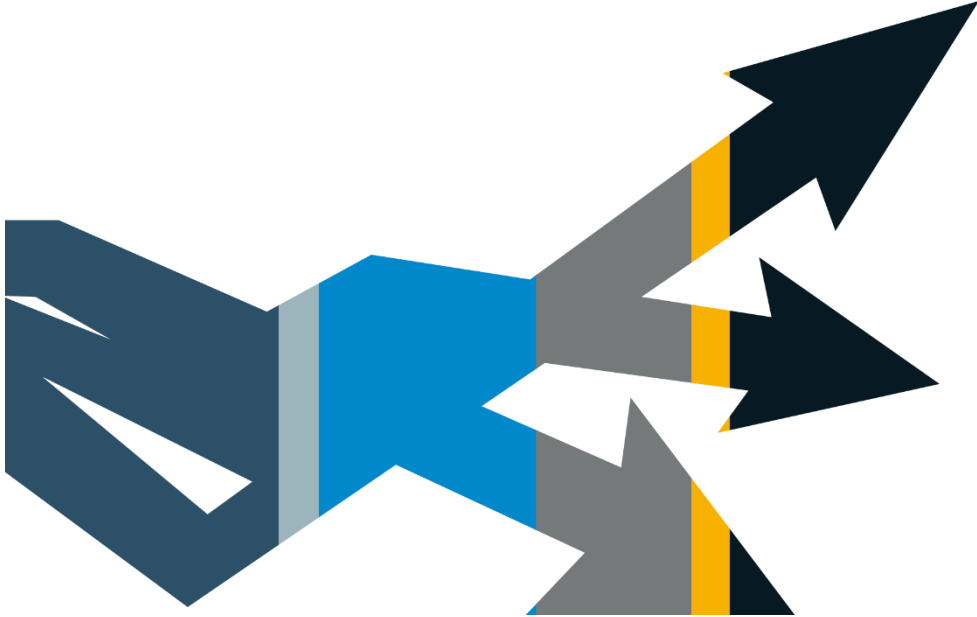


Monthly Pulse Check

Economy. FI. FX

July 9th 2020



mBank Research

For contact details and classification of the report see the [last page](#).



Our view in a nutshell ($\geq 1Y$ horizon) & major forecasts

Macro

- ❖ Economies creep up from bottoms ignited by quarantines. Some countries report second waves of infections as they open up, though. Economies are unlikely to close as much as during the first phase. This recession carries substantial structural change. Therefore the return to normality will be slow even though we are about to temporarily see strong GDP numbers as economies jump start. The scale of monetary and fiscal support is unprecedented, though. It may be a game changer.
- ❖ Polish economy is not an exception. We expect 4.2% recession in 2020 and falling inflation. The upcoming quarters are lost for economic activity. Consumers, supported by government programmes, fared relatively well. However, second wave challenges lie ahead. The New EU programme is in the making (EUR 750bn in total. ~65bn for Poland) and may be important boost for growth 2021/22 and beyond. We changed GDP composition but not the forecast.

Monetary policy: Fed. ECB. NBP

- ❖ Fed: ZIRP + QE + direct loans to firms. Not done with easing.
- ❖ ECB: NIRP (already there) + QE Expansion (maximum flexibility) + new LTRO. Not done with easing.
- ❖ NBP: Rates cuts (total 140bp). QE already in place (govvies + bonds with state guarantees). Over to fiscal policy now. Not out of ammo. FX channel, QE expansion, forward guidance stay on the table if need be. Negative rates unlikely. Easing bias but on hold for now (July 14th).

FX Market

- ❖ Rates have been brought near zero by the MPC. It may not entail a direct blow to PLN as it is mostly driven by global sentiment. Lower rates mean higher volatility and the swings in EURPLN rate will be now more pronounced as sentiment changes. especially towards weakness. 4.40-4.60 is our favored range now.

		2019	2019	2019	2019	2020	2020	2020	2020	2021
		Q1	Q2	Q3	Q4	Q1 F	Q2 F	Q3 F	Q4 F	
GDP y/y	%	4.8	4.6	4.0	3.2	2.0	-9.0	-5.1	-4.7	4.6
Individual consumption y/y	%	3.9	4.4	3.9	3.3	1.2	-8.5	-1.0	-2.0	4.4
Public Consumption y/y	%	7.4	4.3	5.4	3.2	4.3	10.0	7.0	6.0	0.5
Investment y/y	%	11.6	8.8	4.6	6.1	0.9	-11.0	-15.0	-13.0	5.3
Inflation rate (average)	%	1.2	2.4	2.8	2.8	4.5	3.2	2.8	2.6	1.4
Unemployment rate (eop)	%	5.9	5.2	5.1	5.2	5.3	6.2	7.1	8.0	8.4
NBP repo rate (eop)	%	1.50	1.50	1.50	1.50	1.00	0.10	0.10	0.10	0.10
EUR/PLN (eop)	%	4.30	4.24	4.37	4.25	4.56	4.45	4.45	4.40	4.30
USD/PLN (eop)	%	3.84	3.73	4.01	3.79	4.13	3.96	3.90	3.79	3.71

F - forecast

Upcoming macro releases: July 2020

Publication	Date	Period	mBank	Consensus	Actual	Prior
CPI y/y (%)	~30.06[1]	Jun	3.3%	2.9%	3.3%	2.9%
	15.07[2]					
PMI (pts.)	01.07	Jun	46.1	46.6	47.2	40.6
Unemployment rate (%)	~06.07[3]	Jun	6.2%	6.2%	6.1%	6.0%
	23.07[4]					
Current account (m EUR)	14.07	May	816	650		1163
Employment y/y (%)	17.07	Jun	-3.8%	-3.8%		-3.2%
Wages y/y (%)	17.07	Jun	0.9%	1.1%		1.2%
Industrial output y/y (%)	20.07	Jun	-6.0%	-7.3%		-17.0%
PPI y/y (%)	20.07	Jun	-0.8%	-1.0%		-1.5%
Retail sales y/y (%)	21.07	Jun	-0.5%	-3.0%		-7.7%
Construction output y/y (%)	21.07	Jun	-6.7%	-1.8%		-5.1%
M3 y/y (%)	22.07	Jun	17.4%	17.4%		16.0%

[1] Flash estimate

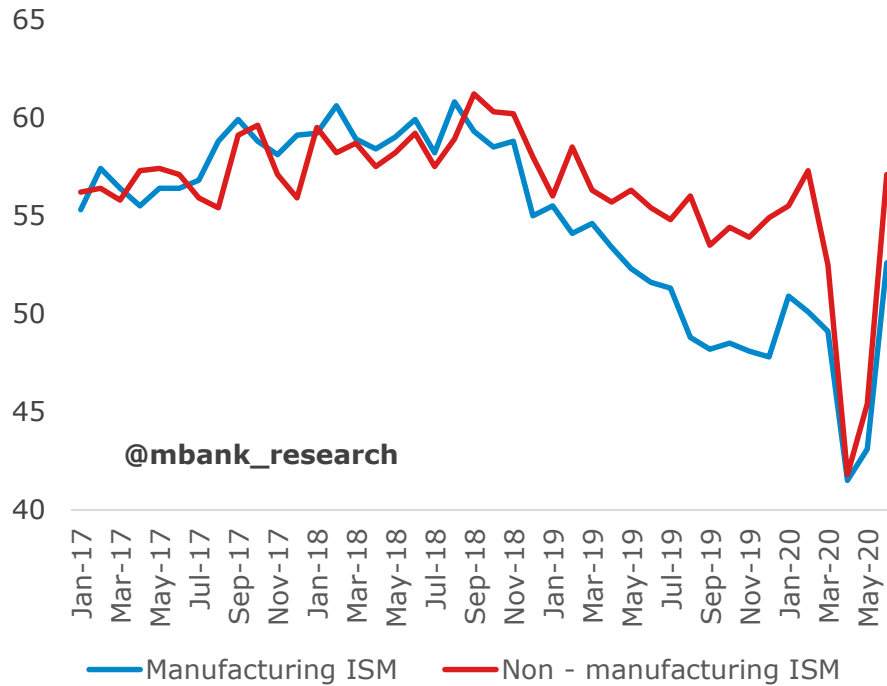
[3] Ministry of Family and Labour and Social Policy estimate

