

MACROscope Lite

Bumpy road towards normalisation

■ Before we had time to enjoy the stronger than expected economic rebound in 3Q20, the time has come to start worrying about the prospect for the coming months. The new wave of pandemic spreading across Europe proved to be strong enough to convince growing number of countries to close down large parts of their economies and restrict social mobility. It leads to two conclusions: First of all, we will see the second dip of recession in Q4. So far it seems it is going to be clearly smaller than the first one, as the restrictions are not as wide-spread, and – in contrast to what happened in the spring – they affect almost entirely services, while activity in manufacturing is still growing and the foreign trade channels are working (yet, it may still change over time). Secondly, the uncertainty regarding forecasts for the next quarters has risen. The next waves of infection cannot be ruled out and we simply know neither how serious they will be nor how exactly distributed in time. Overall, it seems clear that the road towards economic normalisation will be much more bumpy. But locating those “bumps” on the map is very difficult at the moment.

■ As a result, we adjust the predicted GDP trajectory: Forecast for 2020 remains roughly unchanged at c.-3%, due to (a) increasing the estimate for 3Q, (b) lowering 4Q, (c) revisions of historical data. Forecast for 2021 is lowered by c.1pp, to c.4%, taking into account a risk of problems with the coronavirus prolonging until 1Q21, which will lower the “starting point” for the entire year. We will publish the more thorough revision of forecast in the middle of December, in the report covering in details economic outlook for 2021.

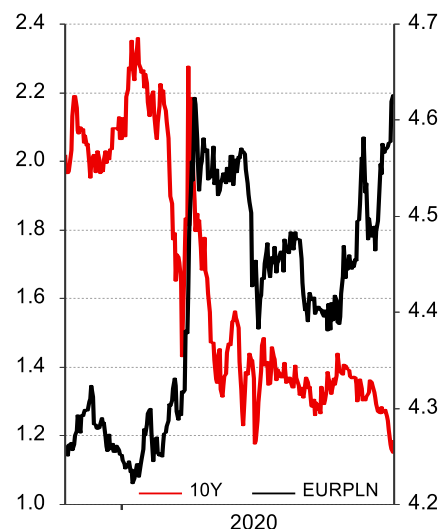
■ The question about outlook for the economy is followed by the question about the policy response. From the central bank we see signals (in the MPC members’ interviews) about the lack of inclination to further interest rate cuts, and at the same time the readiness to support government policies through further unconventional easing. The government declares more selective and “targeted” approach to supporting firms and in the first place it may reach for the unused funds allocated in the original anti-crisis packages (c.PLN30bn from PFR, c.PLN24bn from BGK). Thus, at this stage we do not assume an increase of the total fiscal impulse above what has already been approved. The situation may be subject to change if the economic damage proves to be more severe.

■ After the first wave of pandemic, the anti-crisis shields have clearly limited the collateral damage in the economy, particularly in the labour market. We think this time it could be similar, although the effectiveness of the support schemes could be visibly lower if the companies’ perception of the nature of the shock changes (not a single short-lived disruption, but rather a series of repeating shocks, with the unclear timeframe).

■ EURPLN decoupled from EURUSD and stock indexes, which may mean that local risk factors started to play a more important role. Worse economic outlook, rise of uncertainty, possible extension of the NBP’s QE, but also worse sentiment on global markets suggest a shift of FX forecasts for the coming months towards weaker zloty. At the same time, we do not expect the PLN to underperform other EM currencies – what speaks against such deviation are still relatively good GDP forecasts (compared to other countries), quickly rising C/A surplus, diminishing reliance on foreign financing.

■ Bond yields will likely remain low in the nearest future, due to worries about economic outlook, dovish ECB message, high overliquidity of the banking sector strengthened recently by sizeable bond redemption (DS1020) and coupon payments. If the market started to price in a higher chance of another US fiscal package after presidential elections, there could be a slight correction, but of limited scale due to NBP’s QE activity (the next bond purchase auction is on 18 November) and limited government bond supply – the Ministry of Finance has only planned two switch auctions this month (6 and 26 November).

