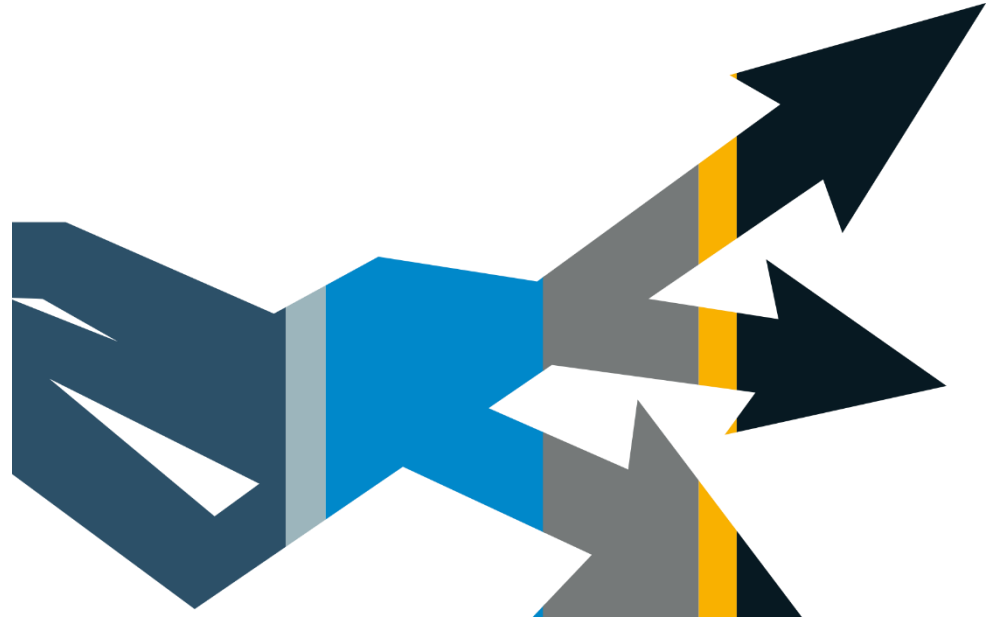


# Monthly Pulse Check

## Economy. FI. FX

**June 15th 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. After positive surprise in investments in Q1 we revised GDP forecast to 5.7% 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 (at the latest).

### FX Market

- ❖ Weak zloty in H1 and possibly also in early H2 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	-0,9	10,7	4,5	7,7	-2,7	5,7	5,3
Individual consumption y/y	%	1,2	-10,8	-0,4	-3,2	0,2	14,2	1,8	7,2	-3,0	5,9	4,6
Investment y/y	%	0,9	-10,7	-9,0	-10,9	1,3	13,4	16,0	22,0	-8,4	13,2	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)	%	1,0	0,1	0,1	0,1	0,1	0,10	0,10	0,10	0,10	0,10	1,00
EUR/PLN (eop)	%	4,56	4,45	4,53	4,56	4,63	4,50	4,50	4,45	4,56	4,45	4,30
USD/PLN (eop)	%	4,13	3,96	3,87	3,73	3,95	3,73	3,72	3,65	3,73	3,65	3,44

