

15 January 2021

Weekly Economic Update

Cooling down expectations

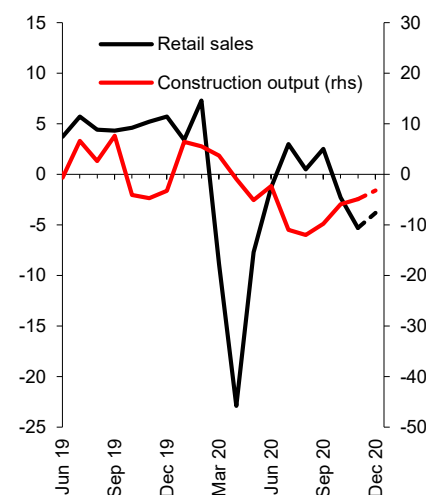
What's hot next week

- The winter holidays are coming to an end, but the restrictions are not going away (except that children from classes 1-3 go back to school). Many other European countries are also extending or even strengthening pandemic restrictions in reaction to the rising wave of new Covid-19 infections. It means that economic results of 1Q21 will be still weak, but it should come by no surprise – in the [MACROscope](#) report released in December we wrote that the pandemic threat will weigh on the economy throughout winter. What is more worrying though is the **disappointing pace of vaccination** (not only in Poland) and the **new mutations of the virus** (UK, South Africa, Brazil), with much higher transmission capabilities. The end of 2020 will be bumpy.
- News about progress in vaccinations and further spread of the pandemic will remain important for market sentiment in near future, and will be verifying the still prevailing optimism about chances for a significant economic rebound in 2H21.
- The weekly events calendar include **flash PMI for January, ECB meeting, inauguration of Joe Biden's term**. The sentiment indicators that surprised positively in December may go down this time amid extended restrictions. We do not think ECB meeting could be a breakthrough. In the USA, we hope the presidential power will be handed over without any turmoil.
- In Poland we will get to see **data on core inflation, wages and employment, construction output and retail sales**. We are expecting the two latter (construction and sales), due for release on Friday, to affect the market – our forecasts are below the consensus.
- NBP governor said during the video conference that he sees **possibility of rate cuts in Poland, even to negative territory**, and the room for reductions is still “large”. However it would be possible only if economic situation deteriorates “radically”. Meanwhile, the central bank expects situation to improve. This is probably the first such strong statement about the big room for negative rates from the central bank. Earlier in 2020 almost all MPC members were unanimous in their view that negative rates are neither necessary nor good idea, even if economic situation deteriorates. Referring to FX interventions Glapiński said there was no change in FX regime – zloty remains free floating and there is absolutely **no exchange rate level targeted** by the NBP. The conducted interventions were aimed at preventing excessive currency appreciation. On the other hand Glapiński declared the NBP is still ready to act if needed and the central bank “will not allow PLN weakening”. After the weekend we will get to see the market's interpretations of these words.

Market implications

- Given the risk of NBP's FX interventions we do not expect to see EUPLN below 4.50 at least in the coming weeks. Also, Poland weak data on Friday, lower European PMIs on Thursday and stronger dollar may generate a negative pressure on the zloty.
- We think bond yields may stabilize at current low levels. The room for higher yields could be limited by the disappointing numbers from Poland we expect to see at the end of the coming week.

Retail sales, construction output, % y/y



Source: GUS, Santander

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 Luzziński +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 week in economy

Last week we got to see final December CPI, which slid slightly below NBP target, positive current account data and we saw some rise in unemployment rate.

Final December CPI was released at 2.4% y/y (down from 3.0% in November and vs 2.3% in flash reading). Inflation went down in November mostly due to lower core components, transport and insurance services in particular, as well as slower growth of food prices (dragged lower by meat and vegetables). In general prices of services eased to 6.4% y/y from 7.8% y/y in November, and this was a major change from this year's peak to pre-epidemic levels. Goods prices advanced by 0.9% y/y (1.3% y/y in November). Core inflation ex food and energy prices went down to 3.7-3.8% from 4.3% in November. We are expecting 2021 CPI inflation to average slightly below the NBP target at 2.5%, with core inflation going further down. This will be supportive for keeping interest rates unchanged. Recent spikes in FAO food price index pose some upward risk for our forecasts of food prices. Read more in [Economic comment](#).

