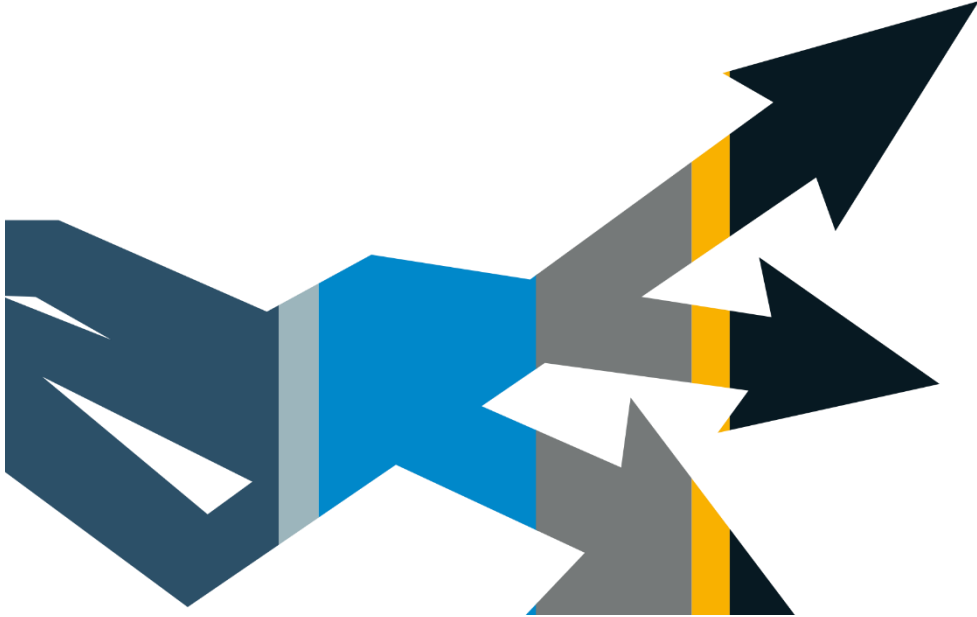


Monthly Pulse Check

Economy. FI. FX

April 19th 2022



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

- ❖ Global economy is slowing. Interest rate increases, local covid outbursts, still broken supply chains, high prices of oil, food and energy are expected to more and more visibly take their toll in sequential growth rates amidst accelerating inflation.
- ❖ Polish economy is exposed to trade, price and uncertainty shocks. However, substantial inflow of refugees arrests major downside risks for 2022. That is why we see 2022 GDP growth close to 4% (risks balanced). Such a structure of growth is unsustainable. Therefore, with further rate hikes, we see a meaningful slowdown in 2023 with risks tilted unanimously to the downside.

Monetary policy: Fed. ECB. NBP

- ❖ Fed: Lift-off. Upcoming (high) CPI readings suggest the Fed may turn to 50pb hikes introducing QT at the same time. Risks for higher rates in 2022. Potential for under-delivery in 2023 is substantial though.
- ❖ ECB: Another step towards normalization of policy. More complicated macro backdrop (more inflation, less growth) gives the bank more space to wait. First rate hikes at the turn of 2022/2023.
- ❖ NBP: Sending hawkish messages in the middle of tightening cycle. We see rates at 5.5% to be reached within next months. Afterwards the realized and expected GDP slowdown is going to stop further rate increases.

FX Market

- ❖ Zloty should strengthen in the medium-term due to higher interest rates and lower inflation. In the near-term, though, we shall expect high volatility driven by unstable risk environment and large swings ahead of MPC meetings.

		2021	2022	2022	2022	2022	2023	2023	2023	2023	2021	2022	2023
		Q4 F	Q1 F	Q2 F	Q3 F	Q4 F	Q1 F	Q2 F	Q3 F	Q4 F	Q1-Q4	Q1-Q4	Q1-Q4
GDP y/y	%	7,3	7,1	4,9	2,7	1,7	1,1	2,1	2,3	2,8	5,8	4,1	2,1
Individual consumption y/y	%	7,9	6,8	6,9	2,9	2,7	2,1	1,8	1,6	1,7	6,5	4,8	1,8
Investment y/y	%	11,7	9,8	7,0	5,5	1,3	0,9	3,8	3,6	3,3	7,1	5,9	2,9
Inflation rate (eop)	%	8,6	11,0	12,5	11,1	8,5	8,1	4,9	4,3	3,8	8,6	8,5	3,8
Unemployment rate (eop)	%	5,4	5,4	4,9	4,7	4,8	4,9	4,8	4,8	5,2	5,4	4,8	5,2
NBP repo rate (eop)	%	1,75	3,50	5,50	5,50	5,50	5,50	5,50	5,00	4,50	1,75	5,50	4,50
EUR/PLN (eop)	%	4,59	4,65	4,60	4,50	4,40	4,40	4,40	4,40	4,40	4,59	4,40	4,40
USD/PLN (eop)	%	4,04	4,20	4,26	4,09	3,96	3,93	3,86	3,79	3,73	4,0	4,0	3,7

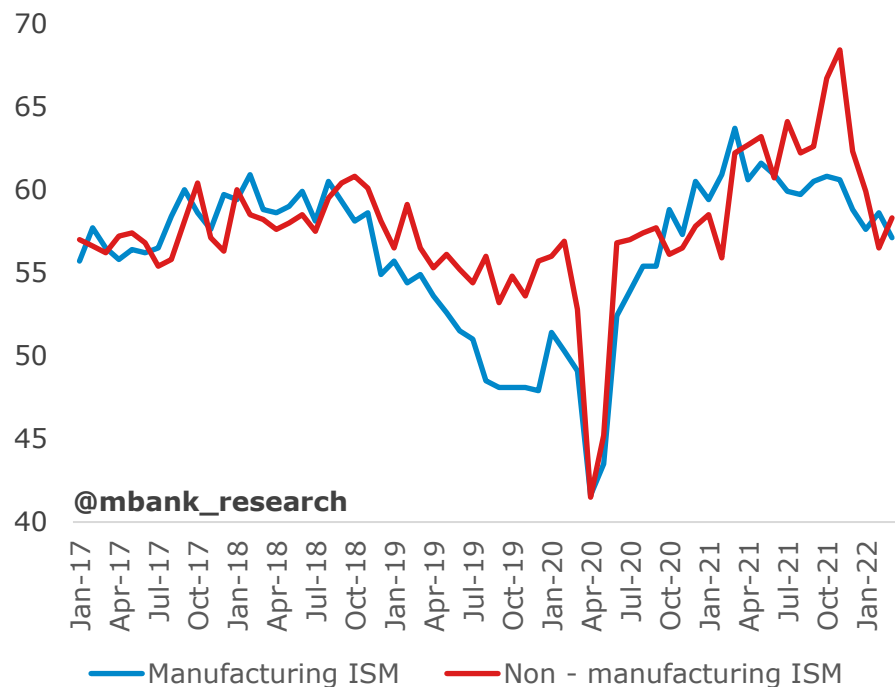
F - forecast

Highlights

- ❖ Not much changed. We observe more of a reinforcement of recent trends than a brand-new ones.
- ❖ Global economy is still facing numerous adverse shocks: fuel and energy prices, food prices, war-broken supply chains, covid-broken supply chains, high underlying inflation growth, monetary tightening. The only counterbalance is stemming from fiscal policy and past policy actions that enabled consumers and firm to build financial buffers. These are set to peter out over time. Stagflation risk is coming closer and the Russian aggression in Ukraine is far from being over.
- ❖ EM central banks set the stage for monetary tightening. Now it's time for DM central banks. Fed has just started, and we believe it will deliver much more hikes in 2022 (see [here](#)). ECB took a more cautious approach, but the liftoff button is close to being pressed. Due to more complicated nature of war shock in Europe, we will wait for first hikes until the turn of 2022/2023 but the real changes in asset purchases have already been made (see [here](#)). Global interest rates indicate growing inflation risks, green light for EBC lift-off and some doubts the Fed will actually deliver soft landing (see [here](#)).
- ❖ Polish economy looked very well in the end of 2021. It is most likely to be looking not much worse in Q1 2022. We see 2022 GDP growth at ~4% with risks balanced. With more rate hikes to come, 2023 is looking increasingly weak (~2% growth) with risks tilted to the downside. The overall not so rosy picture owes much to very high inflation in 2022 with a prospect for moderation in 2023 but still not within NBP target (see [here](#)). NBP projections are hawkish but were made with rates at 2.75% - half of our forecast of rates in 2022. There will be moving lower in the next months.
- ❖ Polish interest rates price in a decent monetary tightening (~6.5%) with bond curve being additionally exposed to war risk and fragile sentiment amidst almost highest ever inflation to be seen in the next 2-3 months (see [here](#)). EURPLN is to stay fragile with decent prospects ahead conditional to delivery of soft landing (see [here](#)) and EU's acceptance of Polish development plan.
- ❖ As Poland entered an atypical policy mix (fiscal boost/monetary restraint) we introduce a small fiscal monitor, just to track changes in deficit and debt developments, costs of debt service and the structure of Polish debt holders (see [here](#) and [here](#)).

