

06 November 2020

Weekly Economic Update

Heading towards lockdown

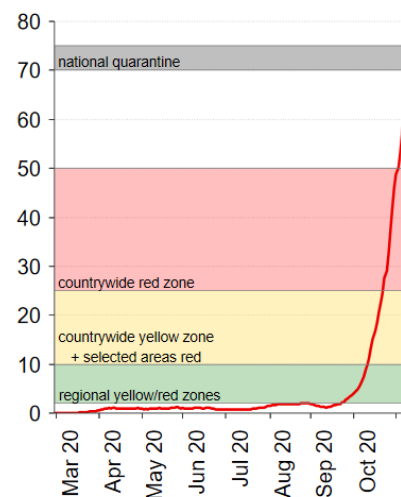
What's hot next week

- Gradual introduction of further restrictions is taking place not only in Poland but also in other European countries, and it does not seem we are near the end of the process. Comments of PM Morawiecki and the Health Ministry's forecasts of the growth of new Covid-19 cases suggest that the 'National Quarantine' may be introduced already in November (it could be probably something similar to the 1H20 restrictions). In the passing week we released the new [MACROscope Lite report](#) with the revised GDP growth forecast for 4Q (-3.8% y/y), but given the new and still looming restrictions there is already a downside risk to this forecast. On Friday GUS will publish flash estimate of 3Q GDP, showing us what was the starting point for the decline of economic activity in the final three months of the year.
- MPC meeting was postponed from Wednesday to Friday. Apparently the reason was not to buy more time to prepare additional economic support instruments and to coordinate with the new government actions, because monetary policy parameters and the tone of the statement have not changed. Possibly, the delay in the meeting was for the sake of updating the GDP and CPI staff projections the MPC members received at this meeting with the estimated consequences of the recently announced restrictions. The most important change, it seems, was a significant deterioration of GDP growth outlook for 2021, much below the current market consensus. More on this in [Economic Comment](#).
- In the coming week attention abroad will remain focused on US elections and pandemic. Joe Biden is close to secure majority of electoral votes, but Republicans are likely to keep majority in the Senate, which may make it difficult for the new president to push through a generous fiscal support package. Moreover, Donald Trump declared to question the vote counting and we may still wait a bit until the final results of the US elections. If there is no major change in the likely result in the meantime, market attention may switch towards the pandemic development and new restrictions.
- The agenda of data releases for the coming days is not very rich and we do not think the readings could have a major impact on the markets.

Market implications

- In case Joe Biden wins and the general risk on mood continues, EURPLN might break the current support at 4.50 and fall to 200-d moving average at 4.46, we think. In case President Donald Trump wins, we would expect EURPLN to trade range bound to slightly higher as dollar regains strength, but not breach 4,60 – the current strong resistance which was also a high from March and April this year.
- The FOMC have not changed rates on the Thursday meeting but reiterated that the QE will continue into the future at "at last" the current pace. Earlier, BoE increased the QE target by GBP150bn while RBA both cut rates and increased QE by A\$150bn. We think that in case further monetary support is needed, central banks in general, and NBP in particular, are more likely to increase QE than to move rates lower or to negative territory. With Covid-19 cases on the rise in Poland the GDP downside risks are still material and markets take notice of that. Also, it cannot be excluded that government will decide to use up remaining buffers in the currently run BGK and PFR programs which would additionally increase the liquidity in the banking sector and lead to yield hunting even further down the curve. Next week we expect the 10Y yields to remain in the 1.10-1.20% range. On Tuesday there is another BGK auction.

