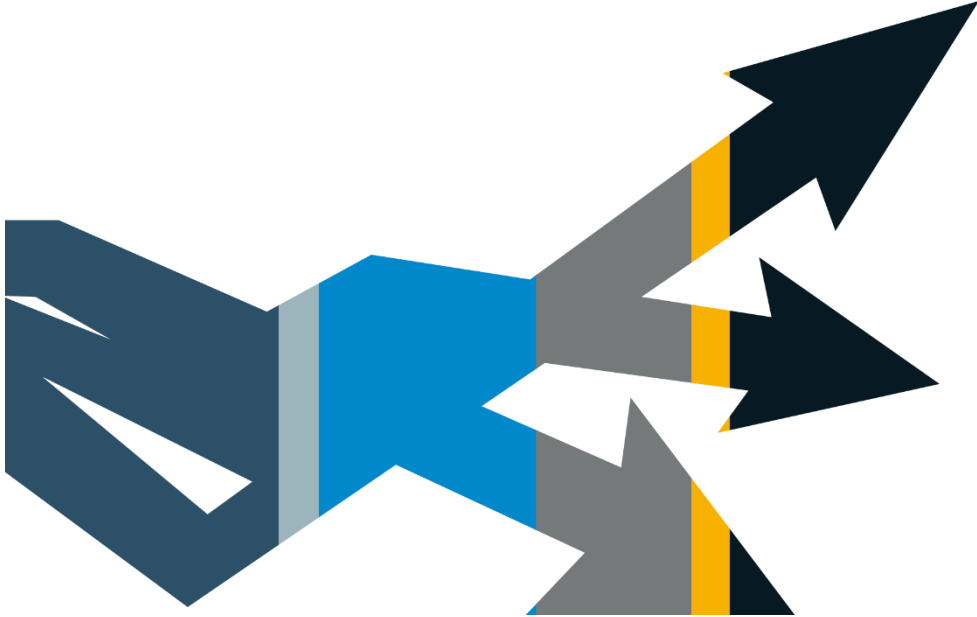


Monthly Pulse Check

Economy. FI. FX

May 26th 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, data for the 1Q were really good. We therefore revised our forecast for the 2022 to 4.8% y/y (from 4.1%). Substantial average growth masks sequential slowdown, though, exacerbated by rate hikes. After the slowdown kicks in, we see no easy way out. Therefore 2023 growth is close to only 1%. The composition of inflation should switch from demand/commodity driven (2022) towards energy driven (2023).

Monetary policy: Fed. ECB. NBP

- ❖ Fed: Lift-off. We think that Fed will end $\sim 3\%$ at the turn of the year (and rather prefer 50bp hikes). Potential for under-delivery grows substantially in 2023 (rate cuts most likely scenario).
- ❖ ECB: Very close to lift-off. Hikes will start in July (25/50). However, substantial potential for under-delivery in 2023 due to growth slowdown and still moderate wage growth. We expect a pause in 2023 (at 0.75%), no cuts but no further hikes.
- ❖ NBP: Sending hawkish messages in the middle of tightening cycle. We see rates at 7.0% to be reached within next months (last hike in September). Afterwards the realized and expected GDP slowdown is going to stop further rate increases. The composition of inflation matters as well.

FX Market

- ❖ The promise to release of EU funds helped to tame zloty depreciation and even propelled some strengthening. Situation on the exchange rate market is far from stable or determined, though. We still shall await volatility around inflation prints and MPC meetings. Slight appreciation stays our baseline scenario in the mid term.

		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	%	7,6	8,5	6,3	3,5	1,7	-0,1	0,2	0,9	1,6	5,9	4,8	0,7
Individual consumption y/y	%	8,0	8,8	6,7	3,6	4,5	1,0	-1,0	-1,4	-0,5	6,1	5,9	-0,5
Investment y/y	%	5,2	10,0	8,0	5,5	2,3	-1,0	2,0	2,0	2,0	3,8	6,5	1,3
Inflation rate (eop)	%	8,6	11,0	14,6	15,0	14,2	14,0	8,8	6,5	5,5	8,6	14,2	5,5
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	6,50	7,00	7,00	7,00	7,00	6,00	5,00	1,75	7,00	5,00
EUR/PLN (eop)	%	4,59	4,65	4,60	4,55	4,50	4,50	4,50	4,50	4,50	4,59	4,50	4,50
USD/PLN (eop)	%	4,04	4,20	4,38	4,42	4,37	4,29	4,17	4,09	4,02	4,04	4,37	4,02

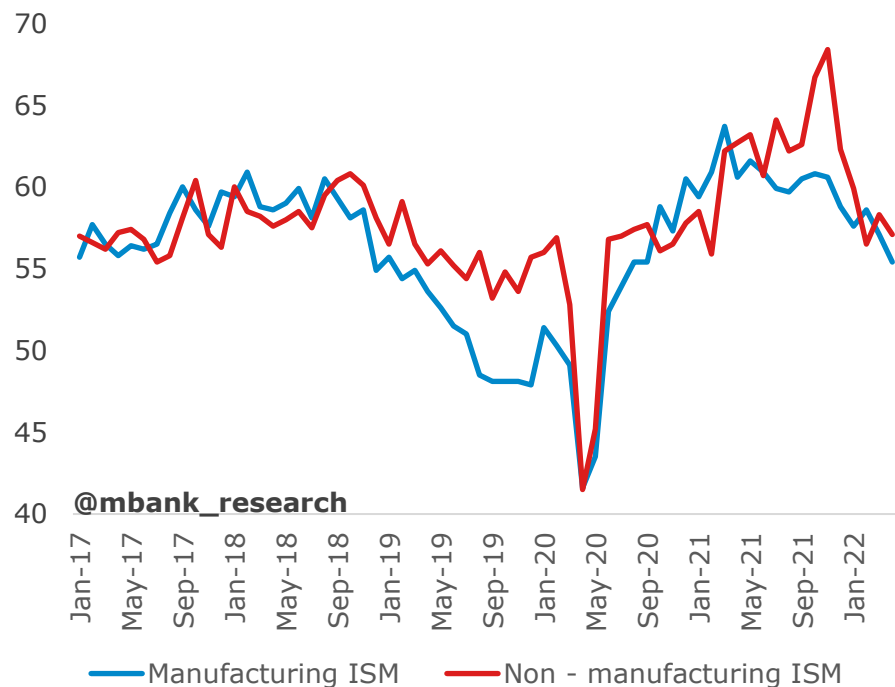
F - forecast

Highlights

- ❖ Fed is already in the hiking cycle and ECB is very close to start its own in July. Regarding the U.S. it seems that nothing can stop the Fed from further hikes (at least for some time). Labor market is strong, inflation remains elevated, there are no clear symptoms suggesting the instant stop of GDP growth (slowdown is coming but it will need time to develop). Another (few) 50bp hikes are coming (see [here](#)), but 2023 will mark a top in rates. In the eurozone C. Lagarde provided very clear forward guidance. Net purchases under APP will end in the beginning of Q3, hikes will start in July, and by the end of Q3 ECB wants to exit negative interest rates (see [here](#)). Investors are somewhat relieved (curve steepening stopped) that ECB acknowledged there is no need to wait. At the same time, we see a turnaround in swap rates in the U.S. For a short review of global rates click [here](#).
- ❖ Polish central bank moves in the same direction. Higher inflation path, strong real data, and fiscal actions (which will weaken interest rates transmission channel) convinced us to revise up interest rates forecast. We think that MPC will end with rates at 7% in 3Q. The cycle will end when inflation stops growing this year (next year is less relevant since the composition of inflation is going to be much different). This will coincide with weaker data from the real sphere. Even after recent correction, Polish interest rates price in a decent monetary tightening. More details [here](#).
- ❖ Flash GDP for the 1Q2022 was a positive surprise (+8.5% y/y). We do not know the details yet, but probably it was due to the inventories and consumption. Even before the reading, we revised forecast for the whole year to 4.8% y/y (from 4% y/y). Strong monthly data were enough. For MPC high GDP growth is another argument for hikes, even if it is only rearview mirror. Slowdown is coming, though. Yet it will take time to see its scope (see [here](#)). Inflation is still rising, and we have not reached the peak yet. The most problematic (for MPC) is acceleration in core inflation (see [here](#) and [here](#)).
- ❖ EURPLN is still weak, but not as much as a month ago (see [here](#)). We do not expect major changes here.
- ❖ We added some sections to the Monthly Pulse Check, e.g., more details on monthly data (overview [here](#)). Real sphere has surprised us upwards in the last few months. Industrial production is still growing fast ([here](#)), construction is more problematic (troubles on the horizon, [here](#)), retail sales is strong due to strong labor market and migrants ([here](#) and [here](#)). Each category will slow down but with a different pace and timing. Current timing seems the following: construction (investment) -> retail sales -> manufacturing -> consumption (as w whole). All this may happen within next months.
- ❖ We also broadened labor market section. What do we mean by strong labor market? Mostly accelerating wages (see [here](#)), but also employment keeps doing well (see [here](#)). Even if there are some signals of weaker demand (in sentiment indicators) we have not seen it in hard data (yet).
- ❖ As a supplement to the fiscal monitor (nothing changed here, see [here](#) and [here](#)) we also added external balance monitor (see [here](#)). C/A deficit is higher – in March data we saw first implications of war in Ukraine. Regarding fiscal policy, much more should change in next months as the first corrections of the Polish Deal come into force in July and real GDP growth starts to recede. However, so far, so good since nominal GDP growth is driving the income side higher.

U.S. economy health check

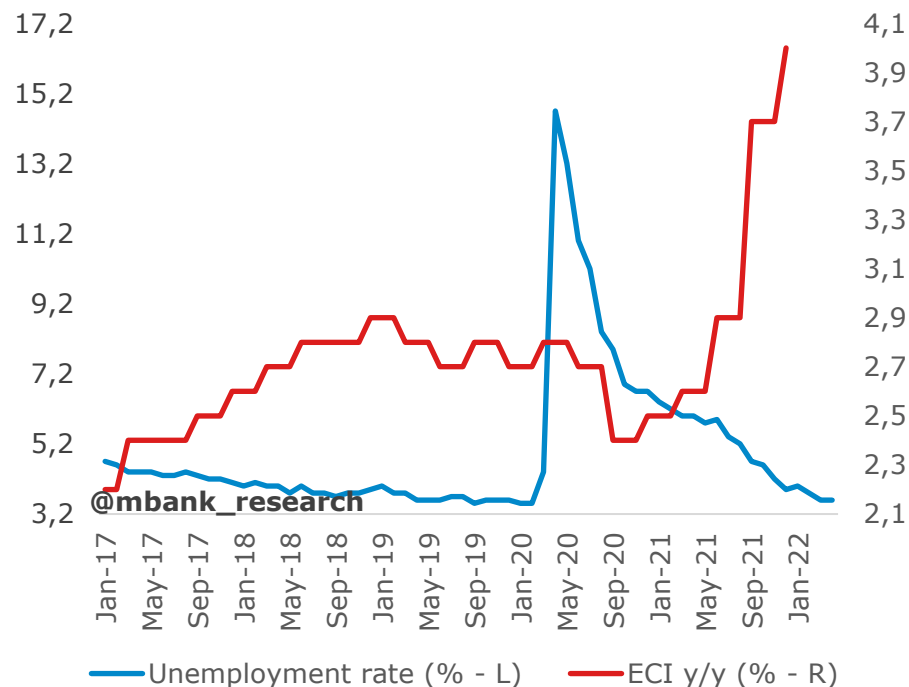
ISM PMI: manufacturing & non-manufacturing



Source: ISM

- ❖ Fed follows the path of interest rate hikes. At the April meeting, FOMC raised rates by 50bp and announced that it would start to reduce the balance sheet in June. FOMC members do not seem to be convinced to stronger moves at next meeting (e.g., 75bp). So, there will probably be another 50bp. We expect rates to be around 3% in early 2023. Further tightening may be problematic due to weaker economic growth.
- ❖ J. Powell sounded very hawkish last time. He claimed that Fed wants to see „clear and convincing“ evidence that inflation will slow down, and that „if that involves moving past broadly understood levels of ‘neutral,’ we [FOMC] won’t hesitate at all to do that.“ Maybe he sees more (e.g., better real growth), maybe he just needs to sound hawkish in that moment of hiking cycle.
- ❖ Real side of the economy looks good. Industrial production and retail sales are still growing (but not the real retail sales – here inflation plays a key role). Labor market is still in a good condition, and nothing should change here (for much worse) for many months. Supply is still much below demand (see JOLTS data), labor market will be the last one to react to monetary tightening. The first candidate is housing, and it is already happening (with more to come).

