

29 January 2021

Weekly Economic Update

Less contraction, less restrictions

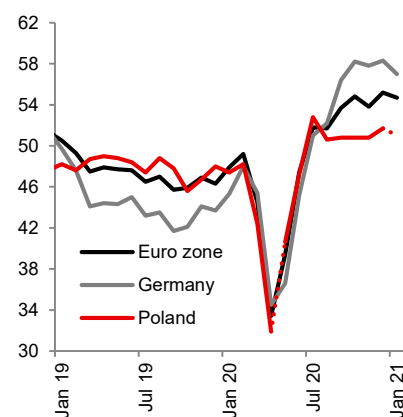
What's hot next week

- We have just seen [flash 2020 GDP data](#) showing that the Polish economy contracted by 2.8% last year (likely one of the best results in the EU). This implies that in 4Q20 GDP contracted again yet much less than in spring. However, this time the period of subdued economic activity could last longer owing to the prolonging fight with pandemic.
- Starting from February, some of the restrictions will be eased (opening of shopping malls) but we shall likely wait until 2H21 to see a bigger economic revival.
- In the coming week the focus will most likely be on further news about the vaccination rollout. In the local calendar there are two events worth mentioning: the release of January **manufacturing PMI** (Monday) and the **MPC meeting** (Wednesday). As usual in January, flash CPI estimate will not be published due to changes in the CPI basket weights. Abroad, there will be much more to watch: apart from PMI and ISM indexes we will also get to see the euro zone inflation (flash readings from several countries have strongly surprised to the upside) and US labour market data.
- Our forecast assumes **a slight decrease in the PMI in January**, in line with preliminary readings in the rest of Europe. The activity reading in the Polish manufacturing sector should still remain above the majority of the EU countries
- **MPC will not change rates** again while the tone of the communique will remain unchanged vs the previous one. We guess the MPC will repeat that the NBP is ready to intervene in the FX market if necessary. It still remains unclear whether Governor Glapiński will decide to release another video recording with answers to journalists' questions.

Market implications

- Zloty's gains post recent better-than-expected Polish macroeconomic data have been modest until today. Only after the publication of the GDP data the zloty gained slightly. Still, EURPLN remains within a horizontal range and the likelihood of the currency pair **moving below 4.50 is not very high**, in our opinion. More generally, the trend of appreciation of EM currencies has apparently slowed down at the start of the year.
- There is **little scope for bond yields declines** at the long end of the curve. This is mostly due to the core markets yields behaviour in the context of the recent significant CPI surprises to the upside. Still abundant liquidity in the Polish banking sector helps keep front end yields in the vicinity of 0.0%.

PMI for manufacturing, pts



Source: Markit, Santander

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Last week in economy

Last week was abundant in macro data in Poland, with GDP estimate for entire 2020 being the most important figure.

GDP in Poland fell by 2.8% in 2020, only slightly less than our forecast (-2.9%). Such result implies GDP growth in 4Q20 somewhere between -2.8% and -3.1% y/y, which in s.a. terms corresponds to q/q drop slightly smaller than 1%. Private consumption fell 3% in 2020 and it looks that the drop in 4Q could have been the same. Fixed investments dropped 8.4% in 2020 and probably nearly 11% y/y in 4Q. Overall, the second wave of Covid-19 pandemic apparently did have much smaller impact on economic activity than in the spring 2020, which was in line with expectations. At the same time, it is quite obvious that this impact will last longer, as economic restrictions were extended well into 1Q21. The economic scenario for 2021 depends heavily on the success and pace of the vaccination program. We still believe there is a chance for a strong economic revival in 2H21, given that by the late summer the large part of uncertainty regarding future lockdowns is removed. Read more in [Economic comment](#).

Polish industrial output rose by 11.2% y/y in December, much more than expected. While much of this print was caused by favourable calendar effects, the seasonally adjusted reading was also very strong at 7.1% y/y, compared to c.3% y/y before the pandemic. Read more in our [Economic comment](#).

The **ESI indicators** for Poland in January showed an improvement in sentiment in manufacturing and retail trades, while a deterioration in services. In manufacturing both the sectoral indicator as well as its components are at their highest levels since the start of pandemic. For the first time in roughly a year the corporates were pointing to the lack rather than the abundance of finished goods inventories. In quarterly series of questions, we noticed an unusually strong rise in consumers' declarations regarding the willingness to purchase a car, a flat or having a flat refurbished.