[2] Final reading

[4] Statistics Poland final reading

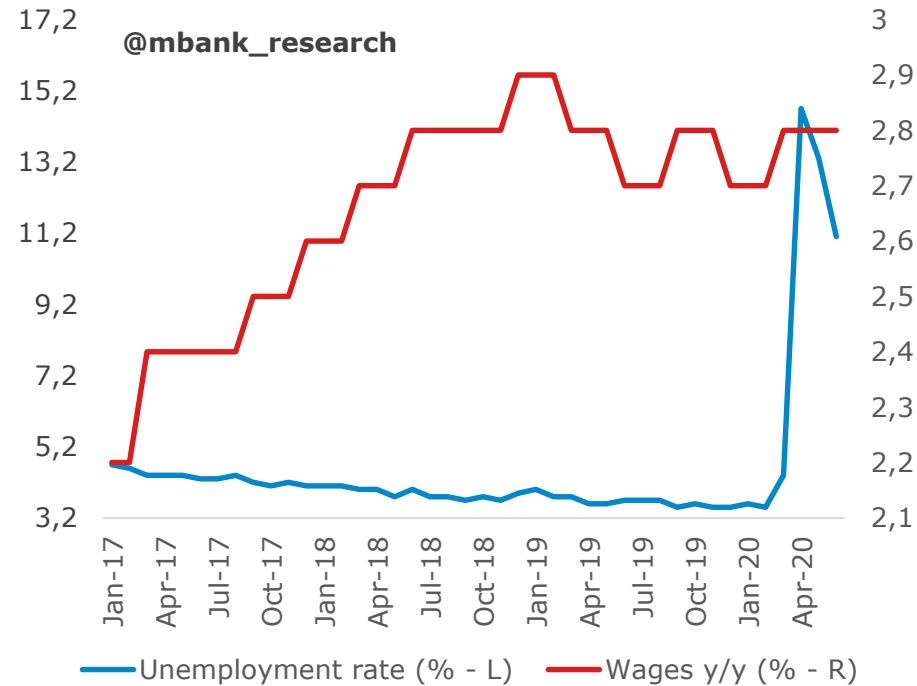
U.S. economy health check

ISM PMI: manufacturing & non-manufacturing



Source: ISM

Labor market: wages & unemployment rate

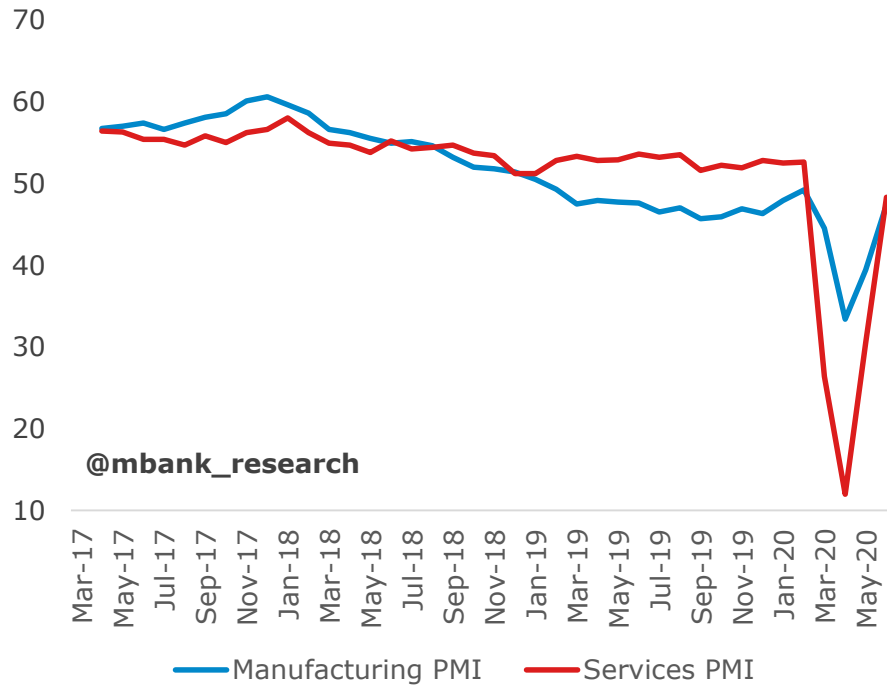


Source: FRED

- ❖ Lifting quarantine measures resulted in V-shape recovery of both industry and service sentiment (PMI). However, these are only business surveys; actual data are going to linger at negative levels (y/y comparison) for some time. Labor market surprised positively (last 2 months resulted in 7.5 mn jobs restored) but even after recent advances, employment stays relatively low (2014 level). Increasing number of confirmed COVID-19 cases will weigh negatively on upcoming readings.
- ❖ Substantial fiscal package has been put into force (>10% GDP) coupled with Fed action (ZIRP on the spot. open ended QE (bonds + c. bonds). Fed to keep extraordinary measures until it is "confident the economy has weathered recent events". Low interest rates for longer. As fiscal fatigue may soon kick in, the Fed may be the only game in town again (forward guidance and YCC being taken into consideration now).

