08 January 2021

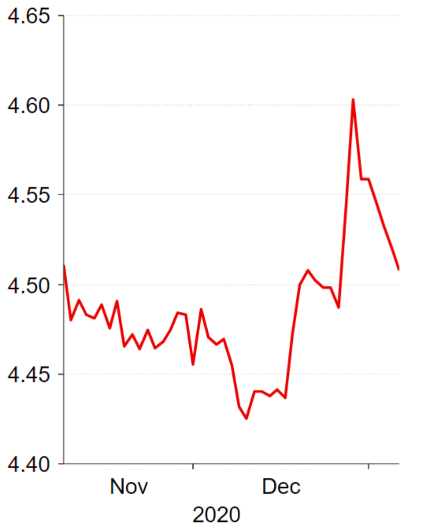
Weekly Economic Update

Boredom cut to zero

What's hot next week

- The end of 2020 and the first days of 2021 were not boring at all, but rather full of important events: launch of the resolution procedure in Polish banking sector, NBP's FX interventions and comments about possible interest rate cuts, crowds' attack on Capitol in the USA and seizure of control over Senate by Democrats; in the background – new records of daily Covid-19 cases in many countries and extension of restrictions by governments. We still believe that 2021 will be much better than 2020 as regards the progress in fighting pandemic and the economic revival. However, it is clear that the road towards those goals will be bumpy.
- The economic calendar for the next week is quite short: the main event will be the MPC meeting on Wednesday; November's balance of payments data will be released the same day, and between Wednesday and Friday several countries will show their inflation prints (USA, Czechia, Hungary, Poland).
- **The Monetary Policy Council will keep interest rates unchanged**, in our view. Just before the end of December the quote from the NBP Governor's interview sowed a seed of uncertainty in this regard, as it suggested that rate cuts are possible in 1Q21. However, the full interview released on January 5th made it clear that Adam Glapiński sees stable interest rates as the baseline scenario and interest rate cut could be considered only if economic outlook deteriorates. We do not expect it to happen, but even if it does, the MPC is unlikely to mull rate changes before March (when the new NBP projection will be available). Nevertheless, we will be awaiting the MPC's post-meeting statement, looking for any indication about bias change or reference to FX market. It would be very unsurprising to see more dovish tone than before.
- The **balance of payments** data are likely to show another big surplus in current account and very good export performance, which is consistent with industrial production data for November.
- **Inflation decline** has finally accelerated in December (2.3% y/y according to flash release) and the full data will probably confirm that it was largely due to the core component of CPI. It looks that inflation is going to remain below the 2.5% target in 2021.

EURPLN



Source: Datastream, Santander

Market implications

- Pretty good global sentiment and balance of payments data could be potentially supportive for the zloty, but the risk of NBP interventions may keep EURPLN hovering slightly above 4.50, we think. If the rate moves clearly below, we expect to see new NBP activity on the market.
- FRA market is pricing-in 50% chance of rate cut by 10bp in January and almost entire such cut by the end of Q1. Keeping rates on hold could trigger a correction, but only a small one if the MPC statement turns more dovish. 10Y bond yields have been almost stable since mid-December and it is unlikely to change due to the MPC decision. We see slight upward potential for yields due to significant weakening of core debt markets (in reaction to Democrats seizing control over US Senate) and the start of higher bond supply in Poland.

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website www: skarb.santander.pl
Piotr Bielski +48 22 534 18 87
Marcin Luziński +48 22 534 18 85
Grzegorz Ogonek +48 22 534 19 23
Wojciech Mazurkiewicz +48 22 534 18 86
Marcin Sulewski, CFA +48 22 534 18 84

Last three weeks in economy

Since our last, pre-Christmas weekly report two things popped out in Polish macroeconomic data that we need to stress in particular: business sentiment recovered quite easily from the November decline caused by introduction of new restrictions and by high Covid-19 stats, while the so far stubbornly high CPI inflation fell more than expected in December.

Poland **flash December CPI** surprised to the downside and fell to 2.3% y/y from 3.0% in November while we and market had expected it to ease to 2.6%. The decline in headline CPI was mainly caused by lower core inflation, possibly sliding to 3.6-3.7% from 4.3%. The release supports our forecast that 2021 CPI will be below NBP 2.5% target. Find more in our Economic comment.

Polish manufacturing PMI rose in December to 51.7 pts after holding for three months at 50.8. This is the second strongest reading of the last 2.5 years (only Jul'20 was better). The December print exceeded market expectations at 51.3 pts. The monthly rise of PMI was caused by stronger new orders, mostly from abroad (second highest level of new export orders index in the last 3 years). At the same time logistics issues and weakened supply of components sent the output index below 50pts while sending input prices measure to the highest level in almost 10 years. High purchasing activity and rising expected output and employment index suggest solid performance of Polish industry in the months to come.

