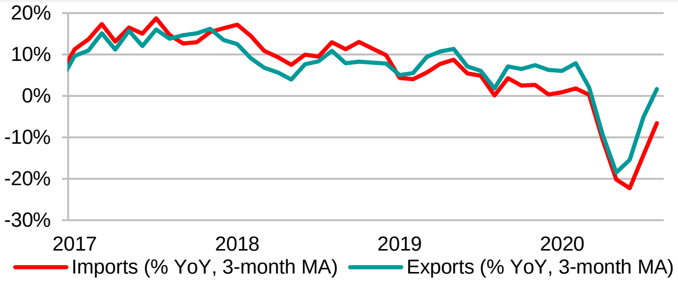
US presidential election results are positive for PLN

This week

- **The most important event this week will be the publication of the flash estimate of GDP in Poland in Q3.** We forecast that GDP dynamics rose to -1.0% YoY from -8.4% in Q2, due to an increase in economic activity after the end of the spring lockdown. We expect that the increase in dynamics was the effect of higher contributions of consumption and net exports. Our forecast is above the consensus (-1.8%); therefore, its materialization will be slightly positive for PLN and yields on Polish bonds.
- **This week we will see some important data from the US.** We expect that headline inflation dropped to 1.2% YoY vs. 1.4% in September, due to a decrease in all its sub-indices (core inflation. food and energy prices). The number of jobless claims will be released on Thursday. According to the consensus it will amount to 725k vs. 751k last week, confirming a downward trend for this indicator. The University of Michigan Index will be released on Friday. We forecast that its value rose slightly to 82.0 pts in November vs. 81.8 pts in October. We believe that the aggregate impact of data from the US economy on financial markets will be limited.
- **ZEW index reflecting the sentiment among analysts and institutional investors regarding the economic situation in Germany will be released on Tuesday**. The market expects that its value will drop to 45.4 pts in November vs. 56.1 pts in October. The reading is likely to be neutral for the financial markets.
- **Data on the Polish balance of payments in September will be released on Friday**. We expect the current account balance to have increased to EUR 2030M vs. EUR 947M in August, mainly due to higher balance on trade. We forecast that export dynamics rose from 0.8% YoY in August to 6.2% in September, while import growth rate rose from -5.1% YoY to 0.2%. Conducive to higher import and export dynamics were favourable calendar effects. In our view, the data on the balance of payments will be neutral for PLN and yields on Polish bonds.



Source: NBP, Credit Agricole

- **On Friday we will see data on the October inflation in Poland.** We expect that the inflation rate will be in line with the flash estimate (3.0% YoY vs. 3.2% in September). We believe that conducive to the indicator decline were lower dynamics of food prices and lower core inflation. The inflation reading will be neutral for PLN and yields on Polish bonds.

