

19 November 2021

Weekly Economic Update

Zloty on quarantine

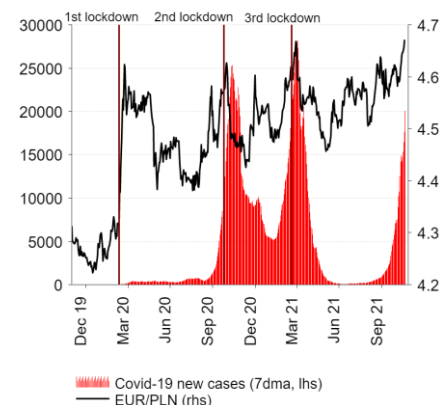
Economy next week

- After the weekend we will get more of domestic October data releases: industrial and construction production, PPI (all on Monday), retail sales (Tuesday), money supply (Wednesday), unemployment and various detailed data in the Statistical Bulletin (Thursday). In most cases our forecasts are quite close to the market consensus and consistent with the scenario of still solid economic growth accompanied by growing inflation pressure. **In case of no large surprises, the data should be rather neutral marketwise.**
- Abroad, November European business confidence indexes will be out (flash PMIs, Ifo, GfK) plus some US releases (GDP, personal income and spending) as well as minutes from the last FOMC meeting. **At the start of the week we should also get to know the Joe Biden's administration pick for the next Fed chief.**
- There is still no clarity on the acceptance of the Polish Development Program by the European Commission and with every passing week the chances of getting the prepayment (13% of total assigned funds, c.EUR3-4bn) are shrinking which means a **delay in the inflow of funds if not a fading chance of getting them at all** (the regular payments will be strictly conditioned on Poland meeting the indicated milestones, including the restoration of the rule of law).
- **The pandemic wave is growing rapidly.** We are still below the peak of new Covid-19 cases from the spring 2021, but the number of quarantined people is already at all-time high (over half a million). This is already translating into mobility indicators and could temporarily affect consumer behaviour as well as the labour market situation. So far, the Polish government has avoided any new restrictions, while other European countries are imposing (or mulling) new measures as infections are on the rise. In the upcoming week this can be the key issue for the markets, affecting expectations about the economic outlook.
- **Situation on the border with Belarus** remains an additional risk factor.

Markets next week

- The global market sentiment and the strengthening of USD do not help the EM currencies. The fall of EURUSD might continue if the pandemic wave in Europe will result in new restrictions and lockdowns which might support investors' view that interest rates in Europe won't be changed for long vs increasing expectations for a looming interest rate hike in the US. On top of that, zloty could be under pressure from local factors: real interest rates still are the lowest in the region, the money from the EU Recovery Fund is at risk, the new Covid-19 wave is building, the situation at the border with Belarus is still unresolved while the C/A balance is deteriorating. **EURPLN is now testing 4.68, we see next important technical levels at 4.70 then 4.75.**
- Fixed income market has been volatile of late, which resulted from the low activity of investors and hence poor liquidity. Yield curves have inverted for a while however are steepening again now. On the core debt markets the situation differs - in the US there is upward pressure on yields (risk of earlier rate hikes than currently priced in), as opposed to Eurozone (pandemic fears, again). **We see the risk of further sell-off at the long end of the POLGB curve**, partly due to pressure from UST yields, partly due to weaker PLN and anticipation of the need to increase interest rates even further, and the risk of losing the access to funds from EU Recovery Fund. On Thursday (25 Nov) there is switch auction organized by Ministry of Finance (second in this month).