EURPLN and 10Y Poland bond yield



Source: Refinitiv Datastream, Santander Bank Polska

Recently released Economic Comments:

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- [More positive September data](#)
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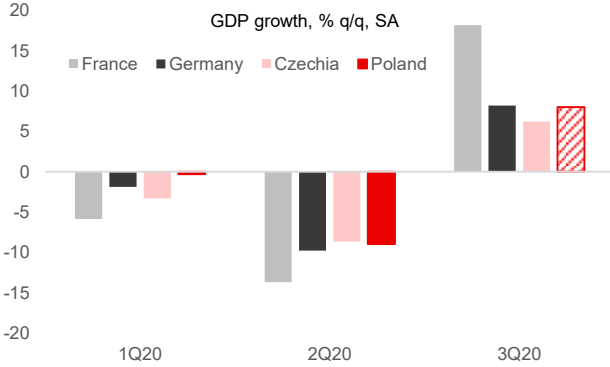
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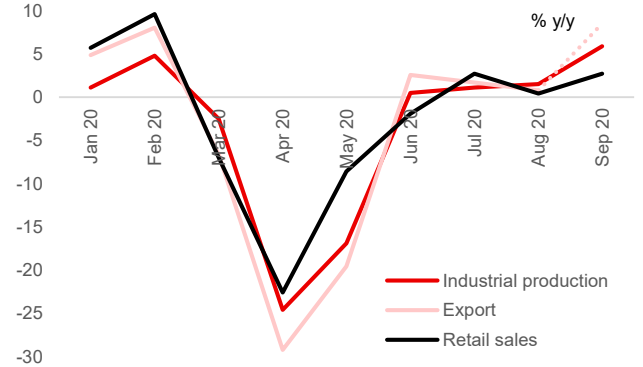
Economy in charts

European economies showed strong momentum in 3Q



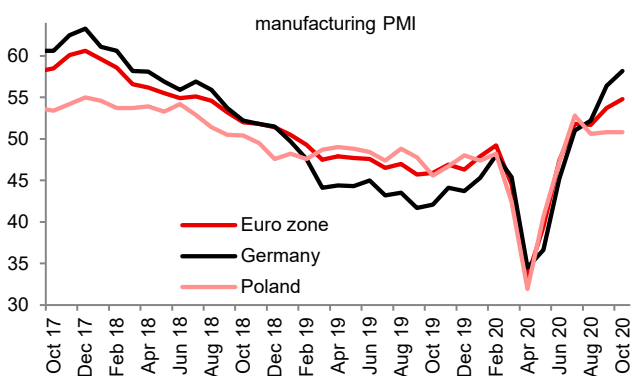
Source: Eurostat, Santander

In Poland, production and export was surprising positively...