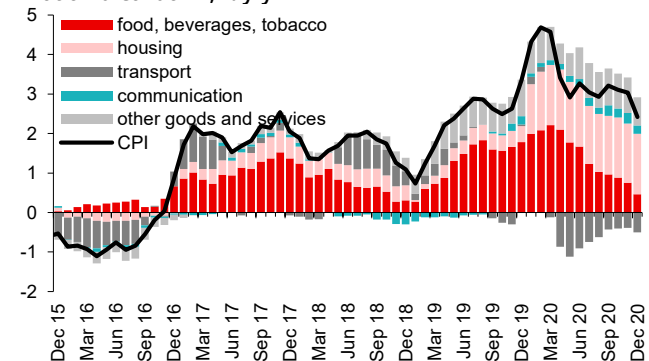
Energy Regulatory Office (URE) approved **a new natural gas distribution tariff** for one of the operators, PSG. The charge is up by c.3.6%. Let us remind that from 1 January on, the gas tariff was lowered. Taken together, this means that gas bills of c7mn households supplied by PSG will rise by c.1.5%. We estimate that the URE decision will add around 0.05 pp to CPI in 2021.

Poland **current account balance** reached +€1.7bn in November. Both exports and imports surprised to the upside, posting the highest growth rates in 2020 (including pre-Covid months): 9.5% y/y and 5.3% y/y, respectively. Services also improved and posted the best results since March, yet both main categories were still below last year's results: export by 6.5% y/y and import by 9.1% y/y. Exports of goods are mostly driven by positive situation in the Polish industry and we are expecting this trend to hold (albeit some moderation is possible in 1Q21 amid lengthening pandemic restrictions in main European countries). Imports are likely to lag behind as long as there is no major rebound in private consumption. 12m current account surplus improved to 3.4% of GDP from 3.3% in October. More detailed information on foreign trade released by GUS showed that Germany remained the driver of exports growth (+16% y/y). There is also evidence of precautionary restocking of the UK ahead of the end of the Brexit transition period, with Polish exports up 11.5% y/y in November vs -6.8% in October and -5.9% in Jan-Nov.

According to the Ministry of Labour, **the registered unemployment** rate climbed in December by 0.1pp to 6.2%. While the change in percentage points is the same as in the previous years, the nominal rise was a bit higher (21.2k vs 16.4 on average in 2017-2019). We are expecting the unemployment rate to average 6.3% in 2021 vs 5.9% in 2020. The seasonally adjusted **LFS unemployment rate** fell in November to 3.3% from 3.4% as compared to 3.0% before the epidemic.

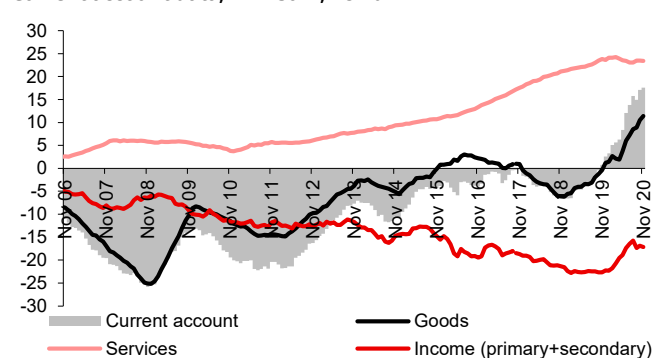
Polish MPC kept interest rates on hold, with the main reference rate at 0.1%. The official press release remained almost unchanged vs its December version. The only major change is that the Council added that in order to reinforce the impact of monetary easing on the economy the NBP may intervene on the FX market and the operations will be in accordance with market conditions. It confirms that the central bank may continue watching the currency movements and may step in if EURPLN goes below 4.50. There was no mention whatsoever about potential further interest rate reductions, mentioned earlier in the NBP governor's interview. We see it as a confirmation of view that the chances for further interest rate reductions are not big, unless economic outlook deteriorates very significantly.