Euro area economy health check

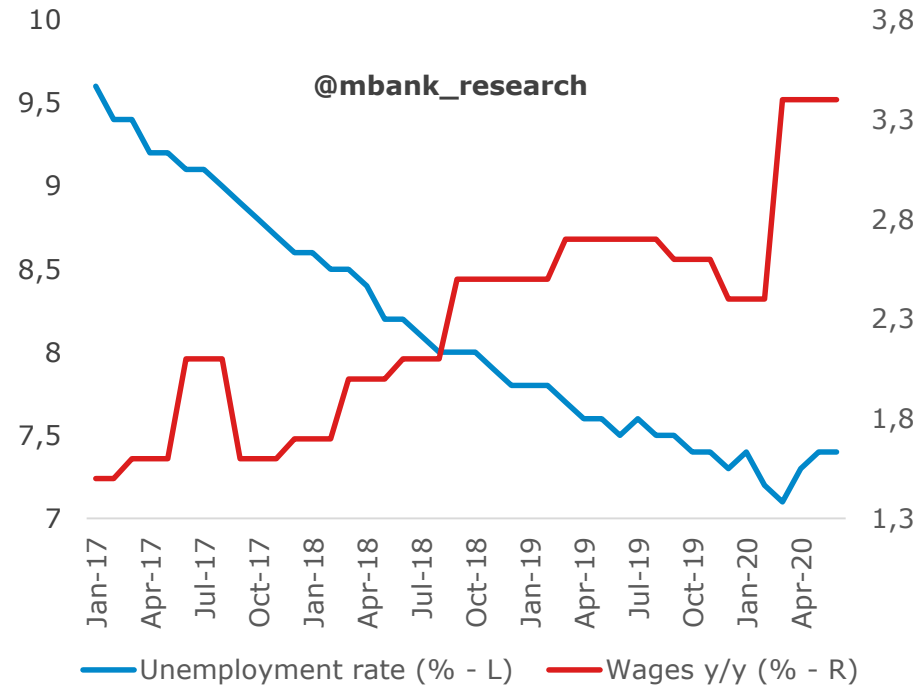
Markit PMI: manufacturing & services



Source: Markit

- ❖ Both manufacturing and services indicators improved as economies slowly opened up. The crisis once again exposed that euro zone project can behave as if it is facing asymmetric shock even if the shock seems to be fully symmetric at first glance. North-South divide is to persist.
- ❖ European Commission aid package (Next Generation EU) is a big deal. Recently proposed (but not formally introduced) program is worth 750 bn EUR in grants and loans. The scope of national fiscal packages increased. ECB response was grand (another big QE with almost full flexibility). It is ECB job to keep spreads in check until some euro area wide solution is adopted (that is going to take time). Low rates for a long time.
- ❖ The skirmish between Bundesverfassungsgericht and ECJ over proportionality of support programmes (PSPP) is a big with for ECB so far. The battle over PEPP may yet to begin. We think ECB will stay on track in delivering the optimal policy regardless of pressure.

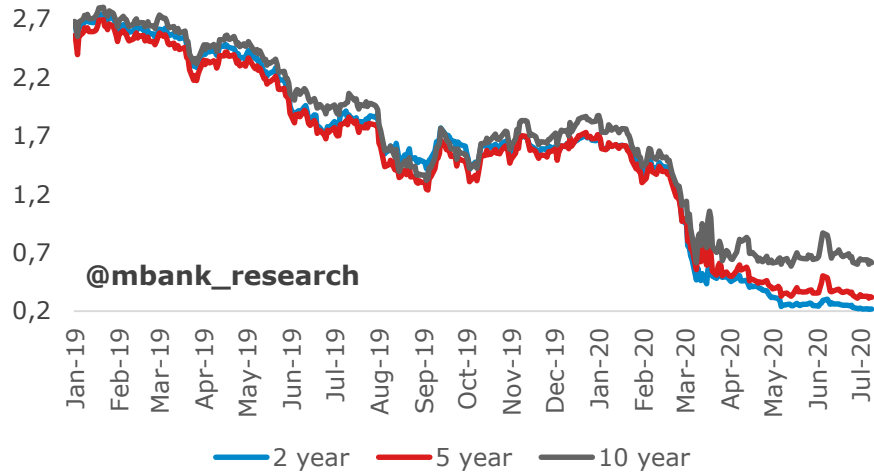
Labor market: wages & unemployment rate



Source: Eurostat

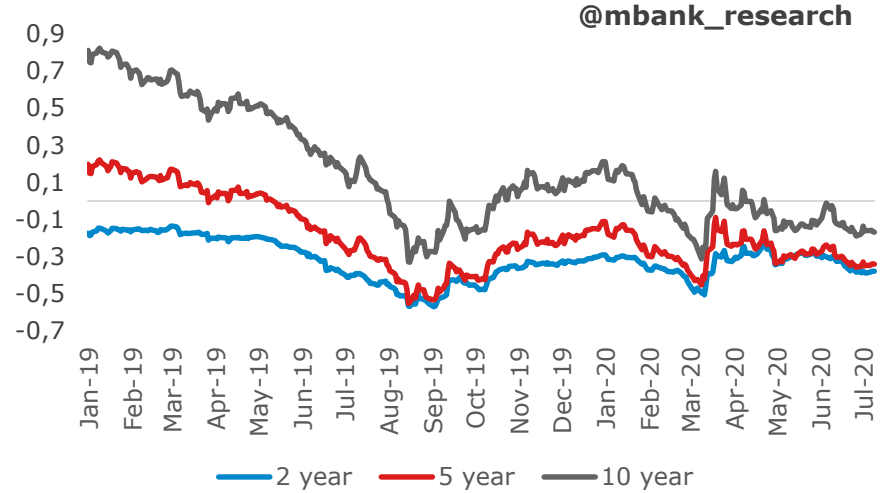
Global rates: Low for long

US swap rates (%)



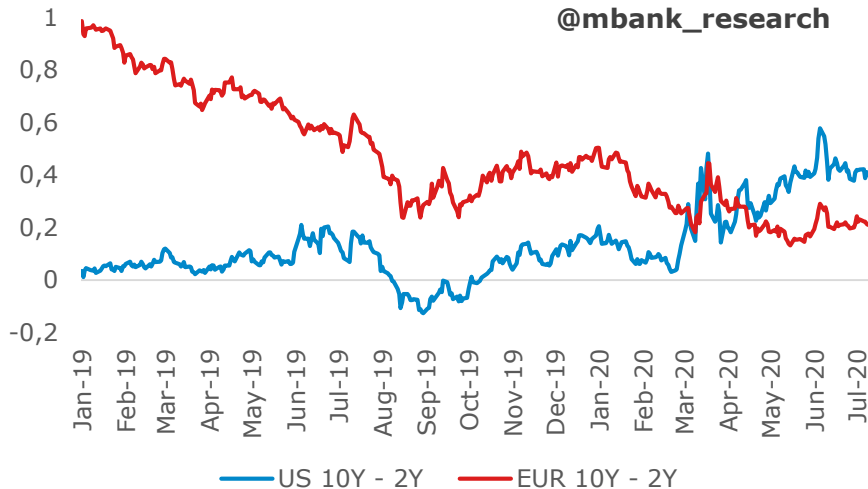
Source: Bloomberg

EU swap rates (%)



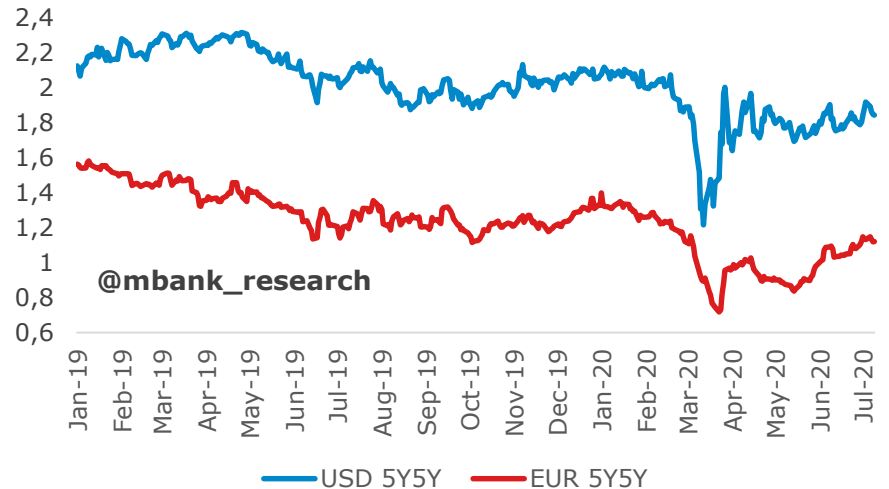
Source: Bloomberg

Swap spreads (10Y-2Y. p.p.)