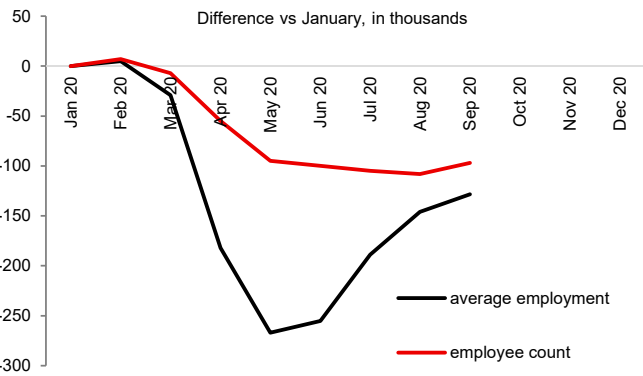
Source: GUS, NBP, Santander

... supported by robustness of German industry



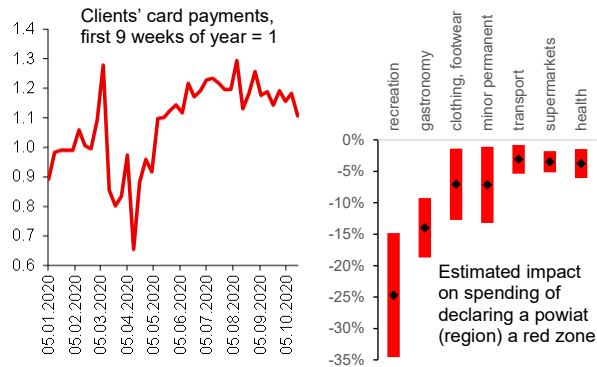
Source: Markit, Santander

Even the number of the employed stopped falling



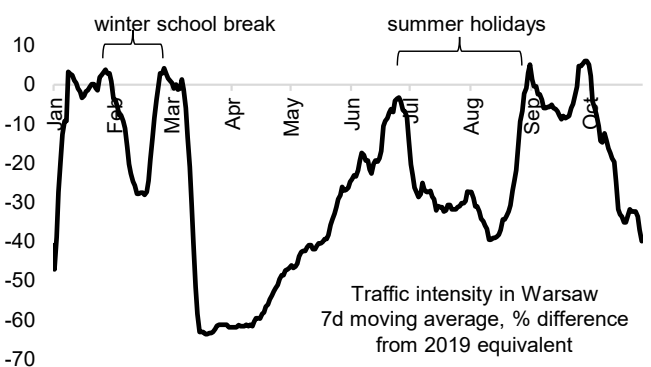
Source: GUS, Santander

4Q restrictions vs 2nd Covid-19 wave have hurt consumption...



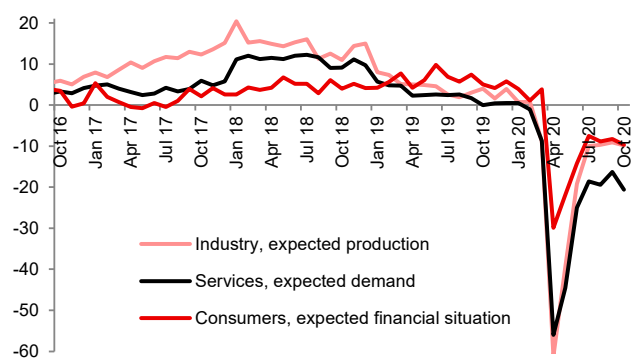
Source: Santander

... and Poles' mobility.