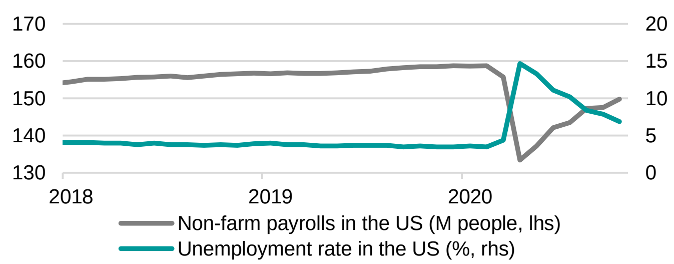
Last week

- **Last week saw the introduction of subsequent restrictions aimed at containing the spread of the coronavirus pandemic in Poland.** They substantially reduce trade activity by toughening the limits on the number of people allowed to stay in shops at the same time and closed shops in shopping malls (with the exception of shops with food articles, cosmetics, toiletries and cleaning agents, medical products and pharmaceuticals, repairing and building materials, pet goods, press and services). In addition, hotel activity has been limited and may now only offer accommodation to visitors on business trips. At the same time, the new restrictions assume switching to remote teaching also in forms 1-3 in primary schools. Despite a significant toughening of the restrictions they are still softer from those imposed in March 2020 (especially with regard to the limits on the number of people in shops, functioning of service units, and mobility). The government has also presented measures to aid companies amid tougher restrictions. They will include i.a. fixed cost subsidies for small and medium-sized business in the most affected branches, no need to repay the subsidies under the PFR Financial Shield, extension of the Financial Shield for large companies, long-term loans with guarantees, subsidizing employment, extension of so-called "stoppage", exemption from social security contributions, or subsidizing leasing. It is still not clear if the government is going to ease the condition for non-repayment of aid under the Financial Shield in the form of maintaining employment for 12 months. However, some earlier remarks of prime minister M. Morawiecki indicate that this condition will be eased which would be consistent with our forecast assuming an increase in the unemployment rate at the end of Q4 2020 up to 7.1%. Subsequent restrictions are in line with our scenario assuming so-called "crawling lockdown" (see MACROmap of 26/10/2020) and GDP decline by 4.5% YoY in Q4. However, the introduction of the so-called "national quarantine" (hard lockdown) would involve a downside risk to this forecast and a significant upside risk to the short-term EURPLN profile. According to the announcement of prime minister M. Morawiecki, it will be introduced when the average number of cases for the past 7 days reaches a level of 70-75 per 100k inhabitants. Now this average amounts to 62 (see MACROpulse of 5/11/2020).

- **As we expected, the Monetary Policy Council has not changed interest rates at the meeting last week (the reference rate amounts to 0.10%).** In the statement numerous changes were introduced highlighting the dynamically changing situation home and abroad. The Council indicated that the sharp increase in the number of new COVID-19 infections in the recent period and the tightening of the pandemic restrictions would contribute to a further deterioration in the economic conditions in 2020 Q4. In the Council's view domestic economic conditions will be held back by a decline in activity in the services sector, restrictions introduced in trade, increased uncertainty about the further course and effects of the pandemic and a deterioration in economic agents' sentiment. The Council has also noted the growing likelihood of an economic downturn in the environment of the Polish economy which together with the lack of a visible and more durable zloty exchange rate adjustment to the global pandemic-driven shock and to the monetary policy easing introduced by NBP will limit domestic economic activity. The numerous changes introduced in the statement indicate that the Council anticipates a significant negative impact of the second wave of the COVID-19 pandemic on the economic activity in Q4 2020. Together with the statement, the November NBP projection has been published in which inflation and GDP profiles were revised upwards compared to the July projection. In accordance with the projection, inflation in the 2021-2022 period will run close to the MPC inflation target (2.5%). In turn, the GDP growth profile in the 2020-2022 period suggests that Polish economy will regain macroeconomic equilibrium in 2022. It should also be emphasized that the November NBP projection does not take into account a hard lockdown ("national quarantine") the introduction of which in November is very likely in our opinion. Consequently, following the introduction of a hard lockdown, the economic situation expected in Q4 2020 will further significantly deteriorate compared to the scenario outlined in the NBP projection (see MACROpulse of 6/11/2020). We maintain our view that, in response to the expected by us introduction of a hard lockdown and the resulting deterioration of the outlook for economic growth and lowering of anticipated inflation, the MPC will ease the monetary policy in November or December. The most likely scenario in our view is that the Council will use unconventional tools of monetary policy while leaving the reference rate at an unchanged level. However, we do not rule out that the Council will introduce negative interest rates (see MACROpulse of 6/11/2020).
- **Poland manufacturing PMI was released last week.** Its value has not changed in October compared to September and amounted to 50.8 pts. The index stabilization resulted from lower contributions of its sub-indices for new orders and output and higher sub-indices for employment, inventories, and suppliers' delivery times. Especially noteworthy in the data structure is the decline in new orders recorded for the first time since June 2020. In turn, export orders increased in October fourth month in a row and in addition at the fastest pace since

January 2018. Such orders structure reflects the recovery in global trade with simultaneous unfavourable epidemiological situation in Poland (see MACROmap of 2/11/2020). The last week's data support our forecast in which the dynamics of Polish GDP will decrease to -4.5% YoY in Q4 vs. -1.0% in Q3 and in the whole 2020 the Polish GDP will decrease by 3.1% vs. a 4.5% increase in 2019.

