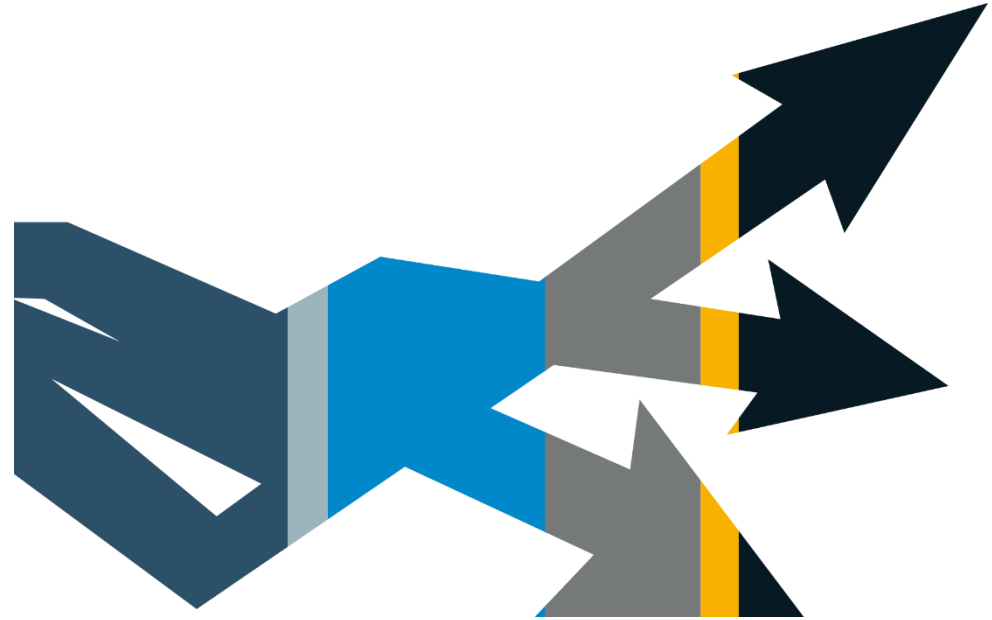


Monthly Pulse Check

Economy. FI. FX

May 14th 2021

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

- ❖ It is highly likely that we observe the last wave of economic restrictions and economic growth is set to restart at the turn of H1/H2 2021 for good. The presence of new Sars-Cov-2 variants poses some risk for the global economy and for populations below herd immunity thresholds. Subsequent waves may come but they seem much more manageable now with minimal economic damage. The picture among countries is mixed, though.
- ❖ Polish economy behaves better than expected. We expect 4.7% GDP growth in 2021. Epidemic restrictions are lifted. Due to disbursement of the new EU funds, Polish cycle is seen as longer and possibly stronger than in the U.S. and euro zone. It may also be more inflationary since labor market survived 2020 very well. Policy normalization is coming closer.

Monetary policy: Fed. ECB. NBP

- ❖ Fed: ZIRP + QE + direct loans to firms. Wait-and-see. Attention shifts to exit strategy.
- ❖ ECB: NIRP (already there) + QE Expansion (maximum flexibility) + new LTRO. Wait-and-see.
- ❖ NBP: Rates cuts (total 140bp). QE already in place (govvies + bonds with state guarantees). Over to fiscal policy now. Further easing ruled out. FX interventions not needed. Slowly turning more hawkish and attention shifts to exit strategy. We expect normalization of rates to start in 2022.

FX Market

- ❖ Weak zloty in H1 2021. Return to modest appreciation in H2 2021 as euro zone recovers, the drive for stronger dollar wanes and (cyclical) recovery trades kick in, helped by current account surplus (flows). A turn in MPC helps as well.

		2020	2020	2020	2020	2021	2021	2021	2021	2020	2021	2022
		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	%	1,9	-8,4	-1,5	-2,8	-1,2	10,0	3,8	6,0	-2,7	4,7	5,1
Individual consumption y/y	%	1,2	-10,8	-0,4	-3,2	0,7	14,2	2,4	6,2	-3,0	5,9	4,6
Investment y/y	%	0,9	-10,7	-9,0	-10,9	-11,0	3,9	2,0	8,7	-8,4	0,9	7,8
Inflation rate (eop)	%	4,6	3,3	3,2	2,4	3,2	4,7	4,3	4,7	2,4	4,7	4,0
Unemployment rate (eop)	%	5,3	6,1	6,1	6,2	6,5	6,0	5,9	5,8	6,2	5,8	5,1
NBP repo rate (eop)	%	1,00	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,25
EUR/PLN (eop)	%	4,56	4,45	4,53	4,56	4,60	4,60	4,55	4,55	4,56	4,55	4,30
USD/PLN (eop)	%	4,13	3,96	3,87	3,73	3,87	3,90	3,86	3,82	3,73	3,82	3,50

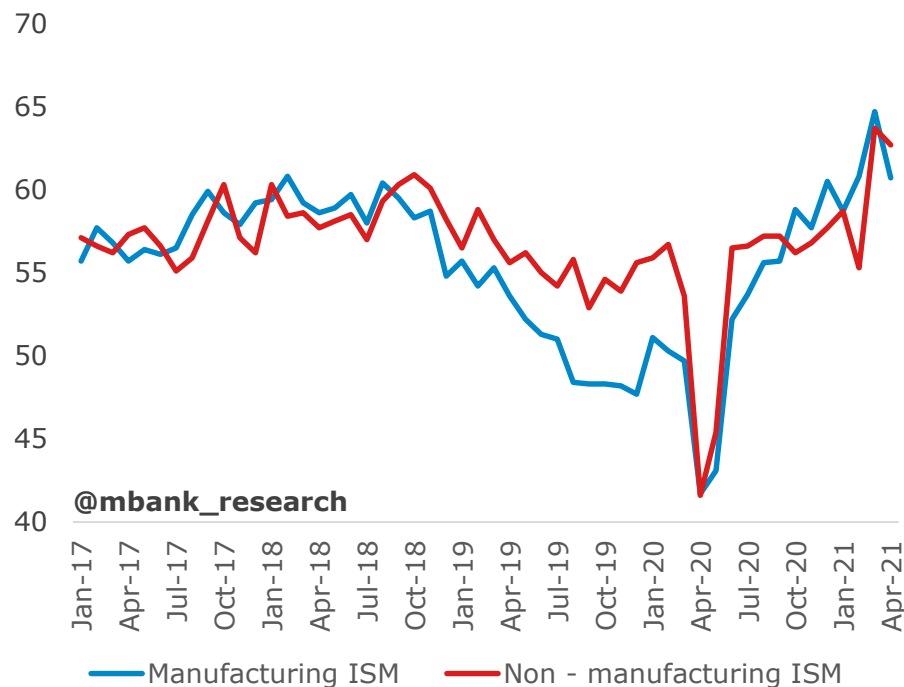
F - forecast

Highlights

- ❖ Third wave of infections is coming to an end (see the monitor [here](#)). Economy is being re-opened. Mutations and still low willingness to accept vaccine (~50-55% of population) suggest that COVID zero economy is out of reach. However, even below herd immunity, next waves are manageable with minimal economic toll.
- ❖ The divide between euro zone and the U.S. is less pronounced now (see [here](#) and [here](#)). Reflationary story came to the euro zone (see [here](#)). Surprisingly, however, the push for higher real rates stopped after the recent bout of stellar data. A lot have been priced in while central banks plan to wait inflation out. The global move in rates is unlikely to be reversed at this moment though, unless there is a major disappointment (not our baseline).
- ❖ The consensus for Poland is moving, especially with respect to inflation (see [here](#)). We present a more detailed inflation tracker in this issue (see [here](#) and [here](#)) and it will stay with us for a while until inflation falls from the agenda. Let's get used to inflation tracking since we do not expect inflation to retrace much below 4% in the next two years.
- ❖ We expect 4.7% GDP growth in 2021. Labor market survived 2020 in quite decent shape (see [here](#)) making a good foundation for further GDP acceleration. So far the economy is balancing between restrictions-driven consumption (see [here](#) for more detailed tracking) and mostly immune (and powering ahead) manufacturing (see [here](#)). Mobility indicators are improving (see [here](#)), the same applies to card expenditures (see [here](#)).
- ❖ Short end market rates are being un-anchored, driven by less dovish MPC. Longer rates follow global developments (including higher inflation expectations) and also bets on tapering NBP purchases (this applies to bonds and proceeds via ASWs, see [here](#)).
- ❖ Meanwhile NBP purchases accelerate (see [here](#) and [here](#)). We think that marginal effects of purchases decrease over time and NBP will be slowly moving towards tapering. Rate expectations are on the move as well. Our call for higher rates in 2022 (formulated yet in mid-2020) is being vindicated. Risks are mounting for earlier rate adjustment (expectations sit now at the turn of 2021/2022).
- ❖ We expect weak PLN in H1. Chances for appreciation are one the rise. See [here](#).