U.S. economy health check

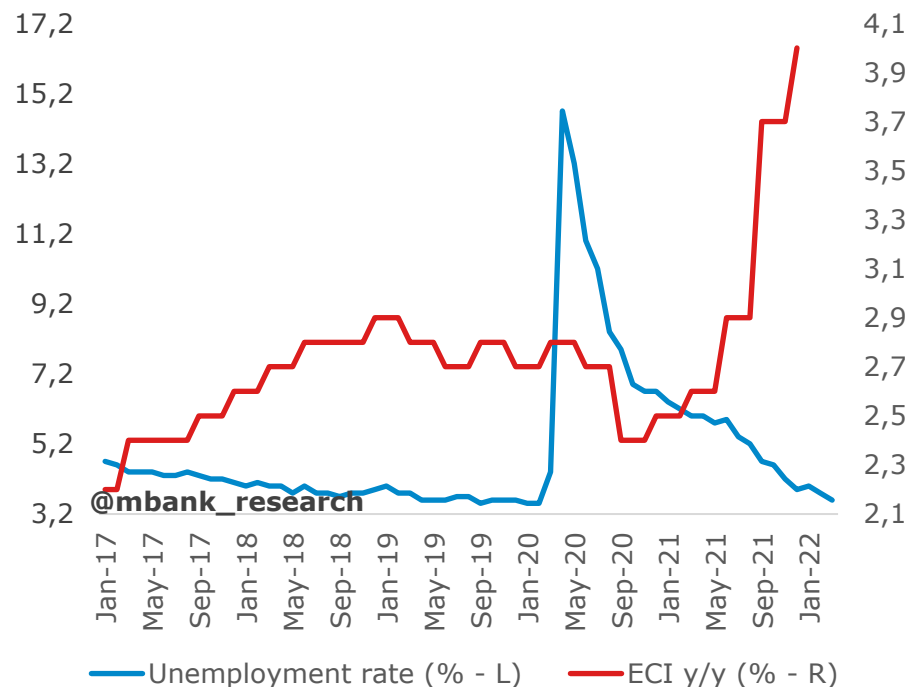
ISM PMI: manufacturing & non-manufacturing



Source: ISM

- ❖ Labor market remains strong (record low unemployment claims, good payrolls, high wages). There are also no clear concerns regarding war in the economic indicators (both industry and services). Lack of workers and high prices are still the biggest problems.
- ❖ Headline inflation reading was the highest since 1981 (8.5%). But in the details, the image is more nuanced. Core inflation in March was lower than expected and the momentum slowed. Now the key question is how long the exogenous factor will last and how much they will influence prices in other categories (second round effects). We think that currently expected interest rates will be enough to stabilize the inflation.
- ❖ Fed has already started interest rates hikes and in the next months we will see even more significant moves (50pb hikes). The balance sheet reduction will start quickly (May).

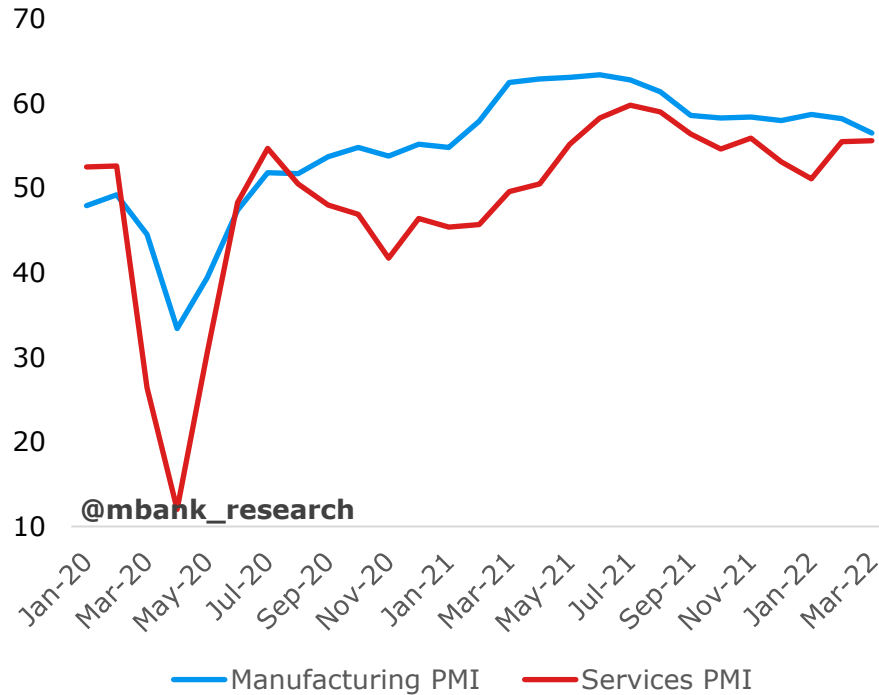
Labor market: wages & unemployment rate



Source: FRED

Euro area economy health check

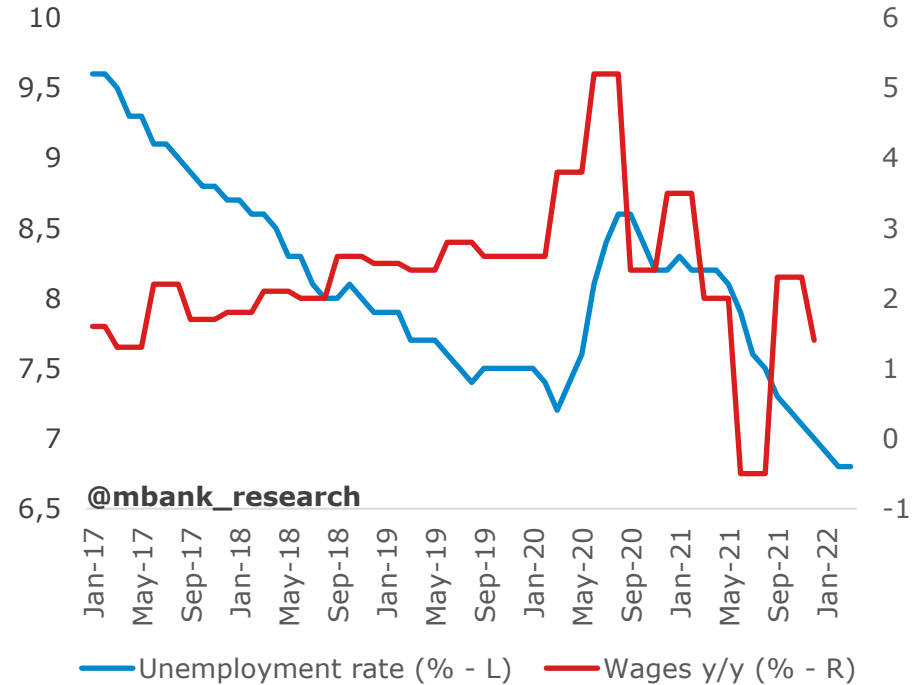
Markit PMI: manufacturing & services



Source: Markit

- ❖ In the euro zone, there is also no clear slump in economic indicators in response to the war in Ukraine. But fears about the GDP growth looms on the horizon (e.g., C. Lagarde mentioned it during her last speech). They are related to uncertainty because of war (corporate and consumer sentiment), the real effects of high prices, and further and more permanent supply problems.
- ❖ On the other hand, inflation is still elevated and there will be no significant change here in the next months (higher inflation expectations, higher fuels and food prices, but also higher wages than ECB anticipated).
- ❖ That is why ECB continues its quite hawkish rhetoric from last meeting – April meeting was less hawkish than market expected but still hawkish (compared to rhetoric from 2-3 months). Data from last month strengthened the ECB attitude to end net purchases from the APP in the 3rd quarter. First hikes will be discussed some time after the end of APP, and (analogously to the previous meeting) some time after is not specified (may be few weeks, may be few months according to C. Lagarde). A window for monetary policy normalization is opening for the ECB and we believe that they will be happy to use it and start normalization (we expect the beginning of the hiking cycle in the end of this year).

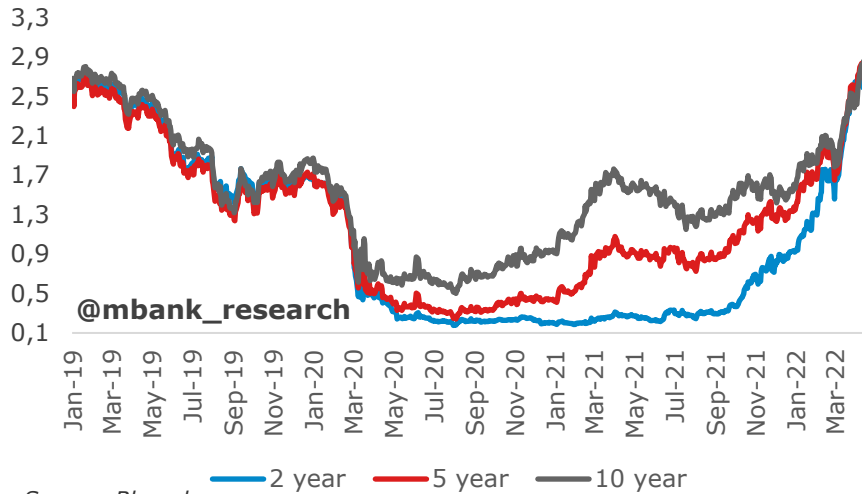
Labor market: wages & unemployment rate



Source: Eurostat

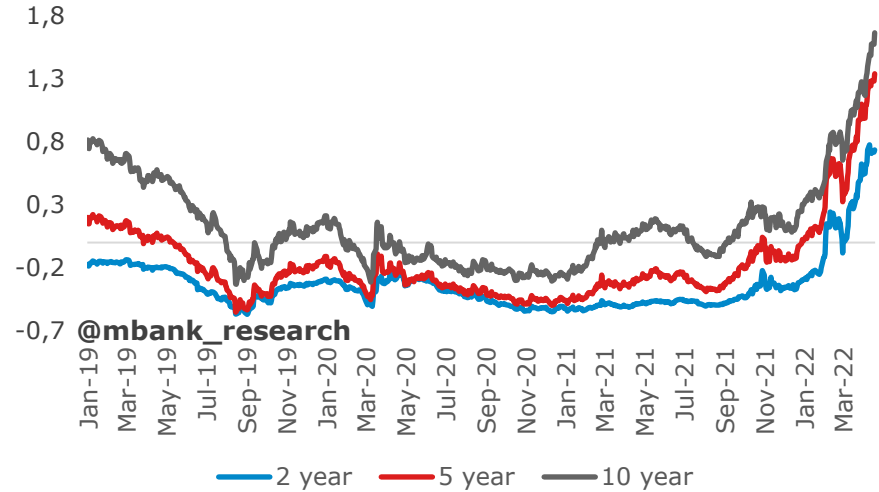
Global rates

US swap rates (%)