- **Last week we saw important data from the US.** The number of jobless claims dropped to 751k vs. 758k two weeks ago, running above the market expectations (733k). Noteworthy is also further sharp decline in the number of continued claims (from 7.8M to 7.3M). However, it is worth remembering that it largely results from the loss of right to the benefit by long-term unemployed persons. Last week we also saw data on non-farm payrolls which rose by 638k in October vs. a 672k increase in September (revised upwards from 661k), running above the market expectations (600k). Employment increased in 11 of the 14 segments, of which the sharpest increase in employment was recorded in leisure and hospitality (271k), business services (208k), and retail trade (+103.7k), namely the segments most affected by the pandemic. Unemployment rate dropped to 6.9% in October vs. 7.9% in September. October saw further decrease in the dynamics of average hourly earnings to 4.5% YoY vs. 4.6% in September, due to further increase in employment in segments with low average earnings. The October data on non-farm payrolls in the US, coupled with the data on unemployment benefit claims, confirm that the situation in the US labour market is gradually improving, but is still far from the equilibrium level. The manufacturing ISM index increased to 59.3 pts in October vs. 55.4 pts in September. The index increase resulted from higher contributions of all its sub-indices (for output, new orders, employment, inventories, and suppliers' delivery times). Noteworthy in the data structure is an increase in the employment sub-index above the 50 pts threshold dividing expansion from contraction of activity for the first time since July 2019. It suggests that companies have started to increase employment amid growing output and new orders. On the other hand the non-manufacturing ISM index recorded a decrease and dropped to 56.6 pts in October vs. 57.8 pts, running below the market expectations (57.5 pts). The index decrease resulted from lower contributions of 3 of its 4 sub-indices (for current activity, new orders, and employment), while higher contribution of the sub-index for suppliers' delivery times had opposite impact. It is worth noting that despite the decrease recorded in October, the employment sub-index has for two months now stayed above the 50 pts threshold, which is consistent with the gradual improvement observed in the US labour market. The last week's data support our scenario, in which the US GDP will decrease by 4.5% in 2020 vs. a 2.3% increase in 2019 and will increase by 3.7% in 2021. Further course of the COVID-19 pandemic in the US and the scale and time profile of the new stimulus package are the main risks to the sustainability of the recovery of economic activity in the US.



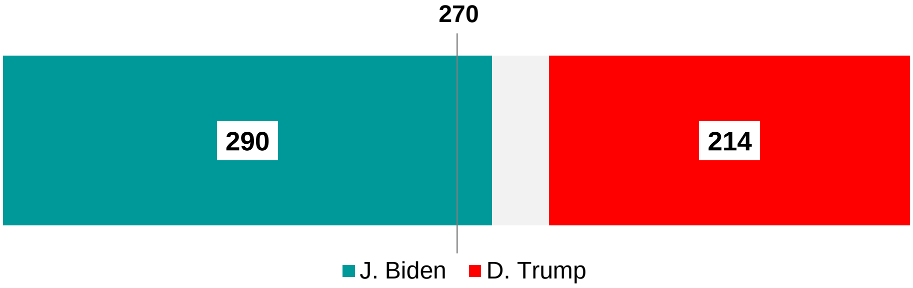
Source: Datastream, Credit Agricole

- **Last week we saw some important data from the German economy**. Industrial production rose by 1.6% MoM in September vs. a 0.5% increase in August, running below the market expectations (+2.7%). The increase in the monthly industrial production dynamics resulted mainly from higher production in manufacturing, while lower dynamics of production in construction and energy had opposite impact. Nonetheless, industrial production continues to be significantly lower (by ca. 8%) from February, namely the last month before the strong impact of the pandemic on the German industry. Last week we also saw data on new orders in German manufacturing, which rose by 0.5% MoM in September vs. a 4.9% increase in August, running markedly below the market expectations (2.0%). The decrease in the orders growth rate resulted from lower dynamics of both domestic and foreign orders. It is worth noting that foreign orders decreased in September in monthly terms for the first time since April 2020. Their decrease resulted from lower orders from the Eurozone while orders from countries outside the single currency area have slightly increased. This may point to the negative impact of the second wave of the pandemic in Europe on trade exchange in the Eurozone. Last week we also saw data on the German balance on trade. Its surplus increased to EUR 17.8bn in September vs. EUR 15.4bn in August. A decrease was recorded both by the dynamics of exports (2.3% MoM in September vs. 2.9% in August) and of imports (-0.1% vs. 5.8%). Import dynamics stood markedly below the market expectations (+2.1% MoM), pointing to a weakening of domestic demand in Germany. The data from Germany pose a downside risk to our forecast, in which the German GDP will decrease by 5.4% in 2020 vs. a 0.6% increase in 2019.