Source: Bloomberg

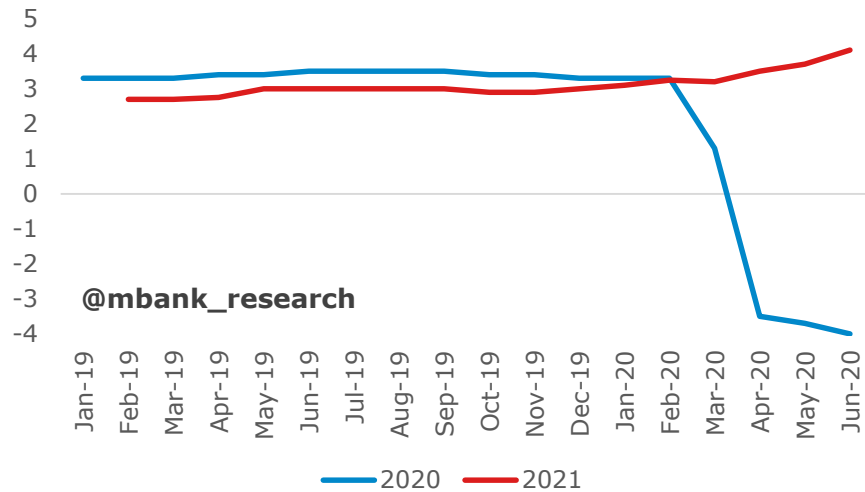
US and EZ inflation expectations (%)



Source: Bloomberg

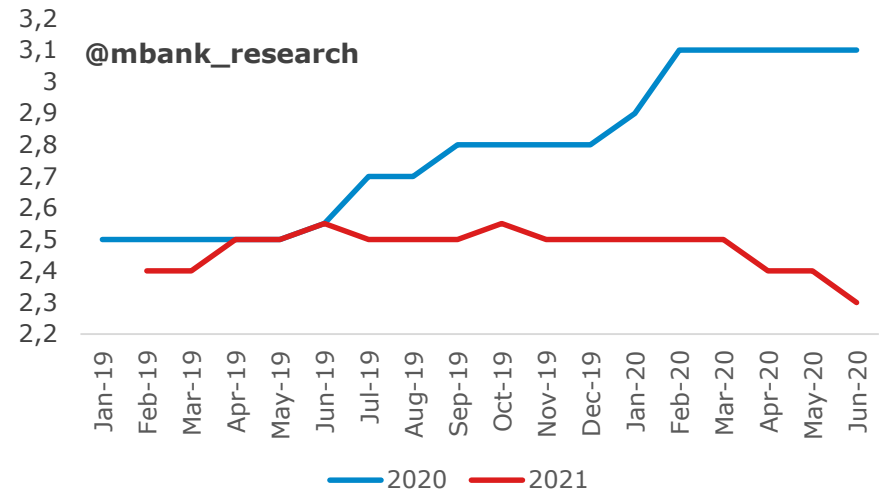
Consensus: what is expected in Poland?

Consensus tracker: GDP growth (% y/y. annual avg)



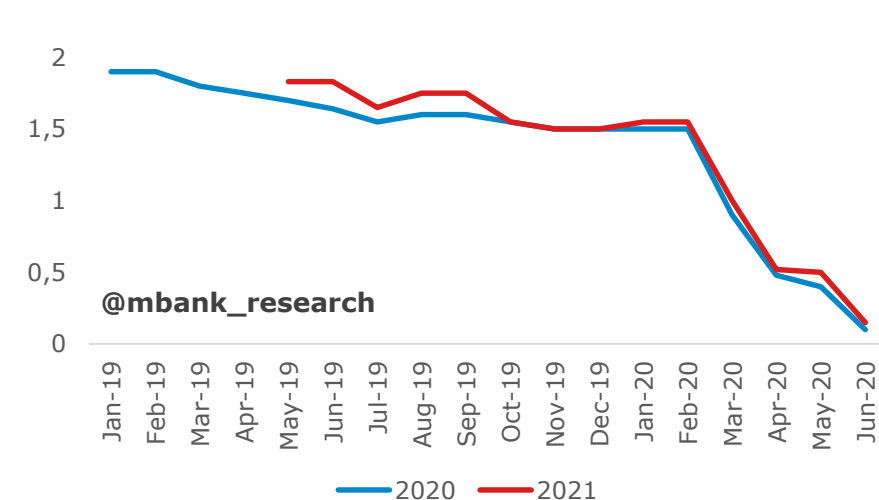
Source: Bloomberg

Consensus tracker: CPI inflation (% y/y. annual avg)



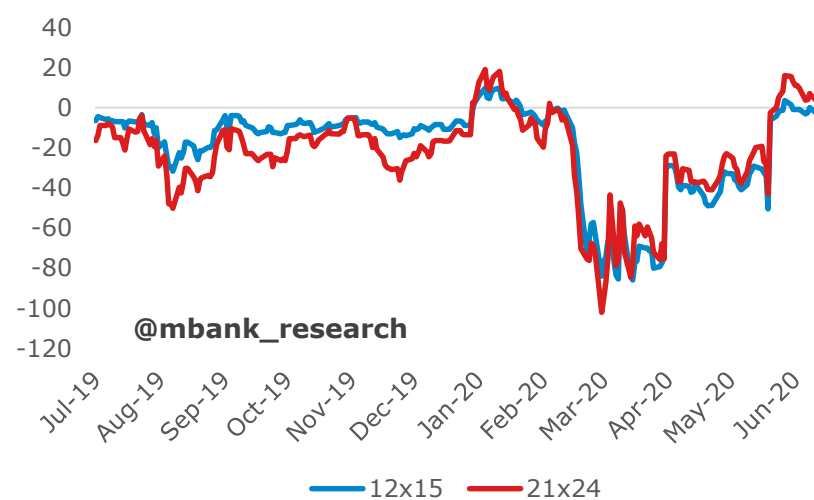
Source: Bloomberg

Consensus tracker: NBP ref. rate (%. end of period)



Source: Bloomberg

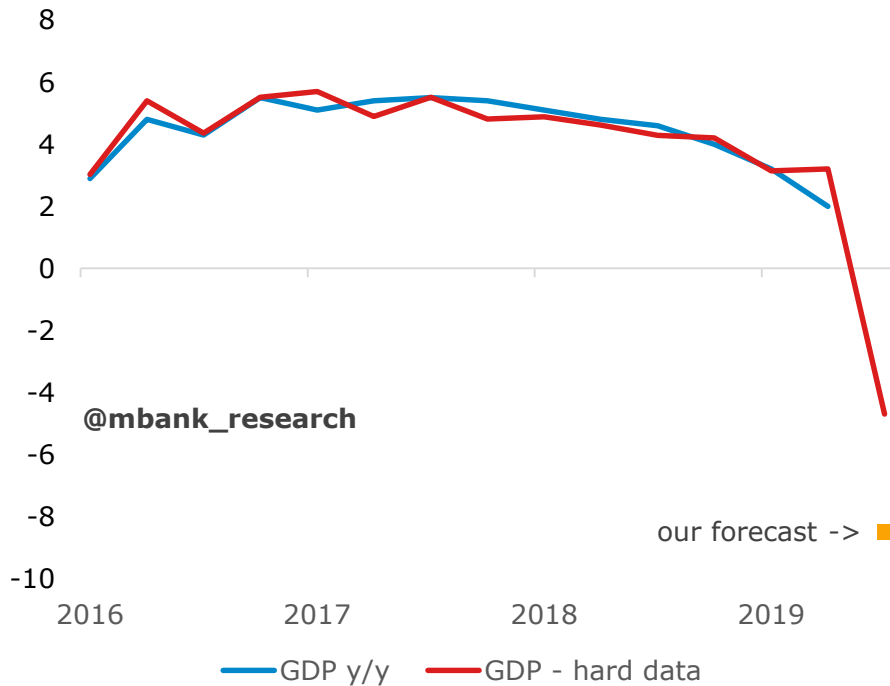
Rate changes priced in by FRA (bps)