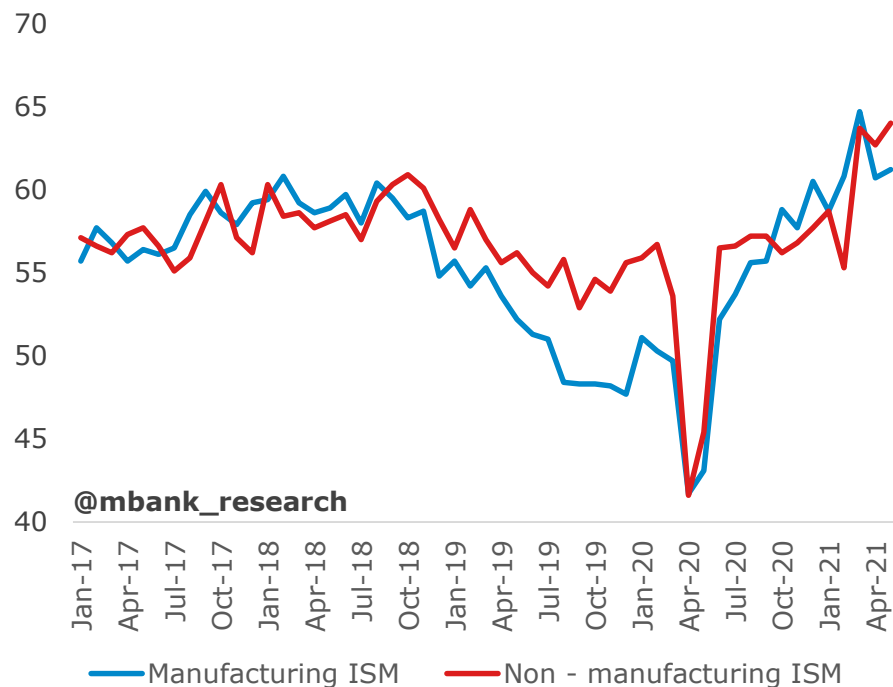
F - forecast

## Highlights

- ❖ Inoculations thrive. Local Covid-19 outbreaks are visible but in countries with relatively high percentage of vaccinated people, they look manageable without economic toll. Polish data look promising. The number of cases is very low and inoculations proceed. We cannot exclude another wave but we are more and more convinced it will have minimal economic toll (see the monitor [here](#)).
- ❖ Good momentum in global economy continues and this applies also to the U.S. and the euro zone. On the wave of re-opening, inflation in the U.S. reached 5,1% (see [here](#)), but we think the growth of prices is mostly transitory and driven by a small set of categories. Euro zone inflation also increased but stays close to ECB target (see [here](#)). Market participants scale back the bets for higher yields (see [here](#)). However, we think this phenomenon may be also transitory since the upswing after this recession is faster, more reinforced by fiscal policy and the labor market and firms were better protected. Hence, very high inflation readings are transitory but inflation – on average – is going to be higher going forward than it used to be in the past. Monetary authorities are cautious with winding down stimulus but we are close to important guidance here soon (but not in the coming 2-3 months).
- ❖ Polish economy looks better than we expected. Hence, we decided to once again upgrade GDP growth expectations for 2021 and 2022 (see [here](#) and [here](#)). As restrictions are lifted, activity in long abandoned sectors (tourism, restaurants) jump-starts and mobility improves a lot (see [here](#) and [here](#)). We are even more convinced now that there will be inflationary pressure going forwards. Our measures of inflation suggest that underlying inflation is strong and this is only a very early moment of economic upswing (see [here](#)). It can only strengthen mid-term from here.
- ❖ NBP is slowly turning and preparing market participants for higher rates in the future. We think they need to see the end of pandemic (possible in the Autumn), no deceleration of current inflation (Autumn/Winter) and strengthening of economic growth (already clear but they want to be on the safe side). We think they start normalizing monetary policy in Q1 2022 with modest, 15bp hike. The chances for earlier move are not negligible. The turn of the year of the year will be hot. Market expectations are now skewed for a move at the turn of the year.