- **At the meeting last week FED maintained the target range for the federal funds at [0.00%; 0.25%], which was in line with the market expectations.** Unchanged was also the scale of the Federal Reserve's asset purchase program amounting to USD 120bn a month, of which USD 80bn are treasury bonds and USD 40bn mortgage-backed securities (MBS). The FED refrained from changes in the monetary policy due to numerous uncertainty factors. On the one hand, the US GDP growth rate in Q2 proved to be higher than expected and, on the other hand, the US and Europe are struggling with the second wave of the pandemic while the issues of the US elections and consequently also of the new stimulus package remain unsolved. During the conference after the meeting, the FED chair J. Powell repeated his concerns about the economic outlook and called for further fiscal policy easing. He also said that FOMC members had discussed during the meeting the modification of the parameters of quantitative easing but he did not provide any details. The last week's FOMC meeting supports our scenario, in which FED is going to further ease the monetary policy, most likely by modifying the parameters of the quantitative easing program. However, the timing of this decision will largely depend on further development of the aforementioned uncertainty factors communicated by FED.
- **Data on the Chinese balance on trade were published during the weekend.** It rose to USD 58.4bn in October vs. USD 37.0bn in September, running visibly above the market expectations (USD 46.0bn). A the same time, export dynamics increased to 11.4% YoY in October vs. 9.9% in September while import dynamics dropped to 4.7% YoY vs. 13.2%. However, the second wave of the pandemic continues to pose a risk to global trade activity. We forecast that the Chinese GDP will increase by 3.0% YoY in 2020 vs. a 6.1% increase in 2019.

US presidential election results are positive for PLN

US presidential election results*



Source: FT, Credit Agricole *partial results

At the time of writing this, not all the states have finished counting the ballots in the US presidential election. Nonetheless, J. Biden has managed to obtain 290 electoral votes, which means that he will become the president. The final results are likely to be known in few weeks' time.

D. Trump's team has filed lawsuits in several states seeking to pause the vote count, alleging irregularities in the electoral process. The consideration of all the lawsuits will take several days or weeks. Based on the available data we do not think that they could lead to the annulment of the election.

The final results of the election to the Congress are not known yet although a scenario in which the Republicans will retain control in the Senate is highly likely. The final results will be known no sooner than at the beginning of January as another round of the election will have to take place in Georgia. Thus two seats in the senate falling on that state still remain to be filled.

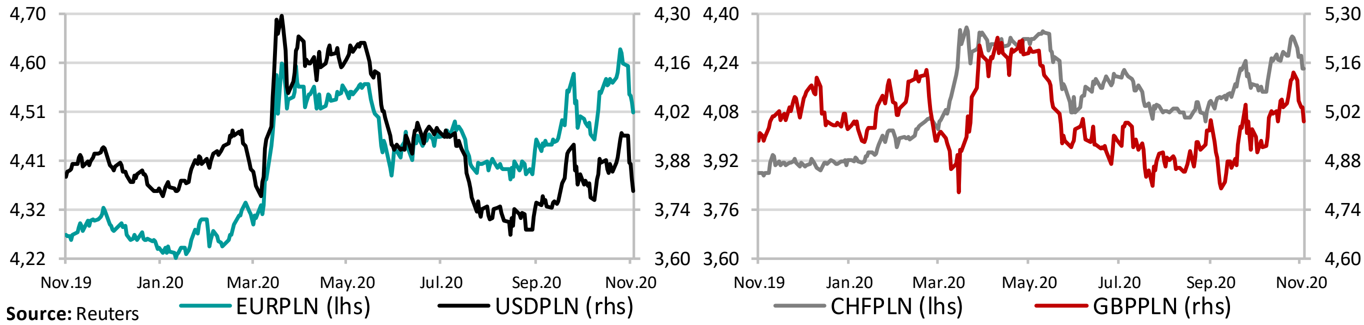
Based on the current results, the Republicans won 50 seats in the Senate and the Democrats 48 seats. It means that the Democrats would have to win the second round of the election in Georgia to have a balanced senate with 50 to 50 seats. Then the vice president would have the casting vote in the Senate. The Republican candidates are now believed to be the favorites in the election for the remaining two seats in the Senate; therefore, this party is likely to retain majority in the Senate. However, we cannot rule out a scenario whereby the control in the Senate would be taken over by the Democrats.