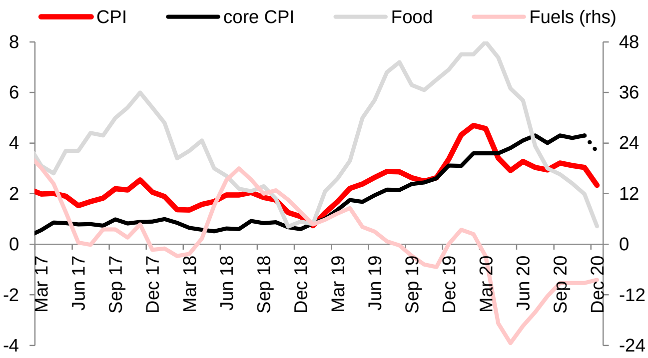
All of the **GUS sectoral business climate indicators** climbed in December thanks to improved expectations amid slight changes in current situation assessment. All **sectoral ESI business cycle indicators** for Poland increased as well, but none of them managed to rebound above the significant November drop. The employment indicators also reversed the previous drop. In case of manufacturing, the improvement was a result of businesses fearing less about the future output as well as new orders indicator reaching its highest level since March. The assessment of the current production worsened however. ESI consumer sentiment indicators improved despite the worst current assessment in 18 years and rising inflation expectations (excluding 2020's April and May, the indicator is already at its highest level since 2004).

In November **industrial new orders** soared by 15.1% y/y and foreign orders by 20.7% y/y. We read this as a sign of positive outlook for the sector, even though some of this rise might be precautionary re-stocking by UK partners ahead of the end of Brexit transition period.

According to the Ministry of Labour, **registered unemployment rate** rose in December by 0.1pp to 6.2%. The percentage change is similar to Decembers of previous years, albeit the monthly rise of the jobless count is a bit higher at 21.1k vs 16.4k on average in 2017-2019. We expect the average unemployment rate to go up to 6.3% in 2021 vs 5.9% in 2020. Seasonally adjusted LFS unemployment rate fell in November to 3.3% from 3.4% and vs the pre-Covid level of 3.0%.

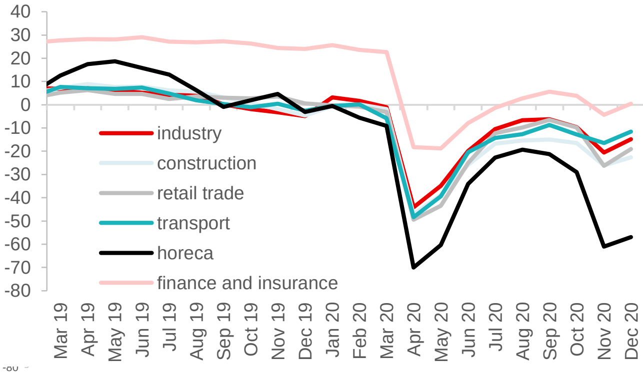
M3 money supply climbed by 16.2% y/y in November as compared to 17% y/y in October. Growth rate of household deposits fell to 9.5% y/y, the lowest since March and of companies deposits to 25% y/y, the lowest since May. Cash in circulation gained substantially m/m for the second month in a row, driving y/y rate to 36%. Growth of loans, corrected for FX changes, amounted to -0.4% y/y, unchanged versus October. Companies loans fell by 5.4% y/y, PLN consumer loans by 1.3% y/y and PLN mortgage loans added over 10% y/y.