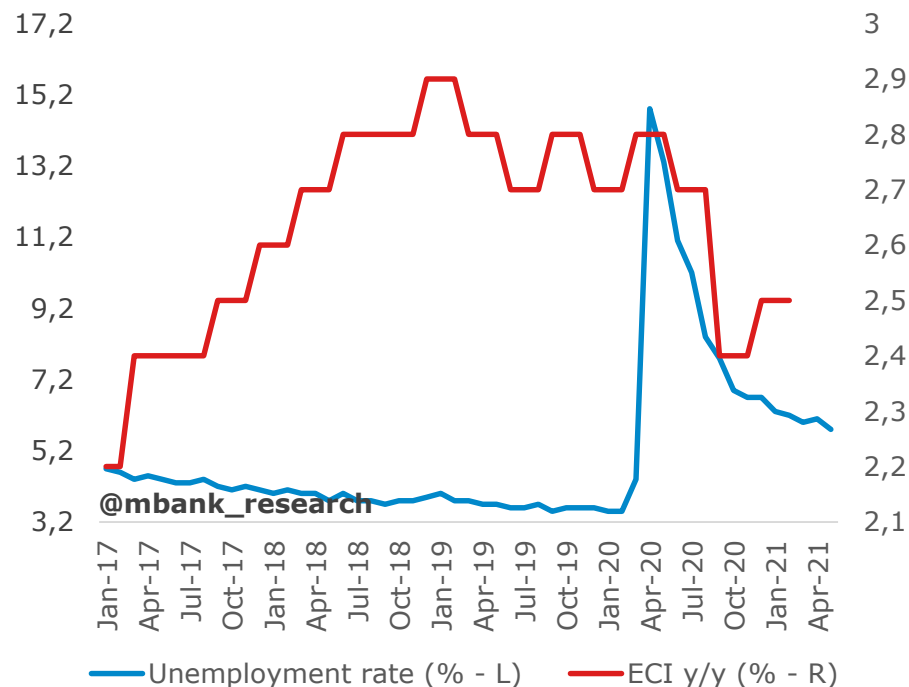
# U.S. economy health check

## ISM PMI: manufacturing & non-manufacturing



Source: ISM

## Labor market: wages & unemployment rate

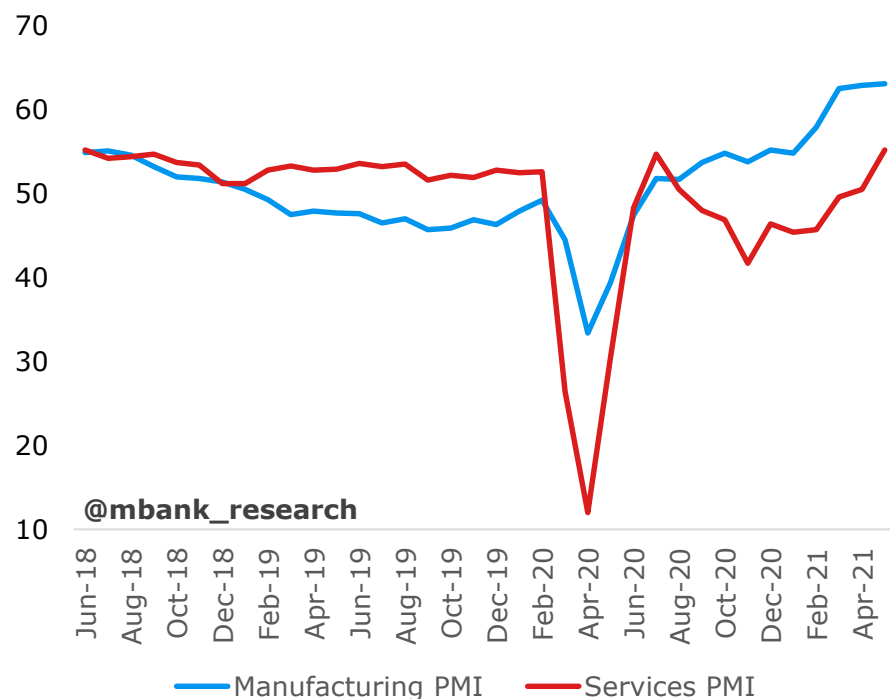


Source: FRED

- ❖ ISM in services is at its record high. Reason is obvious – economy opens up and consumer activity intensifies. In manufacturing there are still problems well known from previous readings (low labor supply, problems with shortages and supply chains) but sentiment thrives.
- ❖ CPI inflation reached 5.1% y/y in May. Also core inflation was higher than expected. A large part of the current price increases are mainly post-pandemic adjustments – they are transitory and driven by a small set of categories. Probably they will consume the price increases for many months (or even quarters). With normalization of both supply and demand proceeding, inflation is going to come off from highs, but on average inflation will be higher than it had been after the previous recessions.
- ❖ Discussion about tapering intensifies, but we are not there yet. We also do not expect any changes in rates, parameters or rhetoric in the next few meetings. Fed will not decide to tighten its policy without a solid surprise in a labor market (and last months rather disappointed).