No materialization of the so-called blue wave scenario (simultaneous victory of the Democrats in the Senate and in the presidential election) will have important implications for the US economic and market outlook. Although we still expect that the fiscal package will be finally adopted, its scale and implementation date are now hard to foresee. If the final results of the US elections are consistent with the current state, namely J. Biden will become president and the Republicans will retain control in the Senate, we can expect a smaller fiscal package from the earlier proposals of the Democrats (i.e. USD 2.2bn). J. Biden would also have difficulties in forcing through some of his electoral promises. e.g. higher corporate tax or imposing regulations on companies of the technology sector.

We believe that the final determination of election results will support the strengthening of PLN. We expect that before the end of 2020 risk aversion will decrease also due to further monetary policy easing by the ECB and a gradually diminishing number of new cases of COVID-19. Considering the factors outlined above, we expect that EURPLN will amount to 4.43 at the end of 2020. In 2021 we forecast further appreciation of PLN due to economic recovery in Poland (EURPLN amounting to 4.35 at the end of 2021).

Flash estimate of the Polish GDP may strengthen PLN

FX rates



Source: Reuters

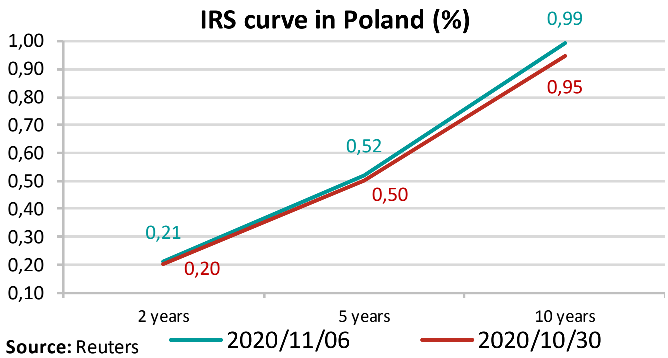
Last week, the EURPLN exchange rate dropped to 4.5060 (strengthening of PLN by 2.1%). Throughout last week EURPLN was showing an downward trend. Conducive to stronger PLN was a decrease in global risk aversion. Higher demand for risk assets was supported by the incoming partial results of the US election pointing to increasing likelihood of J. Biden's victory in the presidential election. However, Wednesday saw a temporary weakening of PLN because the Democrats' advantage over the Republicans proved to be smaller from the expectations based on polls. The growing number of new coronavirus infections which reached record highs last week as well as new administrative restrictions imposed by the

Polish government were overshadowed by the US election. Both the Thursday's FOMC meeting and Friday's MPC meeting were neutral for PLN.

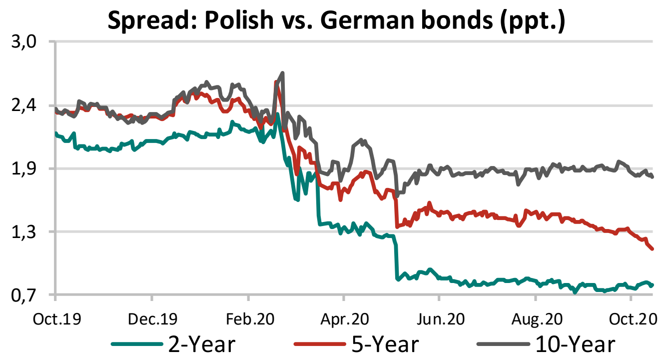
Wednesday saw a temporary USD appreciation vs. EUR as the incoming US election results were showing that the Democrats' advantage over the Republicans was smaller than the polls indicated earlier. Nevertheless, the coming days saw an increase in EURUSD with the incoming partial results of the US election pointing to an increasing likelihood of J. Biden's victory. The FOMC meeting was neutral for the market.