7-day average number of new COVID-19 cases per 100k persons in Poland with thresholds for tighter/looser restrictions



Źródło: Refinitiv Datastream

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Last week in economy

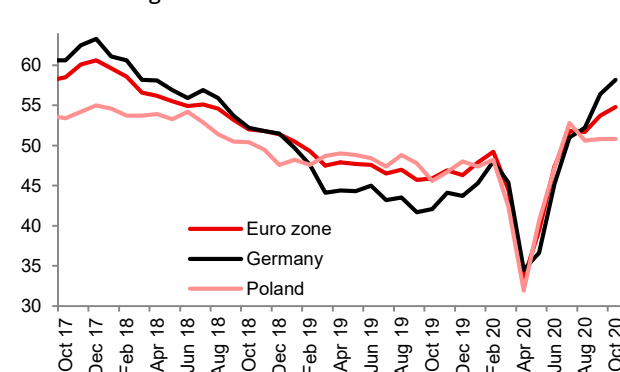
PM Mateusz Morawiecki announced **further restrictions** in the fight with Covid-19 such as: remote schooling (this time including grades 1-3) till end of November, closure of all cultural institutions, closure of most of the shops except for pharmacies, grocery stores and drugstores; hotels available only for business trips. Further support measures were named based on making the current instruments available for longer – longer applications time window for Financial Shield, guarantees, job subsidies on furlough and when employer cuts working time. The sectors on which restrictions have been imposed, if the drop in their revenues is sufficient, may have their social insurance paid by state while parts of the loans distributed earlier from the Financial Shield would not be required to be paid back. The PM also warned that if new cases do not ease, in 7 or 14 days 'National Quarantine' may be imposed (no details were given on what it will mean for citizens and businesses though except for 'tough restrictions on movement'). Morawiecki's estimate of the cost of new package is PLN14-20bn assuming introduction of the full lockdown.

Poland's **October PMI** stayed unchanged at 50.8 pts, which means it beat expectations by 0.4 pts. The report showed that local demand is dragging industrial activity while export orders indicator is the strongest since Jan18. Despite weaker assessment of business outlook, companies were recruiting (employment component the highest in two years). They also signalled some issues with employees' availability due to quarantine. Industry and exports may remain the bright spot of the economy crippled by anti-pandemic restrictions in the coming months.

The **NBP credit survey** showed that in 3Q despite the improvement in the economic situation, the companies' demand for credit remained in a noticeable decreasing trend, while the demand for mortgage and consumption loans was stable.

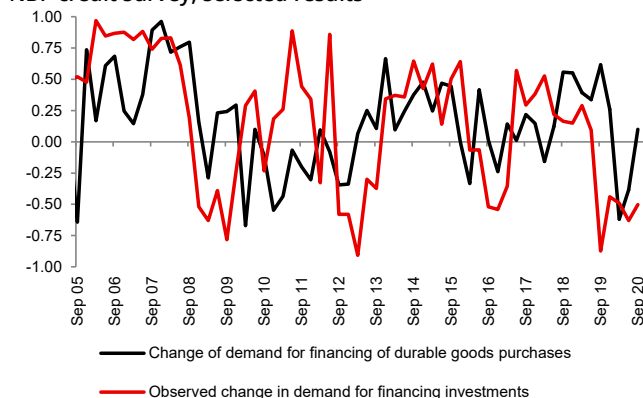
In the **autumn forecast update the European Commission** increased Poland's 2020 GDP forecast to -3.6% from -4.6%, while the 2021 got lowered to 3.3% from 4.3%. 2022 was shown at 3.5%. Polish growth is expected to be 4th best in the EU (after Lithuania, Ireland and Sweden) while in July EC forecast update Poland was expected to perform the best in EU. According to EC the HICP inflation in Poland will equal on average 3.6% in 2020 and 2.0% in 2021 and then it will rebound to 3.1% in 2022. In 2020 and 2022 the Polish inflation would be the highest in the EU (the EU average for those years equals, respectively, 0.7% and 1.5%) while in 2021 it will be 4th highest (after Hungary, Romania and Czechia). According to EC the GG deficit will equal 8.8% this year. The former forecast from May expected the deficits at 9.5% and 3.8%. The structural budget balance in 2020 would equal -8.2% (second worst after Romania, with EU average of -4.8%) and -3.7% in 2021 (biggest improvement over the year, better than EU average of -4.2%).