# Euro area economy health check

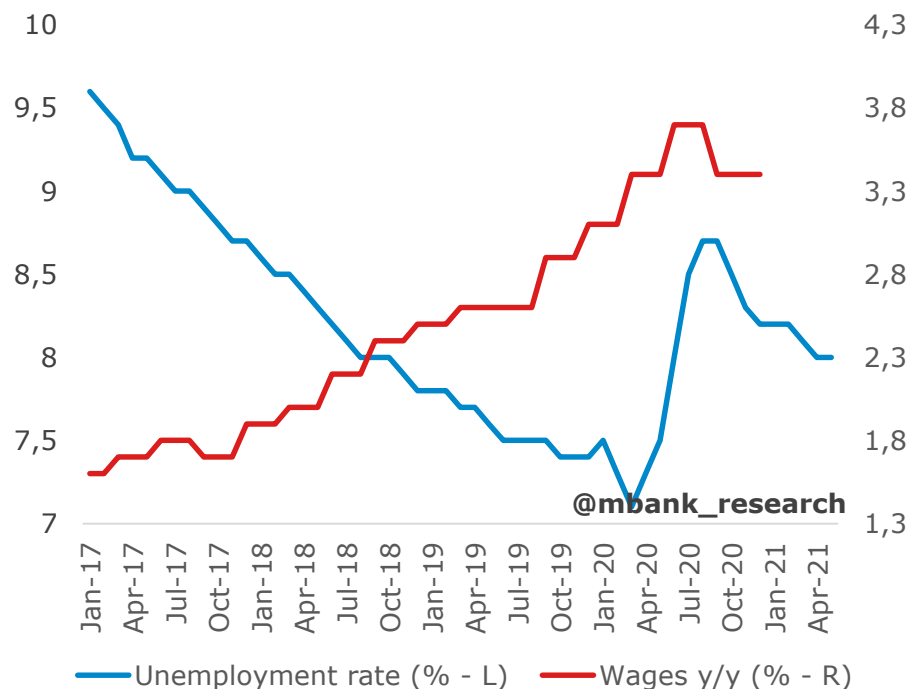
## Markit PMI: manufacturing & services



Source: Markit

- ❖ After an improvement in manufacturing, now the time has come for services. Consumer sentiment improves, percentage of vaccinated population increases too. Week after week economy opens up – it results in rapid growth of demand for services. In manufacturing, supply chain problems are still present, but it is not enough to significantly lower the sentiment. We bet supply problems will abate over time.
- ❖ Last ECB meeting did not change anything in the monetary policy. The increased pace of asset purchases under the PEPP program was maintained. New, more optimistic ECB forecasts were presented. But inflation will not reach ECB's target in the coming years. Current higher inflation is treated as temporary/transitory.
- ❖ We are still years away from interest rate hikes. ECB will also not want to get rid of the possibility of flexible use of the PEPP program, although after the summer the operationally increased purchases will most likely return to normal. Perhaps then a discussion about what PEPP will be replaced with is going to start.

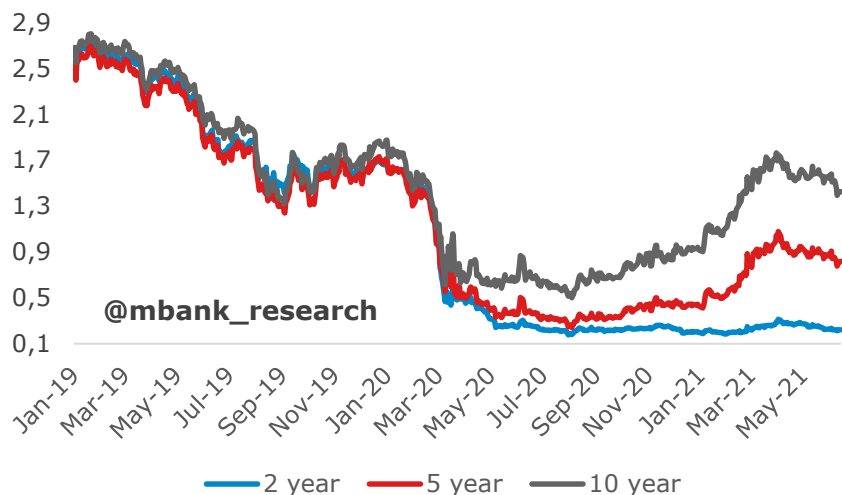
## Labor market: wages & unemployment rate



Source: Eurostat

# Global rates: short end anchored by monetary policy. The recent reversal (lower) in longer tenors is likely to be put to test soon.