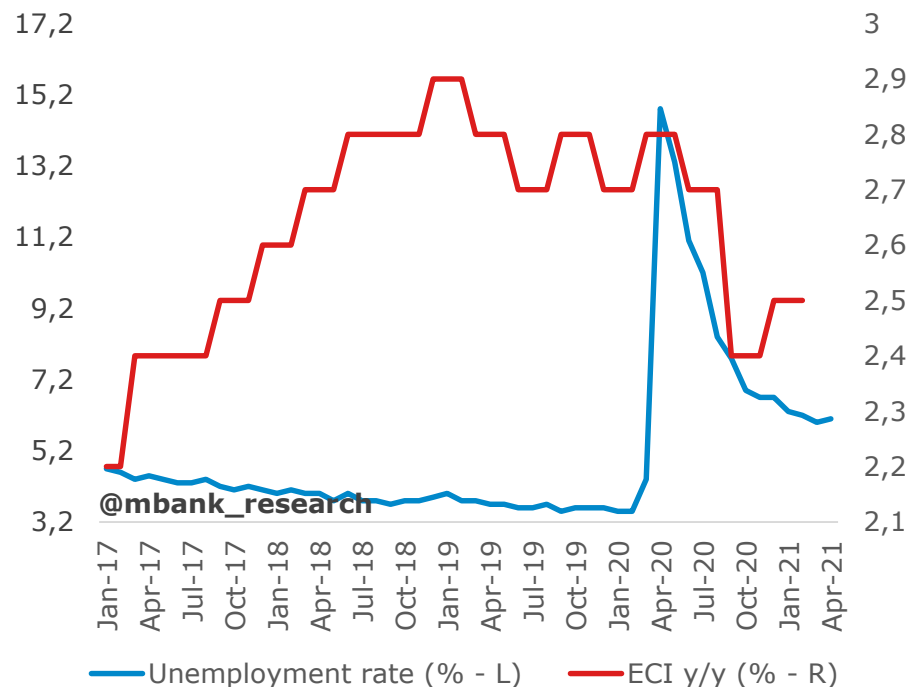
U.S. economy health check

ISM PMI: manufacturing & non-manufacturing



Source: ISM

Labor market: wages & unemployment rate

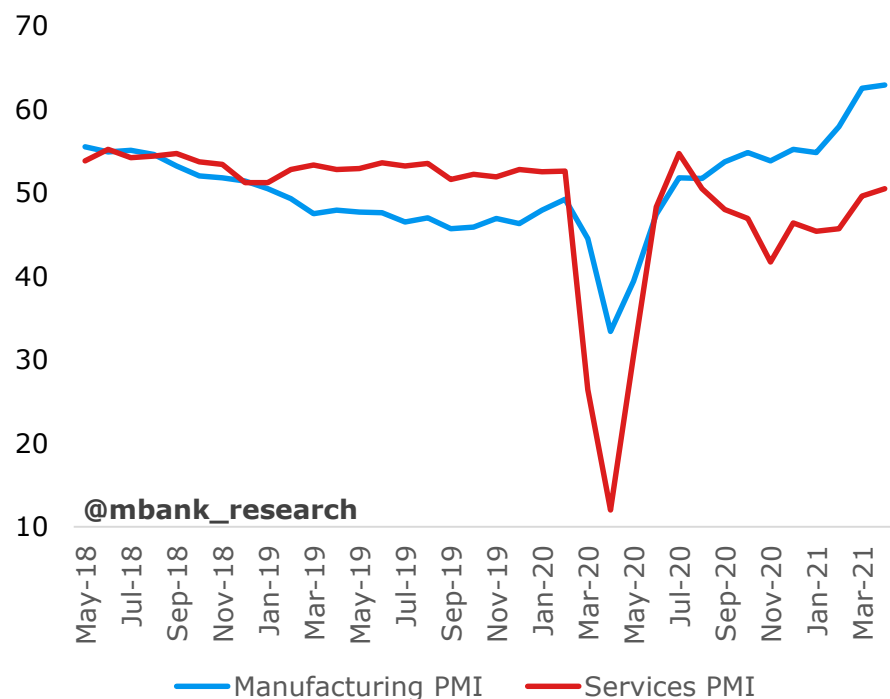


Source: FRED

- ❖ Reflation is back! Economy is experiencing supply squeezes on many markets: consumer goods and services, manufacturing, labor market. Fiscally fueled re-opening generates deficiencies in supply. Prices are on the rise to restore equilibrium.
- ❖ It is rather unlikely that supply will adjust very fast. There will be further progress in pricing to shift supply curve out and demand curve in. Pressures should dissipate over time. However, having said that it is also fair to stress that recession management was much better than during GFC.
- ❖ The Fed is going to overlook higher inflation, as announced. However, given the fact that the economy will be in the cycle faster than after GFC, rate rises will also come faster. 2023 is still a suitable date for a start. In the end it will be current labor market situation and current inflation to decide. No pre-emptive strikes here. Additional monetary stimulation now is out of the question.

Euro area economy health check

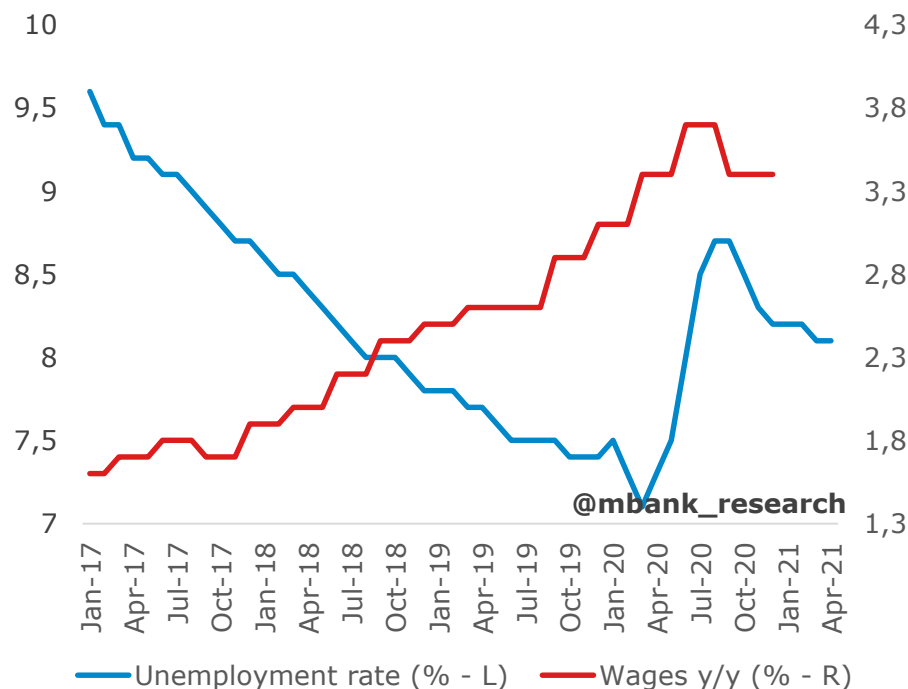
Markit PMI: manufacturing & services



Source: Markit

- ❖ Eurozone reflate slowly as well. Business activity stays strong. There will be no such strong start as in the U.S. with the absence of huge fiscal package in 2021. However, the fiscal package (NGEU) seems to be better structured for future growth.
- ❖ Therefore we think the price pressures in the Eurozone will be lesser in 2021. There is no need to sound alarm bell for inflation. However, the march towards higher market rates has just started. ECB will soon decide to come back to normal pace of bond purchases.
- ❖ We are still years away from interest rate rises. Spare capacity in the Eurozone seems far greater than in the U.S. ECB is most likely to embark on „inflation overlooking” mode, just as other central banks.

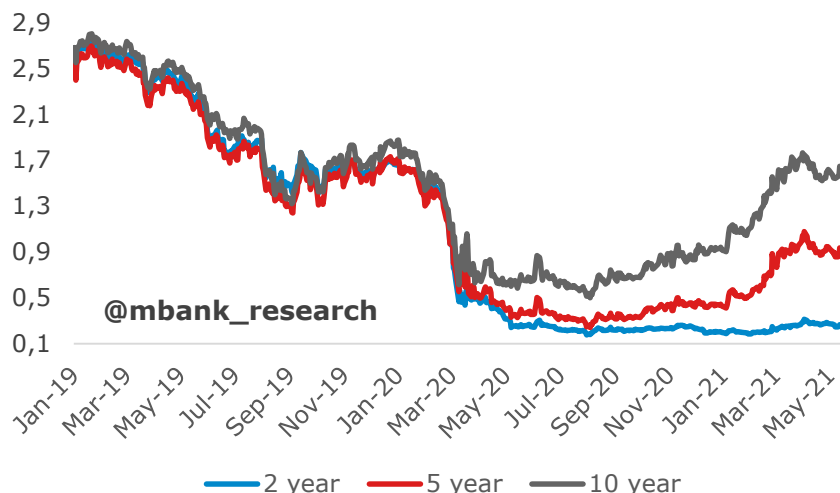
Labor market: wages & unemployment rate



Source: Eurostat

Global rates: move higher unlikely to be reversed in longer tenors; short end much better anchored by easy central bank's policy.

US swap rates (%)



Source: Bloomberg

EU swap rates (%)



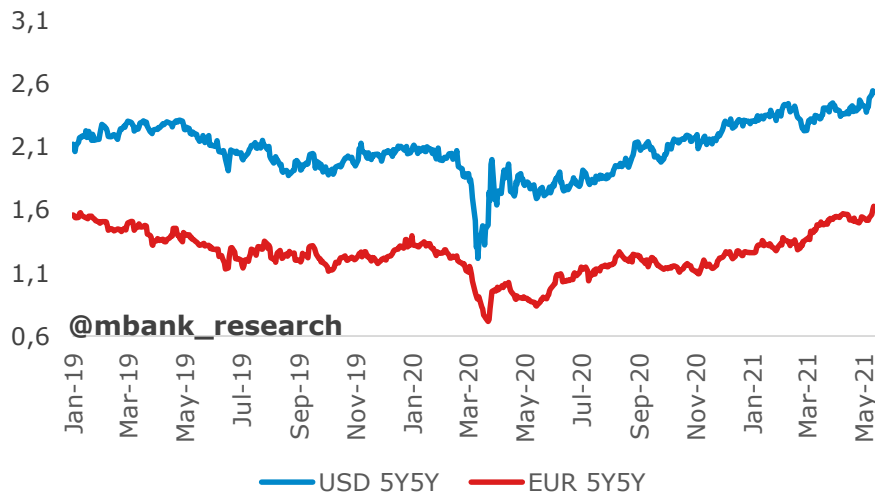
Source: Bloomberg

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



Source: Bloomberg

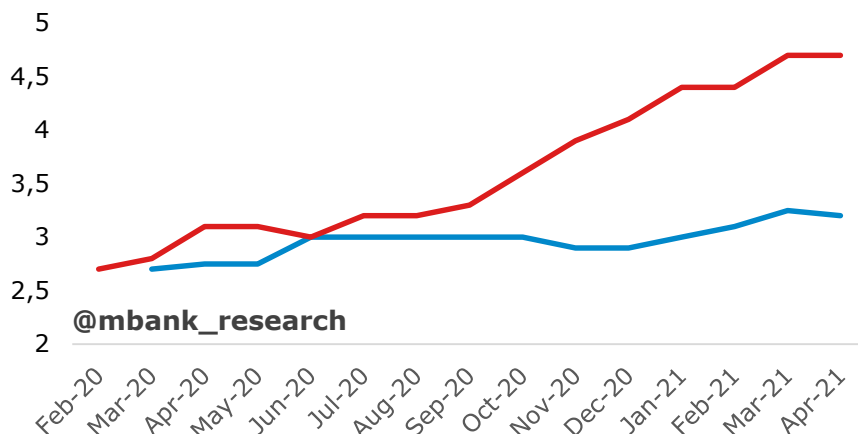
US and EZ inflation expectations (%)