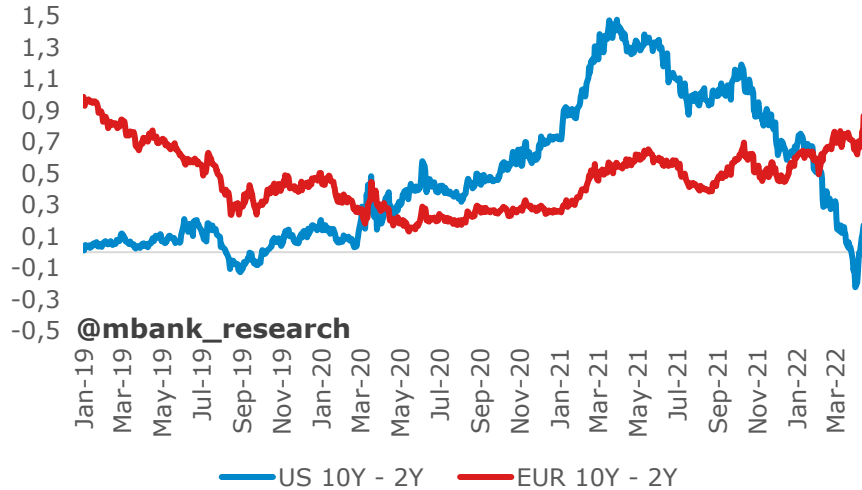
Source: Bloomberg

EU swap rates (%)



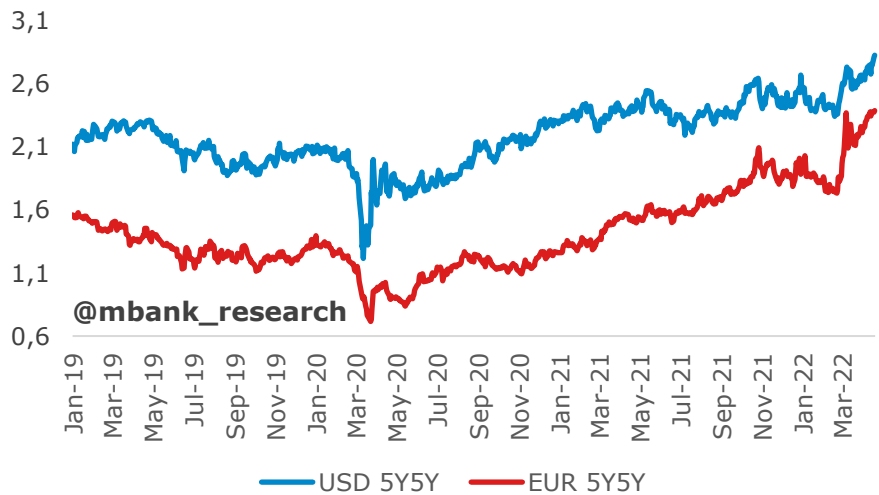
Source: Bloomberg

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



Source: Bloomberg

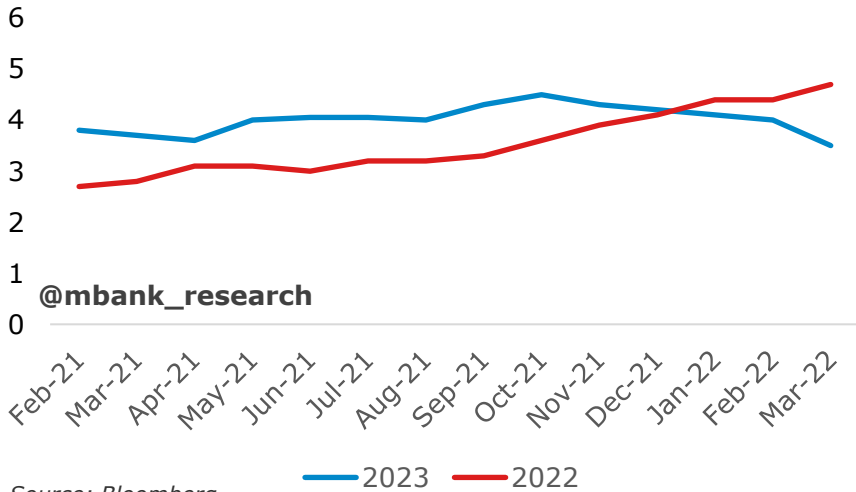
US and EZ inflation expectations (%)



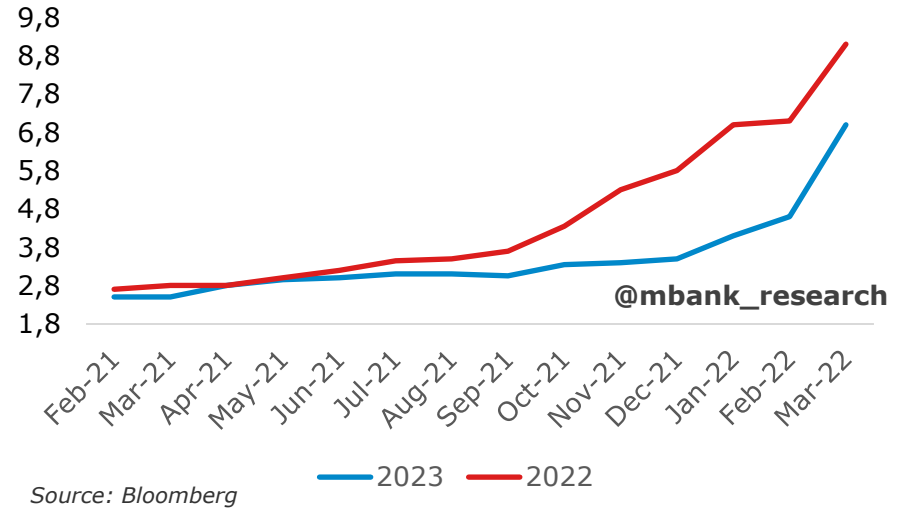
Source: Bloomberg

Consensus: what is expected in Poland?

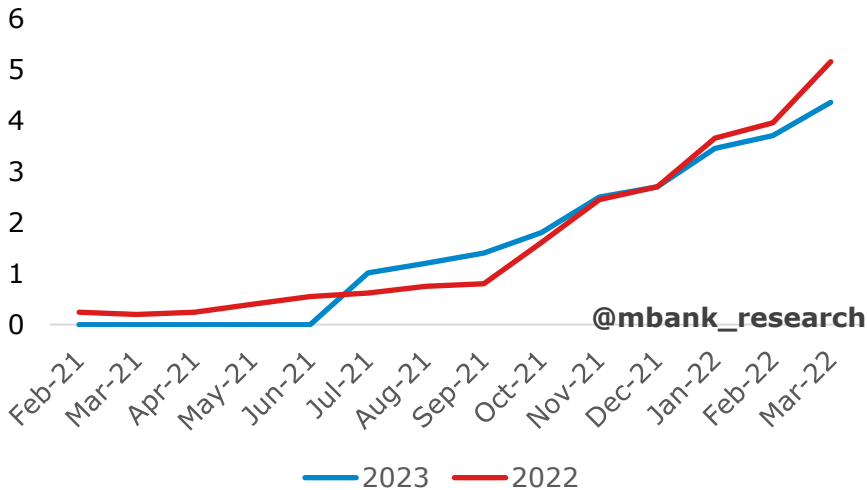
Consensus tracker: GDP growth (% y/y. annual avg)



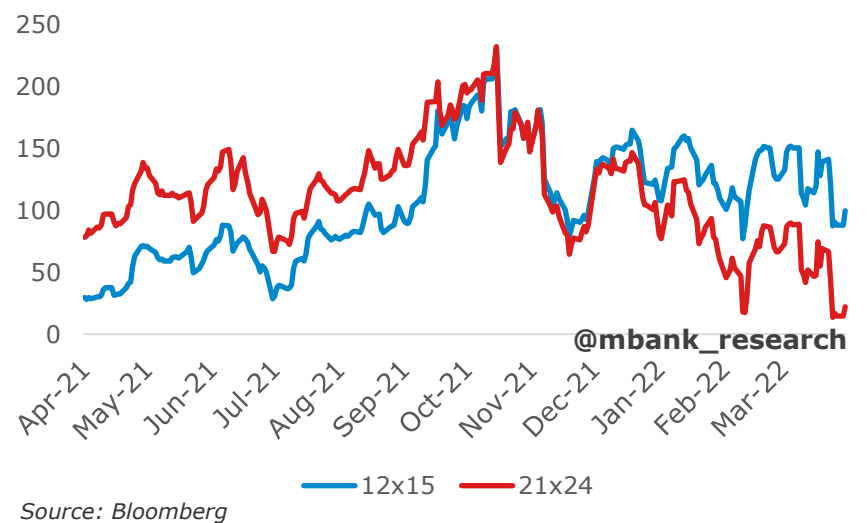
Consensus tracker: CPI inflation (% y/y. annual avg)



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



Rate changes priced in by FRA (bps)



Upcoming Polish macro releases: April 2021

Publication	Date	Period	mBank	Consensus	Actual	Prior
PMI (pts.)	01.04	Mar	51,3	53,1	52,7	54,7
Unemployment rate (%)	05.04[1]	Mar	5,3%	5,3%	5,4%	5,5%
	26.04[2]					
CPI y/y (%)	01.04[1]	Mar	11,0%	10,1%	10,9%	8,5%
	15.04[2]				11,0%	
Current account (m EUR)	13.04	Feb	-2000	-1908	-2871	64
Employment y/y (%)	21.04	Mar	1,9%	2,3%		2,3%
Wages y/y (%)	21.04	Mar	9,6%	10,4%		10,4%
Industrial output y/y (%)	21.04	Mar	7,2%	12,1%		17,6%
PPI y/y (%)	21.04	Mar	18,0%	17,6%		15,9%
Construction output y/y (%)	22.04	Mar	10,8%	15,2%		21,2%
Retail sales y/y (%)	22.04	Mar	9,2%	9,0%		8,1%
M3 y/y (%)	25.04	Mar	7,5%	7,7%		8,0%