## US swap rates (%)



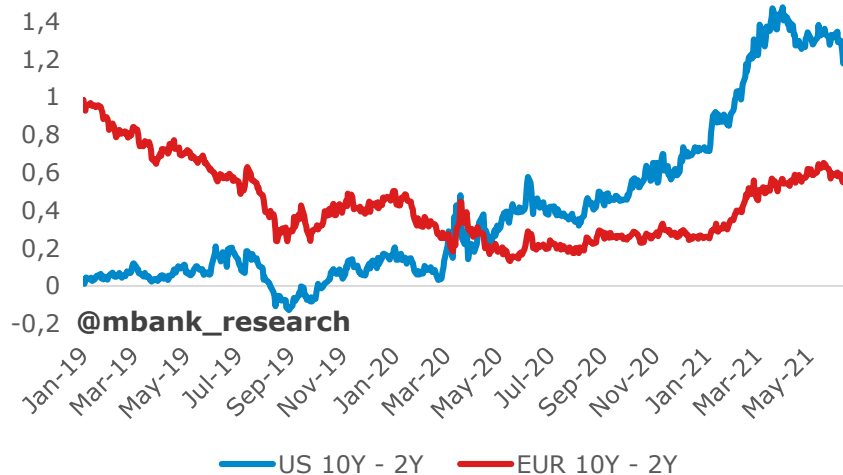
Source: Bloomberg

## EU swap rates (%)



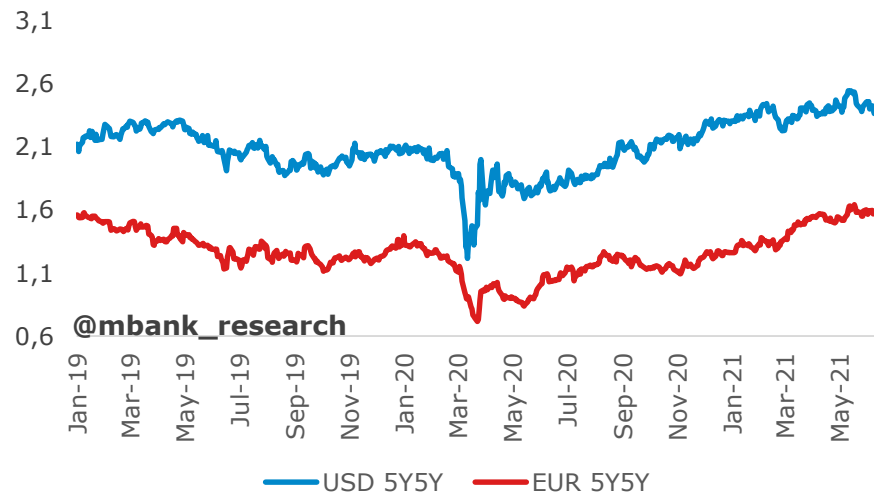
Source: Bloomberg

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



Source: Bloomberg

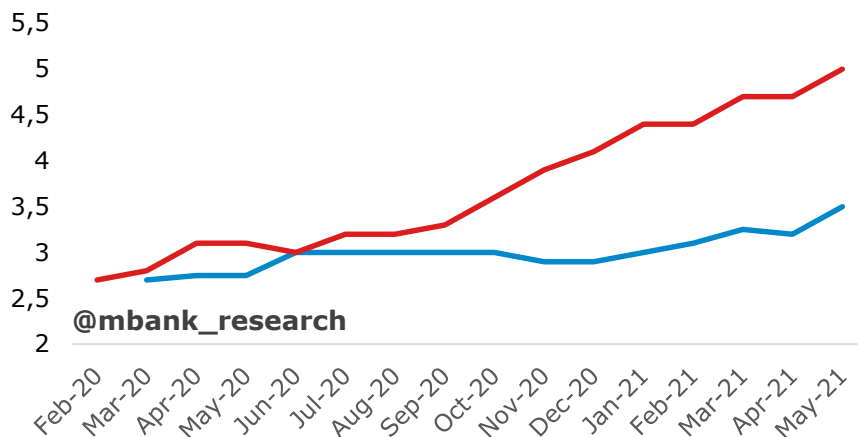
## US and EZ inflation expectations (%)