Source: Bloomberg

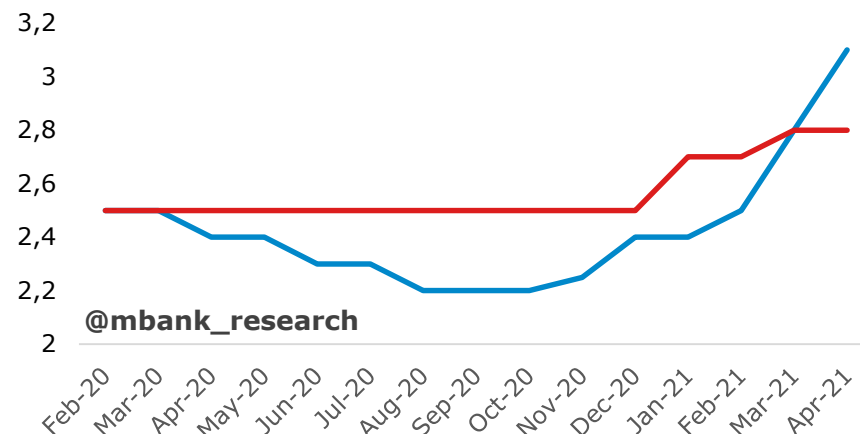
Consensus: what is expected in Poland?

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



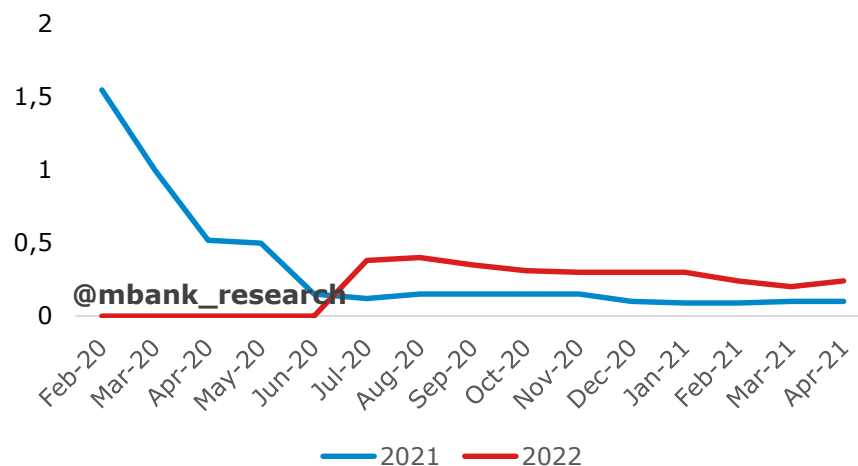
Source: Bloomberg

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



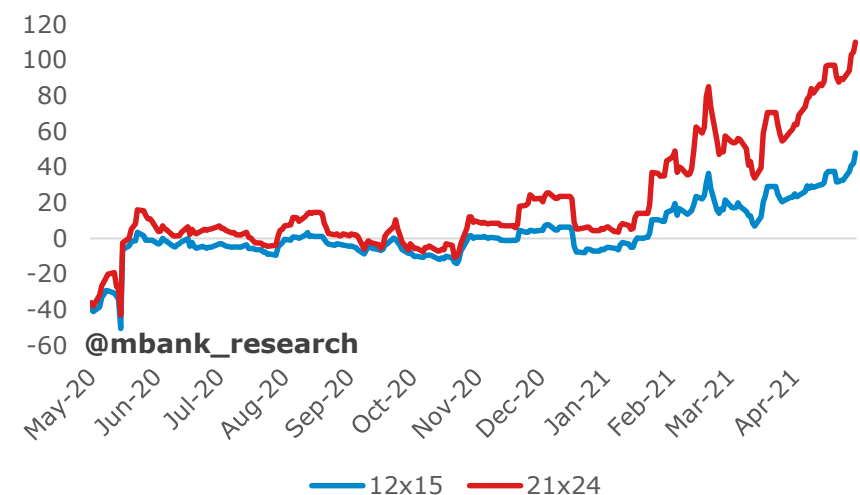
Source: Bloomberg

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



Source: Bloomberg

Rate changes priced in by FRA (bps)



Source: Bloomberg

Upcoming Polish macro releases: May 2021

Publication	Date	Period	mBank	Consensus	Actual	Prior
CPI y/y (%)	30.05[1]	Apr	4,1%	4,0%	4,3%	3,2%
	14.05[2]				4,3%	
PMI (pts.)	04.05	Apr	55,3	55,0	53,7	54,3
Unemployment rate (%)	07.05[3]	Apr	6,2%	6,2%	6,3%	6,4%
	26.05[4]					
GDP y/y (%)	14.05[1]	1Q	-0,8%	-1,0%	-1,2%	-2,8%
	31.05[2]					
Current account (m EUR)	14.05	Mar	2187	1512	938	1619
Employment y/y (%)	20.05	Apr	0,8%	1,1%		-1,3%
Wages y/y (%)	20.05	Apr	10,4%	10,3%		8,0%
PPI y/y (%)	21.05	Apr	5,0%	4,9%		3,9%
Construction output y/y (%)	21.05	Apr	-7,4%	-8,0%		-10,8%
Retail sales y/y (%)	24.05	Apr	21,0%	25,5%		15,2%
Industrial output y/y (%)	24.05	Apr	41,6%	44,0%		18,9%
M3 y/y (%)	25.05	Apr	13,1%	12,4%		14,3%

[1] Flash estimate

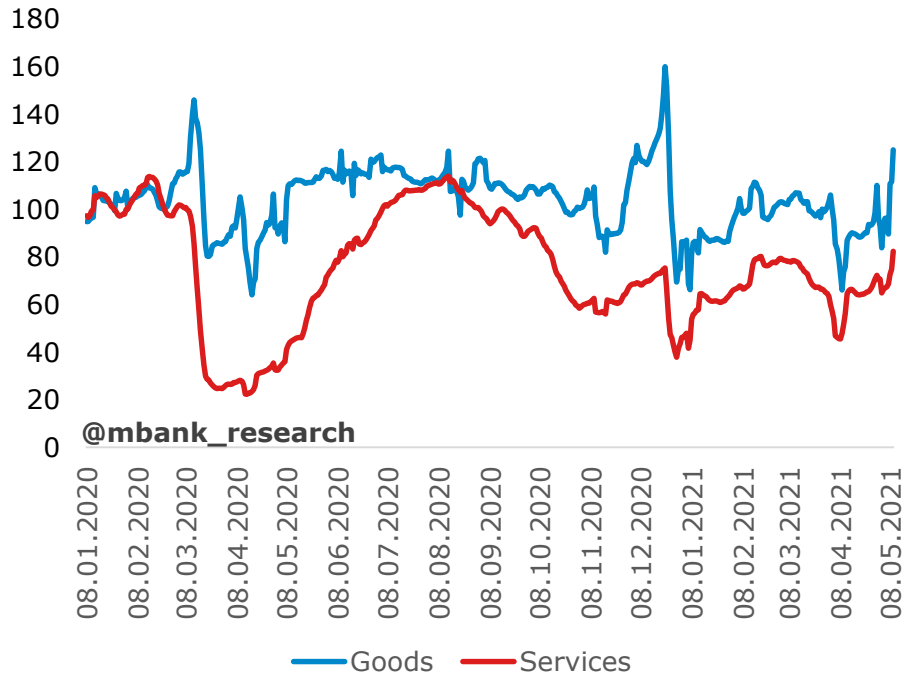
[3] Ministry of Economic Development, Labour and Technology estimate

[2] Final reading

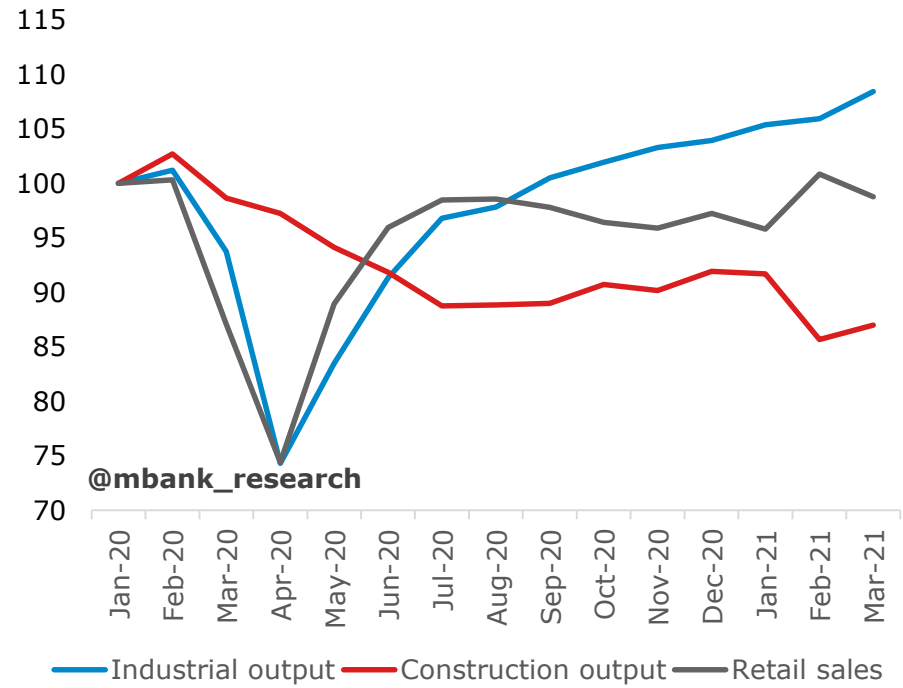
[4] Statistics Poland final reading

Poland: Recession is over. Consumption following restrictions, industrial output proceeding forward unaffected.