[1] Ministry of Labour and Social Policy estimate

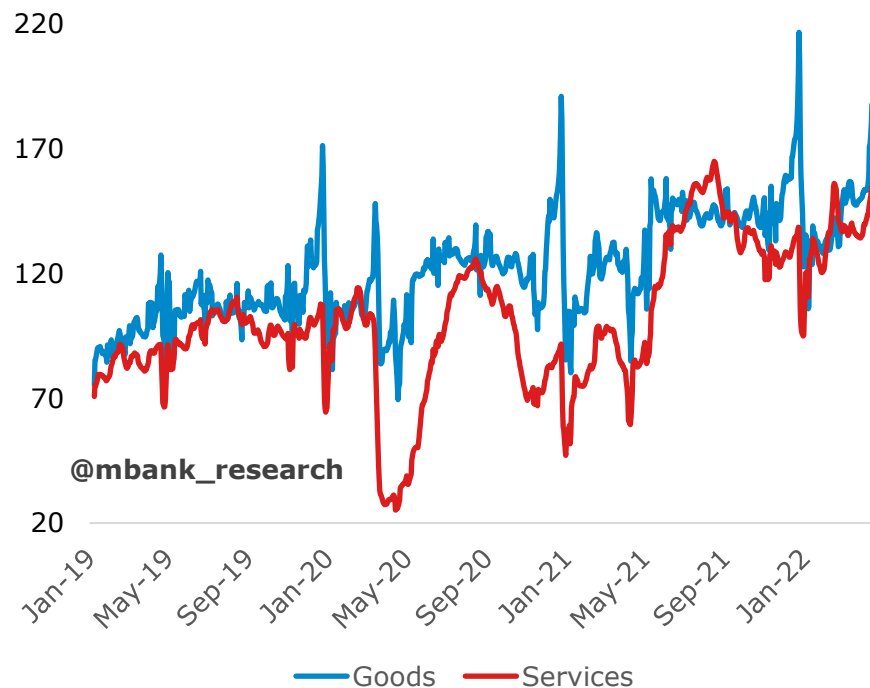
[2] Flash reading

[2] Statistics Poland final reading

[4] Final reading

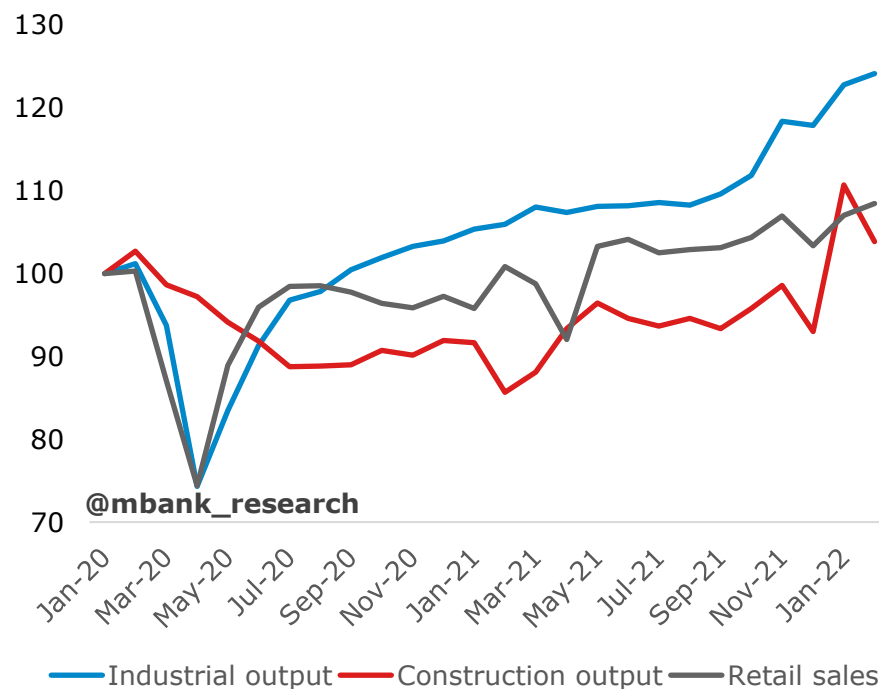
Poland: Optimistic data support strong GDP growth in 1Q2022 (7.1% y/y)

Card expenditures weekly, Jan20 = 100



Source: mBank transaction data. Own elaboration.

Seasonally adjusted, Jan20 = 100

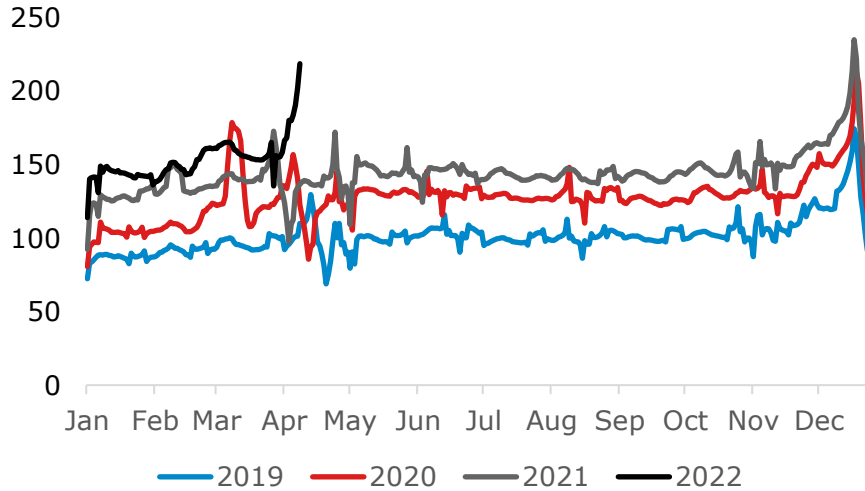


Source: mBank, Statistics Poland

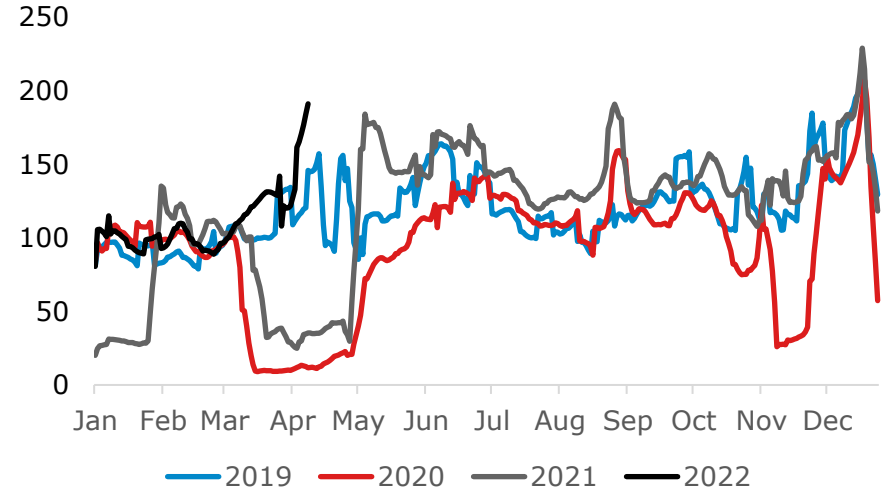
- ❖ There has been no new hard data publications since last edition of our Monthly Pulse Check. They stay good/very good (see the graph). We will focus only on card transactions (more detailed view on the next slide).
- ❖ Intensification of purchases of food and cosmetics from the beginning of the month slowed down, but levels are still higher than we would normally (without war and refugees) expect. However, it is worth to remember that we present nominal data – some of those increases may be result of higher prices. Good example is fuel sales– after initial very high purchases after the war started, now higher levels are mostly result of higher prices (we think that real retail sales is actually lower than before the war). Sales in the category of clothes and footwear accelerated – probably they are non-resident purchases (or made for them by residents).

Poland: Card expenditures, 7-day average

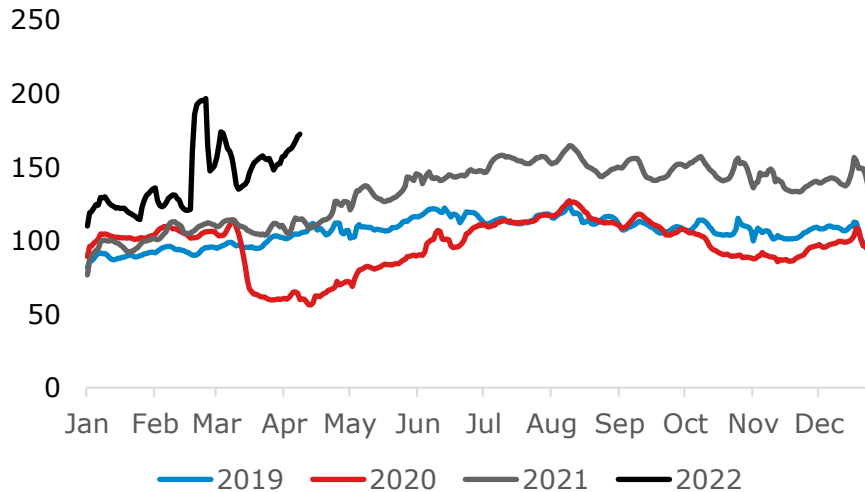
Food, beverages and non-specialized stores, Jan20 = 100