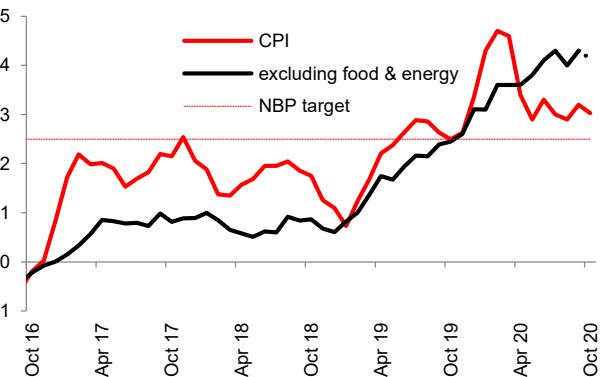
Source: TomTom, Santander

Expectation components of business and consumer sentiment are no longer growing



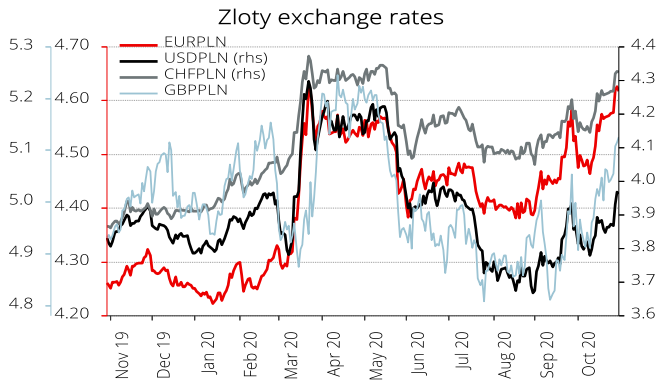
Source: European Commission, Santander

There is a delay in decline of inflation

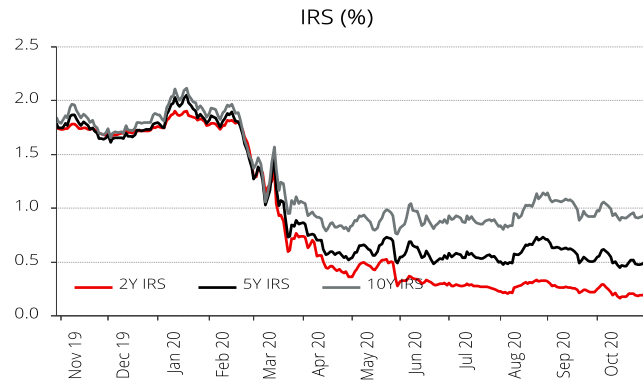


Source: GUS, NBP, Santander

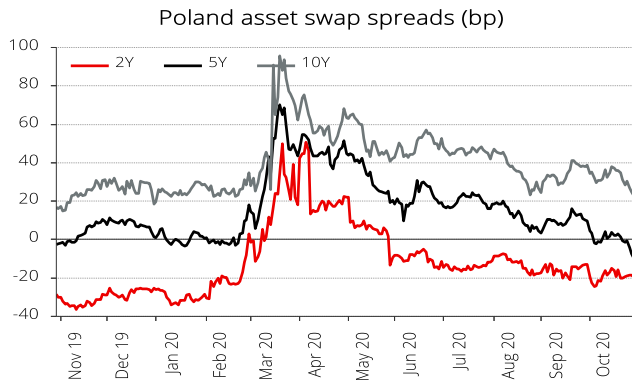
Markets in charts



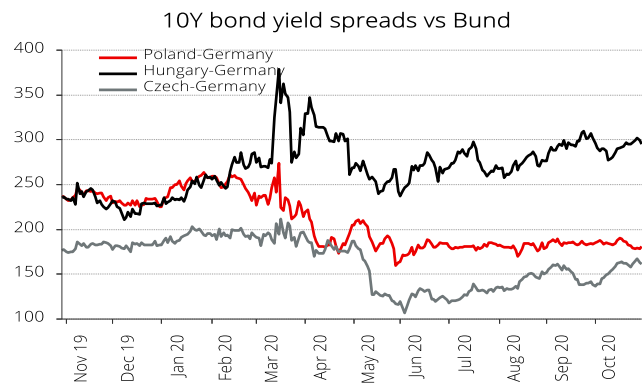
Source: Refinitiv Datastream, Santander Bank Polska



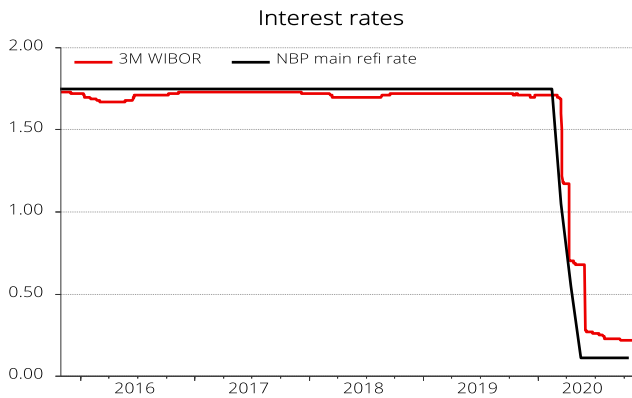
Source: Refinitiv Datastream, Santander Bank Polska



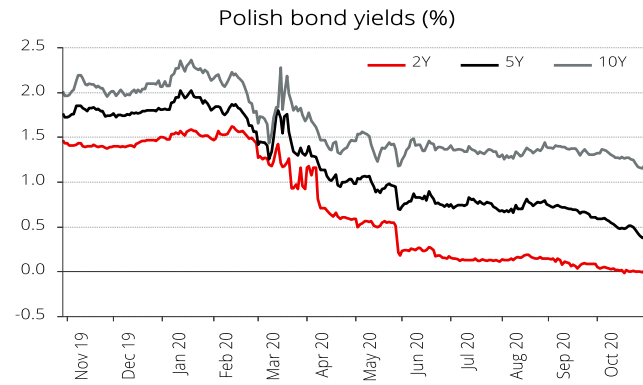
Source: Refinitiv Datastream, Santander Bank Polska



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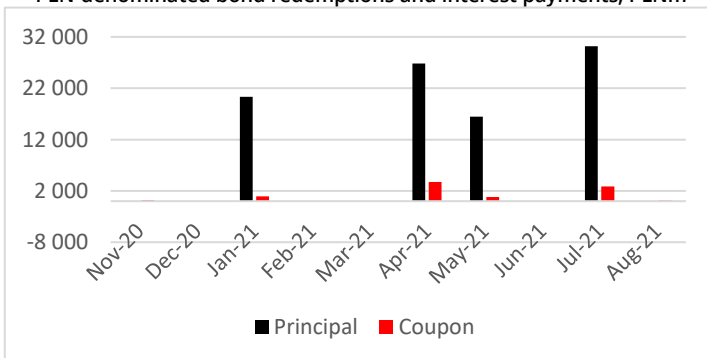
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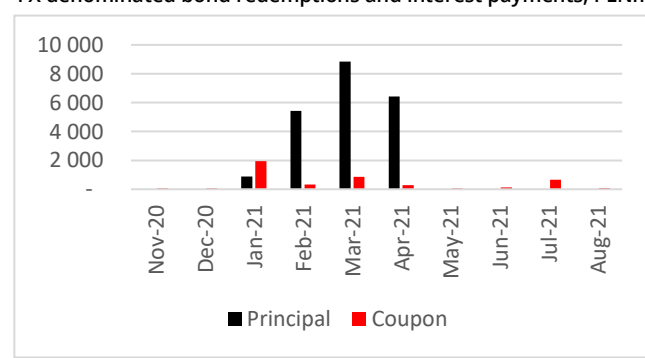
Principal and interest payments