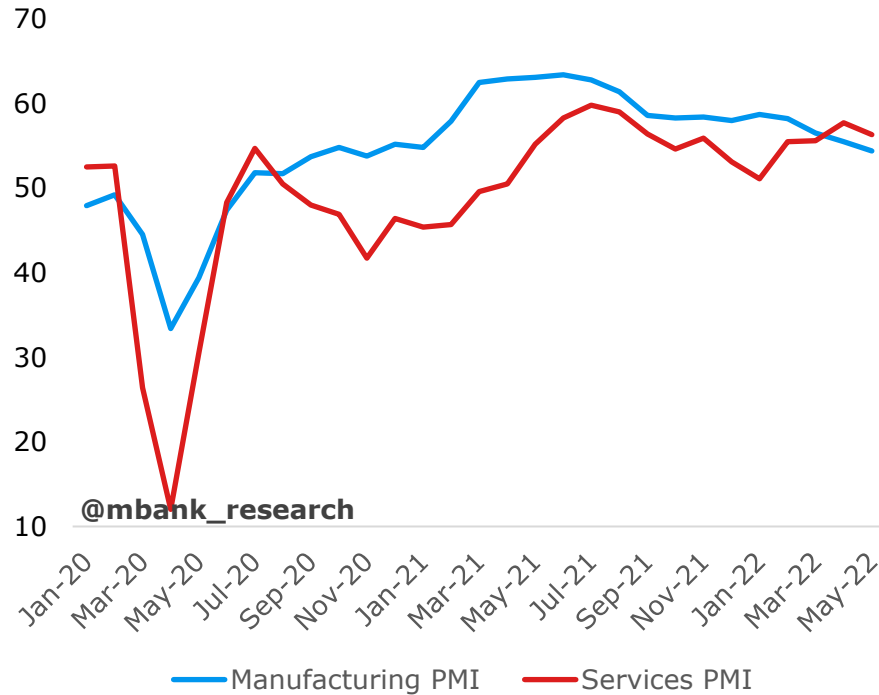
Labor market: wages & unemployment rate



Source: FRED

Euro area economy health check

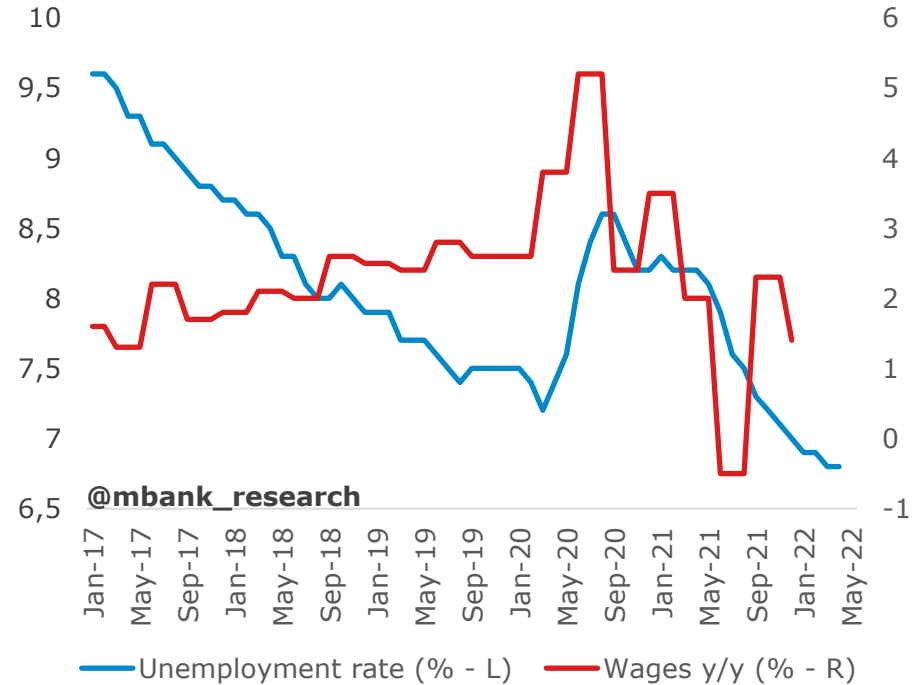
Markit PMI: manufacturing & services



Source: Markit

- ❖ C. Lagarde: „I expect net purchases under the APP to end very early in the third quarter. This would allow us a rate lift-off at our meeting in July, in line with our forward guidance. Based on the current outlook, we are likely to be in a position to exit negative interest rates by the end of the third quarter” ([link](#)).
- ❖ What else to add? Hikes are coming. The question is how many hikes will the ECB manage to make before the slowdown is clearly visible. In our opinion, not so many, but the determination to raise interest rates is strong. This year we will see rates as C. Lagarde presented (first hike in July, zero in the end of 3Q). We think that ECB will have to stop with rates close to 0.75%.
- ❖ Real economy supports hiking (there is rather nothing obviously alarming). Sentiment in manufacturing is slowing down, but it does not mean an immediate slowdown in the hard data. Services (regarding sentiment) are doing really well, and the final reopening of the economy is doing its part to propel consumption (and prices). That said, growth is set to slowly recede from now on.

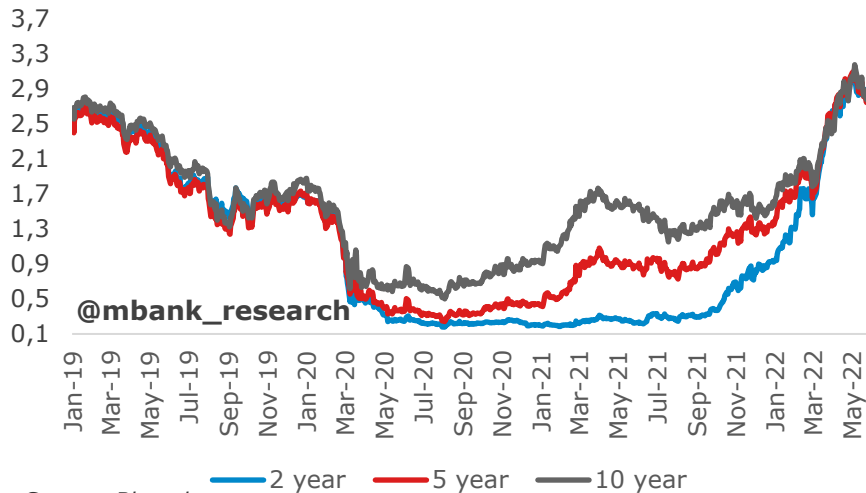
Labor market: wages & unemployment rate



Source: Eurostat

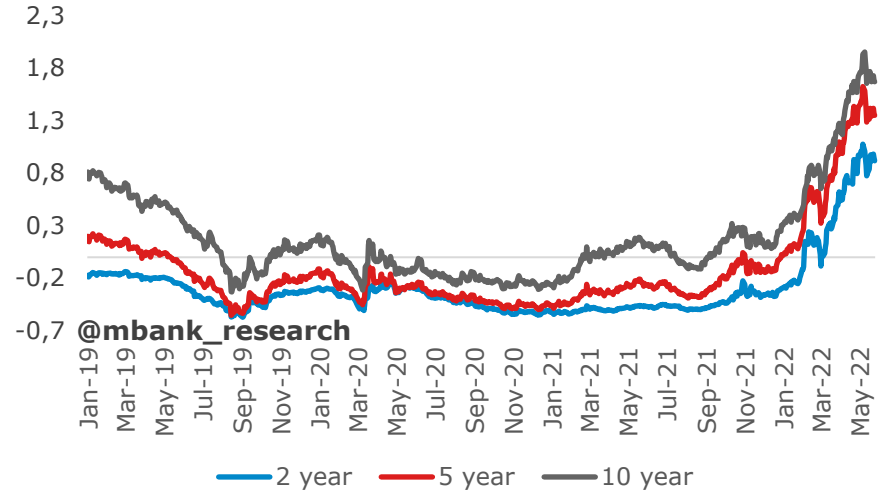
Global rates

US swap rates (%)



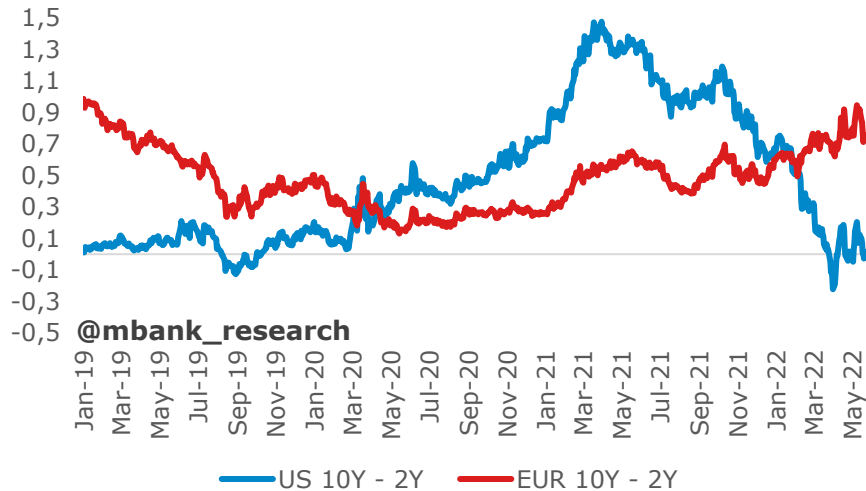
Source: Bloomberg

EU swap rates (%)



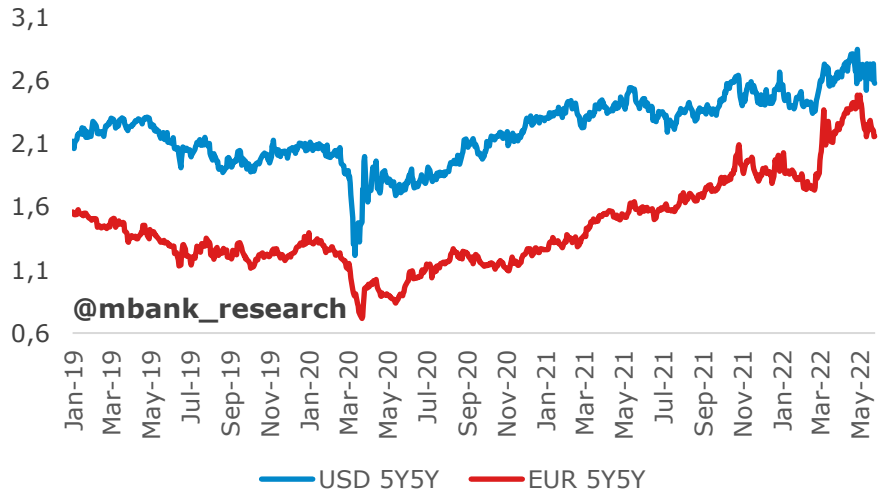
Source: Bloomberg

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



Source: Bloomberg

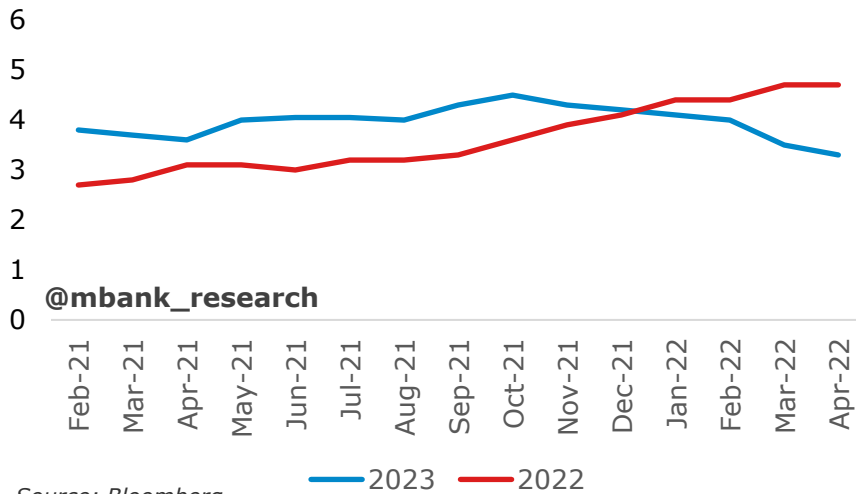
US and EZ inflation expectations (%)



Source: Bloomberg

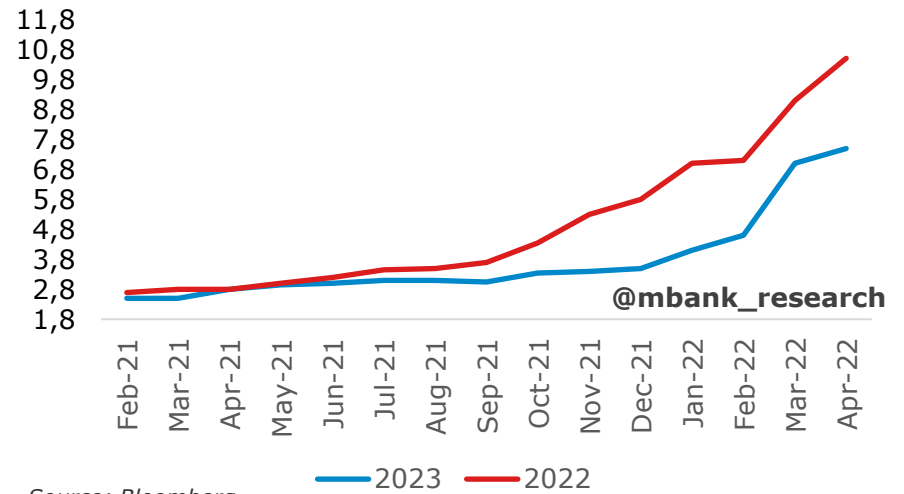
Consensus: what is expected in Poland?