Inflation and its components, % y/y



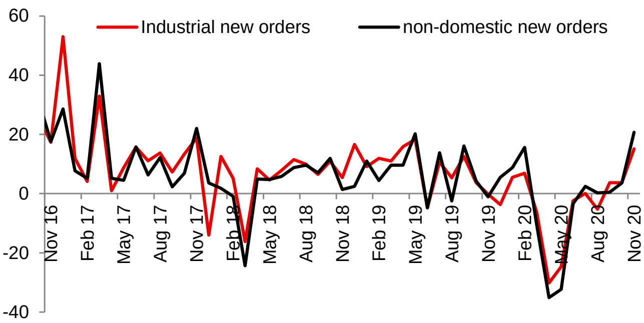
Source: GUS, NBP, Santander

Sectoral business sentiment indicators for Poland



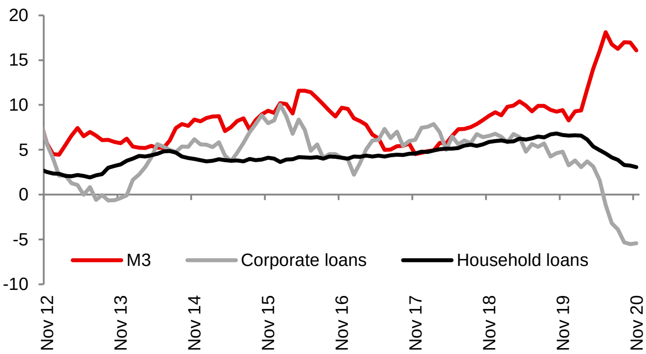
Source: GUS, Santander

Industrial new orders, % y/y



Source: GUS, Santander

M3 and main monetary aggregates, % y/y



Source: NBP, Santander

FX and FI market

Last 3 weeks on the market

FX Our previous weekly from 18 December coincided with first small NBP intervention (purchase of EUR) on the EURPLN market. The following Christmas period was relatively quiet but in the last 3 days of the 2020 NBP stepped up intervention efforts. Simultaneously, numerous MPC members spoke indicating that weaker zloty was favorable and indicated that a rate cut is possible. The NBP fixing on 31 December stood at 4.6148. Since then EURPLN has been slowly declining toward 4.515 at the end of the current week – a 1% increase over a 3wk period. With relatively stable USD, USDPLN copied the moves closely, ended up 1.2% at 3.69.

In case of the other CEE currencies, over the last 3 weeks the both EURHUF and EURCZK increased only a bit – 0.7% and 0.2% respectively. It was USDRUB which increased the most over the period – 1.5% to 74.5 which was slightly surprising given the c6% rally in oil following OPEC+ meeting at which Saudi Arabia agreed to cut supply by 1mbpd in February and March.

FI The passing 3 weeks saw IRS curve moving significantly lower as some market participants judged that MPC members comments suggest rate cut. The 5Y and 10Y IRS declined by 12bp to 0.59% and 1.10% respectively. FRA contracts currently price in a full 10bp cut by the end of Q1. The bonds however were a different story and remained range-bound last 3 weeks – 10Y closing this week at 1.24%. Even the soft inflation print did not manage to bring yields lower. The reasons for this behavior might include larger bond issuance upcoming in Q1 (up to PLN 35bn) as well as increases in core market yields with Bund up 5bp and UST 16bp in the last week alone.

Key factors for the market in the coming week are NBP rate decision and current account data on Wednesday as well as detailed inflation data on Friday. Other countries also publishing inflation data next week include China (Monday), the US and Czechia (Wednesday) and Hungary (Thursday). In the US retail sales, industrial production and University of Michigan sentiment data are published on Friday.

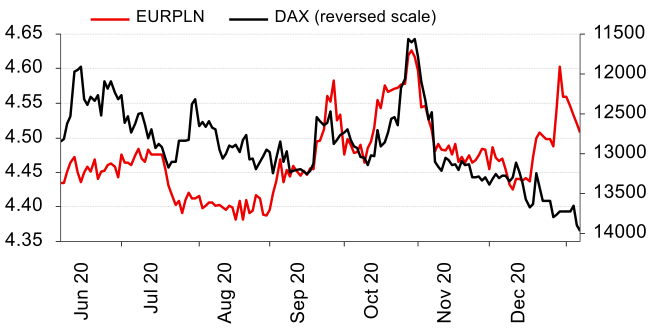
Market implications

FX It seems that post the NBP intervention the market lost a significant amount of liquidity with many players licking wounds and or unwilling to bet against the central bank. In case of lack of further NBP interventions, we estimate it will take approximately another one week of time before the market liquidity improves back to normal. In this circumstances the most likely scenario in our opinion is for EURPLN to remain range bound slightly above 4.50 with any major attempts to break below the level being countered by the NBP.

FI The current FRA prices imply a roughly 50/50 chance of a 10bp cut on the Wednesday NBP meeting, and almost a full 10bp cut by the end of Q1. If NBP won't cut rates on the upcoming meeting– as is our base case – then FRA and IRS might move higher but only slightly as we expect a continuation of the dovish bias in the NBP statement.