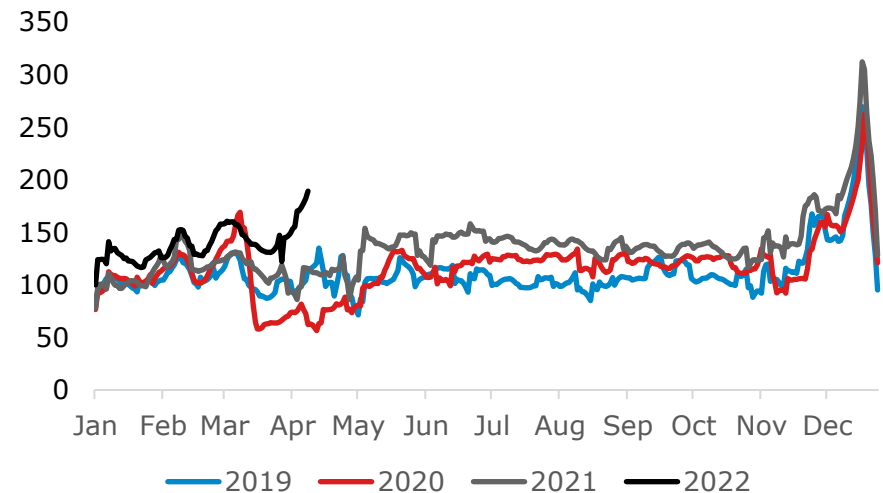
Clothing, Jan20 = 100



Fuels, Jan20 = 100



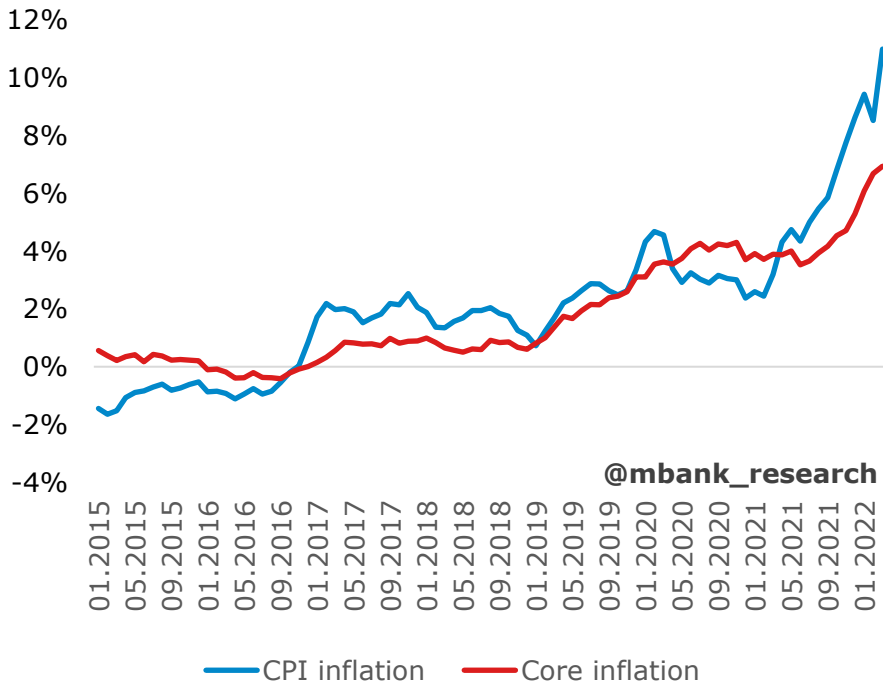
Drugstores, Jan20 = 100



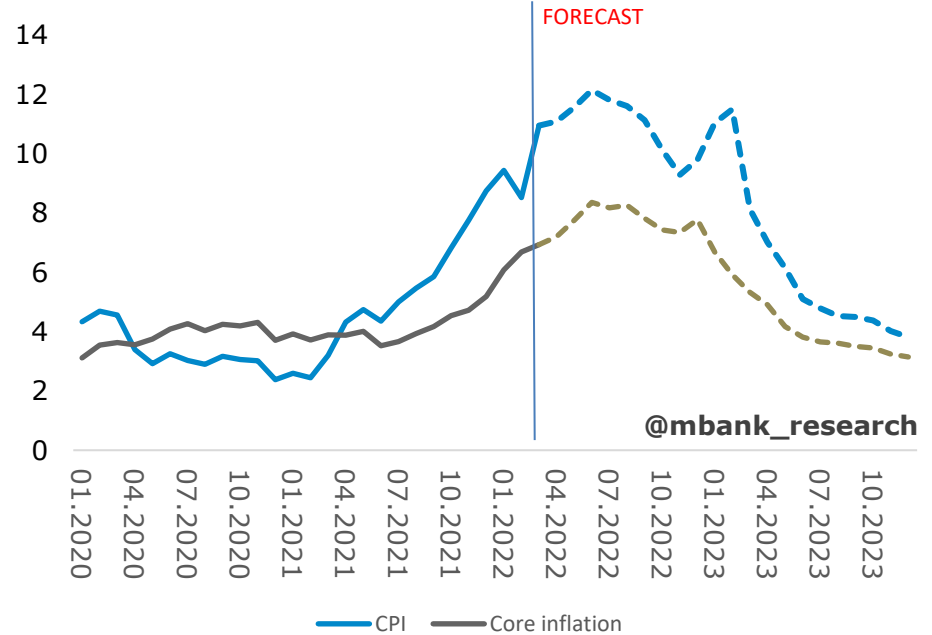
Source: mBank transaction data. Own elaboration.

Poland: Inflation tracker #1

CPI and core inflation (% y/y)



Core and headline inflation forecast



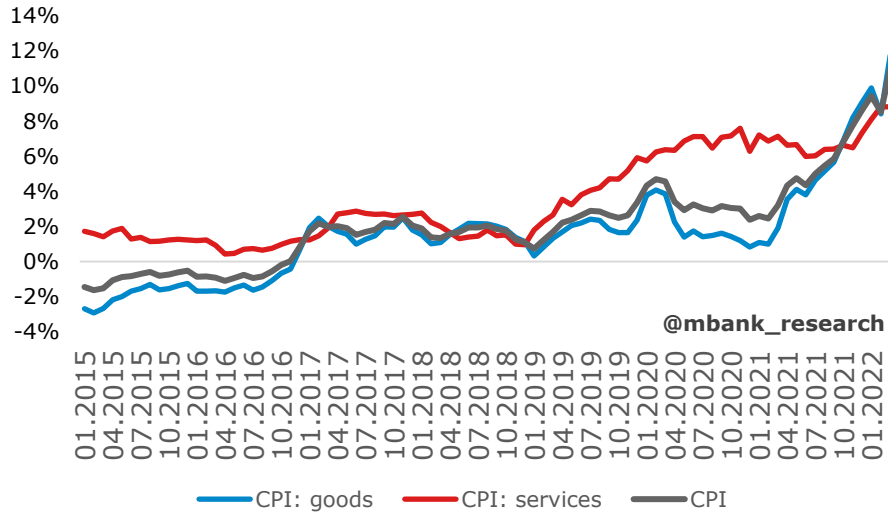
Source: Statistics Poland, NBP, own elaboration

Source: Statistics Poland. own elaboration

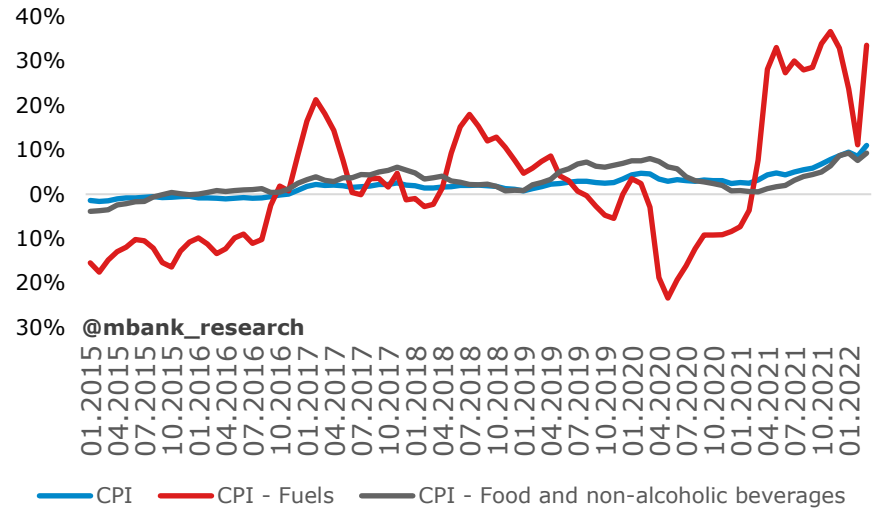
- ❖ The inflation level itself surprised the consensus (11% vs expected 10.15 y/y), but the structure turned out to be not very explosive with a relatively small acceleration of core inflation (considering the scale of the shock, about 7% y/y). Acceleration of inflation was driven mostly by exogenous factors: fuels + 28.1% m/m, food + 2.2% m/m, energy + 4.7% m/m. The next months will bring even higher inflation (the peak probably in June), still mostly because of exogenous factors. Core inflation will decline (in m/m terms) but the annual indicator will continue to accelerate (peak around 7.5-8%).
- ❖ The MPC decided to surprise the market and raised interest rates by 100bp during the last meeting (4.50%). Governor Glapiński was very hawkish during the conference, but it seems that at that specific moment it cannot be otherwise. MPC wants to see stronger zloty (still highlights it in the statement, important channel for inflation) and limit the inflation expectations. But we do not think that MPC will deliver very high level of interest rates (we think that the terminal rate will be at 5.50%). It just has to sound hawkish in this moment of the cycle. But risks are obviously to the upside (there is no much space between current interest levels and our forecast of terminal rate). First cuts may start in the end of 2023.