Inflation breakdown, % y/y



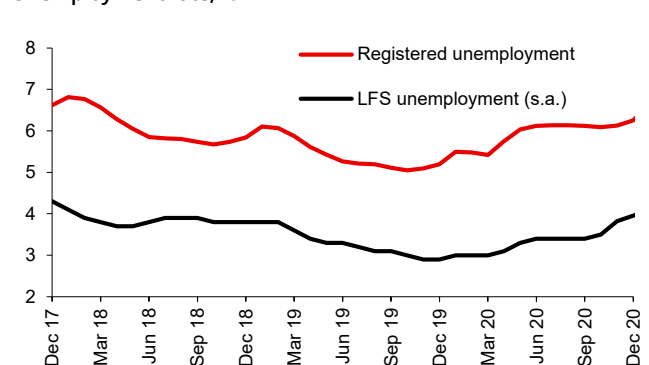
Source: GUS, NBP, Santander

Current account data, 12m sum, EURbn



Source: NBP, Santander

Unemployment rate, %



Source: GUS, Eurostat, Santander

FX and FI market

Last week on the market

FX The zloty depreciated during the last five sessions amid stronger dollar, possibility of a NBP intervention and uncertainty ahead of the MPC meeting at which some players saw risk of the main rate being cut to 0%. However, the scale of the Polish currency depreciation was only moderate: EURPLN rose to 4.55 from 4.50 holding between previous weeks high and low, USDPLN rose to 3.75 from 3.68 staying below December's peak, CHFPLN increased to 4.22 from 4.17 and GBPPLN to 5.12 from 5.0.

Elsewhere in the CEE region, we recorded a range trading with some mild appreciation bias. EURCZK and USDRUB neared their support levels at 26.0 and 72.0, respectively, while EURHUF was trading around 359 with the weekly range the lowest so far this year.

FI In the passing week, the asset swap spreads narrowed since yields trended further slightly lower (4-5bp) while IRS jumped (3-10bp) as the market continued to price in lower chances for a rate cut. As a result, the 10Y asset swap spread narrowed to 2bp, its lowest since 2014. In the core markets, the 10Y Bund yield moved lower to -0.54% after it rose to -0.45% for a while. The main reason for German debt strengthening was a political crisis in Italy. At the same time, the 10Y UST yield rose further to 1.18% intra-week and then corrected to 1.11% (flat w/w).

Key factors for the coming week could be the ECB meeting (Thursday), flash January PMIs (Friday) and Poland economic activity data (Friday). Prolonging lockdown in Germany shall result in lower readings of PMIs but the consensus values are pretty close to the December readings so there seems to be a risk that the Friday's numbers could disappoint. We do not think the ECB meeting could be a game changer. Last week, governor Lagarde expressed positive view regarding the economic performance once lockdowns end but reassured the central bank has tools to support growth if needed. Such supportive rhetoric shall be repeated after the ECB decision.

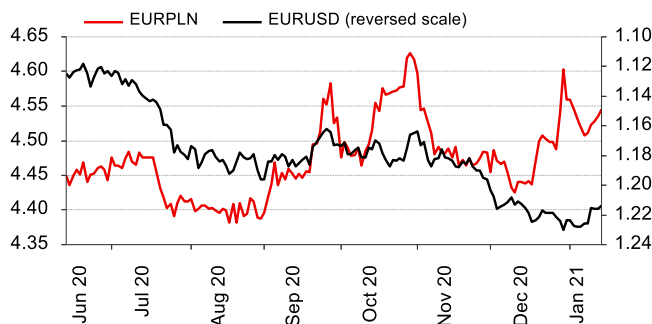
On Friday in Poland December construction output and retail sales will be released. Our forecasts are well below the consensus.

Market implications

FX Given the December central bank's interventions and inclusion of a sentence in a MPC statement that such activity may continue in the future it seems that we should not expect to see EUPLN below 4.50 at least in the coming weeks. Also, Poland Friday's data may make the market see higher probability of the NBP intervention more likely as we expect below-consensus numbers. Furthermore, the recent global events – political crisis in Italy, higher US yields US – and possible disappointment in flash PMIs should favour the dollar in the short term. Shall EURUSD move further down – we see the first target at slightly below 1.21 – this may generate a negative pressure on the zloty.

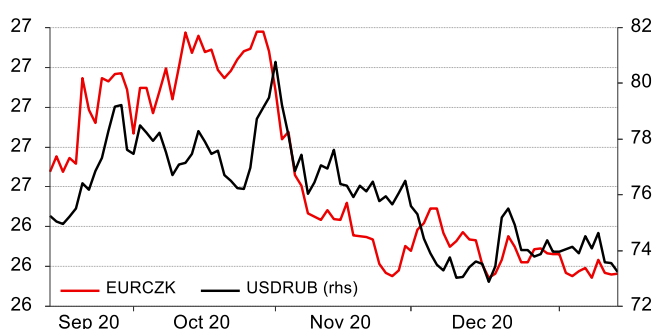
FI Rise of Bund and UST yields intra-week, no rate cut in Poland and no mention in a statement that they are likely filed to trigger a noticeable correction on the Polish FI market. We think bond yields may stabilize at current low levels. On the one hand, the 10Y asset swap spread fell to nearly zero and we think there is limited room for the 10Y bond yield to move lower. Also, the PL-US 10Y bond yield spread did not manage to break support at c8bp (its late-2019 low) which suggests that we could see a profit taking from recent strengthening. On the other hand, the room for higher yields could be limited by the disappointing numbers from Poland we expect to see at the end of the coming week.