Source: Bloomberg

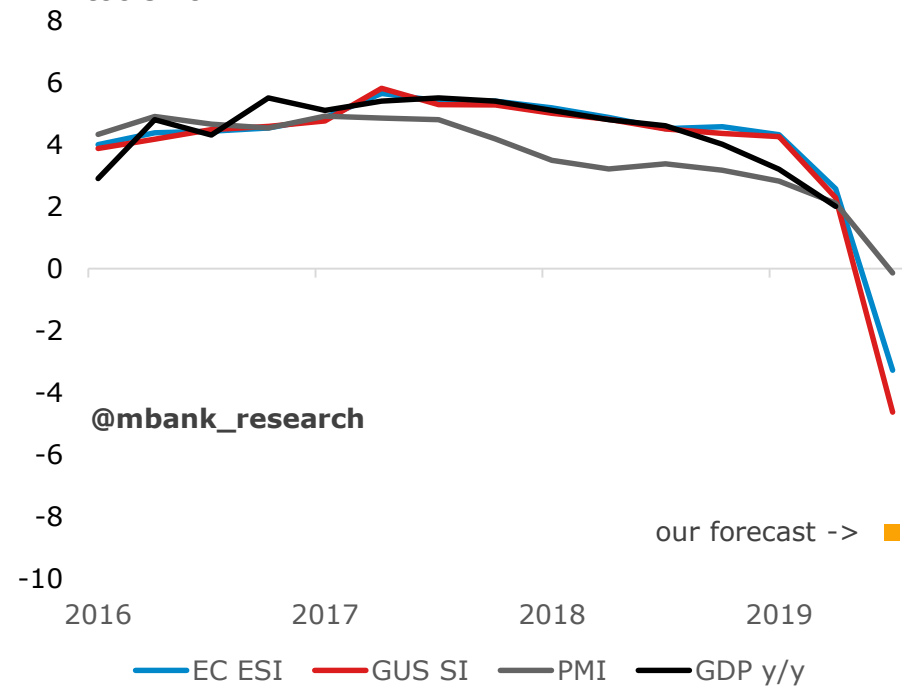
Short-term GDP tracker

GDP nowcasts possibly severely biased



Source: Statistics Poland. own elaboration

Both sentiment and hard data nowcast are not the best tools now

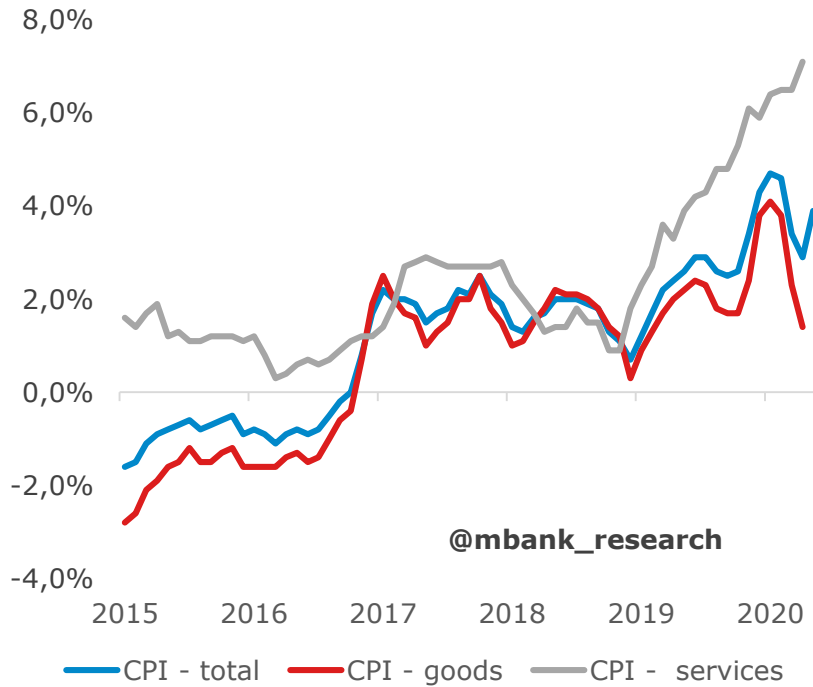


Source: Statistics Poland. Eurostat. own elaboration

- ❖ The nowcast models for Q2 – as based on historical correlations without recession in place – are biased and present overly optimistic picture. There are also additional problems – sentiment or hard data indicators are mostly based on industrial or construction production data. But this crisis hit even harder in services, not included in most of nowcasts above. That is why we use other data sources (for few examples see card transactions and power demand slide) to assess the GDP growth for Q2. We think GDP will drop by 8-10% in Q2.
- ❖ We updated our long-term forecast for GDP structure. The overall value (-4.2% y/y in 2020) or the path is unchanged. Consumption path was revised upwards. Consumption in the first quarter (only partially excluded due to COVID-19) surprised positively. After weak April, retail sales quickly rebounded approaching 0% y/y in June (June estimate is our forecast, actual reading in 2 weeks). What was given by consumption will be taken by net exports (zero or even negative contribution here).
- ❖ Those who hoped for V-shape recovery will probably see something close to it in consumption (see more in p. 13). But only there.