Poland: Inflation tracker #2 (unorthodox, additional measures)

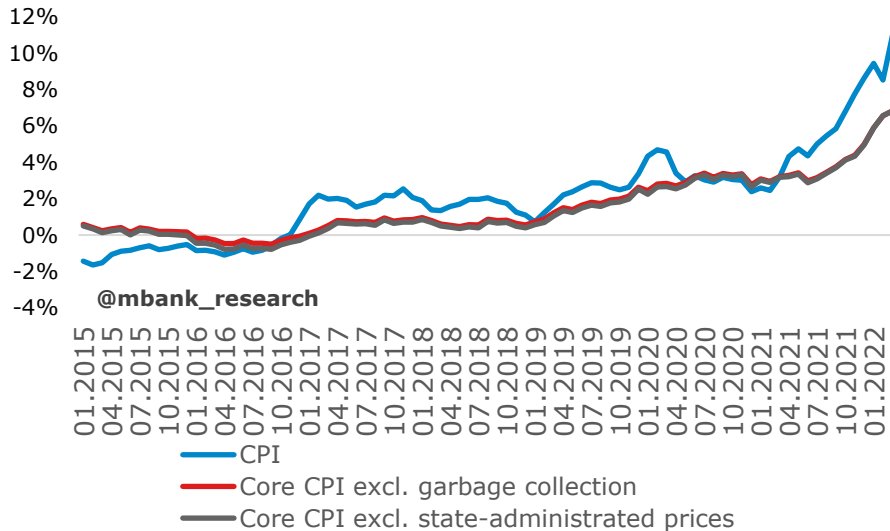
Goods and services prices (% y/y)*



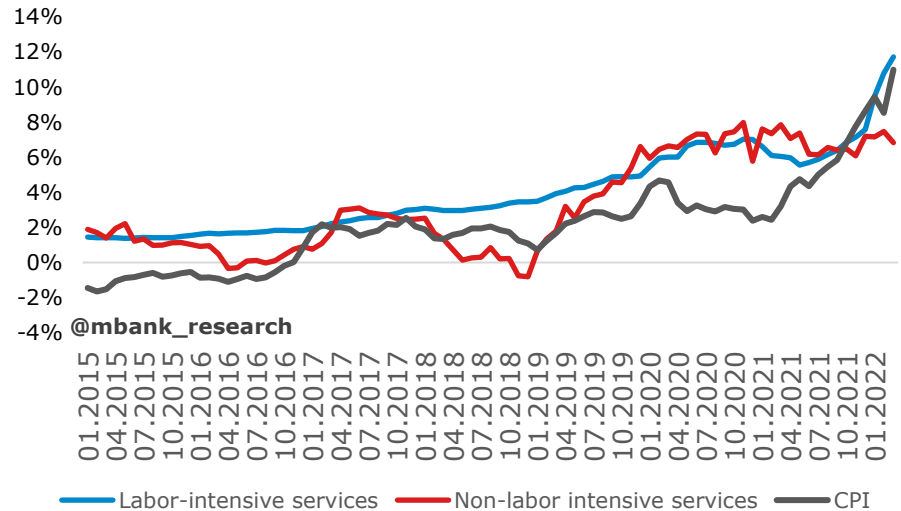
Food and fuel prices (% y/y)



Core inflation without garbage collection fees and without administrated prices (% y/y)



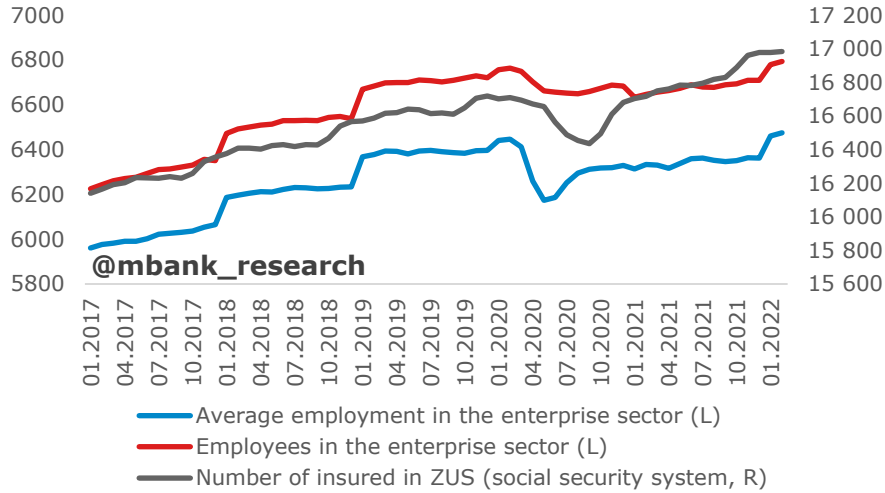
Services (% y/y)



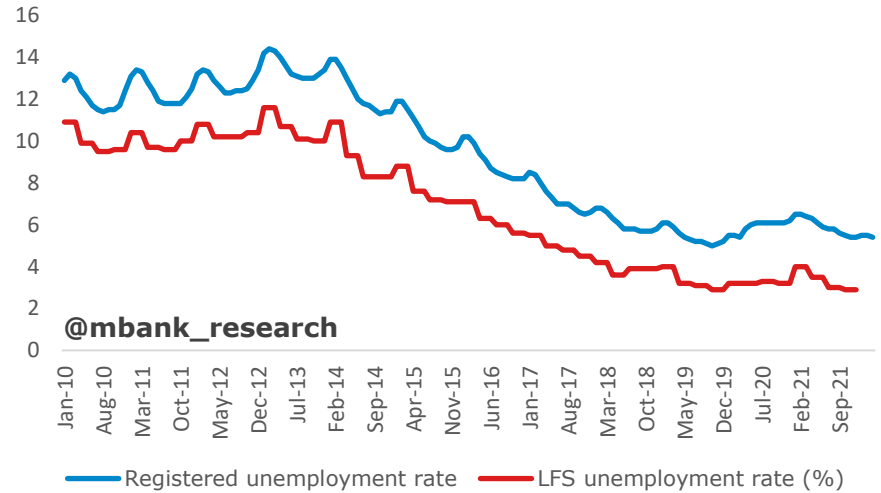
Source: Statistics Poland, own elaboration

Poland: Labor market tracker

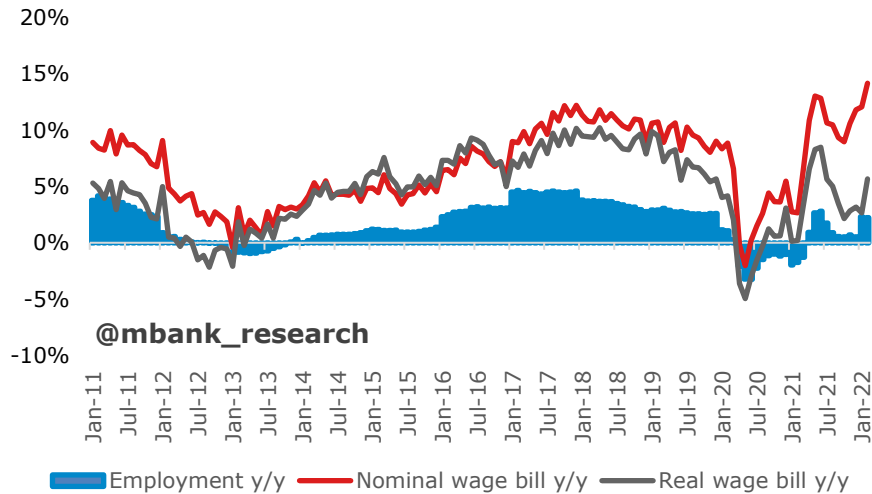
Employment



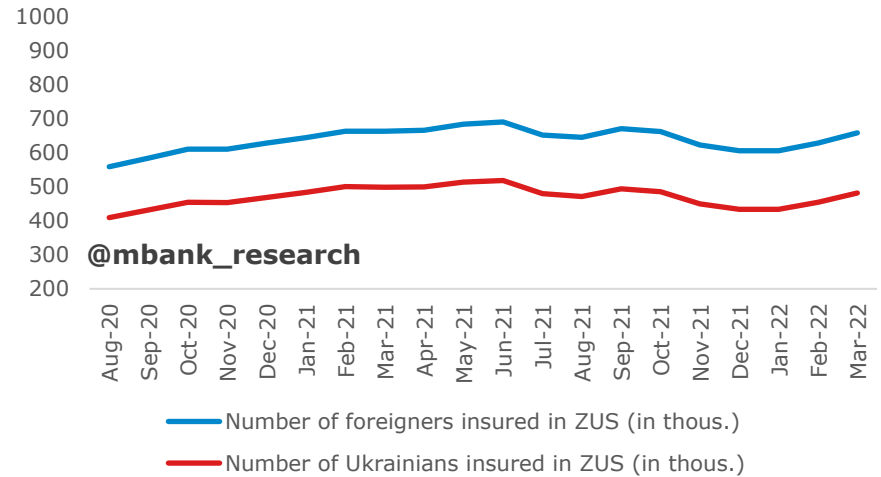
Unemployment rate



Wage bill



Immigration in the labor force*

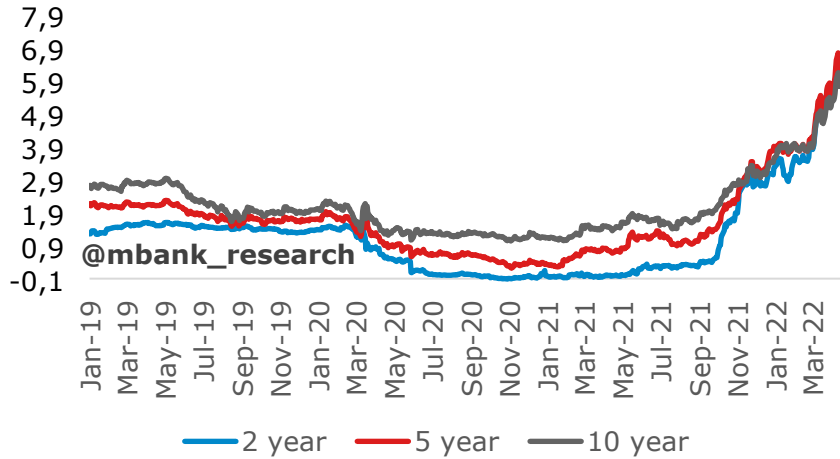


Source: Statistics Poland, ZUS Statistical Portal, own elaboration

* We do not see refugees in these data yet.