Source: Bloomberg

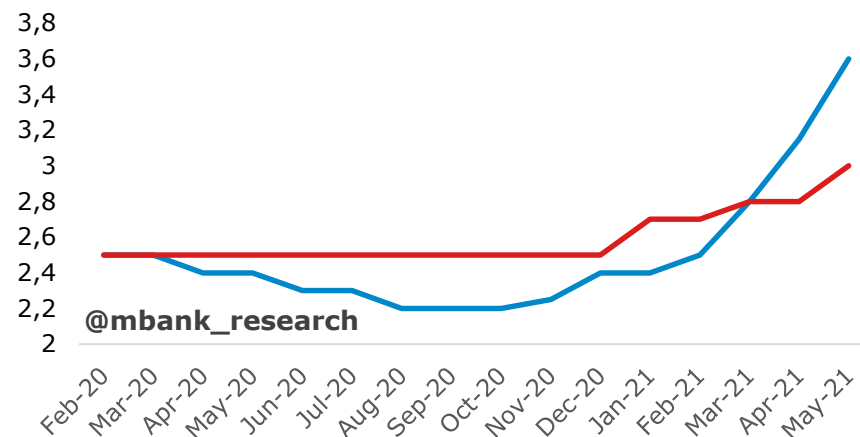
## Consensus: what is expected in Poland?

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



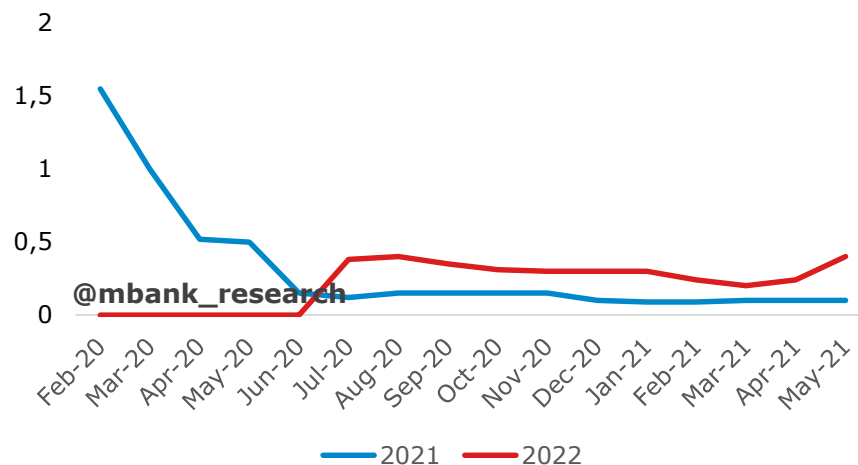
Source: Bloomberg

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



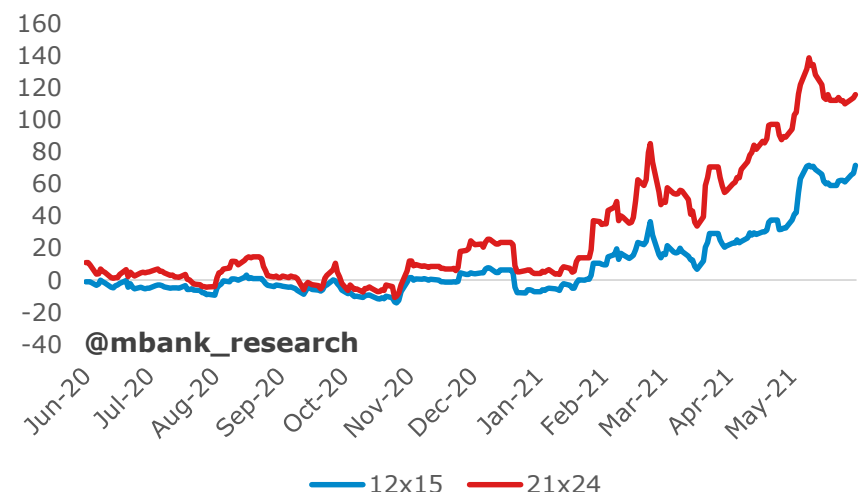
Source: Bloomberg

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



Source: Bloomberg

Rate changes priced in by FRA (bps)