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



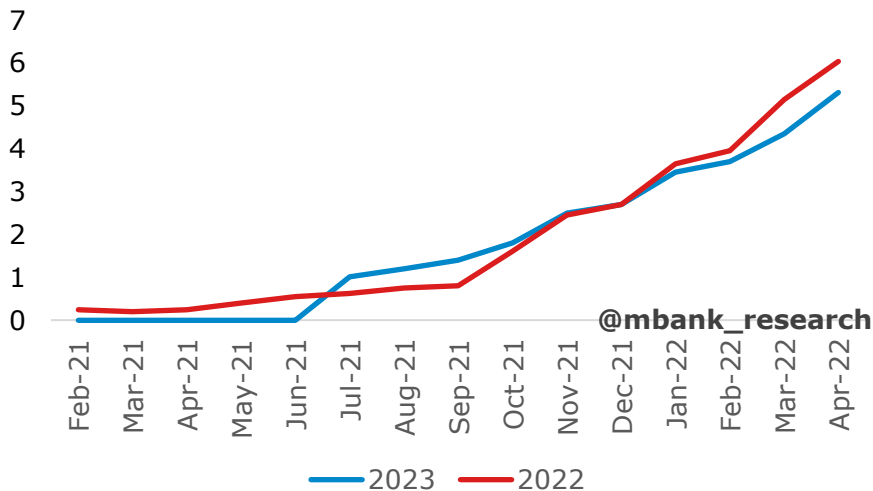
Source: Bloomberg

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



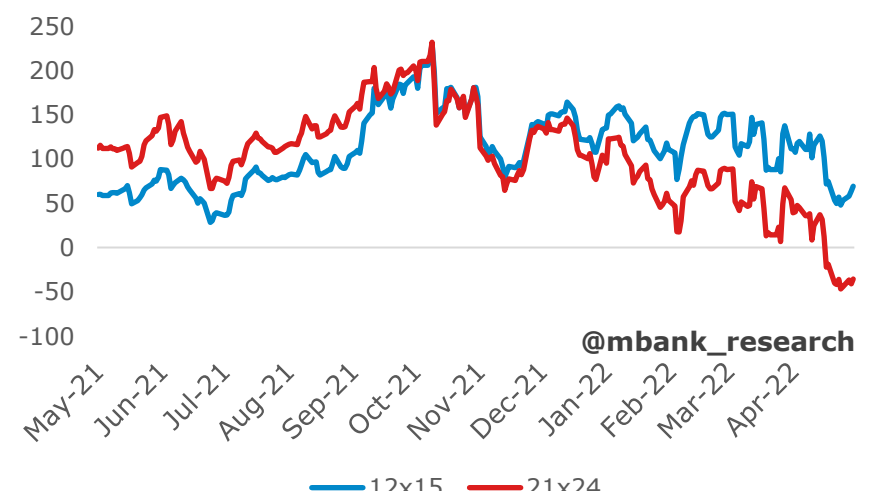
Source: Bloomberg

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



Source: Bloomberg

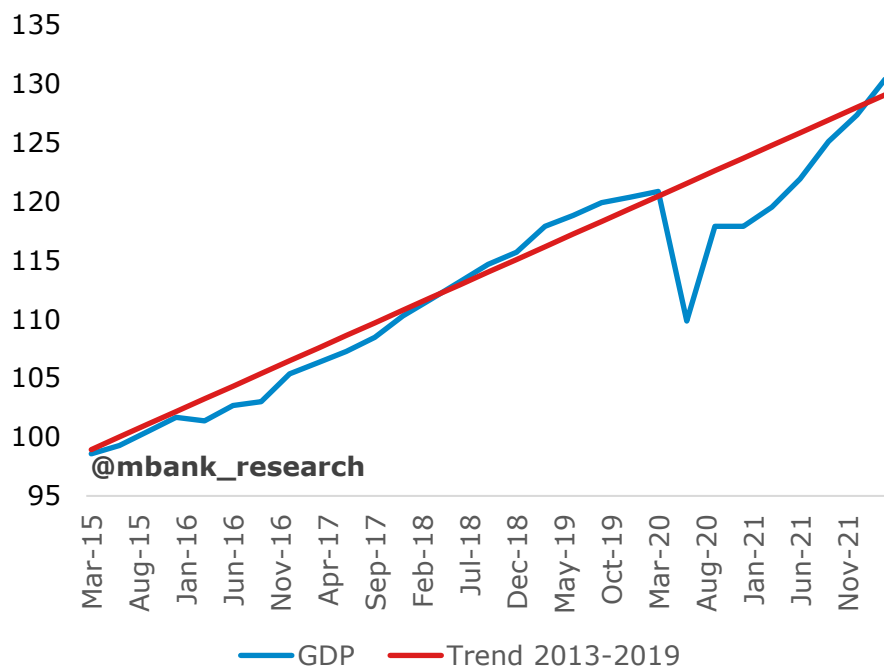
Rate changes priced in by FRA (bps)



Source: Bloomberg

Poland: 8.5% GDP growth in 1Q2022

GDP, index 2015 = 100



GDP growth y/y



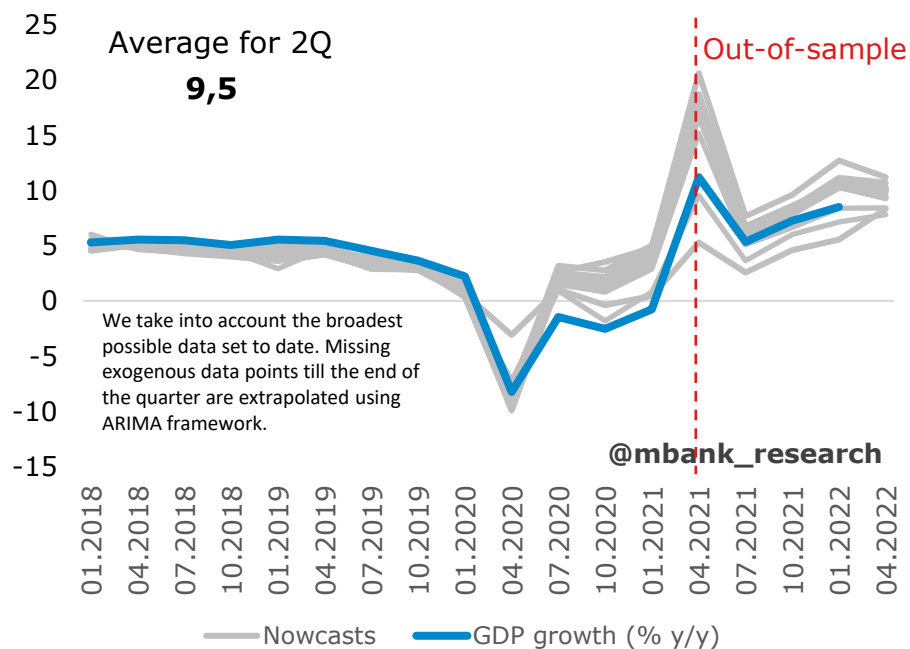
Source: Statistics Poland, NBP, own elaboration

- ❖ 8.5% y/y GDP growth was a positive surprise. After 3 months of upside surprises in monthly data (see [next slide](#)) it could not have been different.
- ❖ The aforementioned numbers come from *flash* estimate, so any details will be known in the end of May. We think that consumption (not only domestic one, but also migrants') was the main driver (our estimate of contribution to GDP growth about 5.5-6pp). Once again also inventories added much (contribution close to 3pp). Investment did not have such an impact (~1.5-2pp, investment outlays of firms 50+ suggested lower result), net exports contributed negatively.
- ❖ Future is much more pessimistic. Inventory formation reaches its peak. Dynamic push effects of migrants' consumption will be less and less visible (as consumption base broadens). Consumers will have to deal with high inflation (so real consumption will be lower). Economy itself will have to deal with higher interest rates (investment, credit creation). Fiscal easing (changes to credits, pensions) weakens monetary policy impact on the real economy. However, we think that the bulk of fiscal stimulation is going to propel inflation now (low supply) or end as savings (pessimistic moods prevail).

Source: Statistics Poland. own elaboration

Poland: Monthly data – overview (and GDP nowcast)

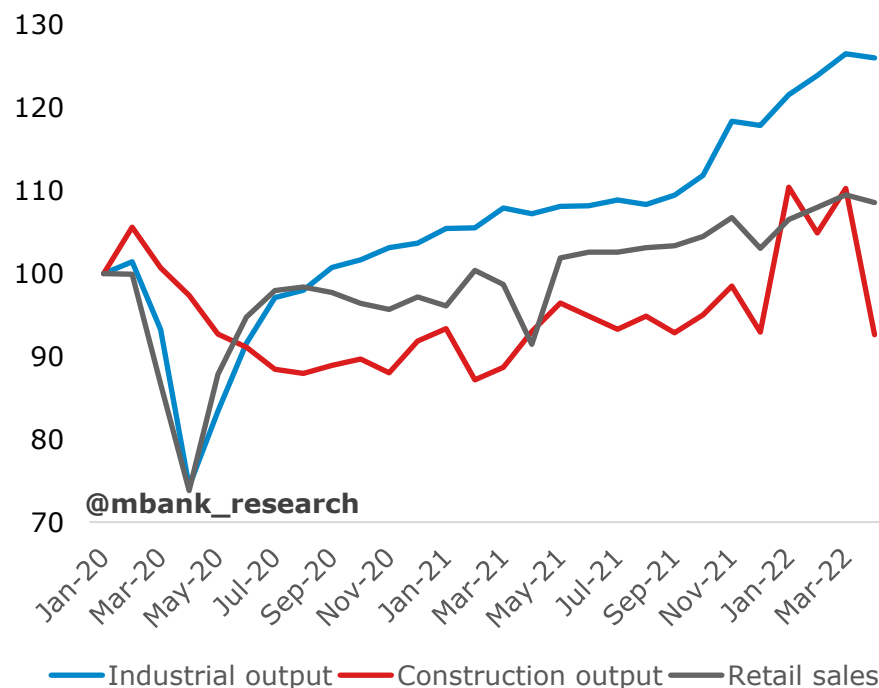
GDP nowcasting (based only on monthly hard data)



Source: own evaluation

- ❖ There are some signs of slowdown, but the current image of economy is still optimistic. Industrial production increased less than estimated, but the production stream is still far above the trend. A little return to the trend is a result of (highly volatile, see [next slide](#)) energy production. Manufacturing is also slowing down - monthly gains are lower and lower (but still positive). However, it is more of a slowdown resulting in the flattening of the current, accelerated trend, not return to the previous one.
- ❖ Construction seems to be the first candidate to slow down. After a few surprisingly good months at the turn of the year, now it is once again below the pre-pandemic trend (see [here](#)). More problems ahead. Increase in interest rates (lower demand), higher input costs, lack of materials and lack of qualified workers.
- ❖ Retail sales numbers stay good. There are mostly 2 reasons: strong labor market (high wages) and migrants (food sales and clothing remain high, see [here](#) and [here](#)). But seasonally adjusted monthly retail sales decreased. We do not think it is an incident, but rather a beginning of a longer process. Retail sales will be slowing down (due to high inflation and high interest rates) but not in an immediate way (once again strong labor market).

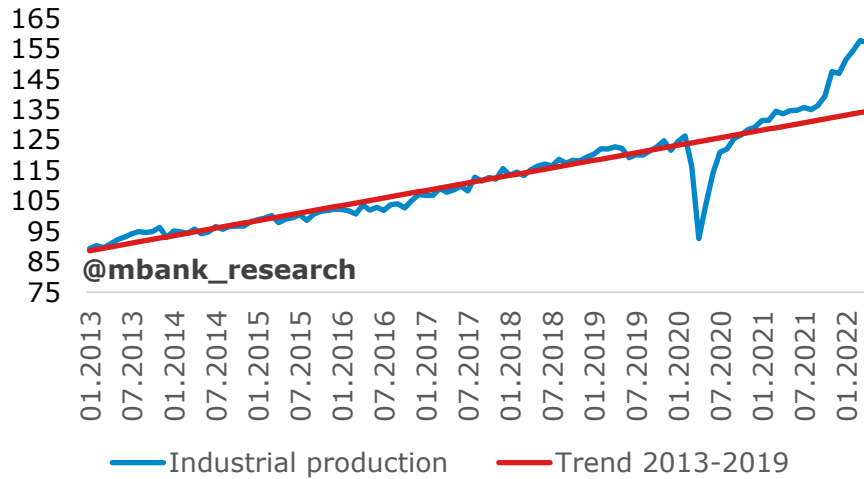
Seasonally adjusted, Jan20 = 100



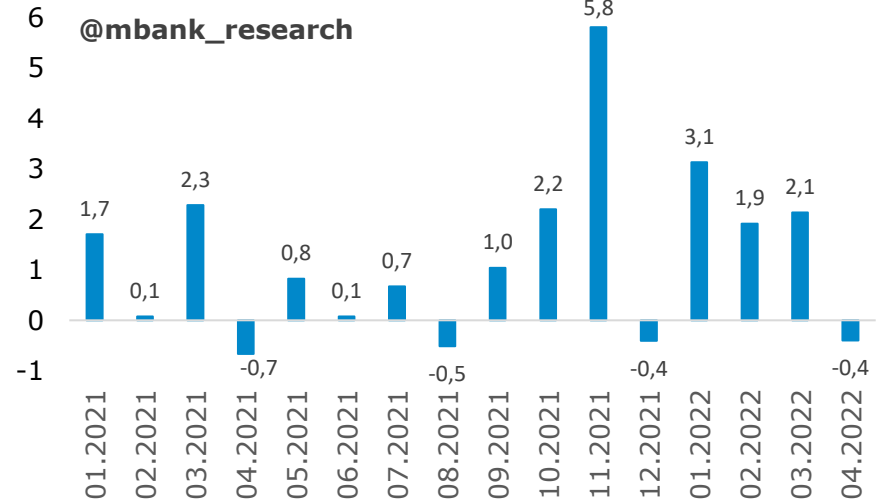
Source: mBank, Statistics Poland

Poland: Monthly data - industrial production

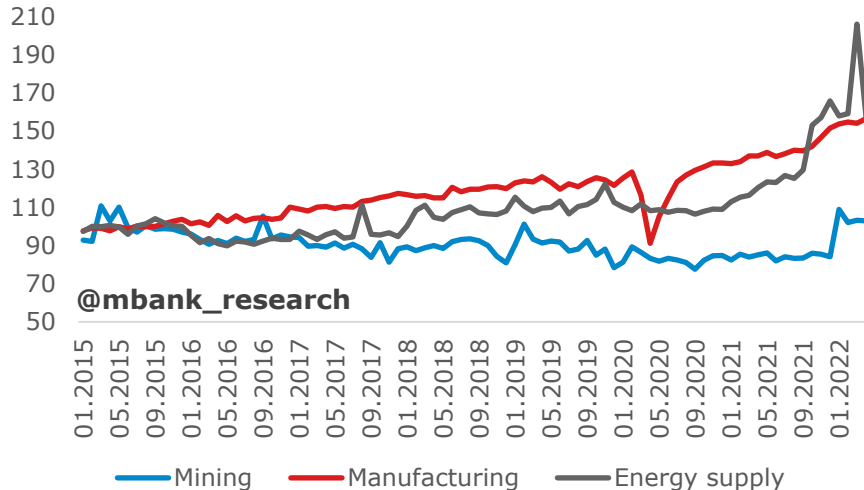
Industrial production (index 2015 = 100, sa)