Manufacturing PMIs



Source: Markit, Santander

NBP credit survey, selected results



Source: NBP, Santander

European Commission's GDP growth forecasts

	2020	2021
EU	-7.4(0.9)	4.1(-1.7)
Euro area	-7.8(0.9)	4.2(-1.9)
Germany	-5.6(0.7)	3.5(-1.8)
France	-9.4(1.2)	5.8(0.8)
Italy	-9.9(1.3)	4.1(-2.0)
Spain	-12.4(-1.5)	5.4(-1.7)
Sweden	-3.4(1.9)	3.3(0.2)
Poland	-3.6(1.0)	3.3(-1.0)
Czechia	-6.9(0.9)	3.1(-1.4)
Hungary	-6.4(0.6)	4.0(-2.0)
Romania	-5.2(0.8)	3.3(-0.7)
UK	-10.3(-0.6)	3.3(-2.7)

Note: in parentheses are differences versus July 2020

Source: European Commission, Santander

FX and FI market

Last week on the market

FX The zloty gained considerably vs the euro, dollar, the pound and Swiss franc reversing the previous week's losses and even more. The obvious reason for the risk-on mood on the global markets and strengthening of emerging market currencies is the US presidential election. As of this writing, Democratic candidate Joe Biden seems more likely to win the presidential race. Zloty strengthening comes against a backdrop of the still increasing Covid-19 case numbers which have risen to 27k daily and risk reaching the 70-75 per 100k weekly average soon. PM Morawiecki said that breaching the threshold would result in a hard lockdown. EURPLN declined 1.8% to 4.527, USDPLN 3.5% to 3.82, CHFPLN 2.0% to 4.233 and GBPPLN 2.1% to 5.01. Other regional CEE currencies have fared similarly well or even better, for example EURHUF declined 2% to 358.7 EURCZK by 2.3% to 26.65 and this despite worse September retail sales data in both countries. USDRUB also declined 2.5% on the week to 77.55 but early in the week briefly lost and neared 81.0 after poor October PMI reading.

FI Polish bond yields continued their downtrend from the previous weeks. On top of the usual factors which are still in play (banking sector liquidity) this week it was the core yields that also declined and helped low beta EM yields move lower as well. The UST 10Y declined 10bp to 0.77% as "blue wave" victory scenario has been priced away. Last but not least, the MPC decision has been postponed by 2 days which sparked fears of possible coordinated intervention between NBP and government and lead to preemptive bond buying by some accounts. As a result, the 5Y bond yield fell 6bp to 0.30%, 10Y 4bp to 1.14%.

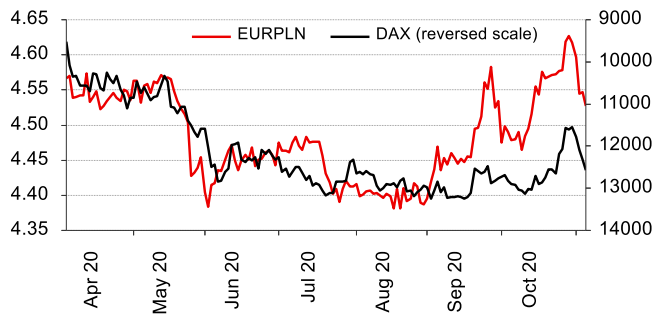
Key factors to watch this week are Polish CPI, Q3 GDP and C/A data at the end of the week. Some other Q3 GDP will be published e.g. in the Eurozone and Hungary and CPIs – in the US, Hungary, Czechia. On top of that, Eurozone industrial production is on Thursday while Germany publishes Export data on Monday and ZEW on Tuesday. In the US Thursday sees next initial jobless claims while on Friday we'll see consumer sentiment data from University of Michigan.

Market implications

FX The fate of EURPLN next week will strongly depend on the outcome of US presidential elections which at the moment of writing is still not known as votes are being counted. It is also likely that Senate will remain in Republican hands. In case Joe Biden wins and the general risk on mood continues, EURPLN might break the current support at 4.50 and fall to 200-d moving average at 4.46, we think. In case President Donald Trump wins, we would expect EURPLN to trade range bound to slightly higher as dollar regains strength, but not breach 4,60 – the current strong resistance which was also a high from March and April this year. Increasing number of Covid-19 cases in Poland might trigger a hard lockdown at some point. We do not expect it to happen as early as next week but if it does the zloty will be surely under additional pressure.