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
2 November PL: PMI - manufacturing (X) US: ISM manufacturing (X) EZ: PMI manufacturing (X) DE: PMI manufacturing (X)	3 US: Factory orders (IX) US: Durable goods orders (IX)	4 PL: MPC rate decision US: ADP Employment (X) US: ISM - services (X) EZ: PMI - services (X) DE: PMI - services (X)	5 US: FOMC decision EZ: Retail sales (IX) DE: Factory orders (IX) CZ: Retail sales (IX) CZ: Rate decision	6 PL: NBP minutes US: Non-farm payrolls (X) DE: Industrial output (IX) CZ: Industrial output (IX) RU: CPI (X)
9 DE: Exports (IX)	10	11	12 US: CPI (X) EZ: Industrial production (IX)	13 PL: GDP (Q3.) PL: Balance of payments (IX) PL: CPI (IX) US: Consumer confidence (XI)
16 PL: core CPI (X)	17 US: Industrial production (X) US: Retail sales (X) HU: Rate decision	18 US: Housing starts (X)	19 PL: Employment (X) PL: Wages (X) US: Philly Fed index (XI) US: Existing home sales (X)	20 PL: Industrial production (X) PL: PPI (X)
23 PL: Construction output (X) PL: Retail sales (X) DE: flash PMI - manufacturing (XI) DE: flash PMI - services (XI) EZ: flash PMI - manufacturing (XI) EZ: flash PMI - service (XI)	24 PL: M3 money supply (X) DE: Ifo index (XI)	25 US: Personal incomes and personal spending (X) US: GDP (Q3) US: New home sales (X) US: Michigan index (XI)	26	27
30 PL: GDP (Q3) final US: Pending home sales (X)	1 December PL: flash CPI (XI) PL: flash PMI - manufacturing (XI) EZ: flash HICP (XI) CZ: flash PMI - manufacturing (XI)	2 PL: MPC rate decision	3	4

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	-	15	7	4	2
MPC minutes	23	20	19	-	-	1, 18	16	27	-	9	6	4
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