This week, like in the previous weeks, PLN will remain impacted by global sentiment related to the coronavirus pandemic and information about the final results of the US election and prospects for the launch of a new stimulus package in this country. The publication of the flash estimate of the Polish GDP scheduled for Friday may lead to the appreciation of PLN, we believe. In our view, other data from the Polish economy (final estimate of inflation, balance of payments), data from the US (inflation, preliminary University of Michigan Index) and ZEW index for Germany will not have any substantial impact on PLN.

Market focused on domestic data on GDP



Source: Reuters



Last week, 2-year IRS rates rose to 0.21 (up by 1bp), 5-year rates to 0.52 (up by 2bps), and 10-year rates to 0.99 (up by 4bps). Last week IRS rates were relatively stable against the backdrop of recent weeks. Lower volatility was supported by lower activity of investors in anticipation of the MPC meeting postponed to Friday. The Friday's MPC meeting led to an increase in IRS rates across the curve. The FOMC meeting was neutral for the market.

This week, like in the previous weeks, IRS rates will remain impacted by global sentiment related to the coronavirus pandemic. Crucial for the investors will be the information about the final results of the US election and prospects for the launch of a new stimulus package in this country. The publication of the flash estimate of the Polish GDP scheduled for Friday may support an increase in IRS rates, we believe. In our view, other data from the Polish economy (final estimate of inflation, balance of payments), data from the US (inflation, preliminary University of Michigan Index) and ZEW index for Germany will be neutral for the curve.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	Oct.19	Nov.19	Dec.19	Jan.20	Feb.20	Mar.20	Apr.20	May.20	Jun.20	Jul.20	Aug.20	Sep.20	Oct.20	Nov.20
NBP reference rate (%)	1,50	1,50	1,50	1,50	1,50	1,00	0,50	0,10	0,10	0,10	0,10	0,10	0,10	0,10
EURPLN*	4,26	4,31	4,26	4,30	4,33	4,55	4,54	4,44	4,44	4,41	4,40	4,53	4,60	**4,51**
USDPLN*	3,82	3,91	3,79	3,87	3,92	4,13	4,15	4,00	3,95	3,74	3,68	3,86	3,95	**3,89**
CHFPLN*	3,87	3,91	3,92	4,02	4,06	4,29	4,30	4,16	4,17	4,10	4,07	4,21	4,32	**4,20**
CPI inflation (% YoY)	2,5	2,6	3,4	4,3	4,7	4,6	3,4	2,9	3,3	3,0	2,9	3,2	**3,0**	
Core inflation (% YoY)	2,4	2,6	3,1	3,1	3,6	3,6	3,6	3,8	4,1	4,3	4,0	4,3	**4,3**	
Industrial production (% YoY)	3,7	1,5	3,8	1,1	4,8	-2,4	-24,6	-16,8	0,5	1,1	1,5	5,9	**0,5**	
PPI inflation (% YoY)	-0,3	-0,1	1,0	0,9	0,2	-0,3	-1,4	-1,7	-0,8	-0,6	-1,3	-1,6	**-0,9**	
Retail sales (% YoY)	5,4	5,9	7,5	5,7	9,6	-7,0	-22,6	-8,6	-1,9	2,7	0,4	2,7	**-3,9**	
Corporate sector wages (% YoY)	5,9	5,3	6,2	7,1	7,7	6,3	1,9	1,2	3,6	3,8	4,1	5,6	**4,8**	
Employment (% YoY)	2,5	2,6	2,6	1,1	1,1	0,3	-2,1	-3,2	-3,3	-2,3	-1,5	-1,2	**-1,0**	
Unemployment rate* (%)	5,0	5,1	5,2	5,5	5,5	5,4	5,8	6,0	6,1	6,1	6,1	6,1	**6,1**	
Current account (M EUR)	243	1182	73	2756	1100	805	772	2028	3811	1012	947	**2030**		
Exports (% YoY EUR)	5,5	2,5	10,8	4,9	8,0	-6,6	-29,3	-19,6	2,6	1,7	0,8	**6,2**		
Imports (% YoY EUR)	2,1	-1,8	0,7	3,9	0,9	-3,9	-28,4	-28,2	-10,3	-4,4	-5,1	**0,2**		