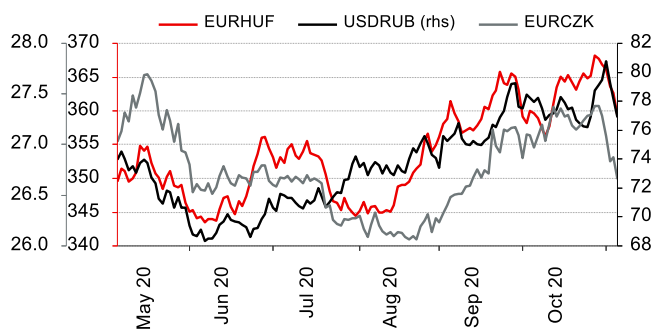
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EURPLN and German DAX equity index



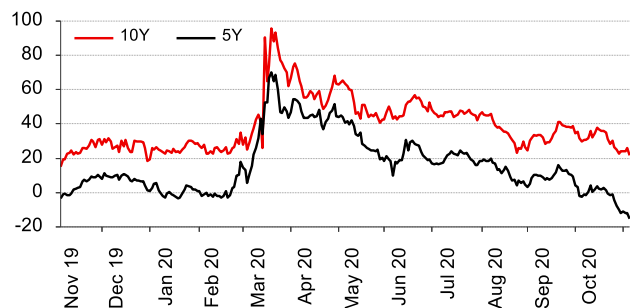
Source: Refinitiv Datastream, Santander Bank Polska

EURHUF, EURCZK and USDRUB



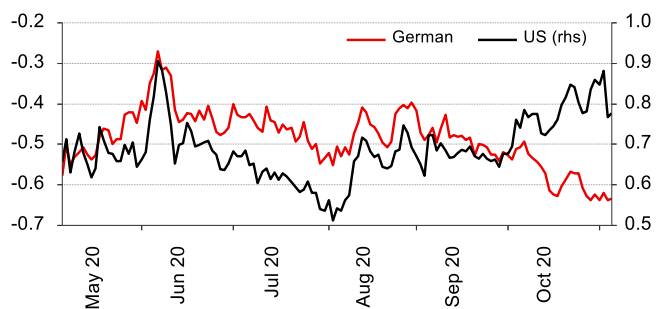
Source: Refinitiv Datastream, Santander Bank Polska

Poland asset swap spreads



Source: Refinitiv Datastream, Santander Bank Polska

10Y German and US bond yields



Source: Refinitiv Datastream, Santander Bank Polska

Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE
				MARKET	SANTANDER	
MONDAY (9 November)						
08:00	DE	Exports SA	Sep	% m/m	1.0	2.4
TUESDAY (10 November)						
09:00	CZ	CPI	Oct	% y/y	3.0	3.2
09:00	HU	CPI	Oct	% y/y	-	3.4
11:00	DE	ZEW Survey Current Situation	Nov	pts	-65.0	-59.5
THURSDAY (12 November)						
08:00	DE	HICP	Oct	% m/m	0.0	0.0
11:00	EZ	Industrial Production SA	Sep	% m/m	0.9	0.7
14:30	US	CPI	Oct	% m/m	0.2	0.2
14:30	US	Initial Jobless Claims		k	735.0	751.0
FRIDAY (13 November)						
09:00	HU	GDP	3Q	% y/y	-	-13.6
10:00	PL	CPI	Oct	% y/y	3.0	3.0
10:00	PL	GDP	3Q	% y/y	-1.2	-1.8
11:00	EZ	GDP SA	3Q	% y/y	-4.3	-4.3
14:00	PL	Current Account Balance	Sep	€mn	1619.0	2698
14:00	PL	Trade Balance	Sep	€mn	1400.0	2435
14:00	PL	Exports	Sep	€mn	20900.0	21904
14:00	PL	Imports	Sep	€mn	19575.0	19469
16:00	US	Michigan index	Nov	pts	82.0	81.8

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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