		Oct 19	Nov 19	Dec 19	Jan 20	Feb 20	Mar 20	Apr 20	May 20	Jun 20	Jul 20	Aug 20	Sep 20	Oct 20	Nov 20
PMI	pts	45.6	46.7	48.0	47.4	48.2	42.4	31.9	40.6	47.2	52.8	50.6	50.8	50.8	48.5
Industrial production	% y/y	3.7	1.4	3.8	1.1	4.8	-2.5	-24.6	-16.9	0.5	1.1	1.5	5.9	1.0	4.0
Construction production	% y/y	-4.1	-4.7	-3.3	6.4	5.5	3.7	-0.9	-5.1	-2.3	-11.0	-12.1	-9.8	-5.3	-11.6
Retail sales (current prices)	% y/y	5.4	5.9	7.5	5.7	9.6	-7.0	-22.6	-8.6	-1.9	2.7	0.4	2.7	-0.6	-7.4
Unemployment rate	%	5.0	5.1	5.2	5.5	5.5	5.4	5.8	6.0	6.1	6.1	6.1	6.1	6.1	6.3
Gross wages in corporate sector	% y/y	5.9	5.3	6.2	7.1	7.7	6.3	1.9	1.2	3.6	3.8	4.1	5.6	4.8	6.4
Employment in corporate sector	% y/y	2.5	2.6	2.6	1.1	1.1	0.3	-2.1	-3.2	-3.3	-2.3	-1.5	-1.2	-1.1	-1.4
Exports (€)	% y/y	5.5	2.5	10.8	4.9	8.0	-6.6	-29.3	-19.6	2.6	1.7	0.8	8.5	-0.2	4.9
Imports (€)	% y/y	2.1	-1.8	0.7	3.9	0.9	-3.9	-28.4	-28.2	-10.3	-4.4	-5.1	-0.5	-7.8	-2.6
Trade balance	EUR mn	146	821	118	378	797	-77	-30	1,474	2,488	818	735	2,435	1,806	2,377
Current account balance	EUR mn	243	1,182	73	2,756	1,100	805	772	2,028	3,811	1,012	947	2,698	1,771	2,568
Current account balance	% GDP	-0.1	0.1	0.5	0.6	0.9	1.1	1.2	1.6	2.3	2.6	2.9	3.3	3.6	3.9
Budget balance (cumulative)	PLN bn	-3.2	-1.9	-13.7	3.4	-3.3	-9.4	-18.9	-25.9	-17.1	-16.3	-13.3	-13.8	-21.0	-24.2
Budget balance (cumulative)	% of FY plan	11.2	6.6	47.9	-	3.0	8.6	17.3	23.7	15.7	14.9	12.2	12.6	19.2	22.1
CPI	% y/y	2.5	2.6	3.4	4.3	4.7	4.6	3.4	2.9	3.3	3.0	2.9	3.2	3.0	3.0
CPI excluding food and energy	% y/y	2.4	2.6	3.1	3.1	3.6	3.6	3.6	3.8	4.1	4.3	4.0	4.3	4.1	4.1
PPI	% y/y	-0.3	-0.1	1.0	0.9	0.2	-0.3	-1.3	-1.7	-0.8	-0.6	-1.3	-1.6	-0.8	-0.1
Broad money (M3)	% y/y	9.3	9.4	8.3	9.3	9.4	11.8	14.0	16.0	18.1	16.8	16.4	16.0	15.6	15.3
Deposits	% y/y	9.4	9.5	8.5	9.7	9.7	10.6	12.1	14.1	15.8	14.4	13.9	14.5	13.7	12.8
Loans	% y/y	6.6	6.5	5.2	6.3	5.5	6.4	5.9	4.3	2.9	1.3	0.1	0.1	-1.4	-1.6
EUR/PLN	PLN	4.30	4.29	4.27	4.25	4.28	4.43	4.54	4.53	4.44	4.45	4.40	4.47	4.52	4.60
USD/PLN	PLN	3.89	3.88	3.84	3.83	3.92	4.01	4.18	4.16	3.94	3.88	3.72	3.79	3.84	3.92
CHF/PLN	PLN	3.92	3.91	3.91	3.95	4.02	4.19	4.31	4.28	4.15	4.15	4.09	4.14	4.21	4.30
Reference rate *	%	1.50	1.50	1.50	1.50	1.50	1.00	0.50	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3M WIBOR	%	1.72	1.71	1.70	1.71	1.71	1.45	0.83	0.66	0.27	0.25	0.23	0.23	0.22	0.21
Yield on 2-year T-bonds	%	1.50	1.41	1.44	1.53	1.53	1.11	0.71	0.51	0.21	0.11	0.13	0.09	0.01	0.00
Yield on 5-year T-bonds	%	1.73	1.79	1.78	1.90	1.76	1.49	1.10	0.94	0.78	0.74	0.72	0.67	0.51	0.40
Yield on 10-year T-bonds	%	1.98	2.06	2.05	2.23	2.08	1.84	1.48	1.41	1.39	1.35	1.34	1.35	1.27	1.21

Note: * at the end of the period.

