibly on the back of a decent market flow further out on the curve late last week) and currently FRA all the way up to 2Y remain ~5bp below the 3M Wibor. The 10Y bonds have not changed on the week (at 1.33%) however in the meantime yield traded as low as 1.28% (early in the week) and as high as 1.35%. The spread to Bund also stable around 185bp. BGK sold PLN 4.9bn of long dated bonds.

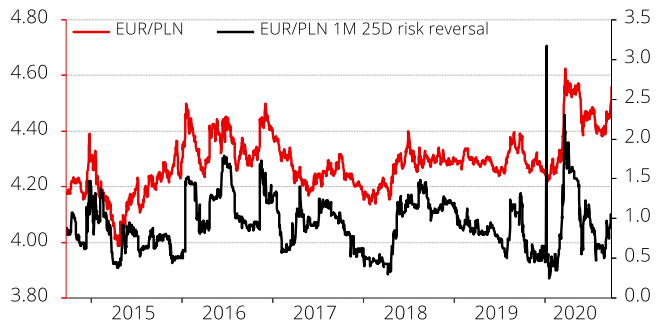
Key event in the next week's calendar in Poland could be the Thursday release of the Polish September manufacturing PMI and September flash inflation. In the first case we expect it follow the German counterpart, while in the latter case we expect softening both for the headline and core. One has to be wary of the number of Covid-19 cases as they keep increasing and broke 1500 cases daily already with ease. In Europe ESI indices on Tuesday, and unemployment on Thursday, Flash HICP on Friday. In Germany CPI on Monday, retail sales and unemployment on Wednesday. In the US, the NFP number on Friday and PCE and ISM manufacturing on Thursday are of note.

Market implications

FX Złoty cannot complain at the lack of headwinds: not only is US dollar getting stronger as US equities correct lower but also the number of Covid-19 cases in Poland is increasing at a noticeable pace while the recent macroeconomic data undershoot expectations. The dollar correction stronger has still room to run in the short term, in our opinion. The Covid-19 cases will likely remain at the heightened level and on the margin contribute to lower growth expectations. If the Thursday inflation reading also falls below market consensus then it would be difficult to expect any material złoty appreciation in the near future. The PMI might turn out comfortably above 50.0 but we do not deem the PMI as a significant market mover. We are cautious on the złoty and as the base case expect EURPLN to remain near the current elevated level of around 4.55 in the next week.

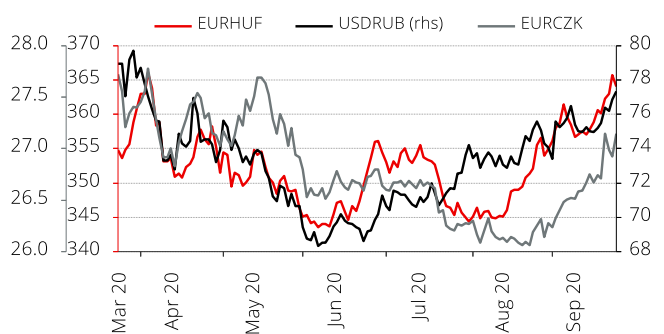
FI Traditionally we do not expect much action on the short end of the curve as we expect NBP to keep rates unchanged till 2022. The long end FRA which moved to below 0.23% (current 3M Wibor level) signal, however, at the very minimum that the market is not as bullish Polish growth as it has been only a few weeks ago. We think it is likely FRA will keep drifting lower at a slow pace as the number of Covid-19 cases increases. Yields on the long end of the bond curve are likely to fall in the coming week given likely softer inflation print and the pandemic situation worsens towards Autumn and hence the 2x10 curve steepness might flatten, as we argued a week ago. No significant changes to the 10Y PL-DE spread are expected either.

EURPLN and risk reversal implied volatility



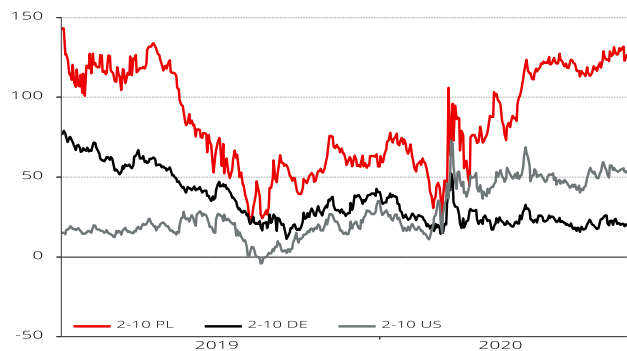
Source: Refinitiv Datastream, Santander Bank Polska

EURHUF, EURCZK and USDRUB



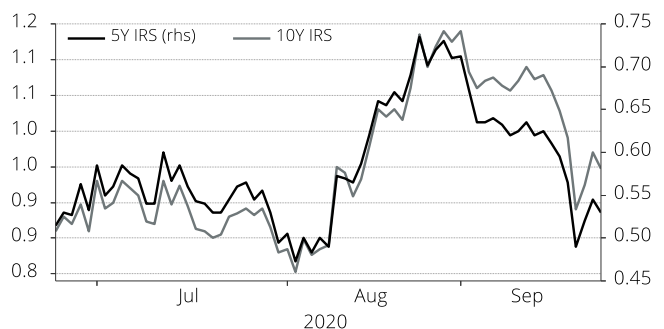
Source: Refinitiv Datastream, Santander Bank Polska

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	
MONDAY (28 September)						
No important data releases						
TUESDAY (29 September)						
11:00	EZ	ESI	Sep	pct.	89.3	87.7
14:00	DE	HICP	Sep	% m/m	-0.1	-0.2
16:00	US	Consumer Conference Board	Sep	pts	90.0	84.8
WEDNESDAY (30 September)						
08:00	DE	Retail Sales	Aug	% m/m	0.4	-0.2
14:00	PL	Balance of payments	2Q	EUR mn	6319	4504
14:15	US	ADP report	Sep	k	650.0	428.4
14:30	US	GDP Annualized	2Q	% Q/Q	-31.6	-31.7
16:00	US	Pending Home Sales	Aug	% m/m	2.0	5.9
THURSDAY (1 October)						
09:00	PL	Poland Manufacturing PMI	Sep	pts	52.7	51.2
09:55	DE	Germany Manufacturing PMI	Sep	pts	56.6	56.6
10:00	EZ	Eurozone Manufacturing PMI	Sep	pts	53.7	53.7
10:00	PL	CPI	Sep	% y/y	3.0	2.8
11:00	EZ	Unemployment Rate	Aug	%	8.1	7.9
14:30	US	Initial Jobless Claims	Sep.20	k	840.0	870.0
14:30	US	Personal Spending	Aug	% m/m	0.7	1.9
14:30	US	Personal Income	Aug	% m/m	-2.1	0.4
14:30	US	PCE Deflator SA	Aug	% m/m	0.3	0.3
16:00	US	ISM manufacturing	Sep	pts	55.9	56.0
FRIDAY (2 October)						
09:00	CZ	GDP SA	2Q	% y/y	-11.0	-11.0
11:00	EZ	Flash HICP	Sep	% y/y	-0.1	-0.2
14:30	US	Change in Nonfarm Payrolls	Sep	k	865.0	1371.0
14:30	US	Unemployment Rate	Sep	%	8.2	8.4
16:00	US	Michigan index	Sep	pts	78.95	78.9
16:00	US	Factory Orders	Aug	% m/m	1.0	6.4
	PL	S&P rating review			A-, stable	A-, stable

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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