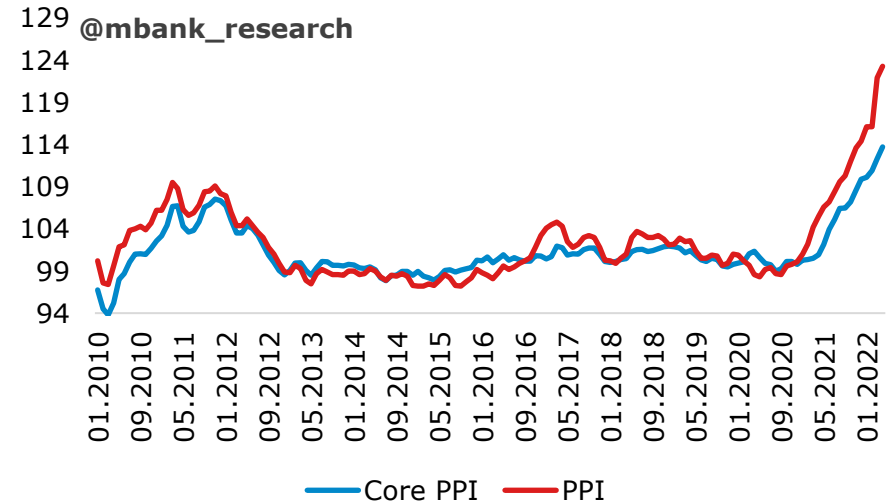
Momentum (m/m growth, seasonally adjusted)



Main categories (index 2015 = 100, sa)



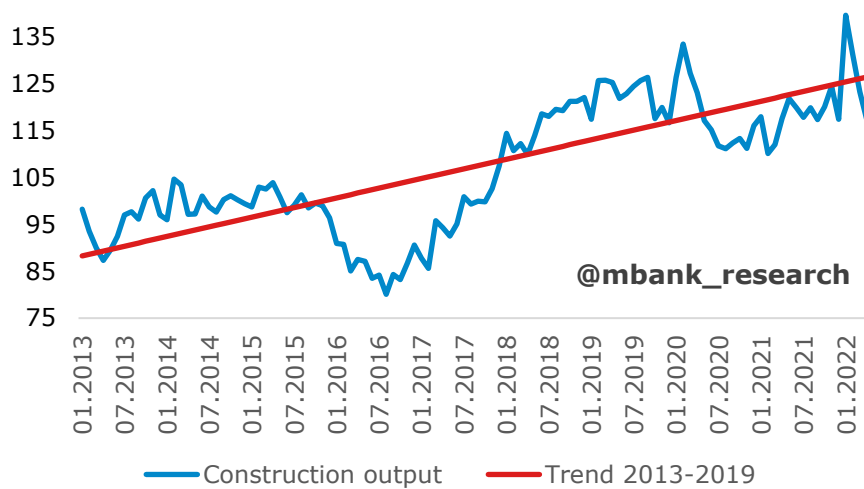
Producer prices (previous year = 100)



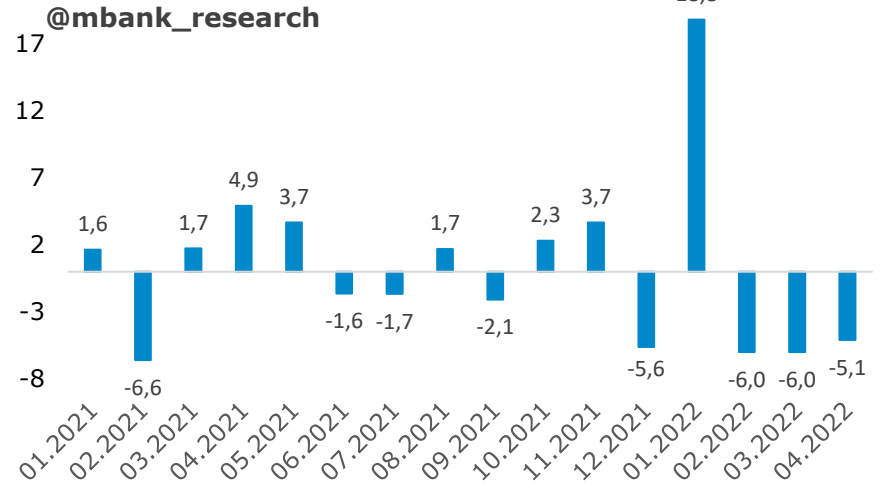
Source: Statistics Poland data. Own elaboration.

Poland: Monthly data - construction

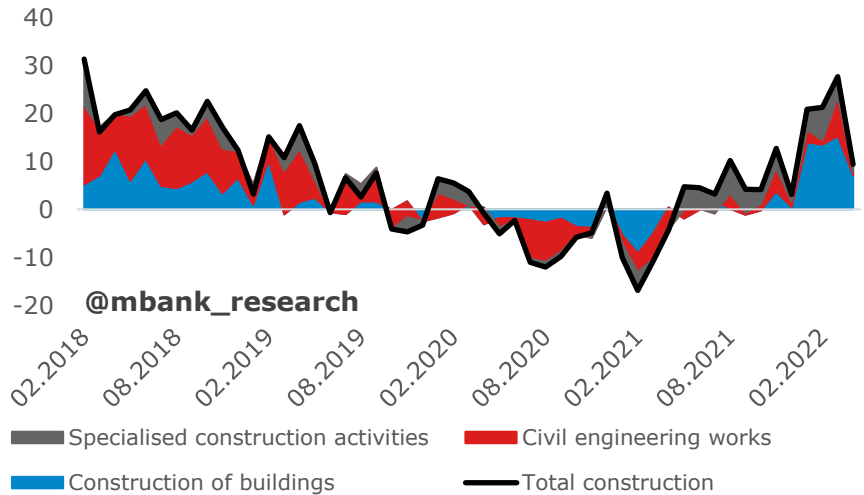
Construction output (index 2015 = 100, sa)



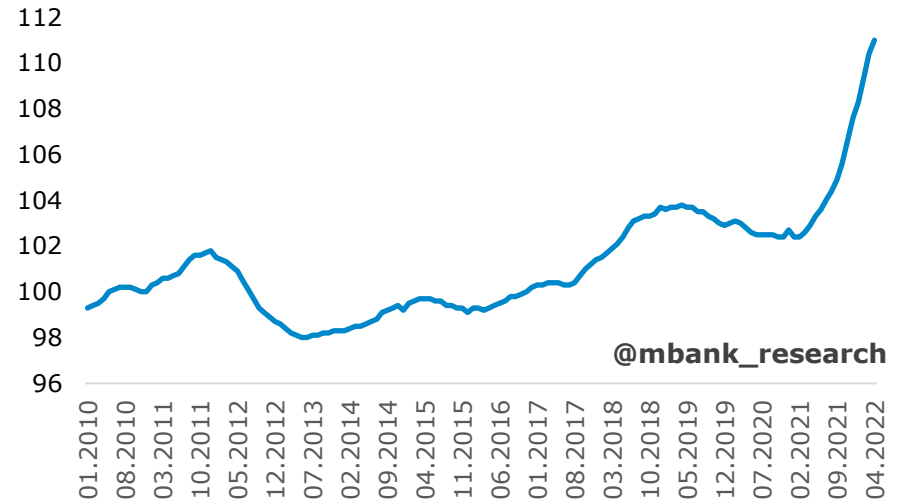
Momentum (m/m growth, seasonally adjusted)



Contribution to y/y growth



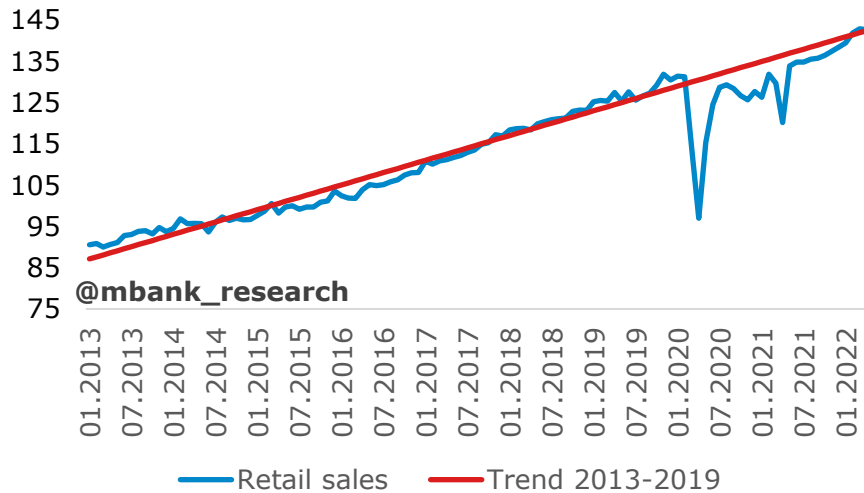
Construction prices (previous year = 100)



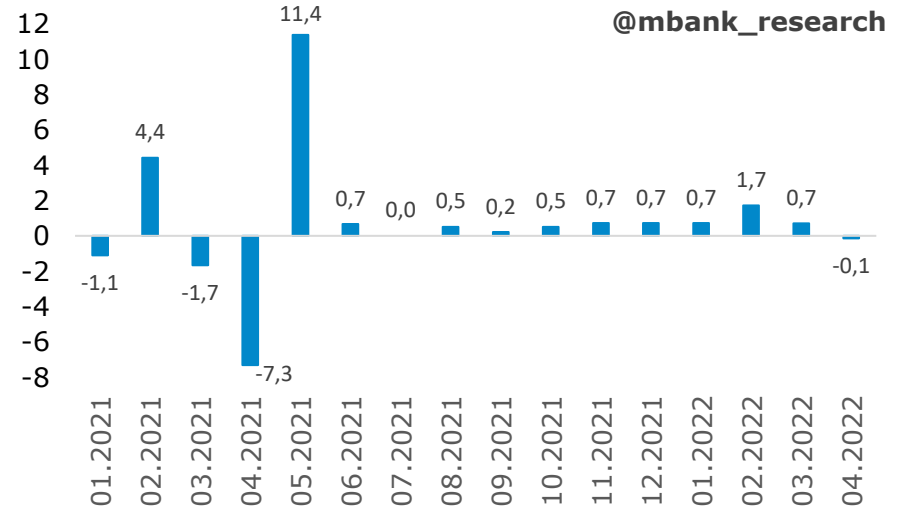
Source: Statistics Poland data. Own elaboration.

Poland: Monthly data - retail sales

Retail sales (index 2015 = 100, sa)



Momentum (m/m growth, seasonally adjusted)



Retail sales - Food, beverages and tobacco products (index 2015 = 100, sa)



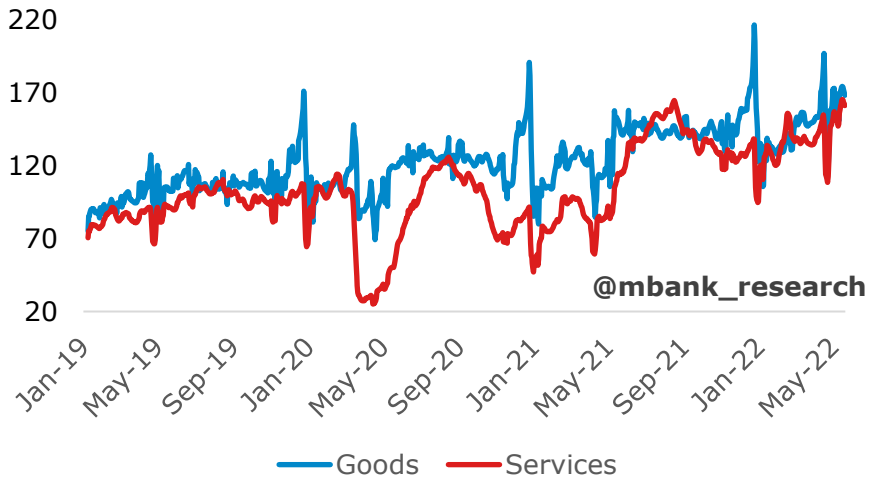
Retail sales - Solid, liquid and gaseous fuels (index 2015 = 100, sa)



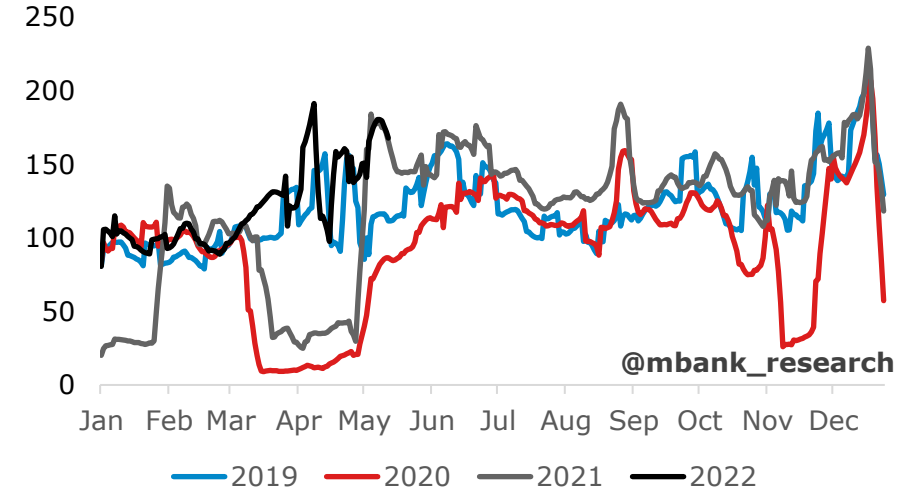
Source: Statistics Poland data. Own elaboration.