Card expenditures weekly, Jan20 = 100



Seasonally adjusted, index 2015 = 100



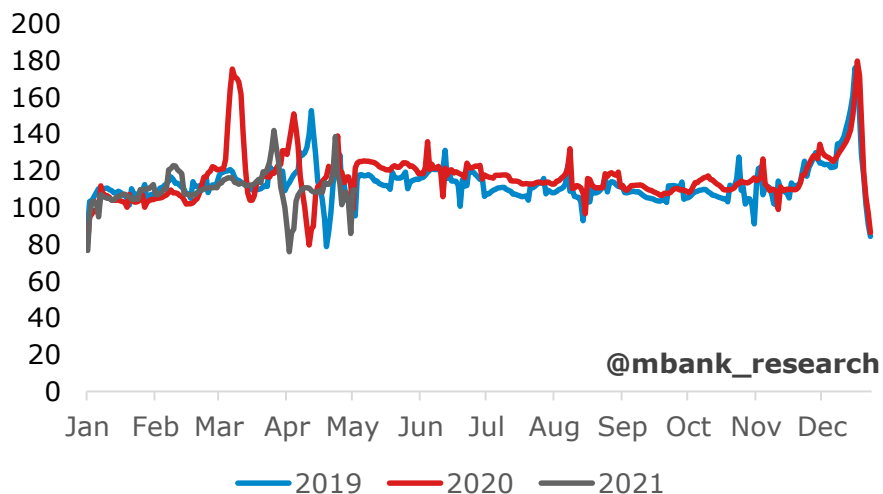
Source: mBank transaction data. Own elaboration.

Source: electricity grid data & own elaboration

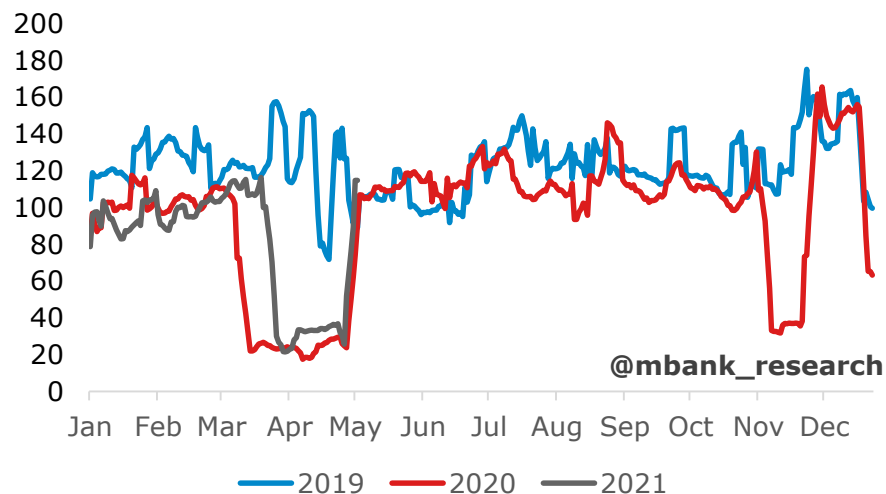
- ❖ GDP result in the Q1 slightly disappointed (-1.2% y/y, consensus forecasts: -1% y/y). However, it was within the range posted by GDP trackers. What is most important: recession is over. Details will be released at the end of May. Industrial output is above pre-pandemic trend. Retail sales is negatively affected by restrictions, but also is doing relatively well.
- ❖ May is (and will be) the month of lifting epidemic restrictions. It is already visible in the sectors heavily affected in March/April (rebound in clothing and footwear or hairdressers). Next few weeks should bring more intense rebound in services (along with lesser restrictions). Since 15th May gastronomy will be opened (only outside), a week later e.g. cinemas will join the list of opened sectors. It looks like a good quarter for the consumption.

Poland: Card expenditures, 7-day average

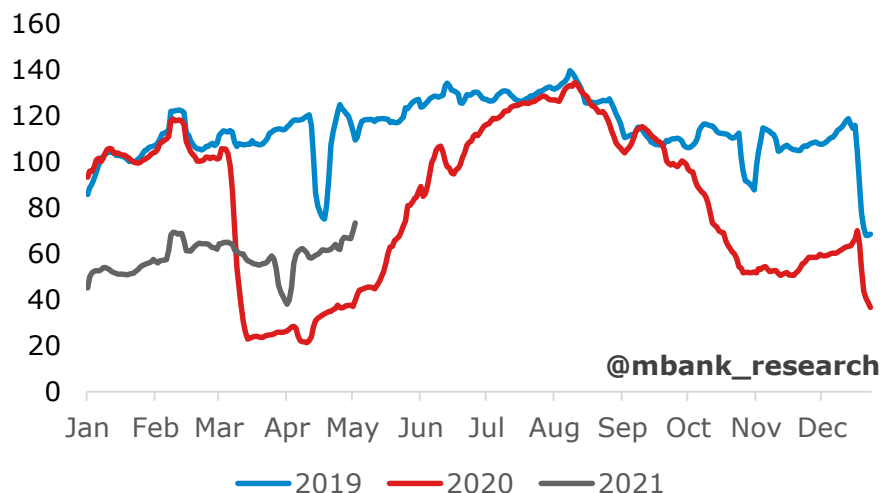
Food, beverages and non-specialized stores, Jan20 = 100



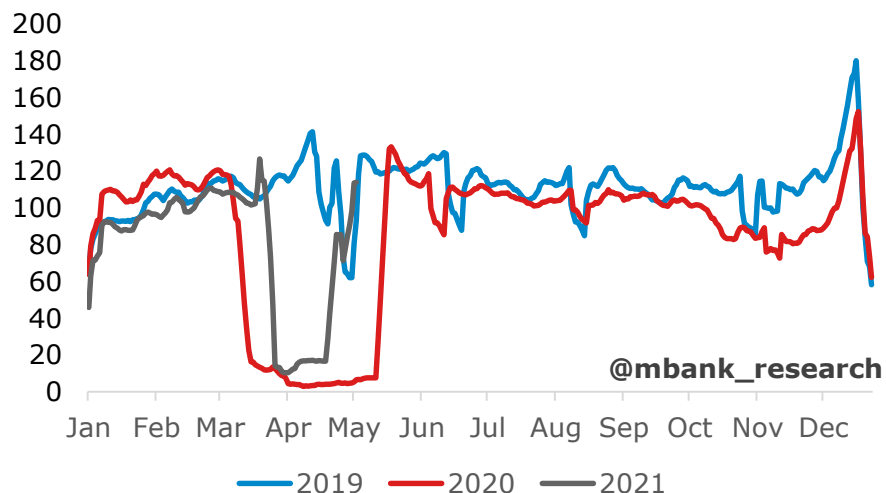
Clothing, footwear, Jan20 = 100



Restaurants etc., Jan20 = 100



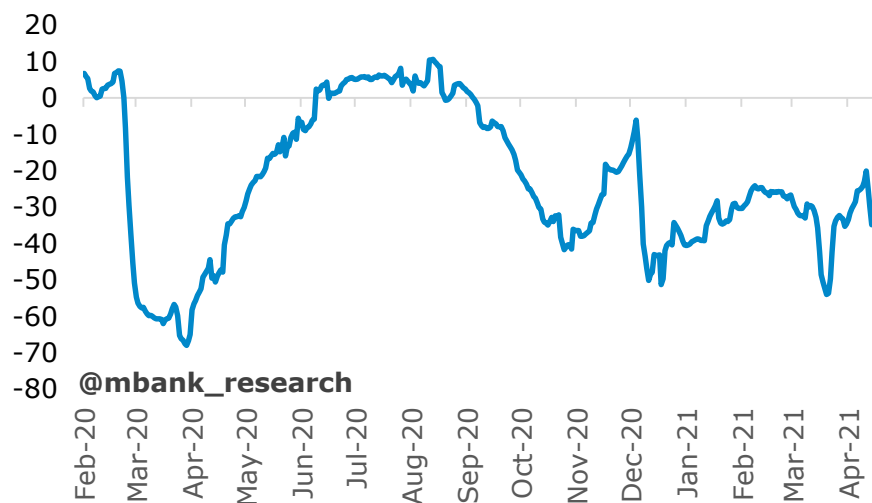
Hairdressers, beauty, Jan20 = 100



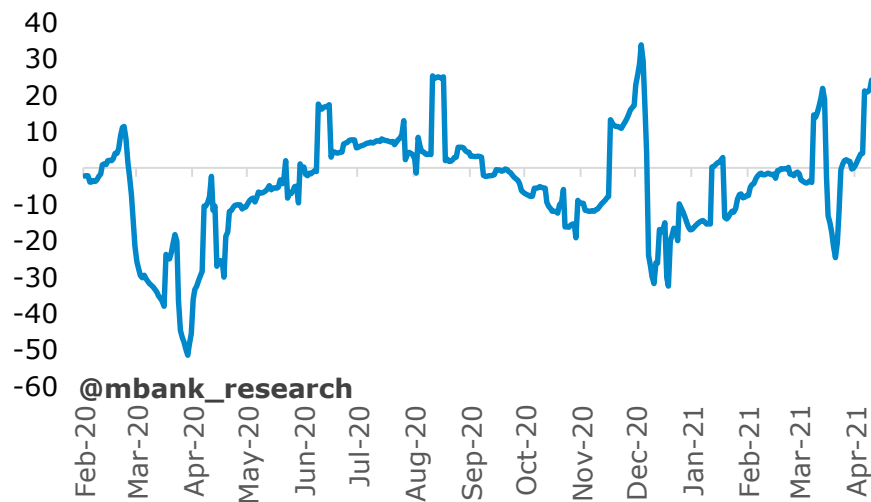
Source: mBank transaction data. Own elaboration.