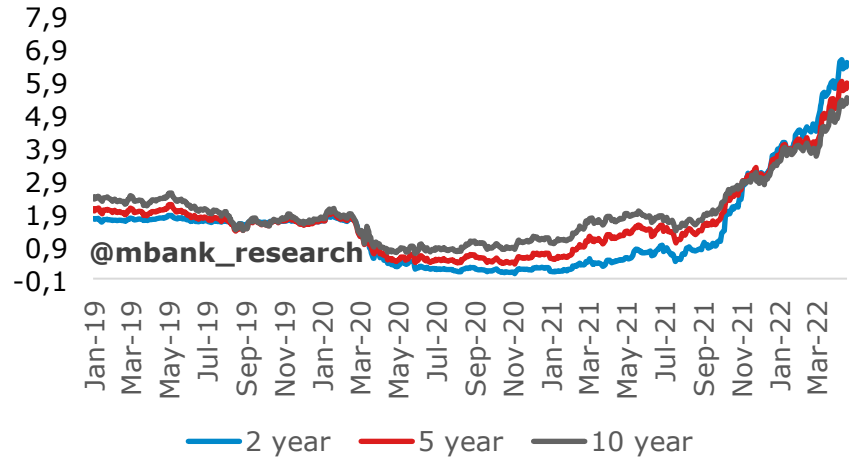
Polish rates, yields and spreads

POLGBs



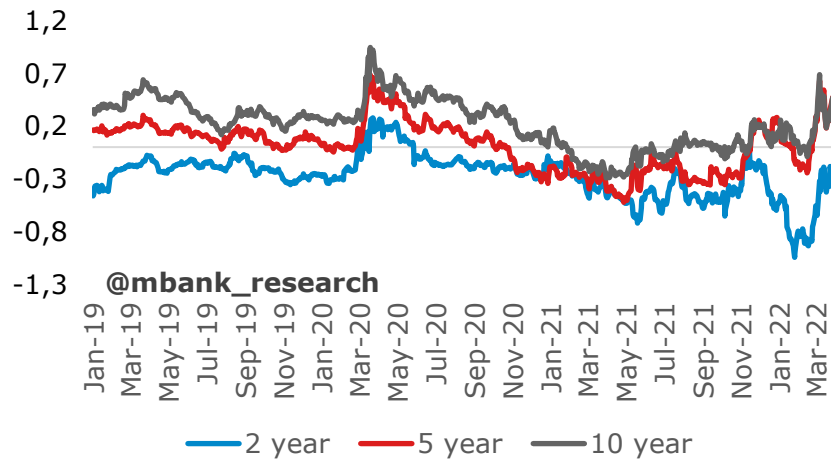
Source: Bloomberg

PL IRS



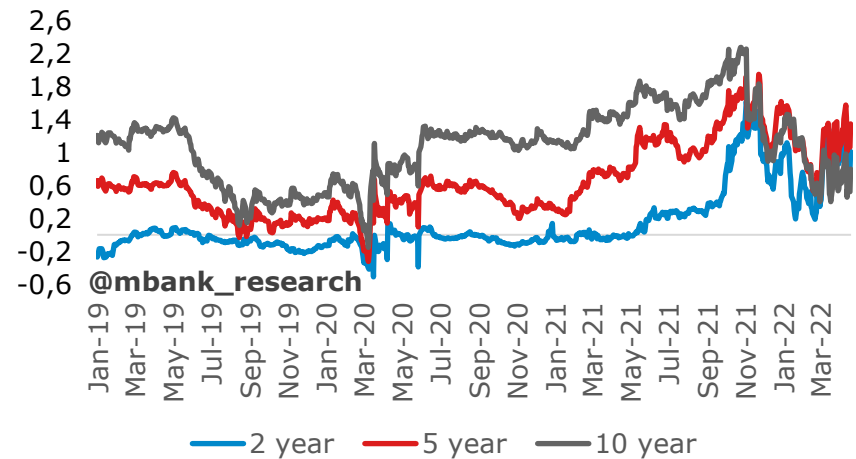
Source: Bloomberg

ASW spread



Source: Bloomberg

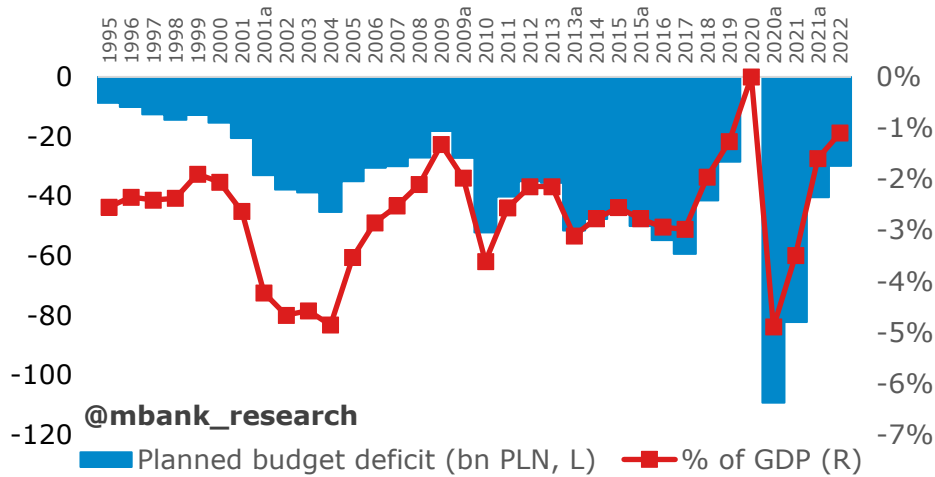
POLGB yield minus 3m WIBOR



Source: Bloomberg

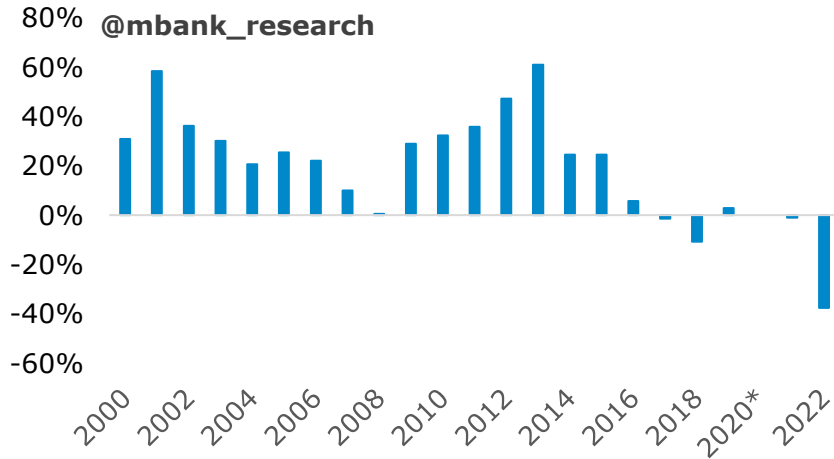
Fiscal monitor #1

Planned budget deficit



Source: Ministry of Finance, a – budget novel

Central budget deficit in February vs yearly planned deficit



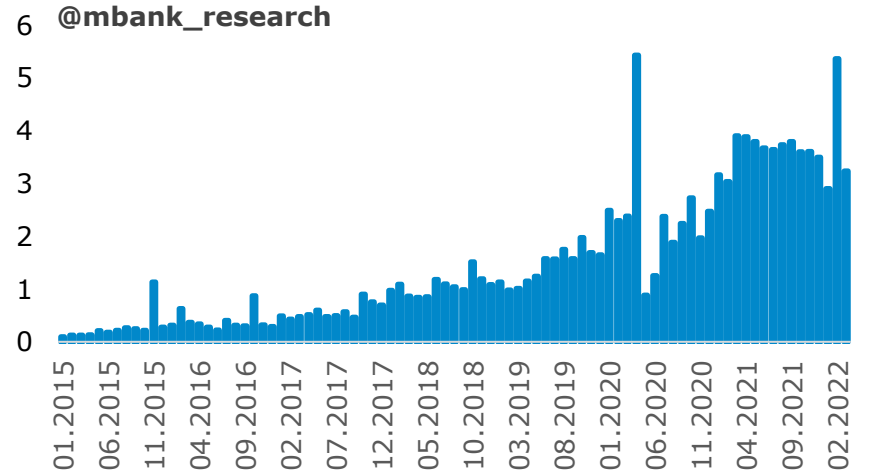
Source: Macrobond, * in 2020 there was 0 budget deficit planned, negative value means surplus

State debt servicing costs (% GDP)



Source: Macrobond

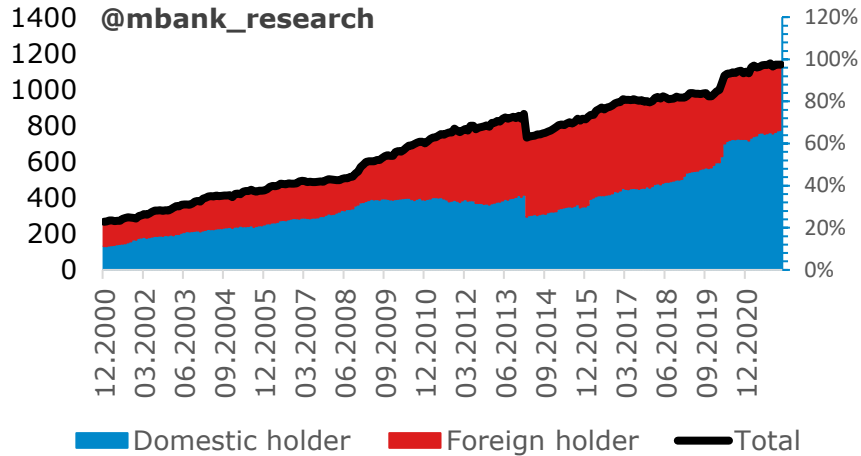
Retail bonds sold per month (PLN bn)