Poland: Monthly data - Card expenditures, 7-day average

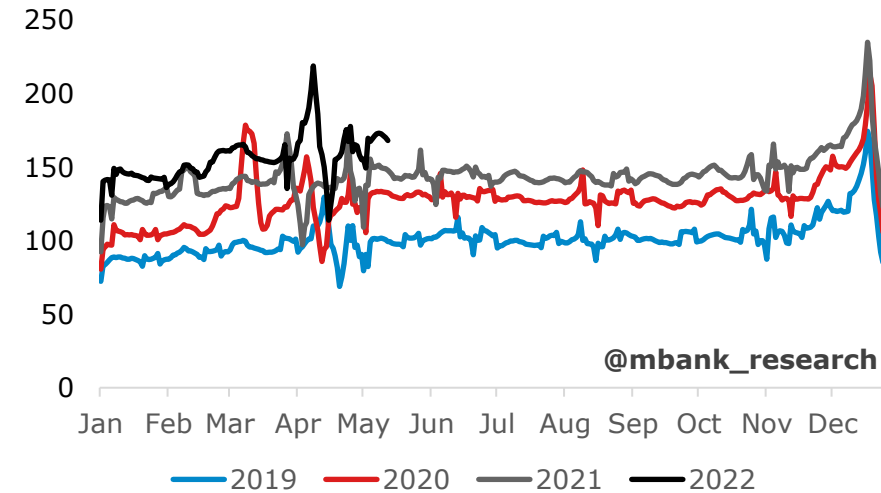
Card expenditures - overview, Jan20 = 100



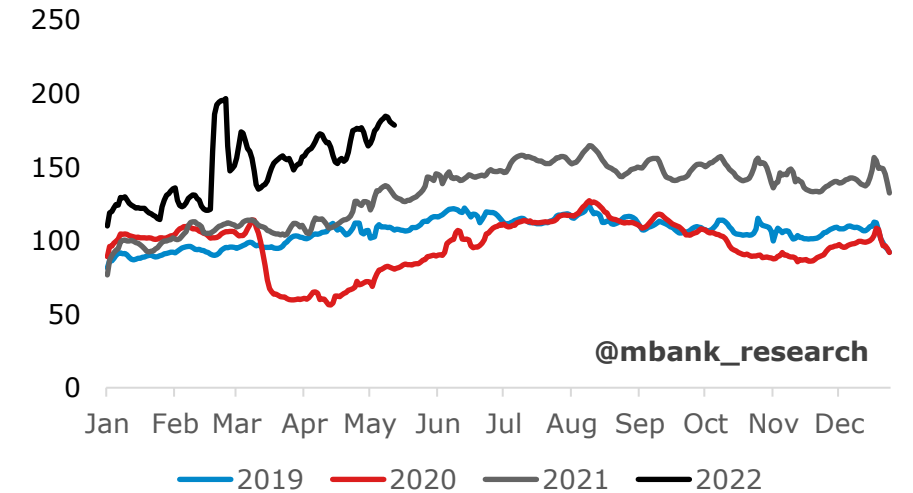
Clothing, Jan20 = 100



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



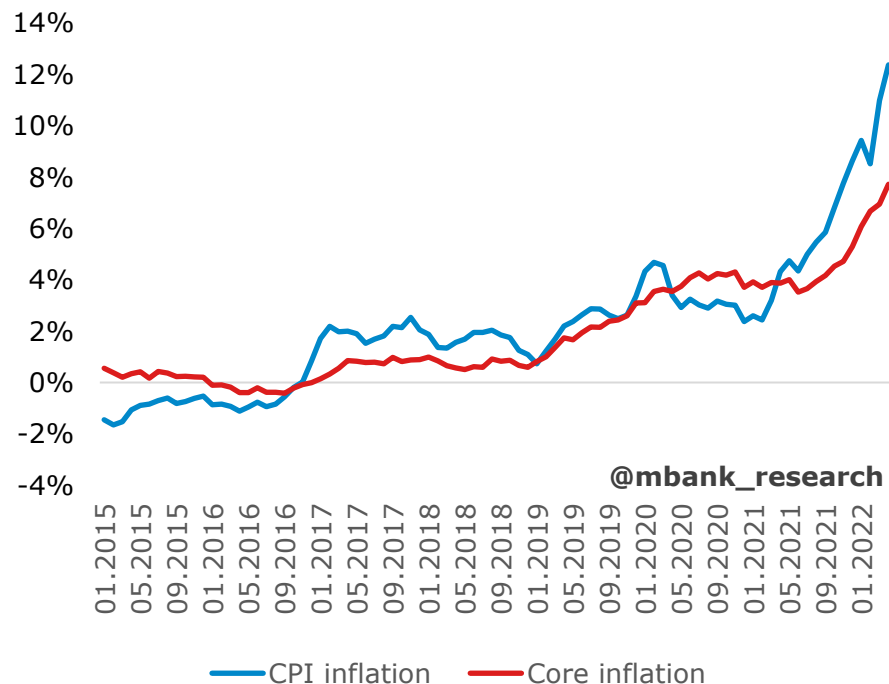
Fuels, Jan20 = 100



Source: mBank transaction data. Own elaboration.

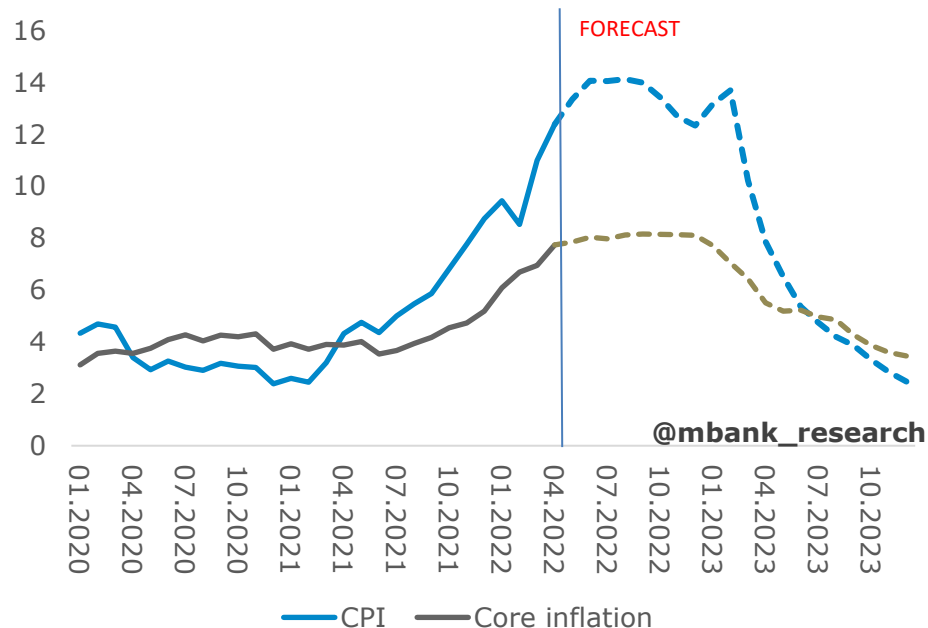
Poland: Inflation tracker #1

CPI and core inflation (% y/y)



Source: Statistics Poland, NBP, own elaboration

Core and headline inflation forecast

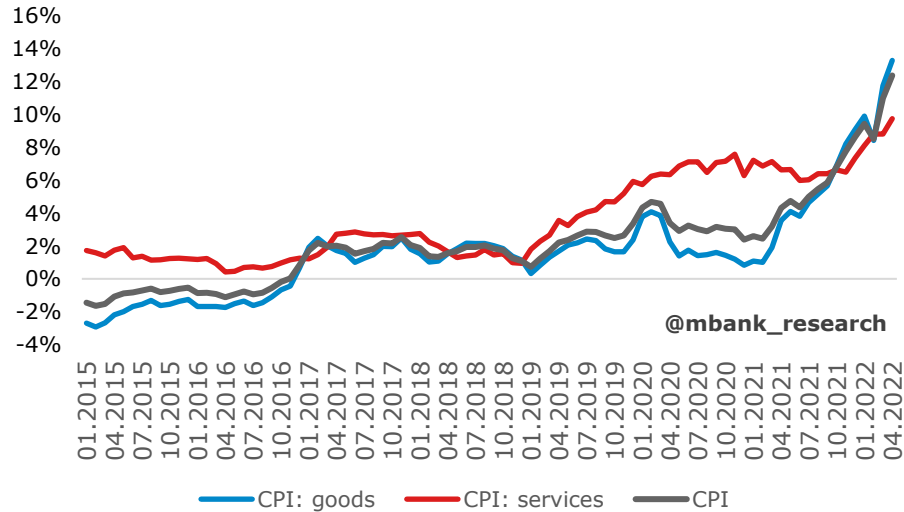


Source: Statistics Poland. own elaboration

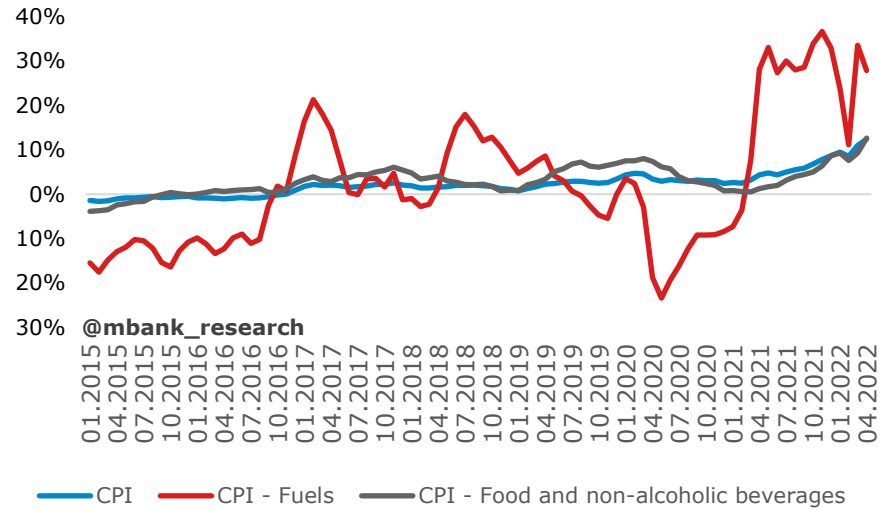
- ❖ CPI is rising (12.4% y/y in April), core inflation is rising (7.7% y/y), inflation of goods is rising (13.1% y/y), and inflation of services is rising (10.1% y/y). Moreover, it is not the end – a peak is still ahead of us (probably during summer holidays). The main reasons of April's increases were food and energy prices. Food inflation will still increase (we expect peak of yearly dynamics in the end of the year, but it is now easier to forecast the timing, than the level).
- ❖ Core inflation is much more interesting. It returned to relatively high monthly dynamics after some months with slowing momentum. The main question is whether it is just a one-off and momentum will decrease, or a sign of more permanent pressure. We stick to the first option (but it is just our estimate, there are no clear signs in data yet). Nevertheless, acceleration of the yearly core inflation will be probably visible (at least) until the summer holidays. By then, any changes in energy prices, post-pandemic openings and fiscal support should be filtered out. Slowdown in the economy in the second half of the year will significantly reduce the opportunity to raise prices in 2023 and 2024.
- ❖ Growing inflation enables MPC to continue tightening (for now). Core inflation is high, and MPC „will likely continue [the hiking cycle] in the coming months, until we [MPC] are certain that inflation decline is permanent” (governor Glapiński words).