Poland: Google mobility, 7-day average

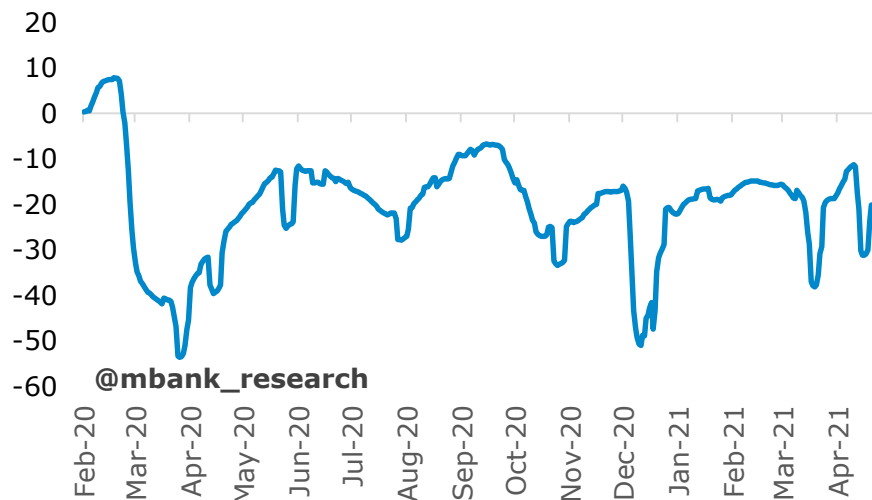
Retail & recreation (% change from Jan20)



Grocery & pharmacy (% change from Jan20)



Workplaces (% change from Jan20)



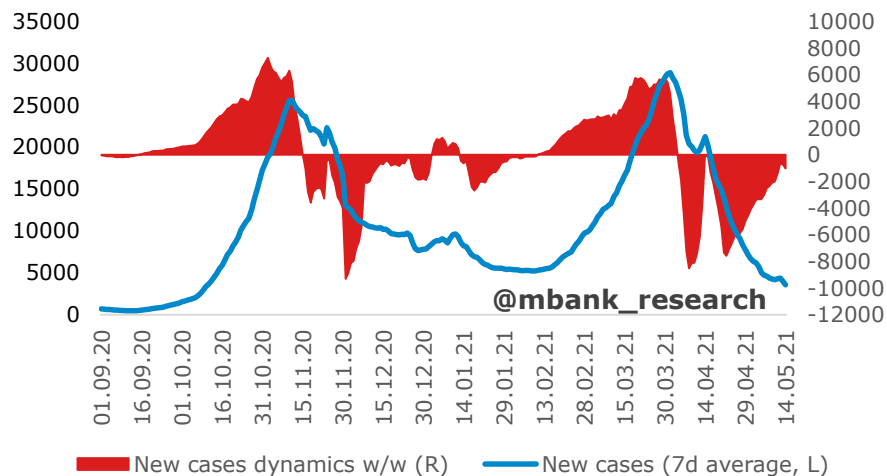
Residential (% change from Jan20)



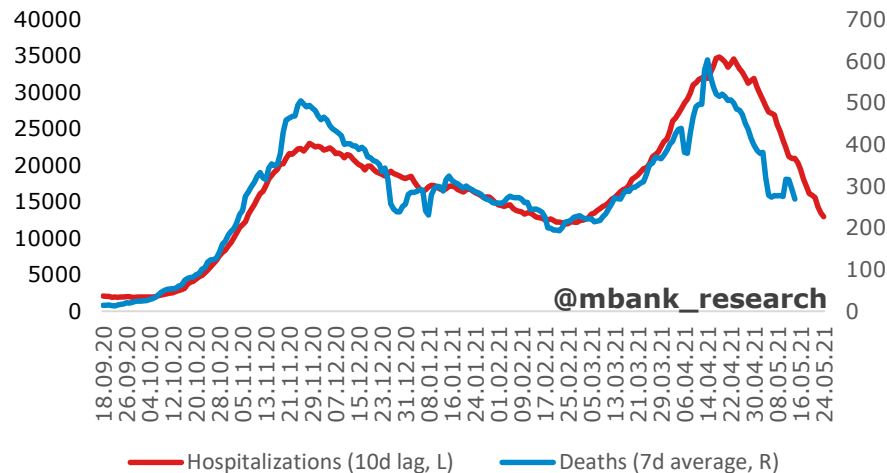
Source: Google mobility data. Insights in these reports are created with aggregated, anonymized sets of data from users who have turned on the Location History. The baseline is the median value, for the corresponding day of the week, during the 5-week period Jan 3–Feb 6, 2020.

Poland: COVID-19 situation

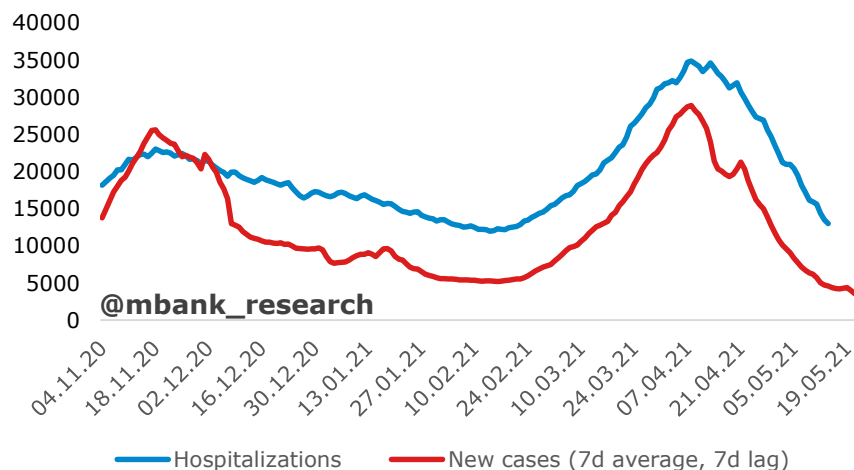
Daily new cases (7day average)



