



Poland: Weekly Macroeconomic Update

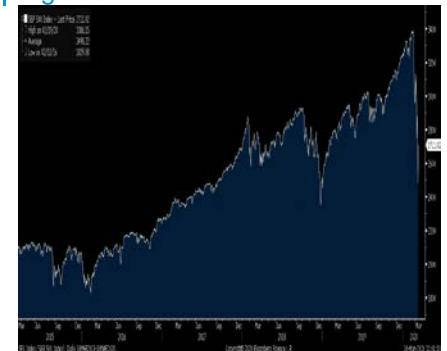
LAST WEEK:

Last week there were **sharp declines in prices of financial assets**: sharp, coordinated falls in stock markets that started in Asia, a sharp decline in crude oil prices, further deep decline in yields on US Treasuries and weakening of the USD. Sharp declines in asset prices were triggered by spreading of coronavirus in Europe and fears of recession in euro-zone and global recession in negative scenario.

Preventive measures adopted by governments of affected countries that result in less frequent inter-personal contacts, decline in number of economic transactions and related decline in confidence of households and companies in the short term will cause: (1) a strong **demand shock** in particular in services (tourism, hotels and restaurants, entertainment, recreation and culture, services requiring direct contact, public transport, airlines, trains and busses), (2) a decline in liquidity of households and companies (in particular small and medium sized) and (3) decline in demand for credit (investment loans in particular). **Supply shock** resulting from disturbed supply chains will likely be delayed relative to demand shock and should be much smaller than demand shock. It means that in the coming 1-2 month demand shock (that decreases GDP growth and decreases inflation) will dominate. Supply shock (that decreases GDP growth and increases inflation) will affect branches of industry that are dependent from imports of processed intermediate goods (e.g. automobile and pharmaceutical industries) but are unlikely to affect basic industries (metal, fuel and chemical industries as well as power generation) that depend from imports of raw materials. Prices of commodities (including crude oil) are likely to continue falling. Also agriculture and food industry should be less affected by supply shock due to shorter supply chains, dependence on chemical and fuel industries and agricultural goods as inputs.

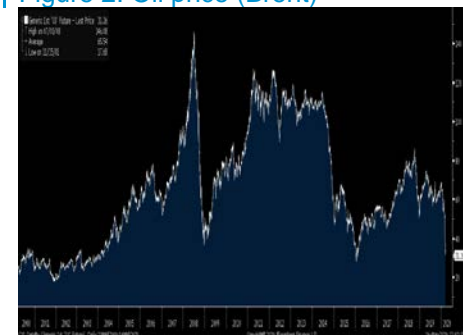
Our **base scenario** assumes a sharp decline in economic activity in the coming 2-3 months, resulting in recession in euro-zone in 1H2020, a decline in GDP growth in the US and transitory shock to global GDP growth in Q1/Q2 2020. Currently our base scenario envisages deceleration of GDP growth in Poland to the range of 1.2%-1.9%, depending of the durability and extent of pre-emptive measures. Prompt implementation of fiscal policy measures by government is crucial for alleviating decline in liquidity of companies and for stabilizing households' confidence. Yesterday in the evening the FOMC reduced fed funds rate to 0-25 bps. In this environment a pressure on the MPC to cut interest rates increases. The MPC will likely make decision after announcement of details of government's fiscal stimulus plan scheduled for tomorrow. A minimum size of the cut is 50 bps (the MPC will have possibility to cut again) maximum size of the cut is 100bp.

Figure 1. S&P 500



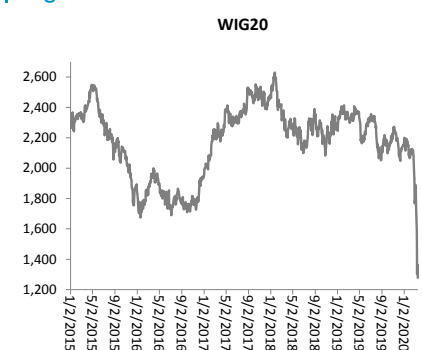
Source: Bloomberg

Figure 2: Oil price (Brent)



Source: Bloomberg

Figure 3: WIG20 index



Source: Bloomberg



DIARY (this week)

Date	GMT	Release/Event	DB Expected	Actual	Consensus
Mar-16	13:00	Current account (Jan)	EUR990mn	EUR2265mn	EUR2682mn
Mar-16	13:00	Inflation (Feb)	0.3% (3.4%)	0.6% (3.6%)	0.3% (3.4%)
Mar-18	9:00	Average wage (Feb)	(6.7%)		0.2% (7.0%)
Mar-18	9:00	Average employment (Feb)	(1.0%)		0.1% (1.1%)
Mar-19	9:00	Industrial production (Feb)	(3.0%)		-0.2% (2.0%)
Mar-19	9:00	PPI (Feb)	(0.4%)		0.0% (0.3%)
Mar-20	9:00	Retail sales (Feb)	(6.0%)		-2.7% (6.3%)
Mar-20	9:00	Real retail sales (Feb)	(4.2%)		(4.4%)
Mar-20	9:00	Construction output (Feb)	(2.0%)		(1.5%)

Source: Deutsche Bank Estimates., Reuters and Bloomberg Finance LP

FX and interest rate forecasts

	EUR/PLN	USD/PLN	CHF/PLN	GBP/PLN	EUR/USD	WIBOR 3M	WIBOR 6M	EURIBOR 3M	LIBOR USD 3M	CPI (Poland)	Yield on 10Y POLGB
	(end of period)										
Mar-20	4.385	3.887	4.156	4.898	1.128	1.25	1.30	-0.47	0.60	4.2	1.90
Apr-20	4.376	3.845	4.174	4.871	1.138	1.25	1.35	-0.40	0.50	3.3	2.00
May-20	4.367	3.814	4.191	4.857	1.145	1.25	1.35	-0.40	0.50	3.1	2.00
Jun-20	4.358	3.790	4.208	4.851	1.150	1.25	1.35	-0.40	0.50	2.9	1.90
Jul-20	4.350	3.752	4.226	4.828	1.159	1.25	1.35	-0.40	0.50	2.7	1.80
Aug-20	4.341	3.715	4.244	4.805	1.168	1.25	1.35	-0.40	0.50	2.5	1.50
Sep-20	4.332	3.656	4.263	4.752	1.185	1.25	1.35	-0.40	0.50	2.8	1.55
Oct-20	4.323	3.633	4.281	4.747	1.190	1.25	1.35	-0.40	0.50	2.7	1.60
Nov-20	4.314	3.613	4.300	4.745	1.194	1.25	1.40	-0.40	0.50	2.7	1.65
Dec-20	4.240	3.533	4.240	4.664	1.200	1.25	1.40	-0.40	0.50	2.4	1.70
Jan-21	4.235	3.517	4.221	4.651	1.204	1.25	1.40	-0.40	0.50	1.8	1.75
Feb-21	4.230	3.501	4.202	4.638	1.208	1.25	1.40	-0.40	0.50	1.6	1.80

Note: Due to Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 the way of calculation of WIBOR rates and their values may be subject to change.

Note 2: Due to increased market variability and changes in monetary and fiscal policies, forecasts are subject to higher than usual uncertainty.

Source: Deutsche Bank Polska S.A.



Appendix 1

Important Disclosures

Additional information available upon request

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