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

Quarterly and annual economic indicators

		2018	2019	2020E	2021E	1Q20	2Q20	3Q20	4Q20E	1Q21E	2Q21E	3Q21E	4Q21E
GDP	PLN bn	2,121.6	2,287.7	2,311.6	2,471.1	556.4	528.2	582.9	644.2	561.5	597.7	612.5	699.5
GDP	% y/y	5.4	4.5	-3.1	3.9	1.9	-8.4	-1.8	-3.8	-2.5	9.1	3.0	6.1
Domestic demand	% y/y	5.6	3.5	-4.5	4.4	1.0	-9.9	-3.3	-5.4	-3.4	9.3	3.7	7.8
Private consumption	% y/y	4.3	4.0	-3.9	4.2	1.2	-10.8	-1.0	-5.0	-4.0	12.0	3.0	7.0
Fixed investments	% y/y	9.4	7.2	-9.6	6.3	0.9	-10.7	-12.0	-12.0	-7.0	8.0	11.0	9.0
Industrial production	% y/y	5.9	4.2	-1.6	7.1	0.9	-13.6	3.2	3.4	1.6	22.8	2.8	3.7
Construction production	% y/y	19.7	3.6	-5.7	2.1	5.0	-2.8	-10.9	-9.3	-10.1	-3.3	5.0	11.8
Retail sales (constant prices)	% y/y	6.5	5.1	-3.8	4.4	0.8	-10.7	1.0	-5.8	-5.7	10.6	1.9	11.1
Unemployment rate *	%	5.8	5.2	6.7	7.0	5.4	6.1	6.1	6.7	7.3	6.8	6.8	7.0
Gross wages in the national economy	% y/y	7.2	7.2	5.5	5.9	7.7	3.8	4.7	5.9	5.1	8.1	5.8	4.7
Employment in the national economy	% y/y	2.6	2.2	-0.9	0.3	0.6	-1.7	-1.4	-1.2	-1.4	1.5	0.6	0.4
Exports (€)	% y/y	7.4	7.3	-1.6	10.8	1.7	-16.0	3.8	3.8	2.5	37.2	3.6	5.1
Imports (€)	% y/y	10.3	3.8	-7.7	8.3	0.2	-22.7	-3.3	-4.9	-4.7	35.8	3.7	4.6
Trade balance	EUR mn	-6,219	1,204	15,241	22,228	1,081	3,904	3,988	6,268	5,276	5,992	4,098	6,861
Current account balance	EUR mn	-6,518	2,611	21,959	17,838	4,623	6,576	4,657	6,103	5,665	737	4,967	6,469
Current account balance	% GDP	-1.3	0.5	4.2	3.2	1.0	2.3	3.3	4.2	4.5	3.3	3.3	3.2
General government balance	% GDP	-0.2	-0.7	-10.3	-6.0	-	-	-	-	-	-	-	-
CPI	% y/y	1.6	2.3	3.4	1.6	4.5	3.2	3.1	2.8	1.7	2.0	1.4	1.4
CPI *	% y/y	1.1	3.4	2.5	1.4	4.6	3.3	3.2	2.5	1.7	2.0	1.4	1.4
CPI excluding food and energy	% y/y	0.7	2.0	3.9	1.7	3.4	3.8	4.2	3.9	3.0	1.9	1.1	0.9
PPI	% y/y	2.2	1.2	-0.6	0.7	0.3	-1.3	-1.2	-0.4	-0.1	0.5	-0.4	-1.1
Broad money (M3) *	% y/y	9.2	8.3	16.1	6.1	8.3	18.1	16.0	14.9	12.7	10.5	8.3	6.1
Deposits *	% y/y	8.7	8.5	11.6	4.7	10.6	15.8	14.5	11.6	8.3	2.9	2.8	4.7
Loans *	% y/y	7.6	5.2	-1.5	4.3	6.4	2.9	0.1	-1.5	-3.3	-0.6	1.6	4.3
EUR/PLN	PLN	4.26	4.30	4.46	4.46	4.32	4.50	4.44	4.57	4.58	4.50	4.43	4.35
USD/PLN	PLN	3.61	3.84	3.92	3.75	3.92	4.09	3.79	3.89	3.88	3.80	3.70	3.61
CHF/PLN	PLN	3.69	3.86	4.17	3.98	4.05	4.24	4.13	4.24	4.14	4.02	3.92	3.83
Reference rate *	%	1.50	1.50	0.10	0.10	1.00	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3M WIBOR	%	1.71	1.72	0.66	0.20	1.62	0.59	0.24	0.21	0.20	0.20	0.20	0.20
Yield on 2-year T-bonds	%	1.59	1.56	0.49	0.15	1.39	0.48	0.11	0.00	0.06	0.14	0.19	0.20
Yield on 5-year T-bonds	%	2.51	1.99	0.95	0.62	1.72	0.94	0.71	0.44	0.46	0.64	0.69	0.70
Yield on 10-year T-bonds	%	3.21	2.41	1.52	1.46	2.05	1.43	1.35	1.25	1.32	1.50	1.50	1.50

Note: * at the end of period. Source: GUS, NBP, Finance Ministry, Santander Bank Polska estimates.

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