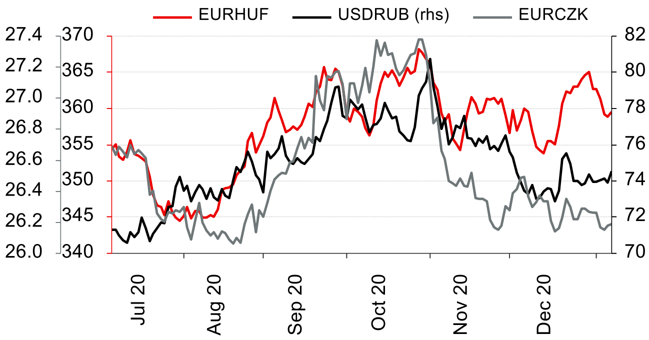
That the yields of Polish 10Y bonds have not reacted in tandem with IRS and rather have traded range bound since mid-December is meaningful to us. It means that the local monetary policy factors are not the only ones impacting the yields. Other factors which keep bond yields stable or even might contribute to their slightly increase in the coming week are bond issuances that started in decent amounts in 2021 (PLN 6.5bn was sold on the 7 January auction, and more to come at the 20 January one) and core markets which keep increasing after Democrats took over a control over US Senate and the likelihood of further fiscal stimulus in the US increased.

EURPLN and German DAX equity index



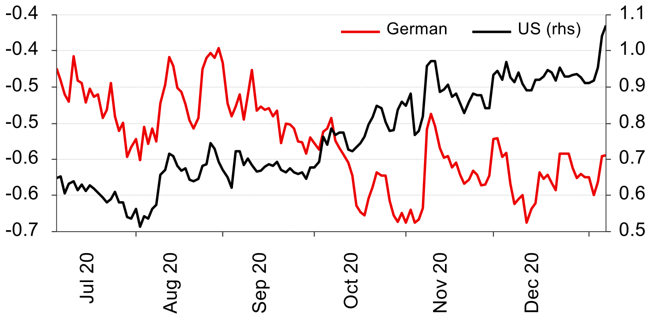
Source: Refinitiv Datastream, Santander Bank Polska

EURHUF, EURCZK and USDRUB



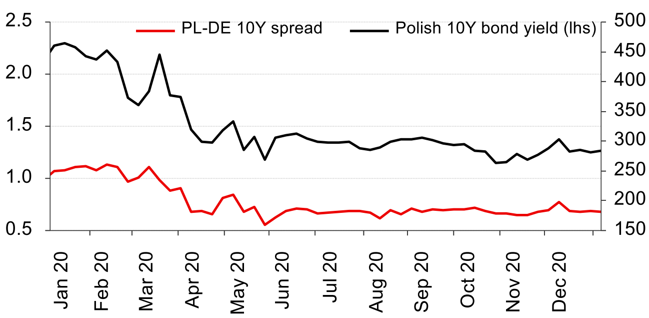
Source: Refinitiv Datastream, Santander Bank Polska

10Y German and US bond yields



Source: Refinitiv Datastream, Santander Bank Polska

10Y PL-DE yield spread and PL 10Y bond yield



Source: Refinitiv Datastream, Santander Bank Polska

Economic Calendar

TIME	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST
CET					MARKET	SANTANDER	VALUE
		WEDNESDAY (13 January)					
	PL	**MPC decision**		**%**	**0.10**	**0.10**	**0.10**
09:00	CZ	CPI	Dec	% y/y	2.5		2.7
11:00	EZ	Industrial Production SA	Nov	% m/m	0.2		2.1
14:00	**PL**	**Current Account Balance**	**Nov**	**€mn**	**1716**	**2582**	**2241**
14:00	**PL**	**Trade Balance**	**Nov**	**€mn**	**1536**	**2307**	**1732**
14:00	**PL**	**Exports**	**Nov**	**€mn**	**22268**	**22549**	**22965**
14:00	**PL**	**Imports**	**Nov**	**€mn**	**20572**	**20242**	**21233**
14:30	US	CPI	Dec	% m/m	0.4		0.2
		THURSDAY (14 January)					
09:00	HU	CPI	Dec	% y/y	2.8		2.7
14:30	US	Initial Jobless Claims	Jan.21	k	800		787
		FRIDAY (15 January)					
10:00	**PL**	**CPI**	**Dec**	**% y/y**	**2.3**	**2.3**	**3.0**
14:30	US	Retail Sales Advance	Dec	% m/m	-0.1		-1.1
15:15	US	Industrial Production	Dec	% m/m	0.3		0.39
16:00	US	Michigan index	Jan	pts	79.5		80.7

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division. Economic Analysis Department. al. Jana Pawła II 17. 00-854 Warsaw. Poland. phone +48 22 534 18 87. email ekonomia@santander.pl. http://www.santander.pl.