EURPLN vs Covid-19 waves in Poland



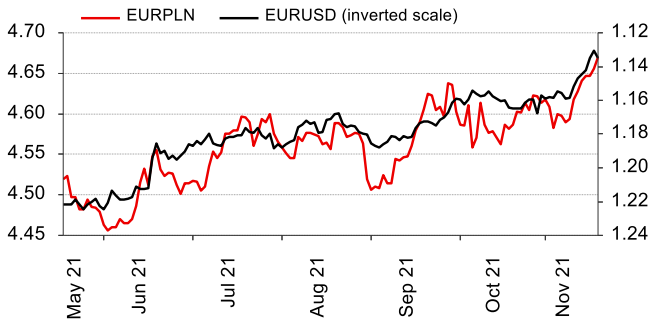
Source: Refinitiv Datastream, Santander

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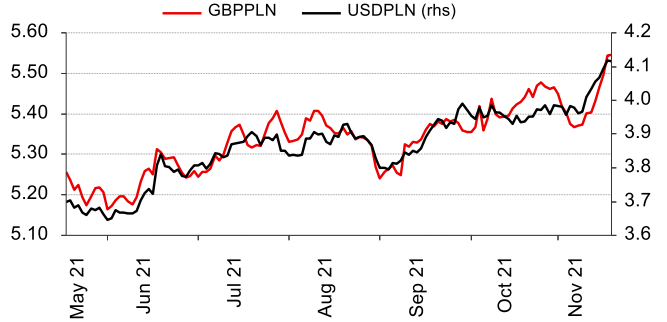
FX and FI markets

EURPLN and EURUSD



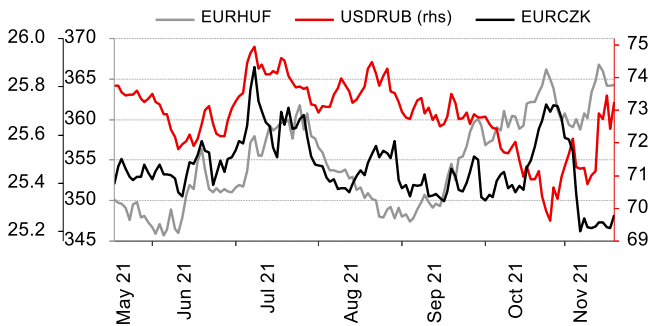
Source: Refinitiv Datastream, Santander Bank Polska

GBPPLN and USDPLN



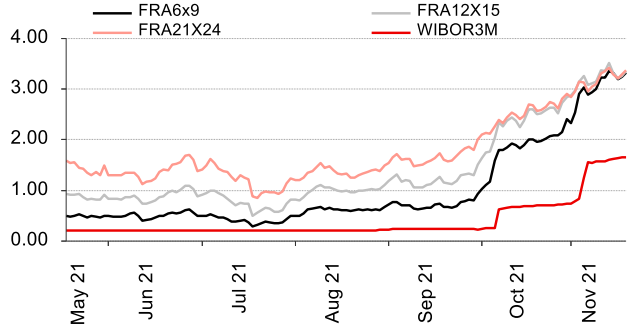
Source: Refinitiv Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



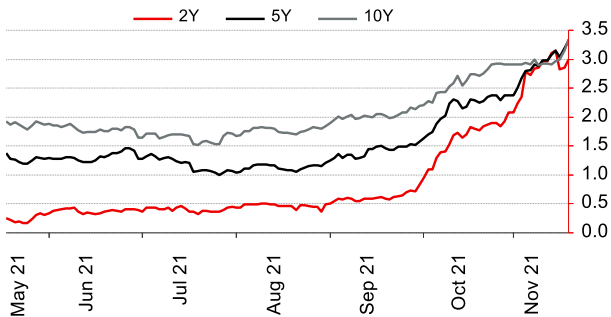
Source: Refinitiv Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



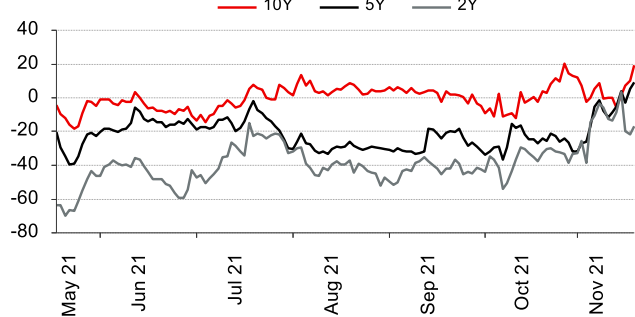
Source: Refinitiv Datastream, Santander Bank Polska