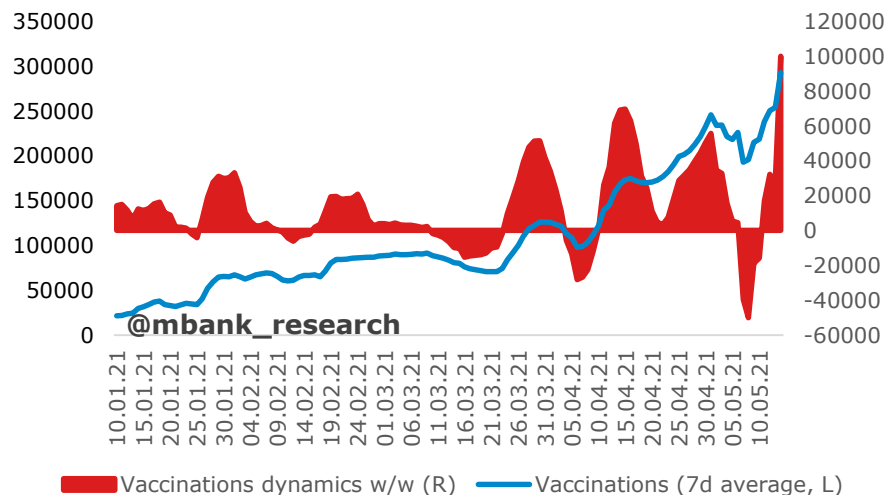
Hospitalizations vs deaths



New cases vs hospitalizations



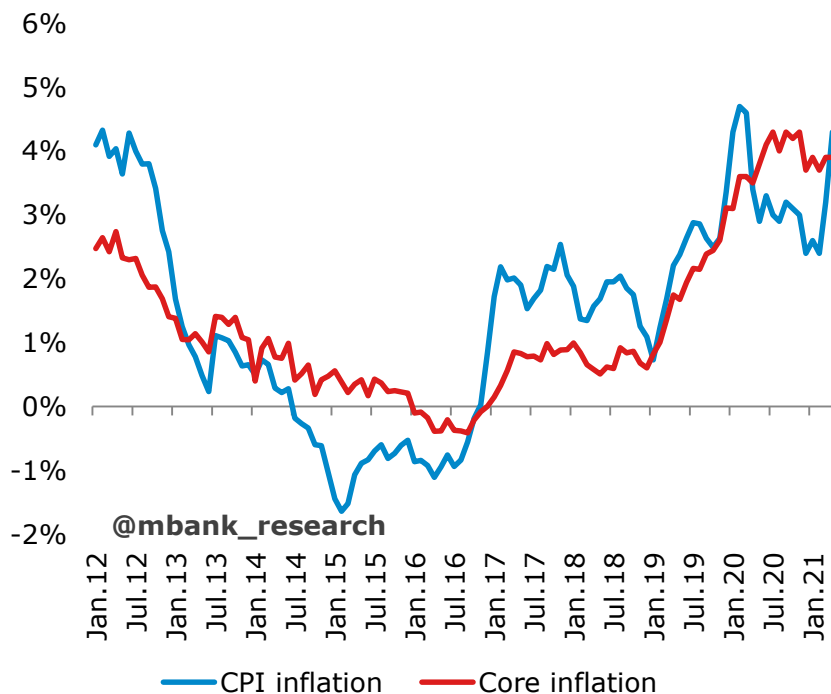
Vaccinations



Source: Our World In Data, Covid-19 excel sheet by Michal Rogalski, gov.pl

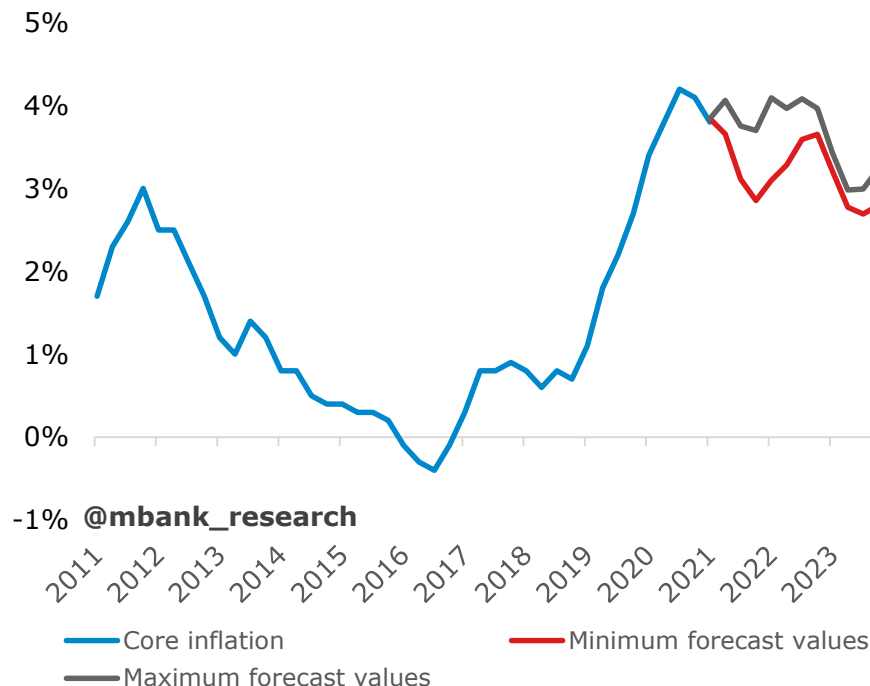
Poland: Inflation tracker #1

CPI and core inflation (% y/y)



Source: Statistics Poland, NBP, own elaboration

Core inflation mid-term forecasts (% y/y)

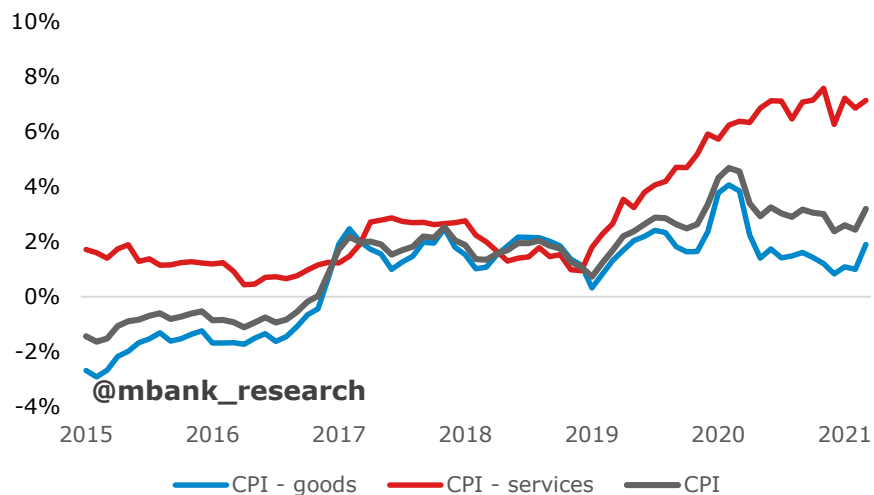


Source: Statistics Poland. own elaboration

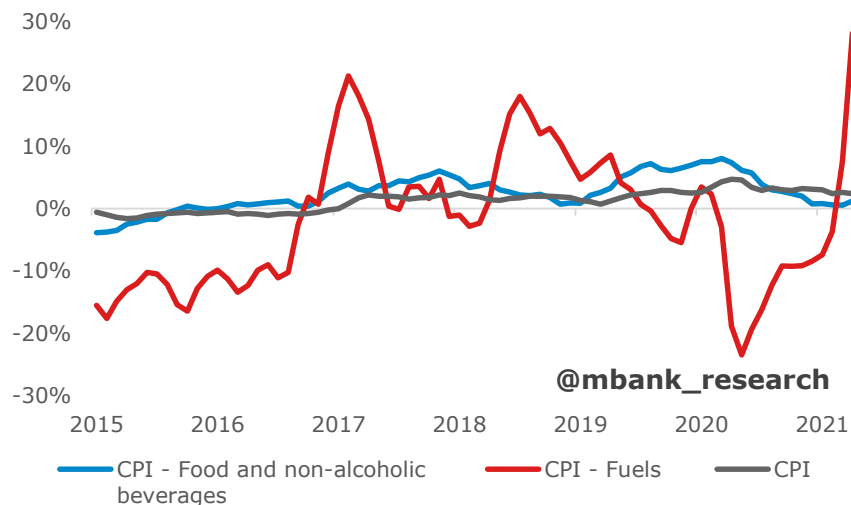
- ❖ Inflation is on the rise and core inflation fails to decelerate and proves to be very sticky. Our models suggest that there will be a period of mild deceleration of core inflation ahead. However, core inflation is still going to be uncomfortably high. We are fully aware that the models do not incorporate “re-opening” effects in services. Therefore the risks are tilted to the upside near term.
- ❖ In order to better understand inflation dynamic, we present (see [here](#)) a couple of graphs in which inflation is dissected in a non-standard way. You can easily see that even barring administrative price increases and jitter collection fees, core inflation is still high (around 3%), services inflation is running high and goods inflation is accelerating. It is also fair to say (it is our old call) that food prices turned around and accelerate. Services are driven now by two factors: wages (labor-intensive services) and some other factors (some of them are of administrative nature).
- ❖ We think that inflation is unlikely to reverse much below 4% in the next 2 years.

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

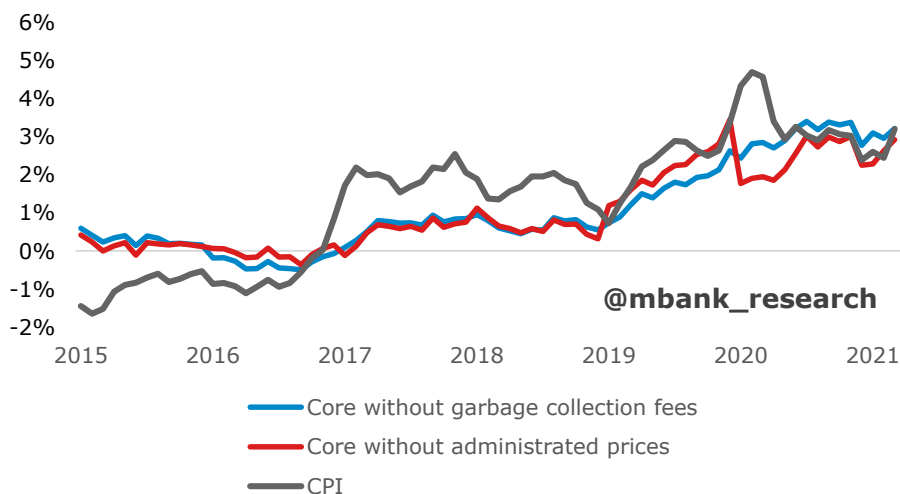
Goods and services prices (% y/y)



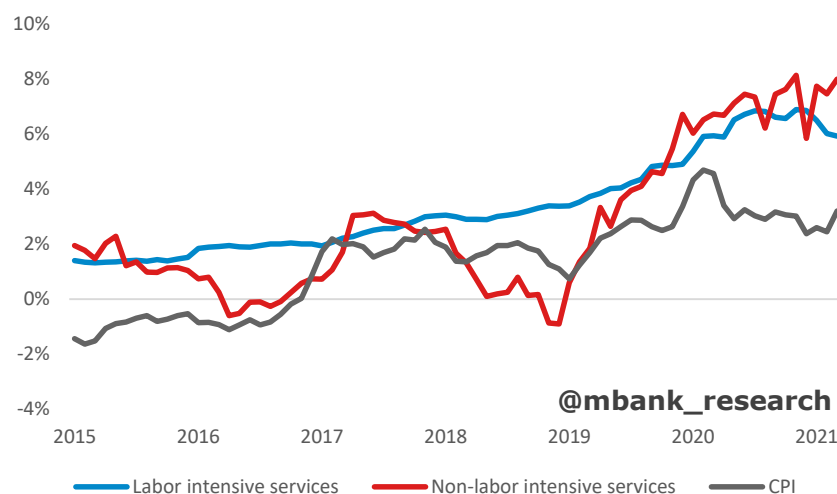
Food and fuel prices (% y/y)