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

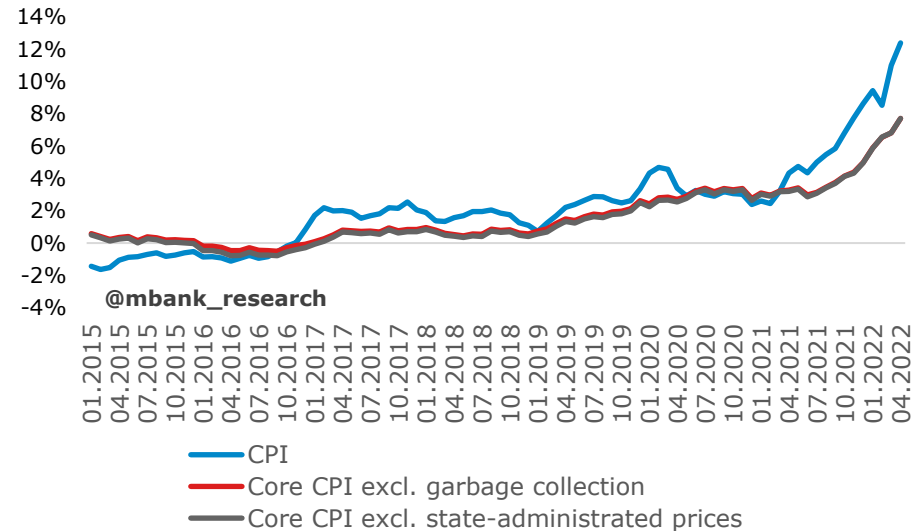
Goods and services prices (% y/y)*



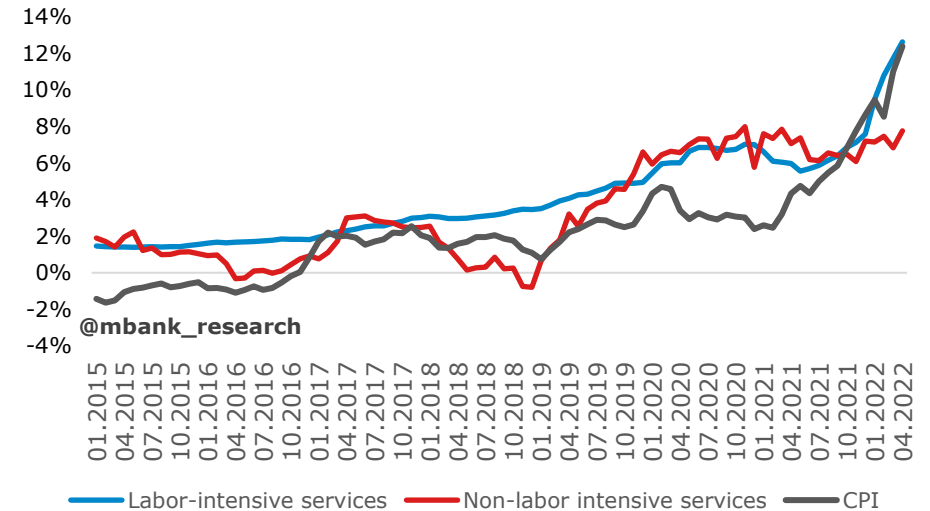
Food and fuel prices (% y/y)



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



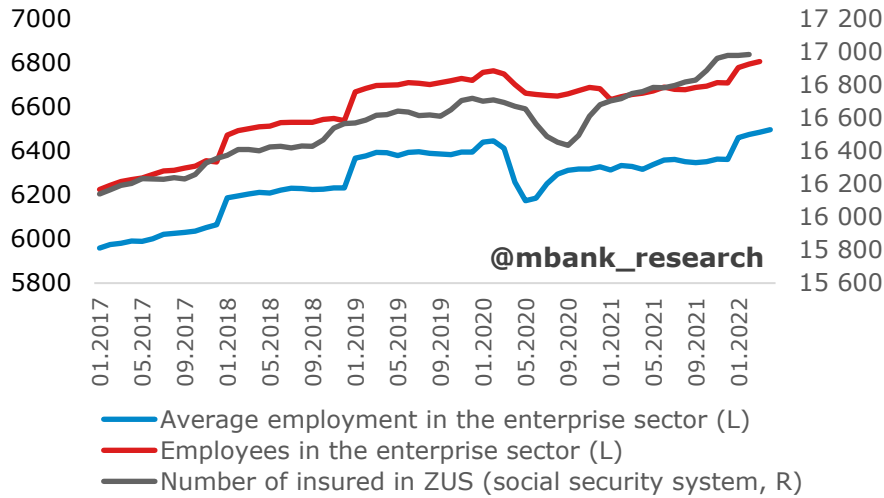
Services (% y/y)



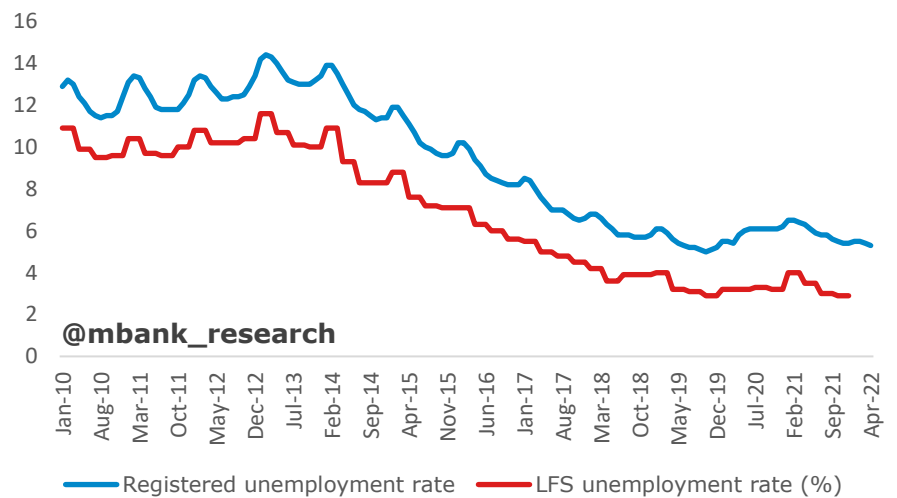
Source: Statistics Poland, own elaboration

Poland: Labor market tracker #1: Employment

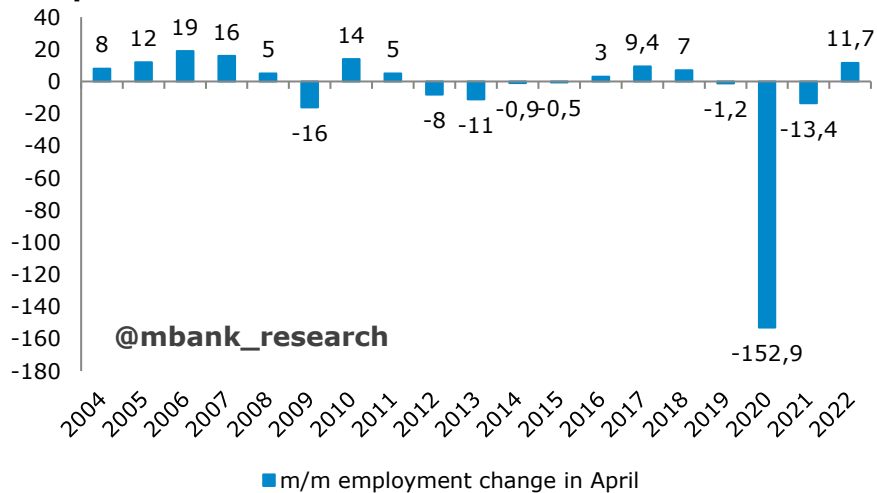
Employment



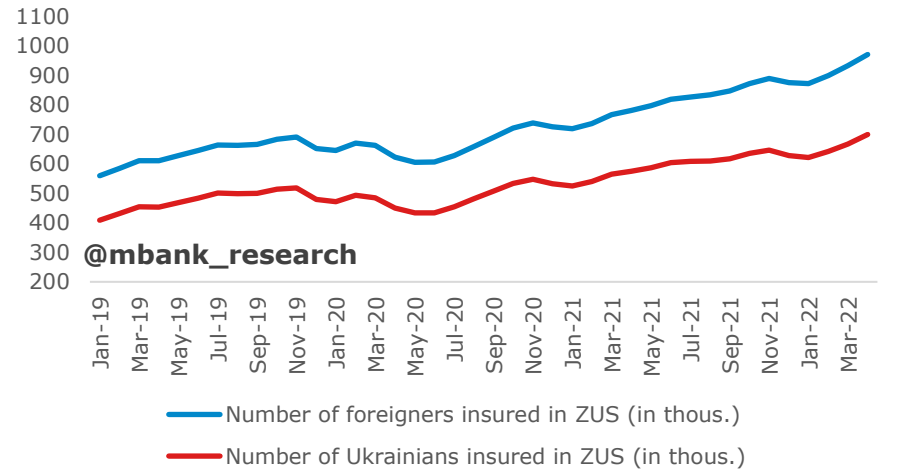
Unemployment rate



Monthly employment change (in thousand jobs), enterprise sector



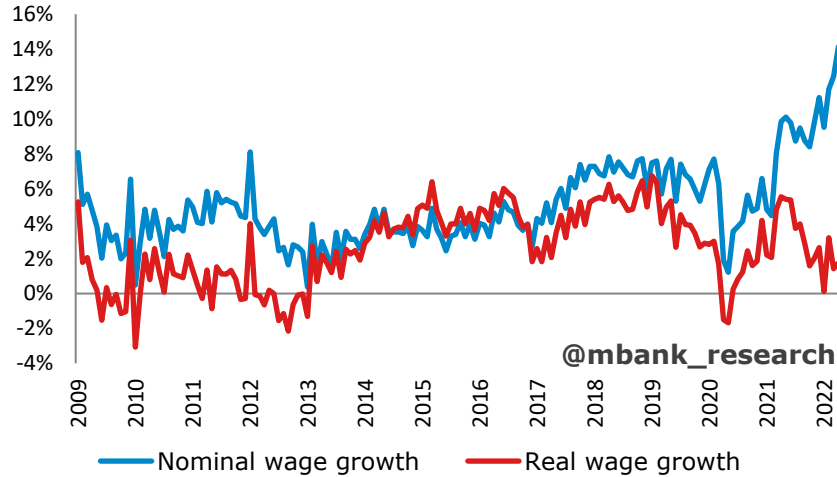
Immigration in the labor force



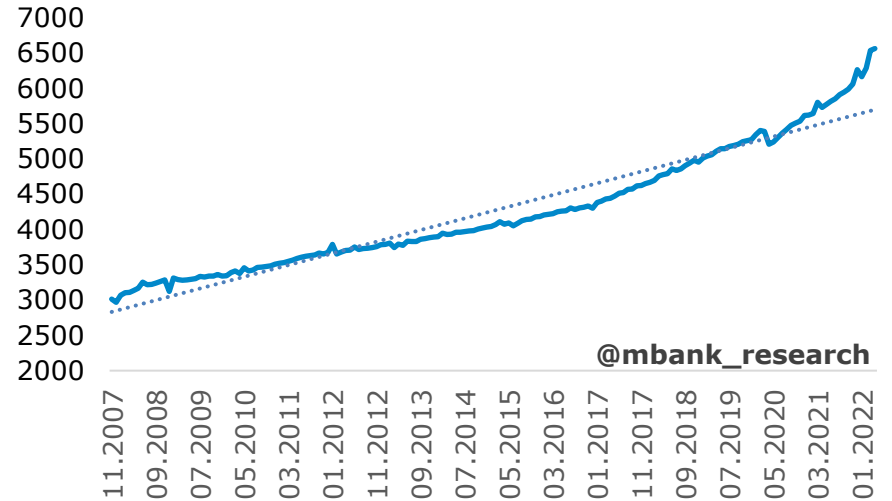
Source: Statistics Poland, ZUS Statistical Portal, own elaboration

Poland: Labor market tracker #2: Wages

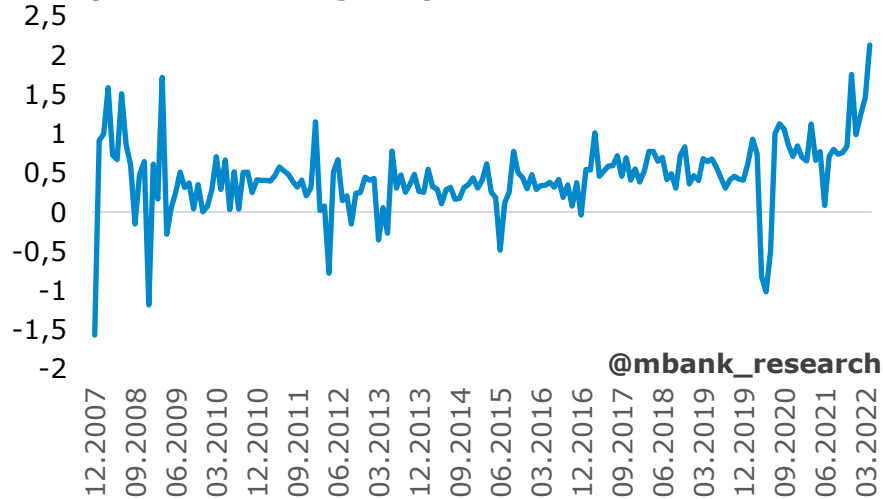
Wage growth (y/y, nsa)