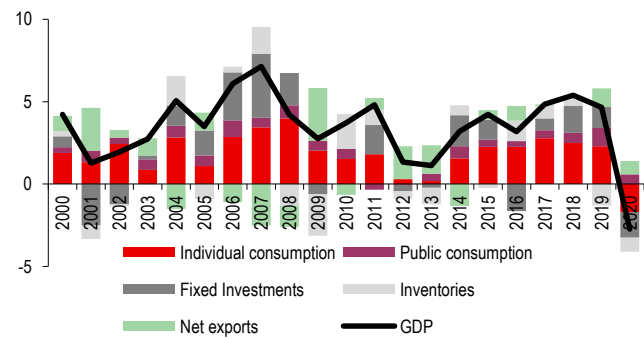
Registered unemployment rate was at 6.2% in December, in line with Labour Ministry estimate. Most statistics regarding the unemployment indicate still decreased activity on the labour market. However, the number of job offers in labour offices was higher than a year ago (81.3k vs 78.4k). We expect a small rise of the unemployment rate in the coming months, mostly due to the seasonal pattern.

M3 money supply rose by 16.4% y/y in December vs 16.1% previously. Total loans corrected for fx changes went deeper into negative territory, to -1.0% y/y from -0.4%. Corporate credit declined by 7.0% y/y vs 5.5% previously. Household loans were still growing but at the slowest pace in the last 7 years, 2.8% y/y. The only category of credit to individuals which was still rising in y/y terms were mortgage loans, including PLN-denominated ones rising by 10.3% y/y.

GUS Statistical Bulletin provided the details of the December positive surprise with **wage growth**. The rebound was broader than we thought and covered mainly these sectors that saw a very strong output (electrical appliances, textiles, wood products, furniture) – all saw wages growing by more than 10% y/y. At the same time oil and coke industry and hotels and restaurants had negative wage y/y growth. This time it was not the mining sector bonuses (usually paid in December and significantly changing the headline wage growth) that caused the surprise acceleration of wages.

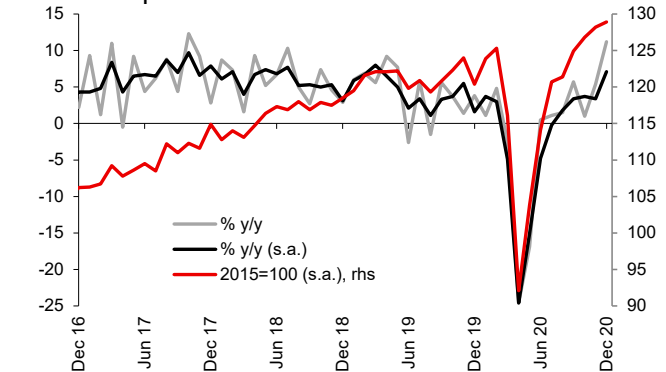
Industrial new orders still looked strong in December, growing faster than between July and October, but less than in a particularly strong November. The value of total new orders rose by 7%y/y (vs 15% previously) and export orders by 9.4% y/y (down from 20.7%).