*end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland

Indicator	2020				2021				2019	2020	2021
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Gross Domestic Product (% YoY)	1,9	-8,4	-1,0	-4,5	-1,2	6,3	4,6	4,7	4,5	-3,1	3,6
Private consumption (% YoY)	1,2	-10,8	1,0	-3,6	0,0	7,1	4,3	3,0	4,0	-3,0	3,5
Gross fixed capital formation (% YoY)	0,9	-10,7	-14,9	-17,0	-9,9	4,8	7,5	8,8	7,2	-12,2	4,0
Export - constant prices (% YoY)	2,0	-14,5	1,3	1,0	2,0	8,0	5,3	5,4	5,1	-2,5	5,1
Import - constant prices (% YoY)	0,4	-18,0	-4,7	-1,0	1,0	9,0	4,1	3,6	3,3	-5,8	4,2
GDP growth contributions											
Private consumption (pp)	0,8	-6,2	0,6	-1,8	0,0	3,9	2,6	1,5	2,3	-1,7	2,0
Investments (pp)	0,1	-1,8	-2,6	-4,3	-1,3	0,8	1,1	1,9	1,3	-2,2	0,7
Net exports (pp)	0,9	1,1	3,1	1,0	0,6	0,2	1,0	1,2	1,1	1,6	0,8
Current account (% of GDP)***	1,1	2,3	3,0	2,9	2,0	1,5	1,7	2,3	0,5	2,9	2,3
Unemployment rate (%)**	5,4	6,1	6,1	7,1	7,1	6,0	5,5	6,1	5,2	7,1	6,1
Non-agricultural employment (% YoY)	0,7	-1,8	-2,2	-2,4	-1,5	1,3	1,6	2,0	0,3	-1,4	0,9
Wages in national economy (% YoY)	7,7	3,8	3,3	3,5	2,8	3,3	3,0	3,1	7,2	4,6	3,1
CPI Inflation (% YoY)*	4,5	3,2	3,0	2,7	1,6	2,3	2,3	2,6	2,3	3,4	2,2
Wibor 3M (%)**	1,17	0,26	0,22	0,22	0,22	0,22	0,22	0,22	1,71	0,22	0,22
NBP reference rate (%)**	1,00	0,10	0,10	0,10	0,10	0,10	0,10	0,10	1,50	0,10	0,10
EURPLN**	4,55	4,44	4,53	4,43	4,40	4,39	4,37	4,35	4,26	4,43	4,35
USDPLN**	4,13	3,95	3,86	3,75	3,70	3,69	3,64	3,63	3,79	3,75	3,63

* quarterly average
** end of period
***cumulative for the last 4 quarters

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
		Monday 11/09/2020				
8:00	Germany	Trade balance (bn EUR)	Sep	15,7		
10:30	Eurozone	Sentix Index (pts)	Nov	-8,3		-14,0
		Tuesday 11/10/2020				
2:30	China	PPI (% YoY)	Oct	-2,1		-2,0
2:30	China	CPI (% YoY)	Oct	1,7		0,8
11:00	Germany	ZEW Economic Sentiment (pts)	Nov	56,1		40,0
		Thursday 11/12/2020				
11:00	Eurozone	Industrial production (% MoM)	Sep	0,7		0,7
14:30	USA	CPI (% MoM)	Oct	0,2	0,0	0,2
14:30	USA	Core CPI (% MoM)	Oct	0,2	0,1	0,2
14:30	USA	Initial jobless claims (k)	w/e	751	751	732
		Friday 11/13/2020				
10:00	**Poland**	**CPI (% YoY)**	**Oct**	**3,2**	**3,0**	**3,1**
10:00	**Poland**	**Flash GDP (% YoY)**	**Q3**	**-8,4**	**-1,0**	**-1,8**
11:00	Eurozone	Preliminary GDP (% QoQ)	Q3	12,7	12,7	12,7
11:00	Eurozone	GDP flash estimate (% YoY)	Q3	-4,3	-4,3	-4,3
14:00	**Poland**	**Current account (M EUR)**	**Sep**	**947**	**2030**	**1618**
16:00	USA	Initial U. of Michigan Sentiment Index (pts)	Nov	81,8	82,0	81,9

*The forecasts of macroeconomic indicators for Poland were prepared by Credit Agricole Bank Polska S.A. The forecasts of foreign indicators were prepared by Crédit Agricole Corporate and Investment Bank
** Reuters

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