Short-term inflation tracker

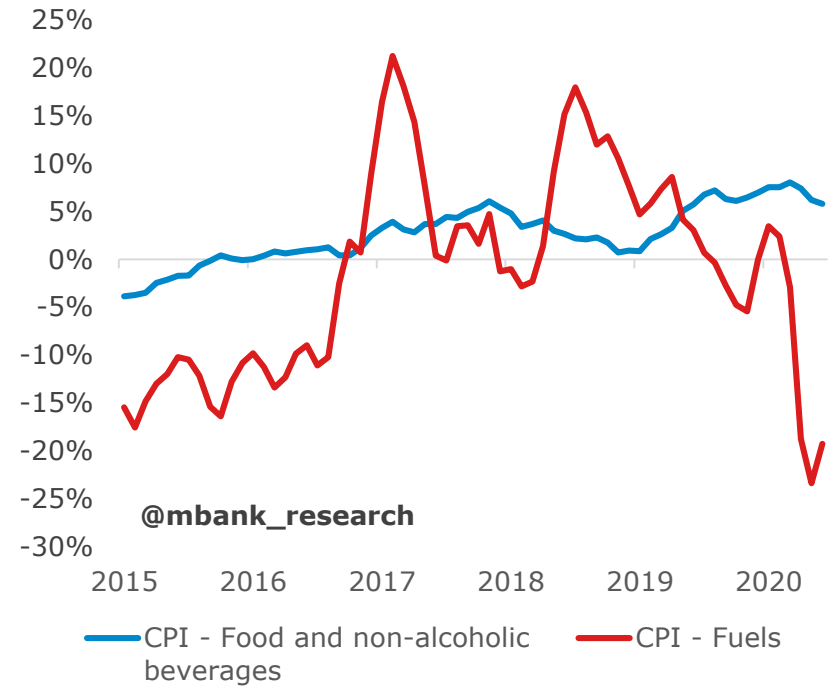
Still little respite in services



Source: Statistics Poland. own elaboration

- ❖ According to preliminary data for June, core inflation even rose above 4%! The growth of the core is impressive as firms pass on COVID-19 costs on consumers. We think that opened-up output gap is going to bring core inflation finally lower. However, this development suggests it will not be so easy to enter deflation and we do not forecast such low growth of prices.
- ❖ Food prices worldwide are coming off the elevated levels (as seen in the FAO). Draught alert is off. Fuel prices are different story. Given the low levels of oil prices the medium-term scenario is rather of slowly rising prices.

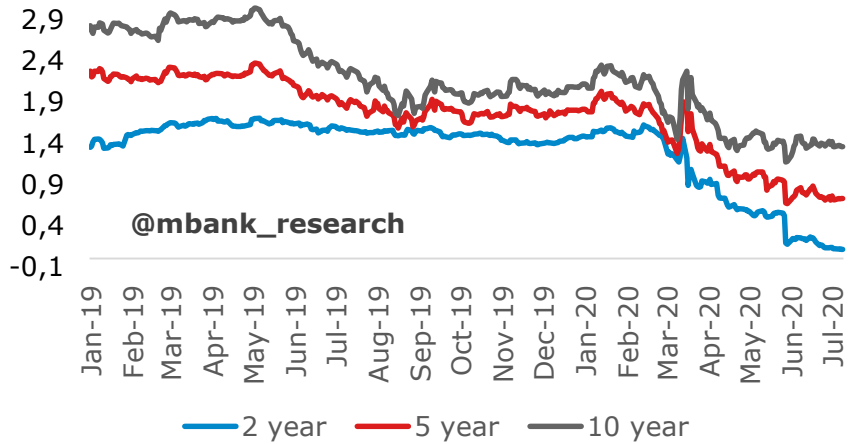
Inflation falls are mostly driven now by fuels and food



Source: Statistics Poland. own elaboration

Polish rates, yields and spreads: low

POLGBs



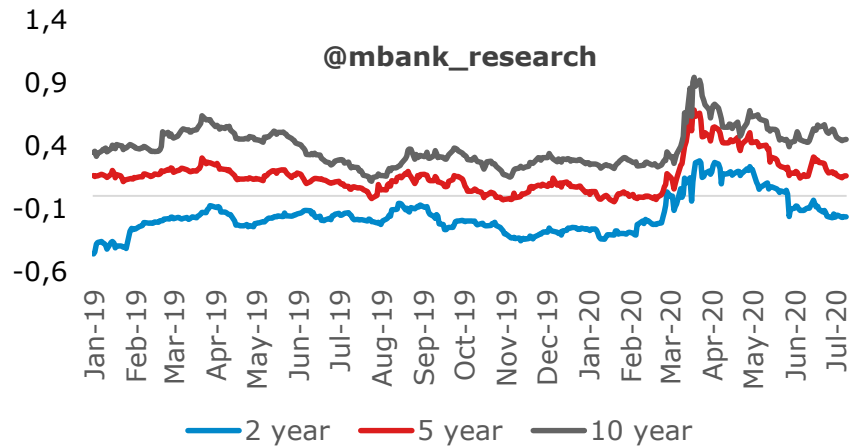
Source: Bloomberg

PL IRS



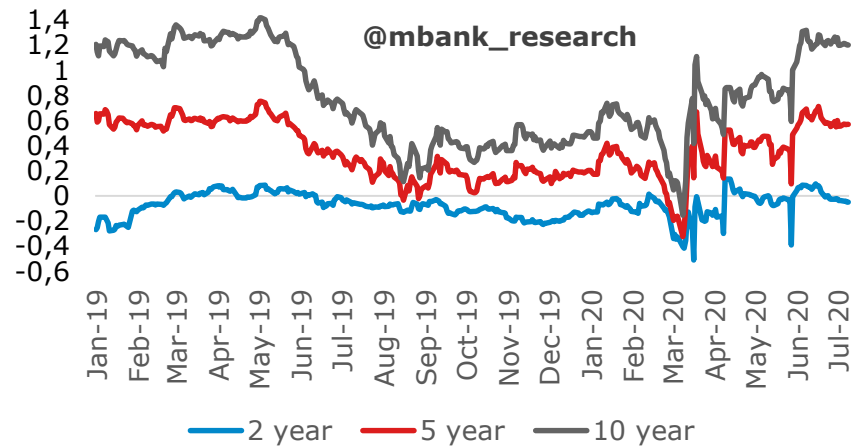
Source: Bloomberg

ASW spread



Source: Bloomberg

POLGB yield minus 3m WIBOR



Source: Bloomberg

New: Monitor of maturing bonds and bills

Treasury bonds and bills (PLN) total maturing stock (total: retail + wholesale bonds)

Maturity Date	value PLN mn
07.2020	5968,4
08.2020	5288,4
09.2020	1663,1
10.2020	10369,3
11.2020	387,0
12.2020	364,0
01.2021	14792,8
02.2021	508,4
03.2021	11500,2
04.2021	24036,3
05.2021	16494,9* 64494,9**
06.2021	478,2
07.2021	30745,2
08.2021	592,5
09.2021	491,1
10.2021	16856,2
11.2021	607,9
12.2021	560,4