GDP growth and breakdown, % y/y



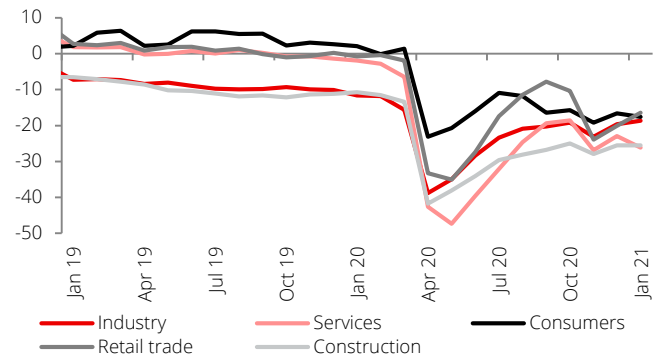
Source: GUS, Santander

Industrial output



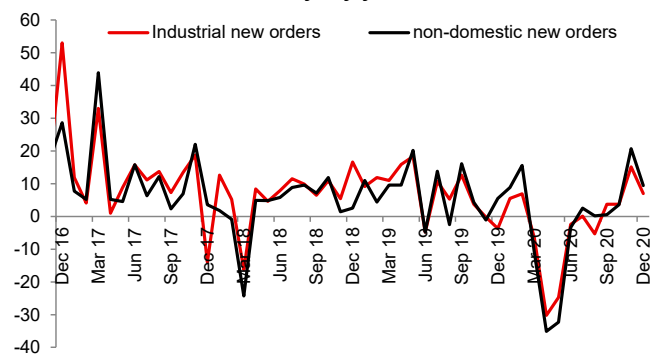
Source: GUS, Santander

ESI sectoral sentiment indicators



Source: European Commission, Santander

Value of new orders in industry, %y/y



Source: GUS, Santander

FX and FI market

Last week on the market

FX EURPLN closed the week fairly unchanged vs the previous Friday though managed to temporarily approach the YTD peak set in January at slightly above 4.56. Trading was relatively calm with only temporary weakening of the zloty in response to the sharp global mood deterioration. USDPLN rose temporarily above 3.77 from 3.72, GBPPLN increased to 5.16 from 5.09, while CHFPLN was trading slightly above 4.20.

Elsewhere in the CEE region, changes were mixed. EURCZK was testing 26.0 support thanks to the Czech central bank governor not excluding that even two rate hikes could take place in 2H21. EURHUF was on the rise in the first part of the week after the Hungarian central bank expanded the government bond purchase program. Earlier this month, the bank increased the size of the corporate bond purchase program. USDRUB rose 3.8% to its new YTD peak of 76.49 as a combination of slightly stronger dollar and geopolitical tensions.

FI The IRS rates continued to rely mainly on the core market trends and Polish curve shifted 2-6bp up. As a result, the 5Y and 10Y rates reached their fresh 2021 peaks. At the same time, bond yields remained near their local lows (5Y at c0.40%) or headed further down (10Y to 1.15%). This resulted in the 10Y asset swap spread falling to -2bp and the respective PL-DE bond yield spread testing 170bp support.

Key factors for the market in the coming days should be still the issue of delay in the vaccination deliveries in Europe and introduction of the US fiscal stimulus. These have caused some rise in volatility and a risk aversion in the recent days.

In terms of the data releases, the US January ISM and monthly nonfarm payrolls and euro zone HICP should be the most awaited. The market expects a drop of the manufacturing ISM which would be coherent with lower PMIs in Europe. Consensus hopes that number of workplaces rose in January after being slashed in December. After the last week's inflation surprises in Germany and Spain, the euro zone HICP may also show a noticeable rise.

In Poland, market attention will focus on the MPC meeting. The tone of the statement should not change much and if any than rather to the dovish side rather than hawkish. The reference to the zloty's exchange rate should be repeated.

Market implications

FX The zloty failed to benefit from the recently released better-than-expected Polish macro data while it was slightly pressured by the dollar and shaky global market mood. What is striking, is that volatility in the CEE FX market and of EURUSD is relatively low when compared to the equity market, for example.

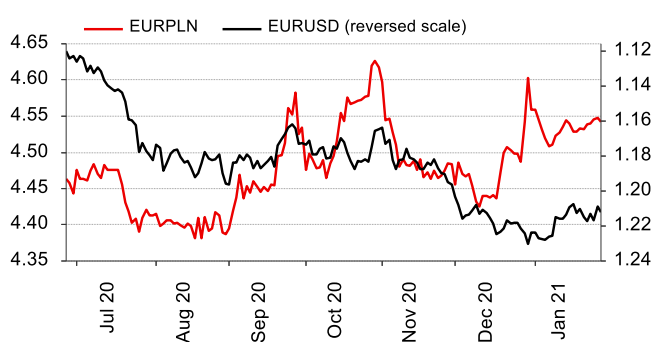
EURPLN is still trading between peak and low seen during the first week of January, EURCZK weekly trading range in January is roughly half of what we have seen in December and USDRUB only recently managed to leave the range in which it has been holding since mid-December. At the same time, VIX already saw a jump to above 35pts from 23pts.

We perceive this low volatility as a warning sign and we think EURPLN should stay comfortably above 4.50 in the coming days. This should be warranted by the dovish message from the Polish central bank.

FI We continue to think that there is limited room for the Polish bond yields to move down on the long end given the spread vs Bund holding close to the 170bp support and the 10Y asset swap spread at zero or slightly negative. Additionally, the euro zone HICP could rise well above 0% y/y and this could generate an upside pressure on the core yields. In turn, this might trigger some profit taking on the Polish market.