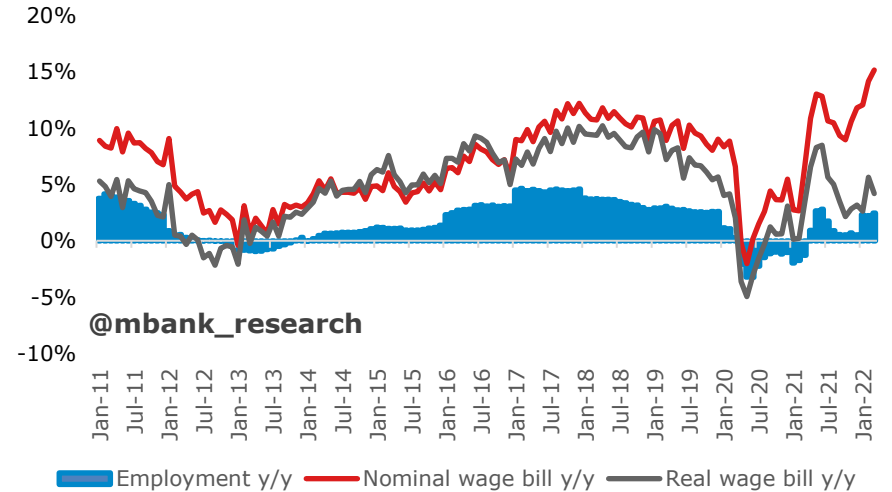
Average monthly wage in enterprise sector (in PLN, sa)



Momentum of average monthly wage in enterprise sector (m/m, 3m average, sa)



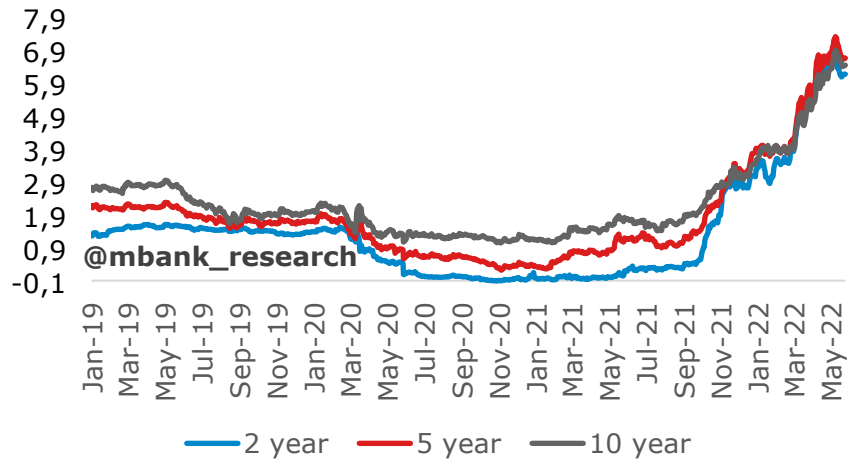
Wage bill



Source: Statistics Poland, ZUS Statistical Portal, own elaboration

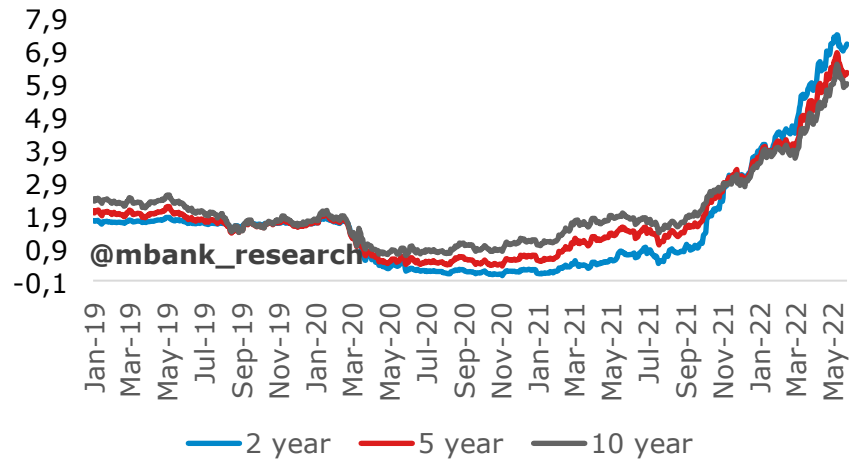
Polish rates, yields and spreads

POLGBs



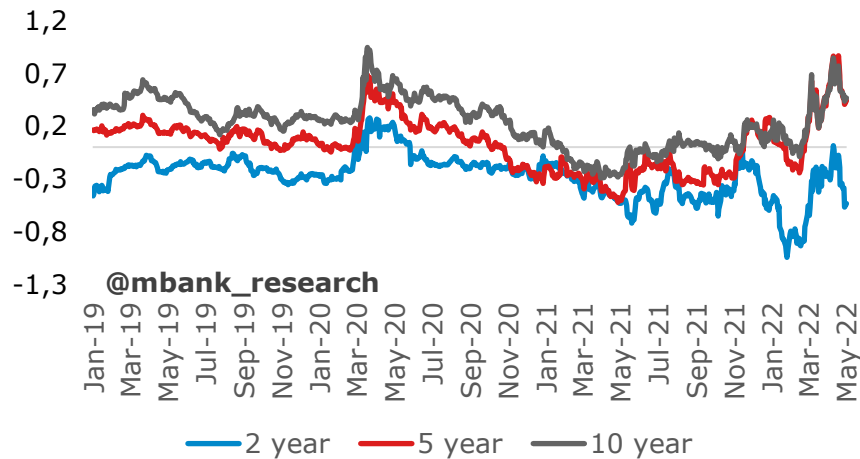
Source: Bloomberg

PL IRS



Source: Bloomberg

ASW spread



Source: Bloomberg

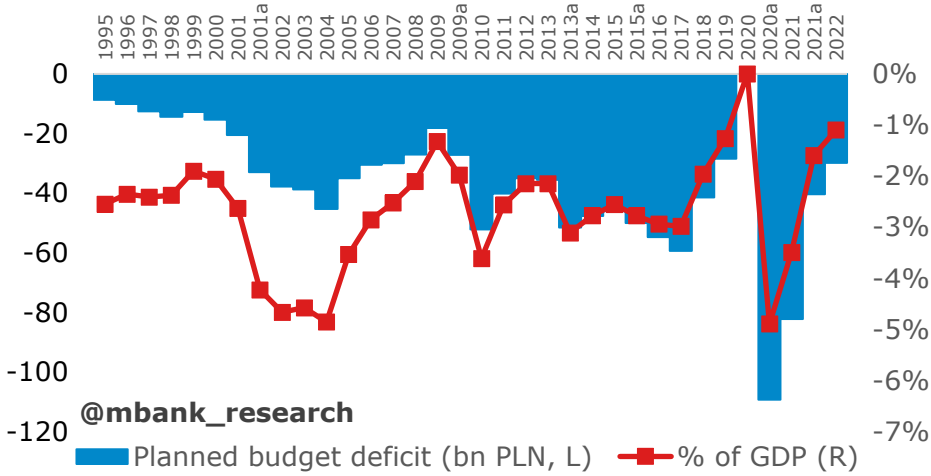
POLGB yield minus 3m WIBOR



Source: Bloomberg

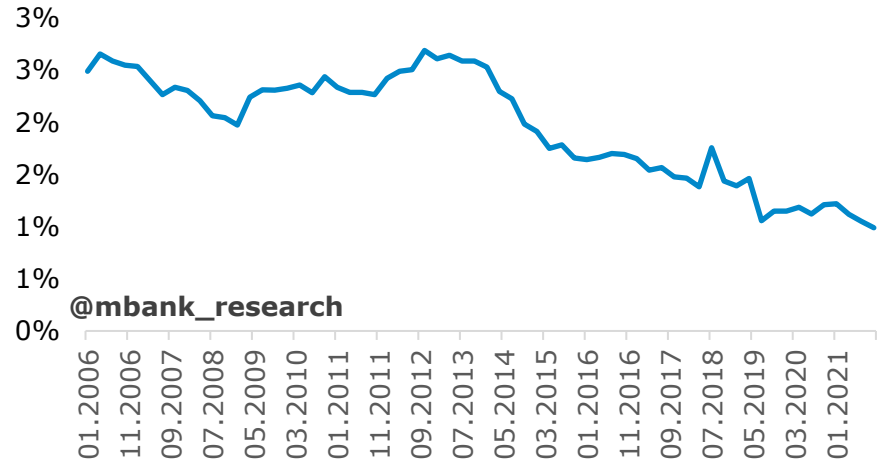
Poland: Fiscal monitor #1

Planned budget deficit



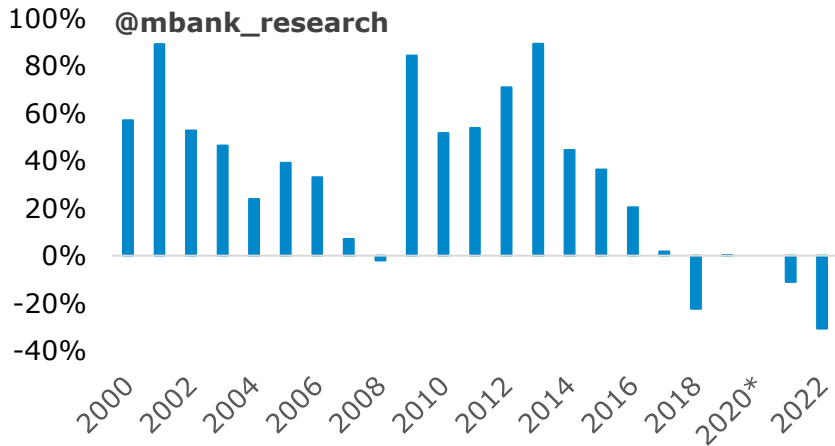
Source: Ministry of Finance, a – budget novel

State debt servicing costs (% GDP)



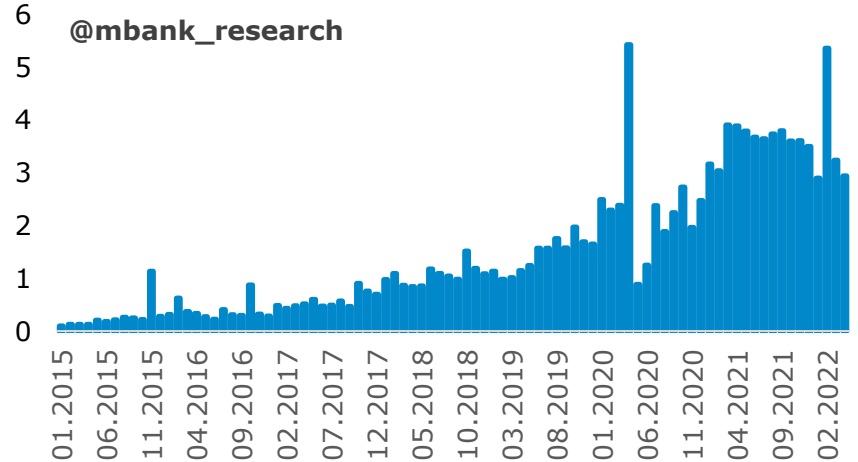
Source: Macrobond

Central budget deficit in April vs yearly planned deficit



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

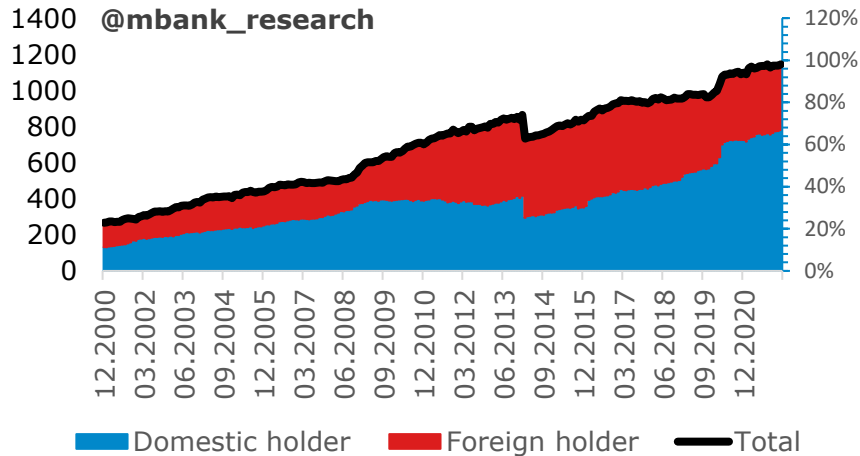
Retail bonds sold per month (PLN bn)