Source: * According to data from the Ministry of Finance

** According to data from the NDS"

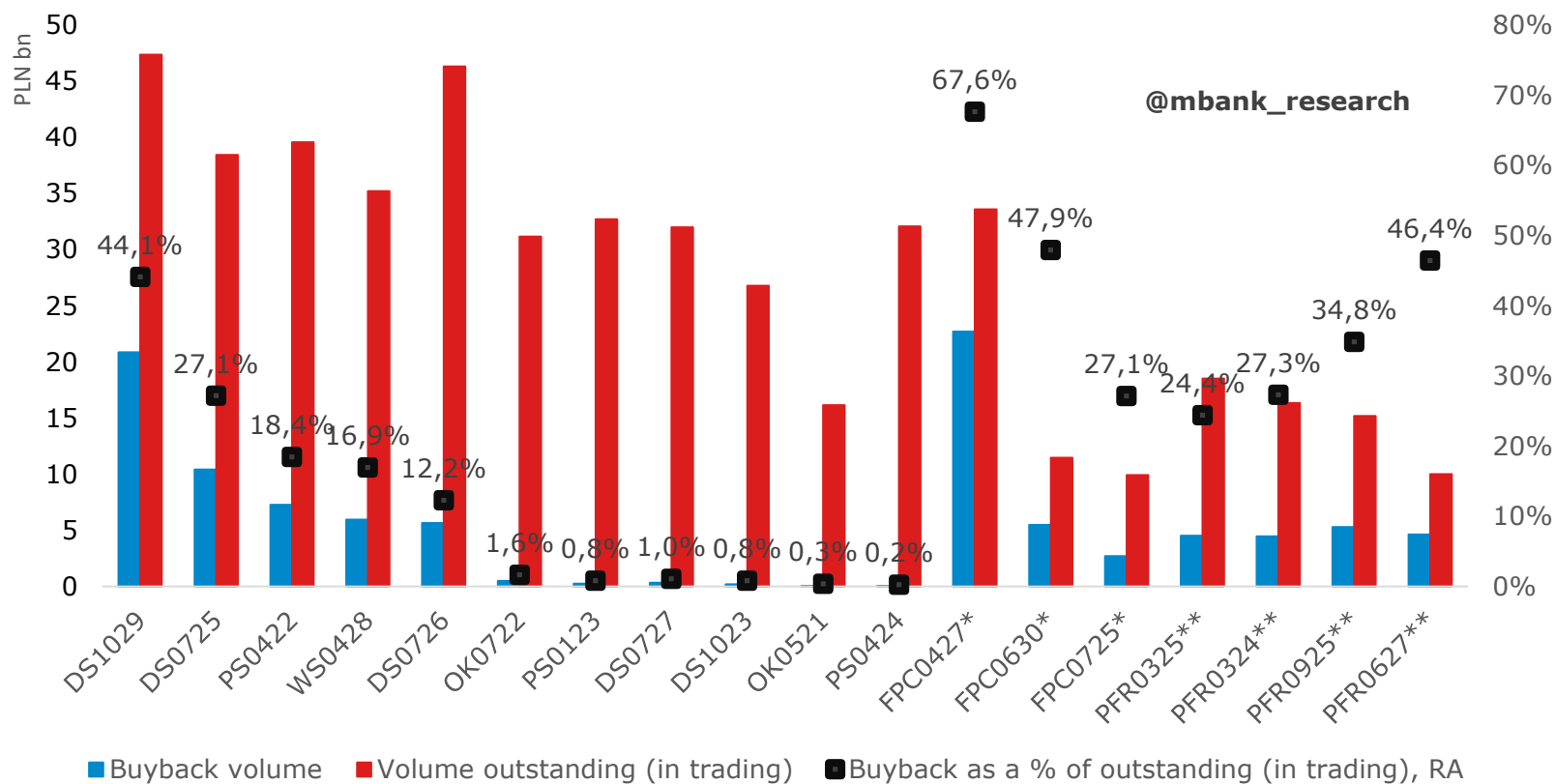
- ❖ The state for 08.07.2020.
- ❖ This month there will be one more MinFin auction organized (23.07.2020) and one more NBP structural operation (22.07.2020).

Eurobonds maturing stock

Maturity Date	EUR mn	USD mn	CHF mn	JPY mn
11.2020				10000
01.2021	200			
02.2021				50000
03.2021	2000			
04.2021		1721		
09.2021			500	
10.2021	1750			
12.2021	750			

Source: Ministry of Finance.

New: NBP „structural” portfolio monitor

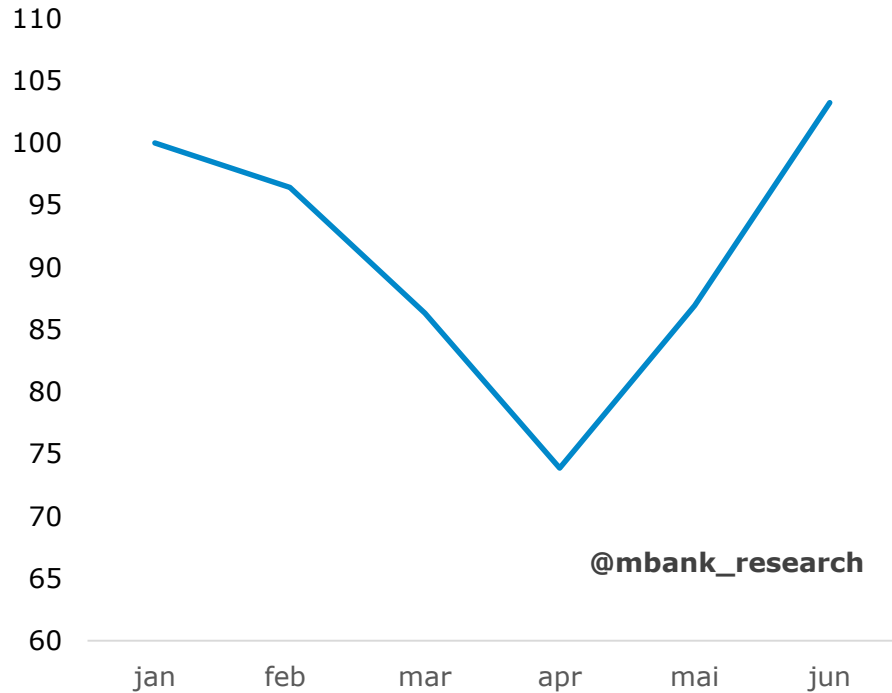


Source: Own elaboration on MF, NBP, NDS data.

- ❖ The state for 08.07.2020. We present cumulative numbers.
- ❖ NBP launched structural open market operations in March and they constitute a purely new instrument introduced to fight the crisis.
- ❖ So far NBP managed to achieve significant share in some series of government bonds (DS1029: 44.1%), BGK bonds aka „covid bonds” (up to 67.6%) and PFR bonds (up to 46.4%).

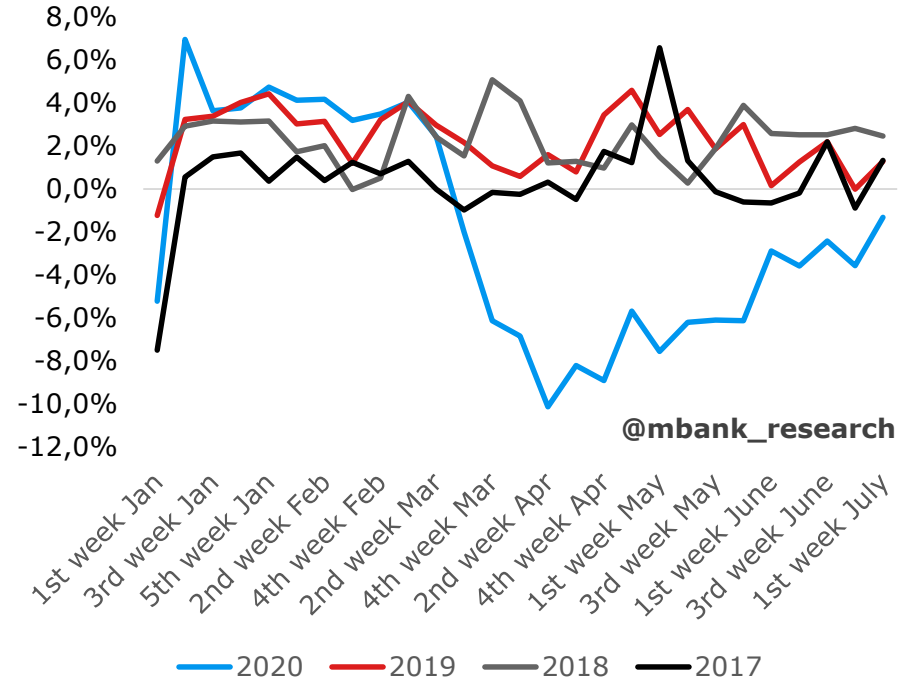
High frequency indicators suggest modest recovery: V-like consumption but the whole economy still a swoosh.