Polish bond yields



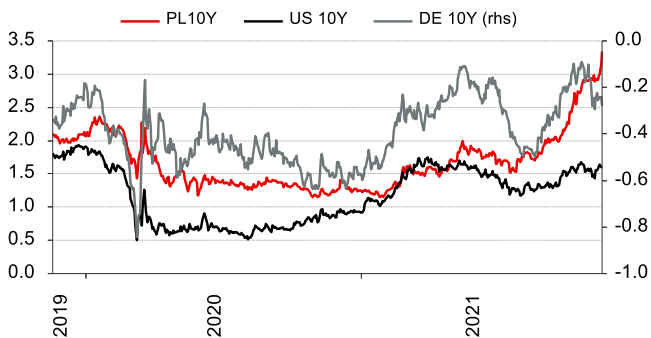
Source: Refinitiv Datastream, Santander Bank Polska

Asset swap spreads



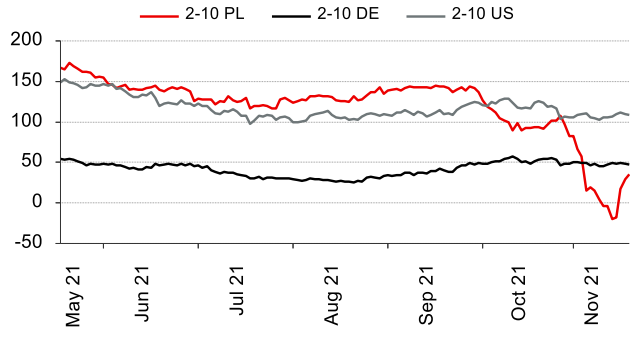
Source: Refinitiv Datastream, Santander Bank Polska

10Y bond yields



Source: Refinitiv Datastream, Santander

Steepness of yield curves



Source: Refinitiv Datastream, Santander Bank Polska

Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE	
				MARKET	SANTANDER		
MONDAY (22 November)							
10:00	PL	Sold Industrial Output	Oct	% y/y	5.3	5.0	8.8
10:00	PL	Construction Output	Oct	% y/y	2.9	3.3	4.3
10:00	PL	PPI	Oct	% y/y	10.8	11.2	10.2
16:00	US	Existing Home Sales	Oct	% m/m	-1.4		7.0
TUESDAY (23 November)							
09:30	DE	Germany Manufacturing PMI	Nov	pts	57.0		57.8
09:30	DE	Markit Germany Services PMI	Nov	pts	52.0		52.4
10:00	EZ	Eurozone Manufacturing PMI	Nov	pts	57.5		58.3
10:00	EZ	Eurozone Services PMI	Nov	pts	54.0		54.6
10:00	PL	Retail Sales Real	Oct	% y/y	6.5	6.2	5.1
WEDNESDAY (24 November)							
10:00	DE	Ifo Business Climate	Nov	pts	96.7		97.7
14:00	PL	Money Supply M3	Oct	% y/y	8.4	8.5	8.6
14:30	US	Durable Goods Orders	Oct	% m/m	0.2		-0.3
14:30	US	GDP Annualized	3Q	% Q/Q	2.2		2.0
14:30	US	Initial Jobless Claims		k	260		268
16:00	US	Michigan index	Nov	pts	66.8		66.8
16:00	US	New Home Sales	Oct	% m/m	1.0		14.0
16:00	US	Personal Spending	Oct	% m/m	0.85		0.6
16:00	US	Personal Income	Oct	% m/m	0.35		-1.0
16:00	US	PCE Deflator SA	Oct	% m/m	0.7		0.3
20:00	US	FOMC Meeting Minutes	Nov/21				
THURSDAY (25 November)							
08:00	DE	Consumer Confidence (GfK)	Dec		-1.0		0.9
10:00	PL	Unemployment Rate	Oct	%	5.5	5.5	5.6

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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