Source: Ministry of Finance

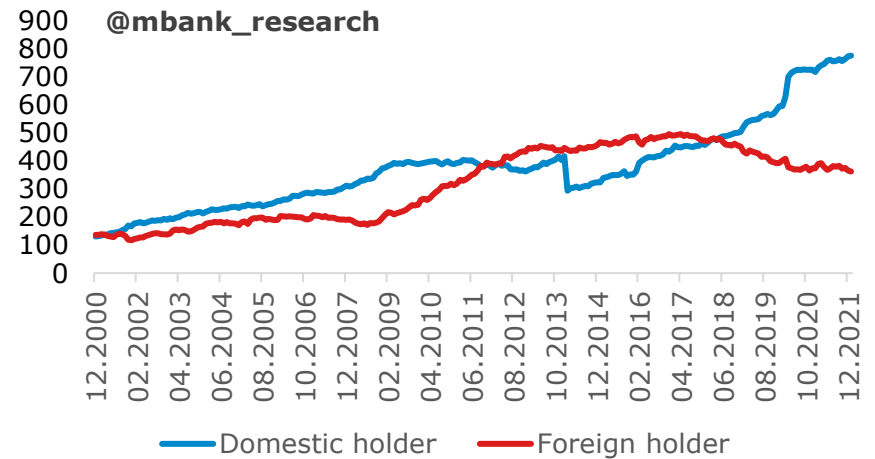
Fiscal monitor #2

State treasury debt by holder #1



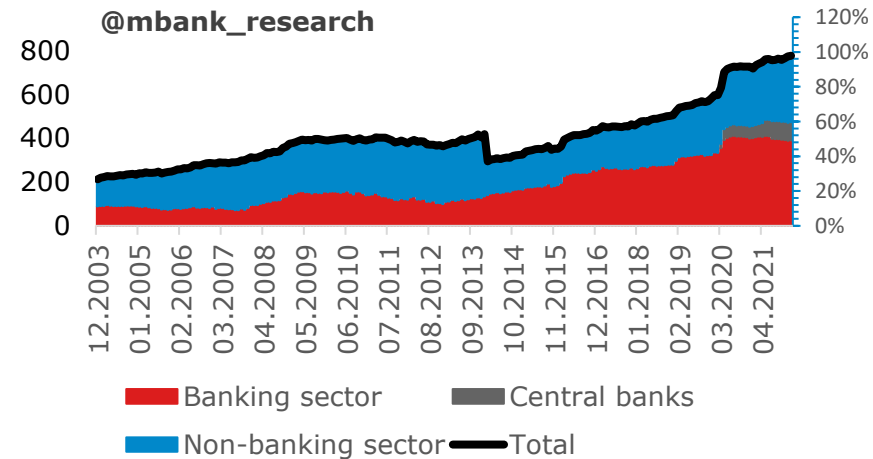
Source: Macrobond

State treasury debt by holder #2



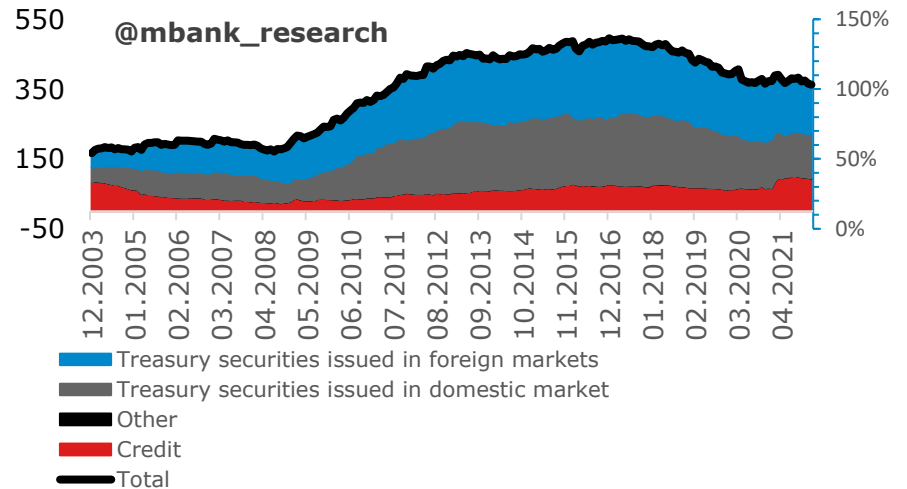
Source: Macrobond

State treasury debt – domestic holders



Source: Macrobond

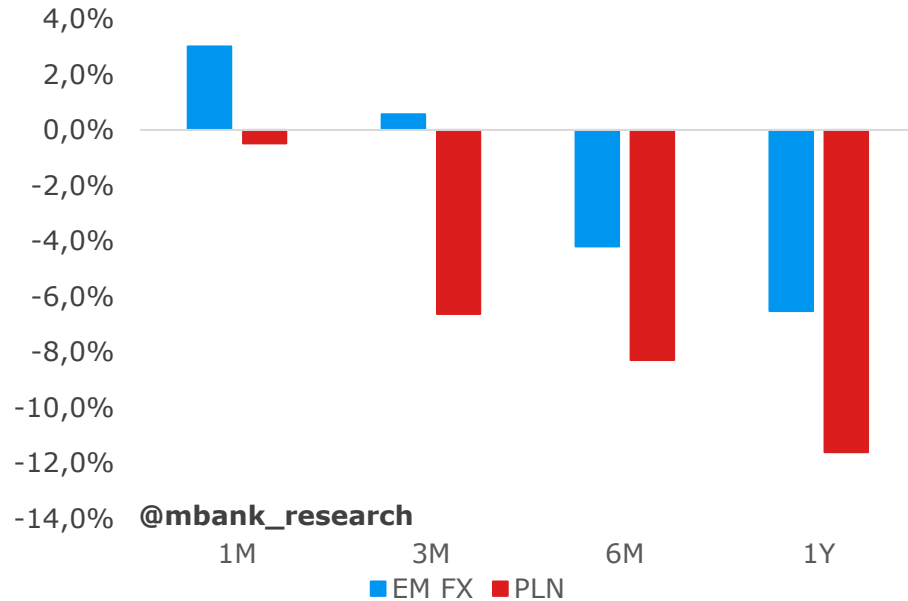
State treasury debt – foreign holders



Source: Macrobond

EURPLN – the worst is over?

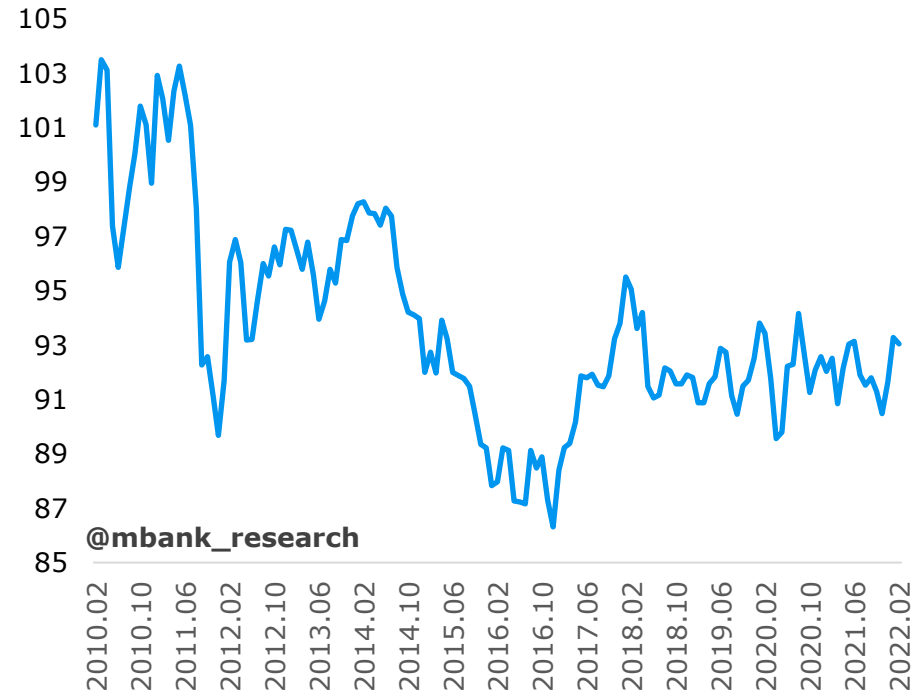
Some strenghtening after previous depreciation



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

Source: Bloomberg

Real effective exchange rate (mind the dates)



Source: BIS

- ❖ EURPLN volatility decreased but the currency is still weaker than before the war (EURPLN above 4.60). Hawkish surprise from the MPC did not change much (maybe just kept zloty from any further depreciation). There is still no agreement with the EU about the rule of law and providing funds from Next Generation EU (it is one of reasons of the weak zloty). Still the biggest problem is weak global sentiment and some basket issues (Poland close to Ukraine, etc.).
- ❖ But MPC wants to see stronger zloty and we think that further moves of the Council will have a positive impact of zloty (terminal rate at 5.50%). Our view on zloty's perspectives in the longer term remains unchanged. EURPLN will stabilize around 4.40. There will be several factors impacting the exchange rate in different ways: war and uncertainty (depreciation), refugees (appreciation), high interest rates (appreciation), risk of stagflation (depreciation), rebuilding Ukraine (depreciation, move of investments there).

Disclaimer and contact details

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