Source: Bloomberg

## Upcoming Polish macro releases: June 2021

Publication	Date	Period	mBank	Consensus	Actual	Prior
CPI y/y (%)	01.06[1]	May	4,7%	4,8%	4,8%	4,3%
	15.06[2]				4,7%	
PMI (pts.)	01.06	May	53,8	53,7	57,2	53,7
Unemployment rate (%)	07.06[3]	May	6,1%	6,2%	6,1%	6,3%
	24.06[4]					
Current account (m EUR)	14.06	Apr	235	1215	1200	938
Employment y/y (%)	18.06	May	2,6%	2,4%		0,9%
Wages y/y (%)	18.06	May	10,4%	10,2%		9,9%
Industrial output y/y (%)	21.06	May	32,4%	29,0%		44,5%
PPI y/y (%)	21.06	May	6,1%	5,9%		5,3%
Construction output y/y (%)	22.06	May	3,3%	1,2%		-4,2%
Retail sales y/y (%)	22.06	May	13,0%	12,9%		21,1%
M3 y/y (%)	24.06	May	9,2%	9,1%		11,2%

[1] Flash estimate

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

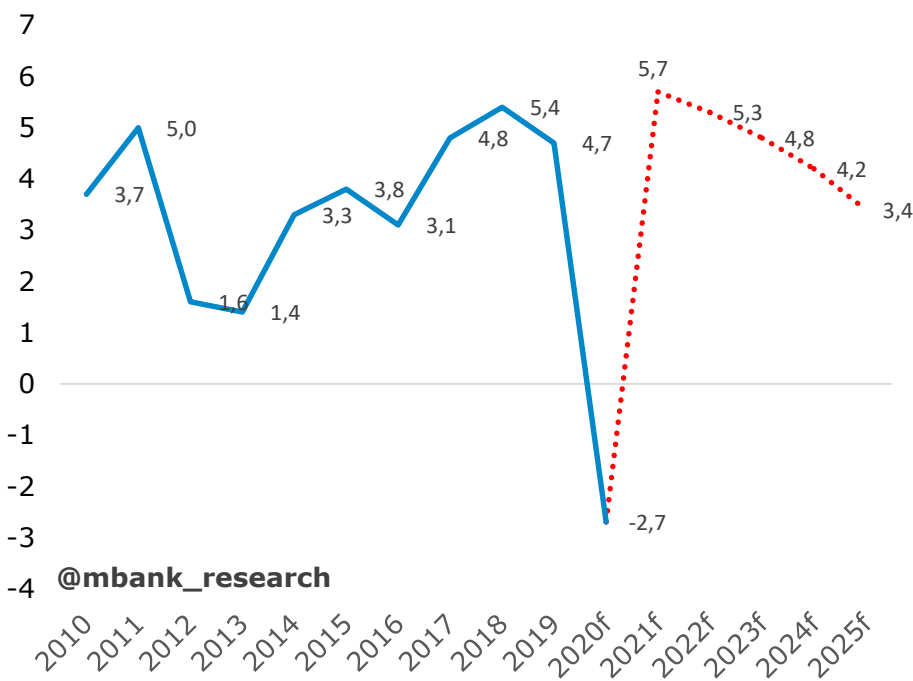
[2] Final reading

[4] Statistics Poland final reading



# Poland: Q1 and investment activity set the stage for much better whole year results. We bet on 5.7% GDP growth in 2021 and 5.3% in 2022.