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



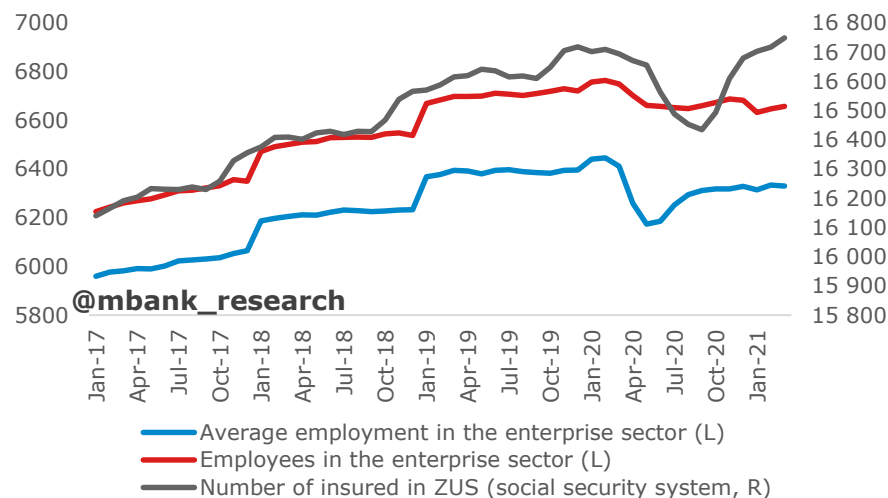
Services (% y/y)



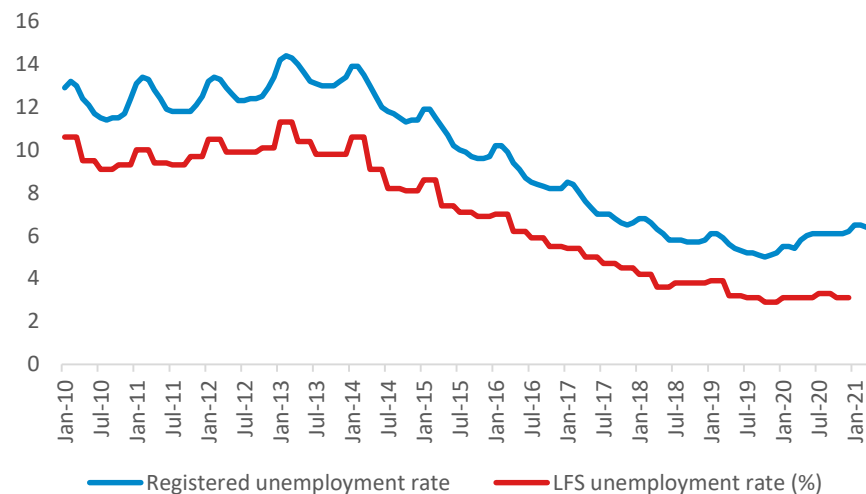
Source: Statistics Poland, own elaboration

Poland: Labor market tracker

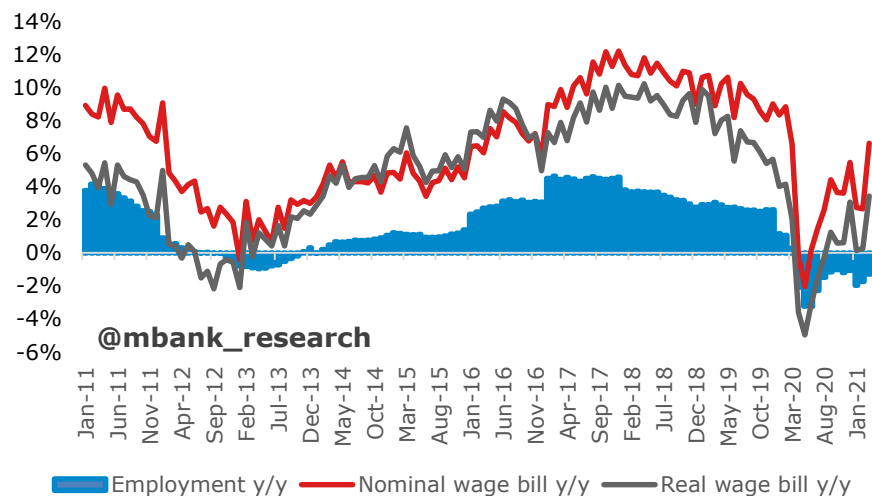
Employment



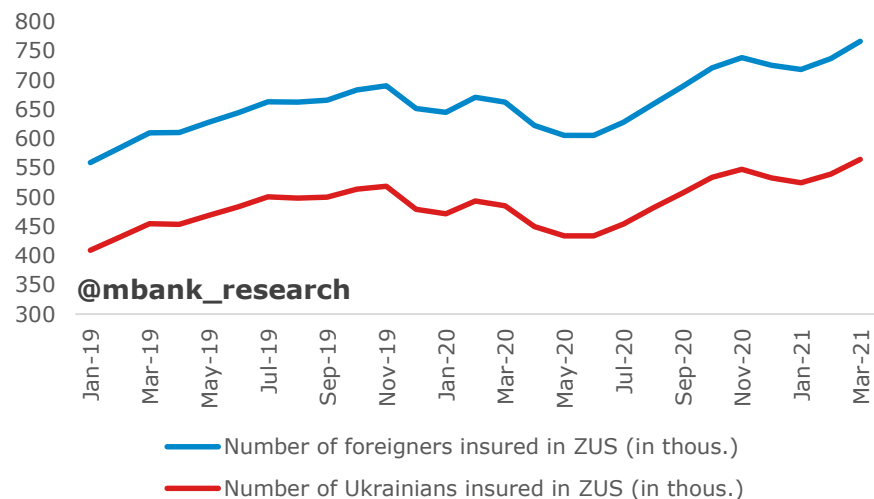
Unemployment rate



Wage bill



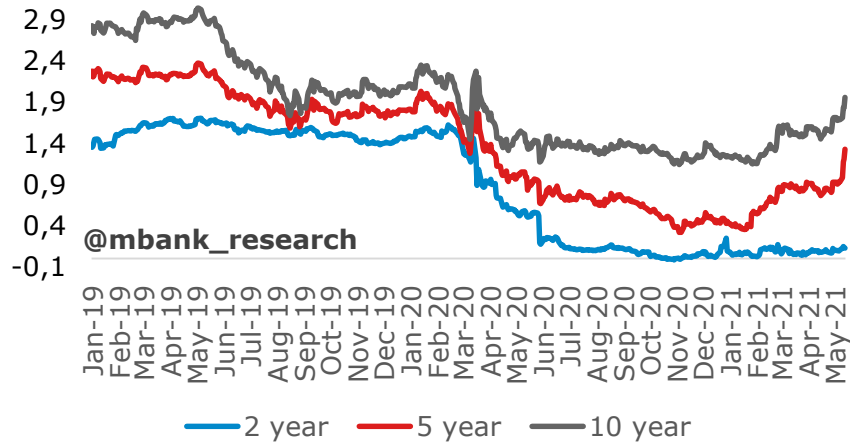
Immigration in the labor force



Source: Statistics Poland, ZUS Statistical Portal, own elaboration

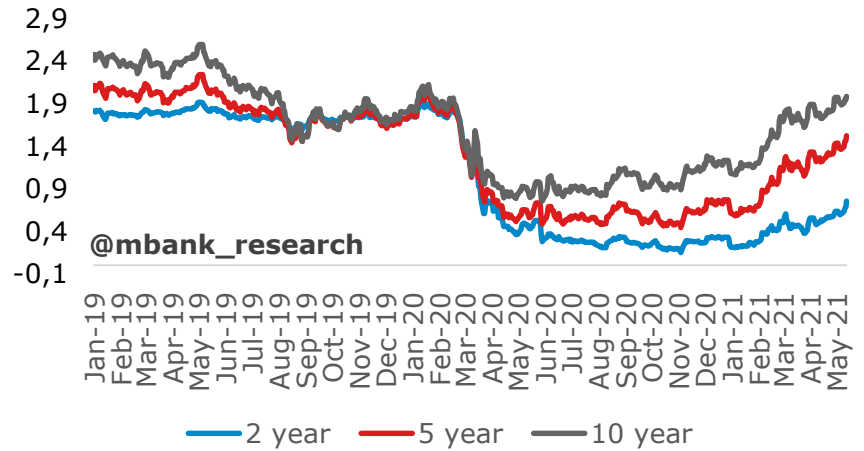
Polish rates, yields and spreads: higher! Short-end slowly on the rise, ASW widened driving bond curve (4-10Y) higher.