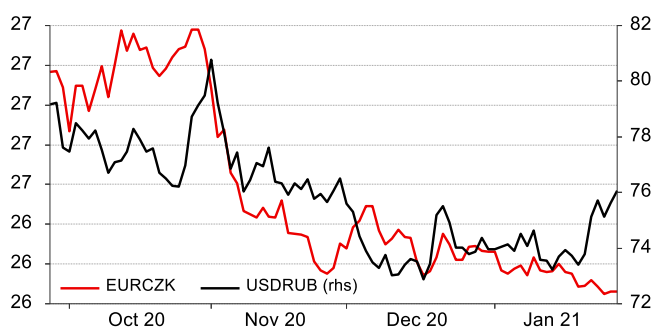
However, ample liquidity in the Polish interbank market and likely dovish message from the MPC should curb yield's upside potential.

EURPLN and EURUSD



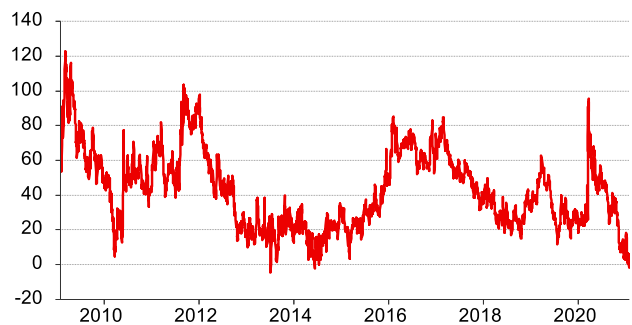
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK and USDRUB



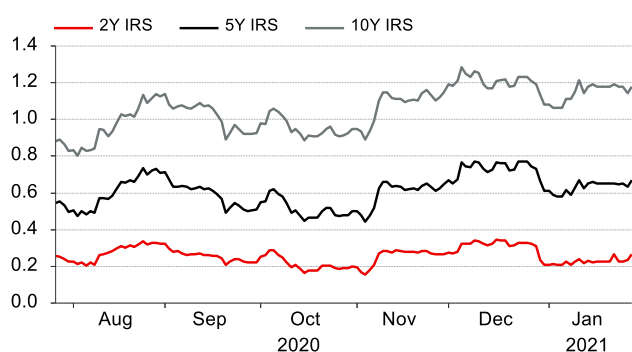
Source: Refinitiv Datastream, Santander Bank Polska

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 (1 February)							
08:00	DE	Retail Sales	Dec	% m/m	-2.2	-	1.9
9:00	PL	Poland Manufacturing PMI	Jan	pts	51.3	51.0	51.7
9:55	DE	Germany Manufacturing PMI	Jan	pts	57.0	-	57.0
10:00	EZ	Eurozone Manufacturing PMI	Jan	pts	54.7	-	54.7
11:00	EZ	Unemployment Rate	Dec	%	8.3	-	8.3
16:00	US	ISM manufacturing	Jan	pts	59.9	-	60.7
TUESDAY (2 February)							
9:00	CZ	GDP SA	4Q	% y/y	-7.2	-	-5.0
11:00	EZ	GDP SA	4Q	% y/y	-	-	-4.3
WEDNESDAY (3 February)							
	PL	MPC decision		%	0.1	0.1	0.1
2:45	CN	Caixin China PMI Services	Jan	pts	55.5	-	56.3
9:55	DE	Markit Germany Services PMI	Jan	pts	46.8	-	46.8
10:00	EZ	Eurozone Services PMI	Jan	pts	45.0	-	45.0
11:00	EZ	Flash HICP	Jan	% y/y	0.2	-	-0.3
14:15	US	ADP report	Jan	k	50	-	-123
16:00	US	ISM services	Jan	pts	56.8	-	57.5
THURSDAY (4 February)							
11:00	EZ	Retail Sales	Dec	% m/m	-	-	-6.1
14:30	US	Initial Jobless Claims	week	k	-	-	847
14:30	CZ	Central Bank Rate Decision		%	0.25	-	0.25
16:00	US	Durable Goods Orders	Dec	% m/m	-	-	0.2
16:00	US	Factory Orders	Dec	% m/m	0.8	-	1.0
FRIDAY (5 February)							
8:00	DE	Factory Orders	Dec	% m/m	-2.0	-	2.3
9:00	HU	Industrial Production SA	Dec	% y/y	0.0	-	1.6
14:30	US	Change in Nonfarm Payrolls	Jan	k	50	-	-140
14:30	US	Unemployment Rate	Jan	%	6.7	-	6.7

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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