Source: Ministry of Finance

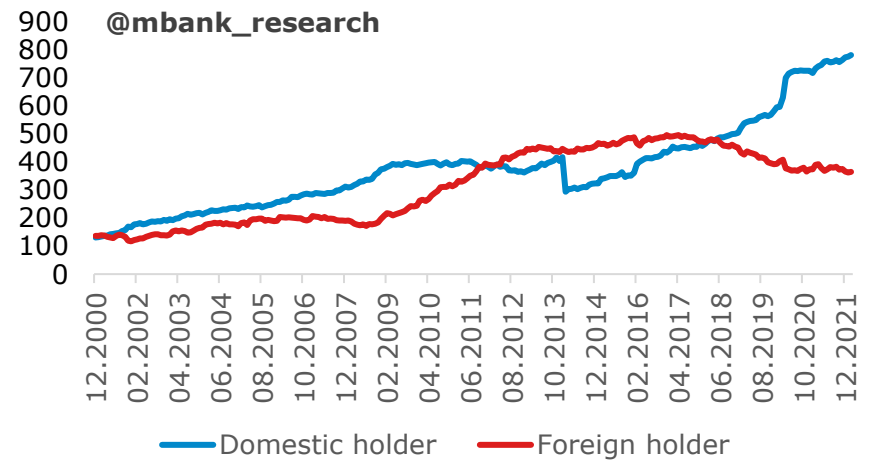
Poland: Fiscal monitor #2

State treasury debt by holder #1



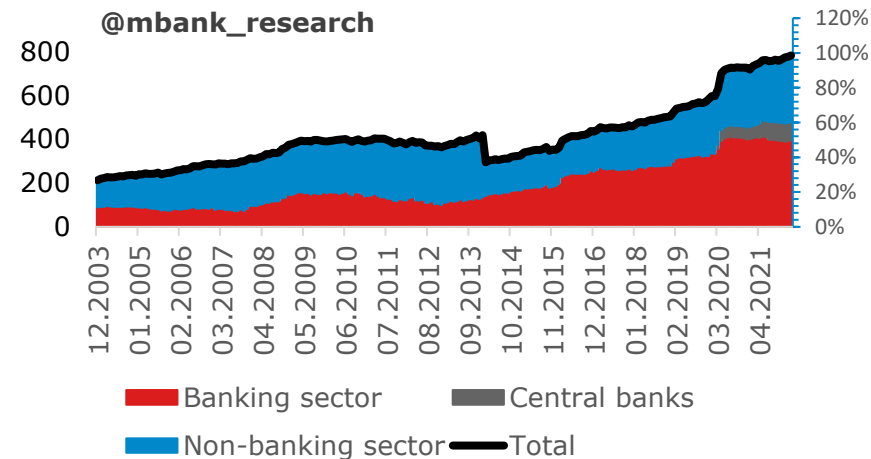
Source: Macrobond

State treasury debt by holder #2



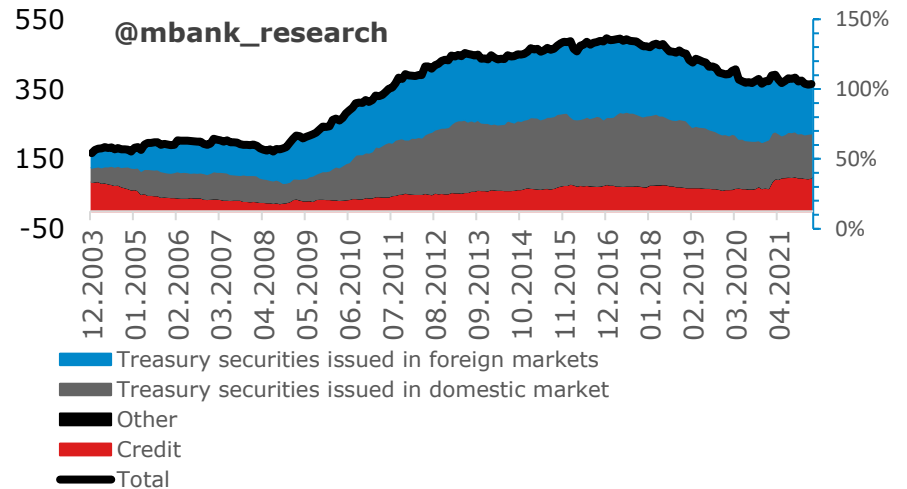
Source: Macrobond

State treasury debt – domestic holders



Source: Macrobond

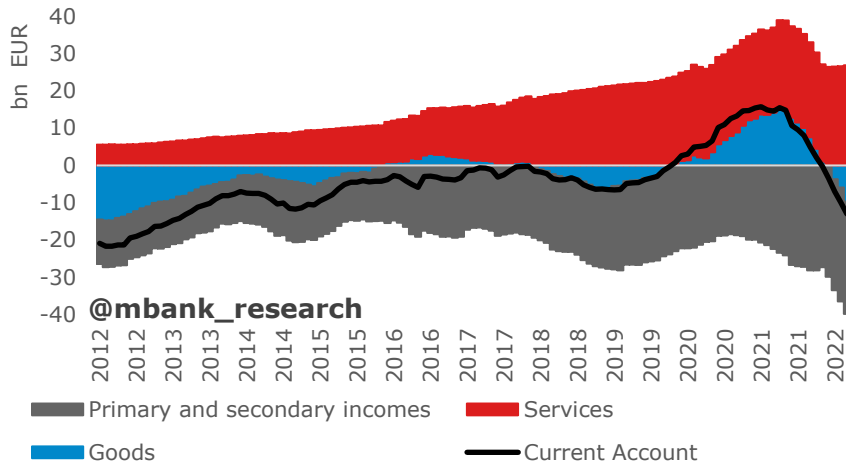
State treasury debt – foreign holders



Source: Macrobond

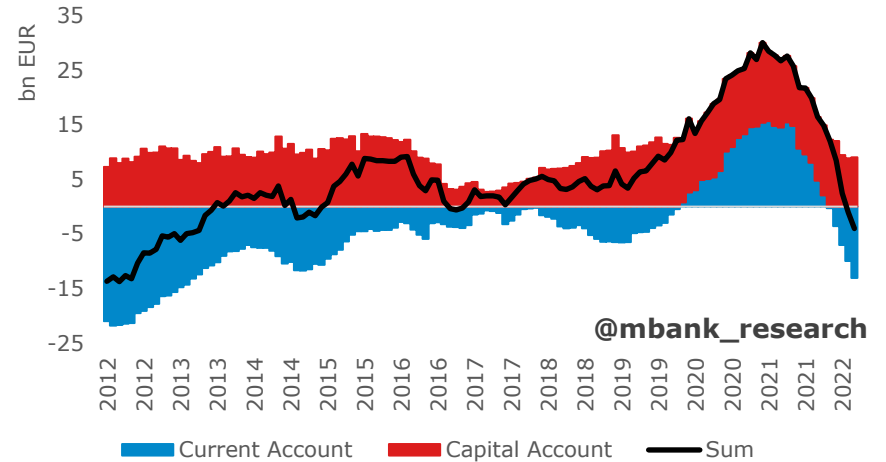
Poland: External balance

C/A decomposition – 12m rolling sum



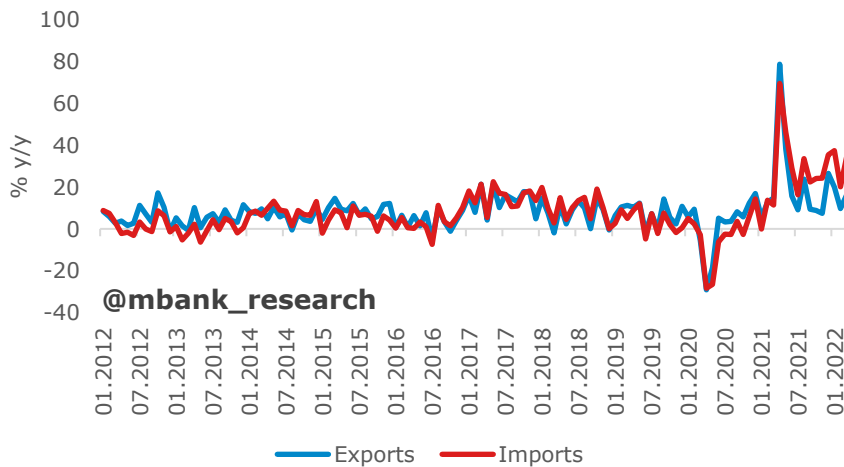
Source: NBP, own evaluation

Current and Capital Account – 12m rolling sum



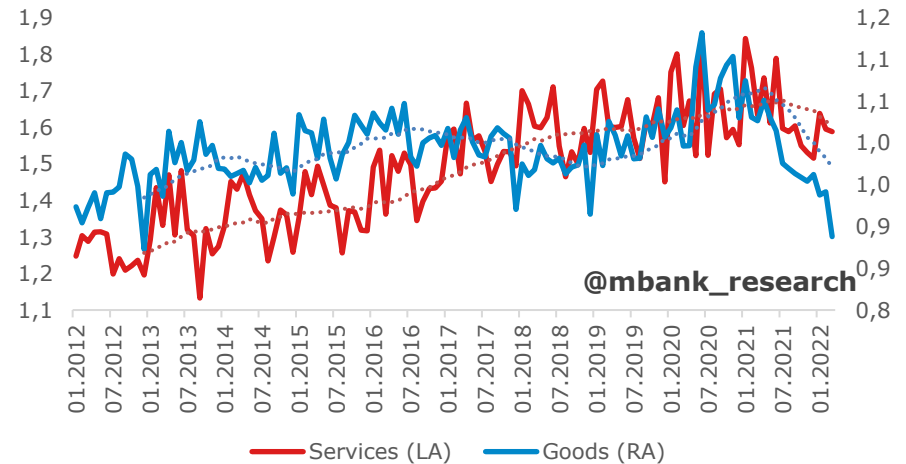
Source: NBP, own evaluation

Exports and imports dynamics



Source: NBP, own evaluation

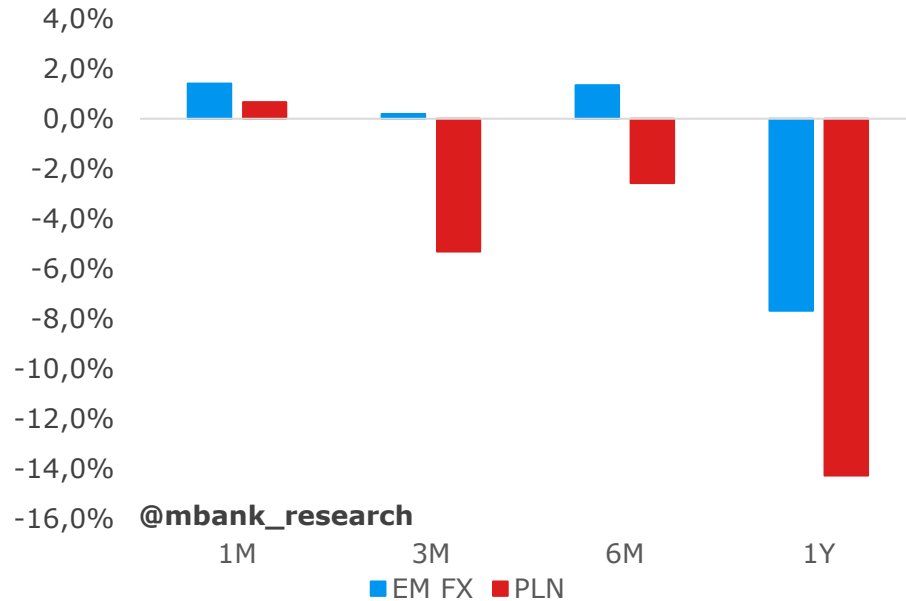
Exports to imports ratio



Source: Macrobond

EURPLN – finally some strenghtening

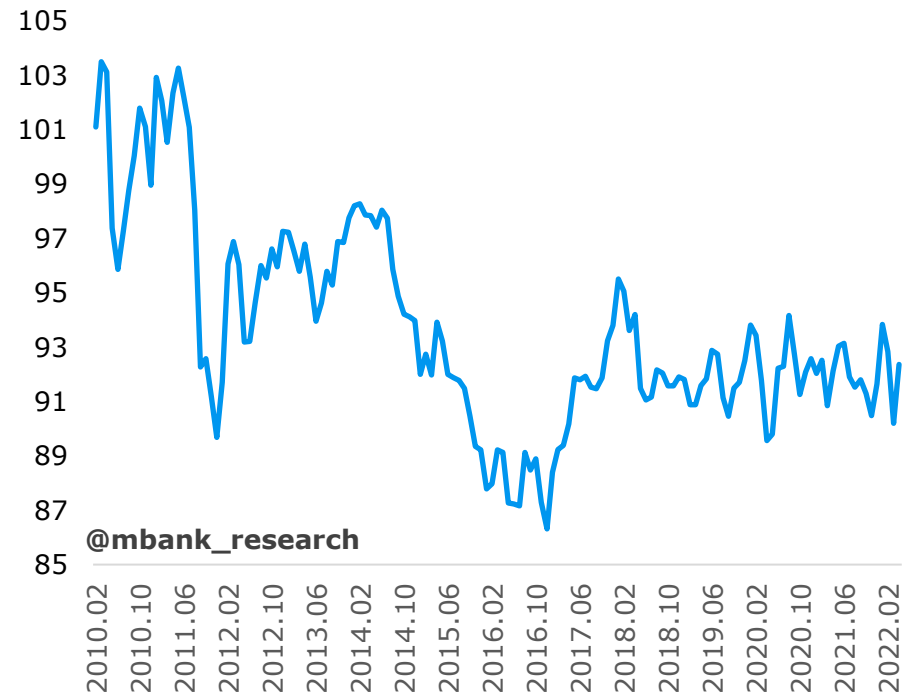
Some strenghtening after previous deprecation



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

Source: Bloomberg

Real effective exchange rate (mind the dates)



Source: BIS

- ❖ The zloty remains weak, but slightly stronger than in the end of previous month. Slight appreciation is probably a result of positive flow of news (Polish government claims that unblocking the EU recovery fund is close). Some can be attributed to „usual“ correlations with stronger EUR and the move of the region.
- ❖ We expect only slight appreciation ahead. The pressure on MPC dissipated of late. It seems that current, expected rate path is quite digestible for MPC as it implies fairly limited rate hikes (no hundreds per meeting as used to be) towards 7%. The problem is that we have not seen the top of inflation and growth momentum in the economy is not dropping as a stone. It is then highly likely that expected rate path moves higher in the next weeks turning tables against the Polish currency every MPC meeting.
- ❖ Zloty can stay on a slight strengthening path unless: nominal wage growth proves explosive, and we see other blueprints of further (beyond originally announced) fiscal stimulation. In our base case the stability bears further stability/appreciation since international investors may then be more interested in Polish assets.

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