POLGBs



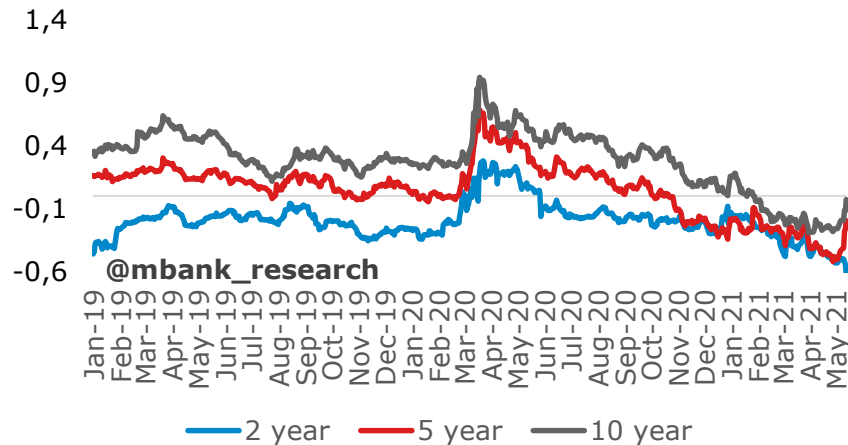
Source: Bloomberg

PL IRS



Source: Bloomberg

ASW spread



Source: Bloomberg

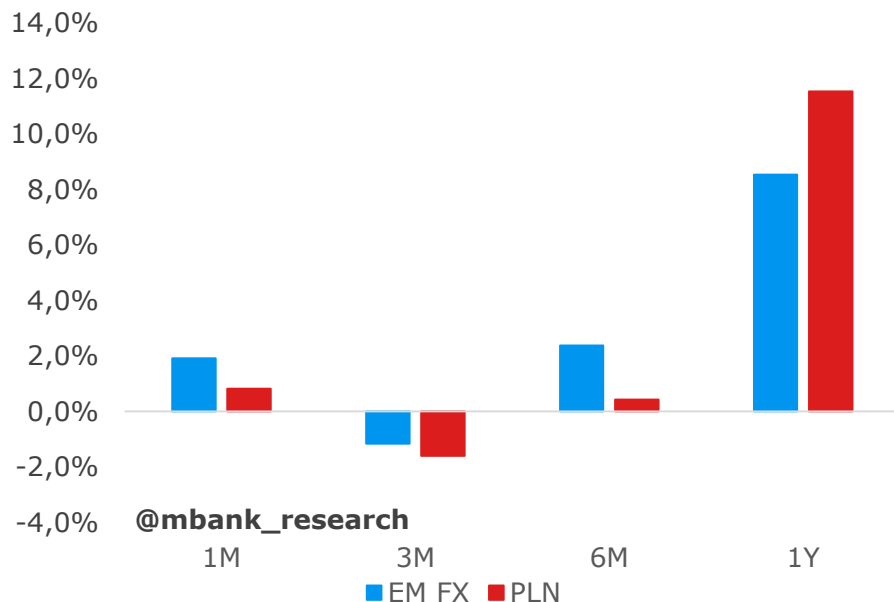
POLGB yield minus 3m WIBOR



Source: Bloomberg

PLN: zloty slightly stronger

Boring month on the zloty



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

Source: Bloomberg

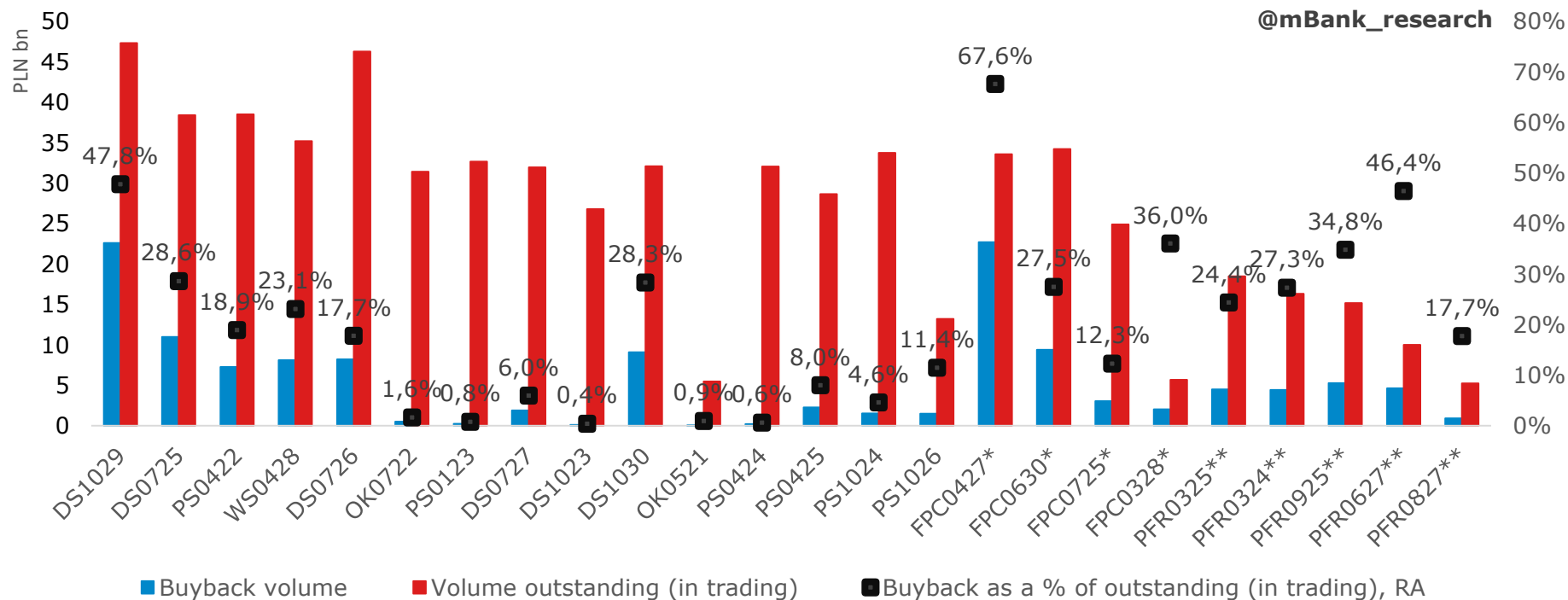
Real effective exchange rate



Source: BIS

- ❖ After the appreciation at the beginning of April, the zloty remained relatively stable for the next few weeks. Legal risks did not materialize, which allowed the zloty to stay in the 4.52-4.59 range.
- ❖ What is next? Weak zloty in H1 2021. Return to modest appreciation in H2 2021 as euro zone recovers, the drive for stronger dollar wanes and (cyclical) recovery trades kick in, helped by current account surplus (flows). A turn in MPC helps as well.
- ❖ All in all zloty still be relatively weak, but chances for appreciation ahead increased.

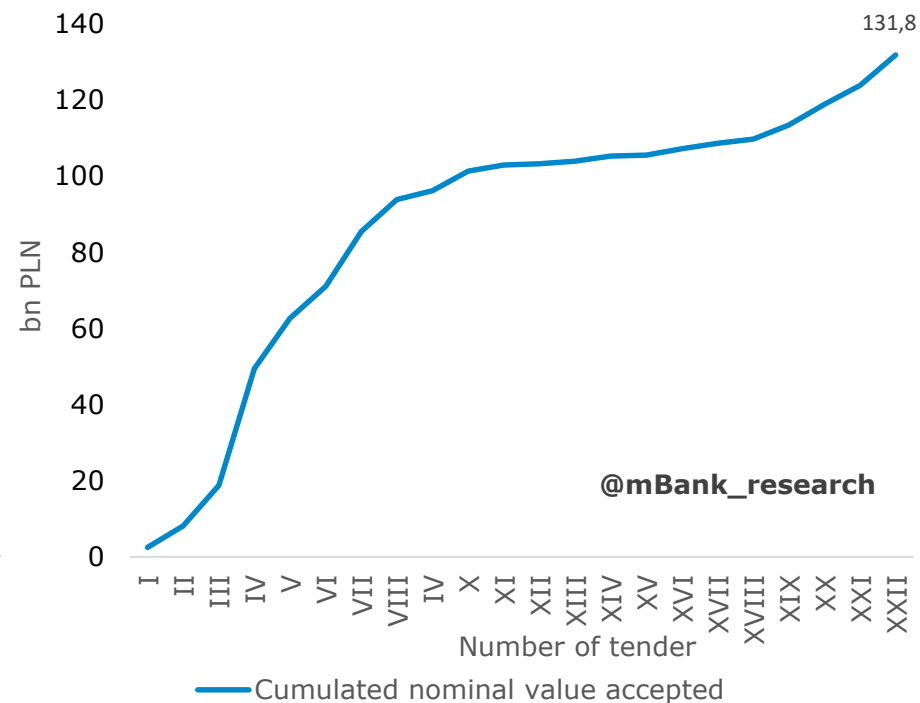
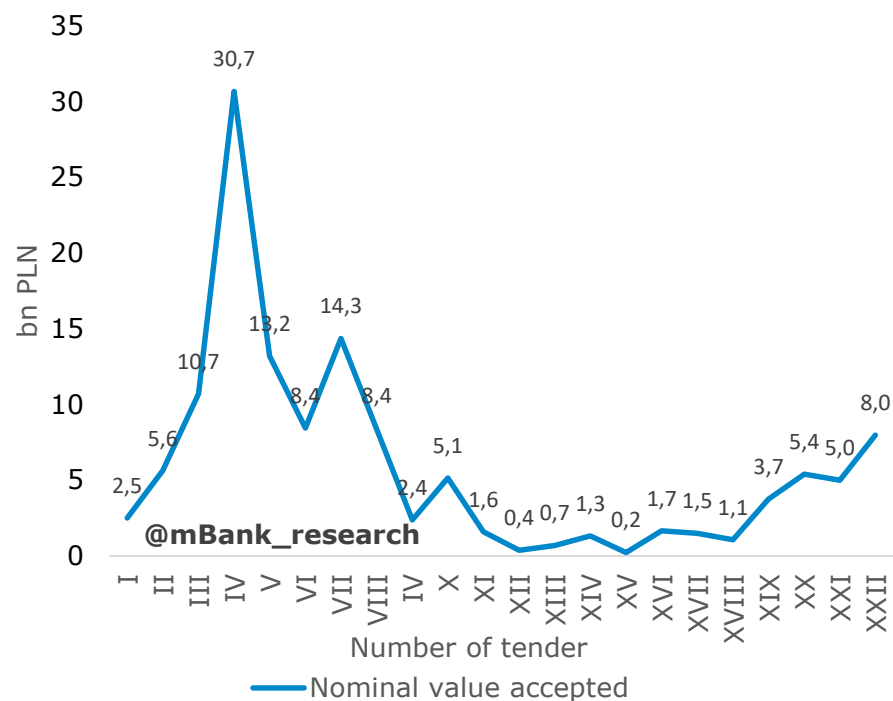
Appendix: NBP „structural“ portfolio monitor



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

- ❖ The state for 13.05.2021. We present cumulative numbers.
- ❖ NBP launched structural open market operations in March 2020 and they constitute a purely new instrument introduced to fight the crisis. On March 11th this year NBP communicated that the schedule and elasticity of the operations may be enhanced to better meet current more challenging (higher) yield environment.

Appendix: NBP purchases, the timeline



Source: Own elaboration on NBP data.

❖ The state for 13.05.2021.

Disclaimer and contact details

Note that research@mbank.pl is an e-mail address used exclusively for the distribution of mBank's publications. We advise to reply and send feedback directly to the authors. Otherwise, your message is **not** going to be read.

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