EURPLN and EURUSD



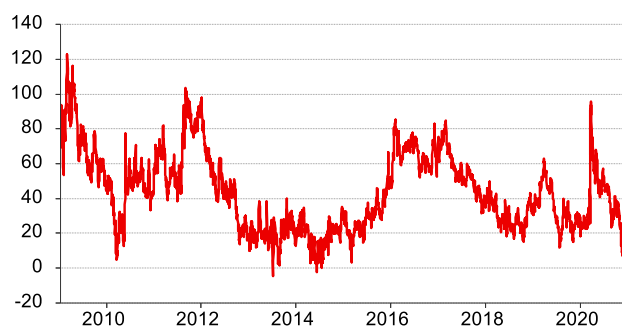
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK and USDRUB



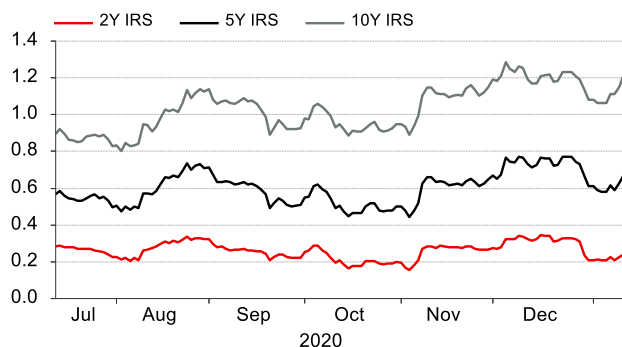
Source: Refinitiv Datastream, Santander Bank Polska

Poland 10Y asset swap spread



Source: Refinitiv Datastream, Santander Bank Polska

Poland IRS



Source: Refinitiv Datastream, Santander Bank Polska

Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST
				MARKET	SANTANDER	VALUE
MONDAY (18 January)						
14:00	PL	CPI Core	Dec	% y/y	3.7	3.7** 4.3
TUESDAY (19 January)						
08:00	DE	HICP	Dec	% m/m	0.6	- 0.6
11:00	DE	ZEW Survey Current Situation	Jan	pts	-69.9	- -66.5
WEDNESDAY (20 January)						
11:00	EZ	HICP	Dec	% y/y	-0.3	- -0.3
THURSDAY (21 January)						
10:00	PL	Employment in corporate sector	Dec	% y/y	-1.2	-1.1 -1.2
10:00	PL	Average Gross Wages	Dec	% y/y	4.7	4.7 4.9
13:45	EZ	ECB Main Refinancing Rate		%	0.0	- 0.0
14:30	US	Initial Jobless Claims	week	k	788	- 965
14:30	US	Housing Starts	Dec	% m/m	1.1	- 1.2
14:30	US	Index Philly Fed	Jan	pts	12.3	- 9.1
FRIDAY (22 January)						
09:30	DE	Flash Germany Manufacturing PMI	Jan	pts	58.0	- 58.3
09:30	DE	Flash Markit Germany Services PMI	Jan	pts	46.0	- 47.0
10:00	EZ	Flash Eurozone Manufacturing PMI	Jan	pts	55.0	- 55.2
10:00	EZ	Flash Eurozone Services PMI	Jan	pts	44.5	- 46.4
10:00	PL	Construction Output	Dec	% y/y	-1.1	-3.2 -4.9
10:00	PL	PPI	Dec	% y/y	0.0	0.0 -0.2
10:00	PL	Retail Sales Real	Dec	% y/y	-0.9	-3.8 -5.3
16:00	US	Existing Home Sales	Dec	% m/m	-2.1	- -2.48

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

** estimate after full CPI inflation data

This publication has been prepared by Santander Bank Polska S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Santander Bank Polska S.A. its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Santander Bank Polska S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Santander Bank Polska S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

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.