**Card expenditures (control group).
V-like-shaped recovery. Jan 2020 = 100.**



Source: mBank transaction data. Own elaboration.

Energy consumption. Deviation from „normal“.

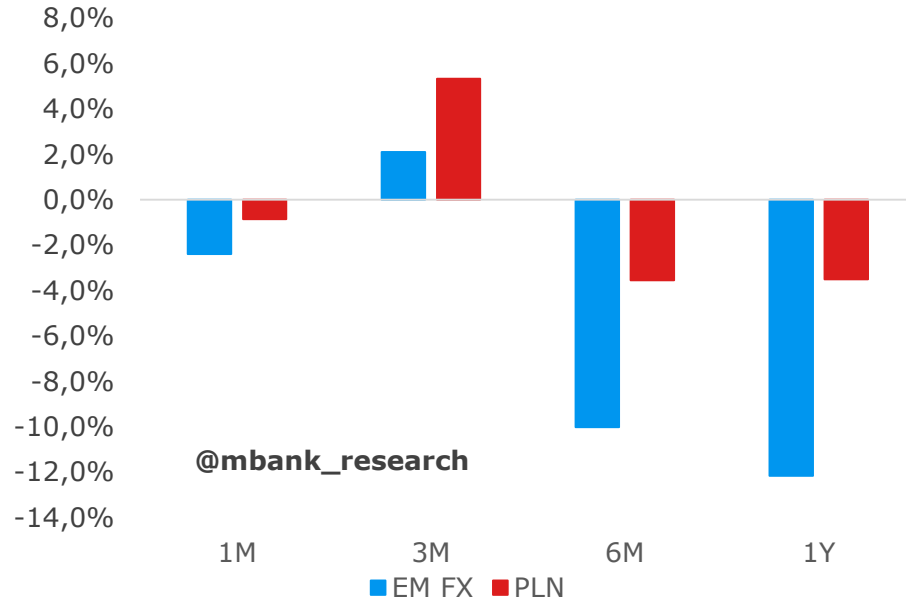


Source: electricity grid data & own elaboration

- ❖ Energy consumption comes back to „normality“ but there is a still long way to go. Rebound in power demand is a good sign for industrial production. We should see it in the upcoming reading. We expect increase of industrial production growth from -17% y/y in May to -6 y/y in June. It is also optimistic for July’s reading. Afterwards, the return to normal will be much slower.
- ❖ Card transactions (control group) staged a V-like- shaped recovery. Almost the same applies for retail sales. As for consumption we are more skeptical as some services are not going to return to normal ever. Right now we also observe a considerable portion of pent-up demand (as seen by spectacular performance in home appliances and furniture) and some sort of a strive of consumers to render usually market services at home. The worst is over, but the progress from here is set to be small and we also expect some temporary setbacks as autumn and winter may bring a risk of infections (no lockdown, just consumer behavior).

PLN is holding still very well despite cuts

PLN holding well



Note: Increase = appreciation to dolar. Decrease = depreciation to dolar

Source: Bloomberg

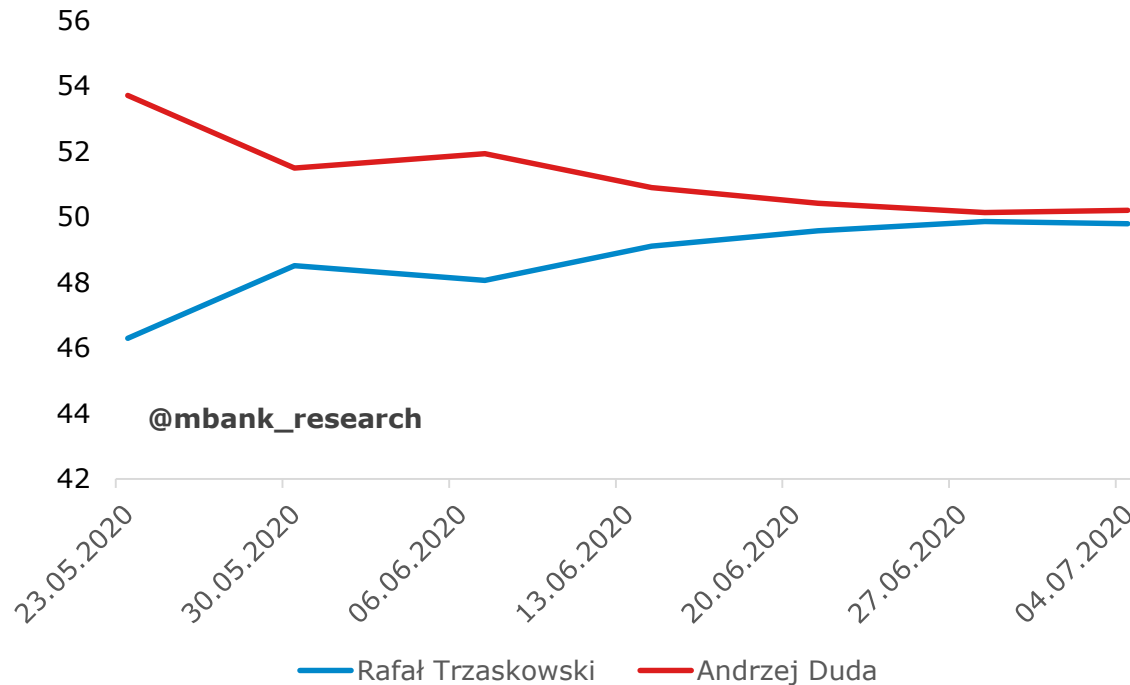
Real effective exchange rate



Source: BIS

- ❖ No significant and lasting reaction after interest rate cuts. Lower rates mean higher volatility and the swings in EURPLN rate will be now more pronounced as sentiment changes, especially towards weakness.
- ❖ Zloty is driven by the global sentiment.
- ❖ With significantly improved external position (C/A in balance + limited share of foreign investors in local debt) it would be hard to see much higher EURPLN exchange rate. We expect range 4.40-4.60 for now.
- ❖ New EU money improves the balance of flows further in 2021+

Presidential elections: surveys suggest a very close call



Source: Own elaboration based on opinion polls from institutions: Estymator, Kantar, Pollster, IBRIS, Social Changes, IPSOS. Data source: ewybory.eu. Undecided voters distributed proportionally

- ❖ Second round is a toss of a coin but RT gained a bit over AD recently.
- ❖ The change in the president's seat introduces changes in fiscal and (possibly) monetary landscape:
 - Veto (can be overruled by 3/5 in the Sejm – far above current PiS majority); that may be regarded as a backstop for excessive spending (less premium priced in for that)
 - Will choose 3 members for MPC (1 in 2025); hawkish candidates possible
 - Submits proposal for NBP governor (to be accepted by the Sejm, though)
- ❖ New president defines new political momentum.
- ❖ The play for new MPC is too distant in our opinion to be important now.

Disclaimer and contact details

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