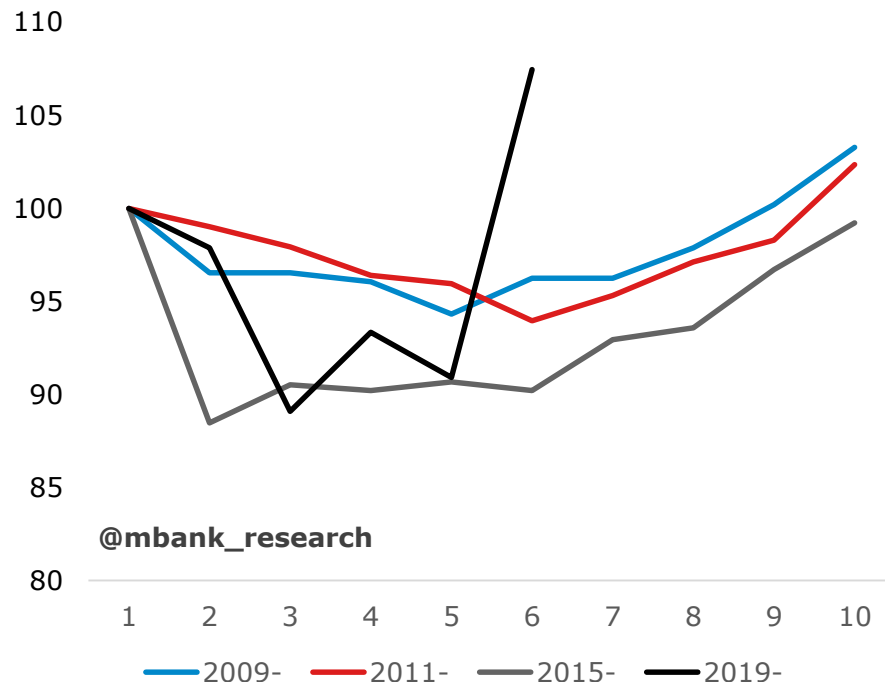
## Spectacular GDP growth ahead



Source: mBank, Statistics Poland

- ❖ Economy is staging an impressive recovery. Q4 2019 GDP level will be matched at the turn of Q2/Q3 2021, much faster than originally expected (by everyone).
- ❖ Investment activity is ON. Current decomposition suggests the Q1 spectacular growth is related to automation. Of course the pace of improvement is unsustainable but it seems the new level of investment is here to stay. The move forward will be slower from that point. EU sponsored, public investment cycle has not started yet. It will come in H2 2021 and will be mostly visible in 2022 and 2023.
- ❖ The cycle becomes more balanced with exports, consumption and investment working in the same direction.

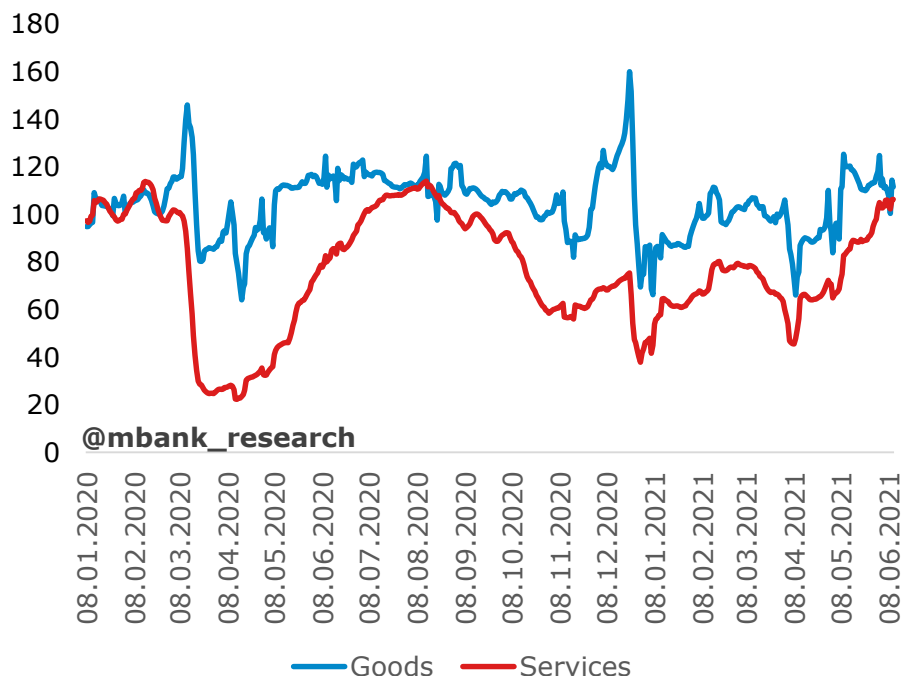
## Investment cycle jump-started much earlier than usual. 100=highest reading before the fall.



Source: mBank, Statistics Poland

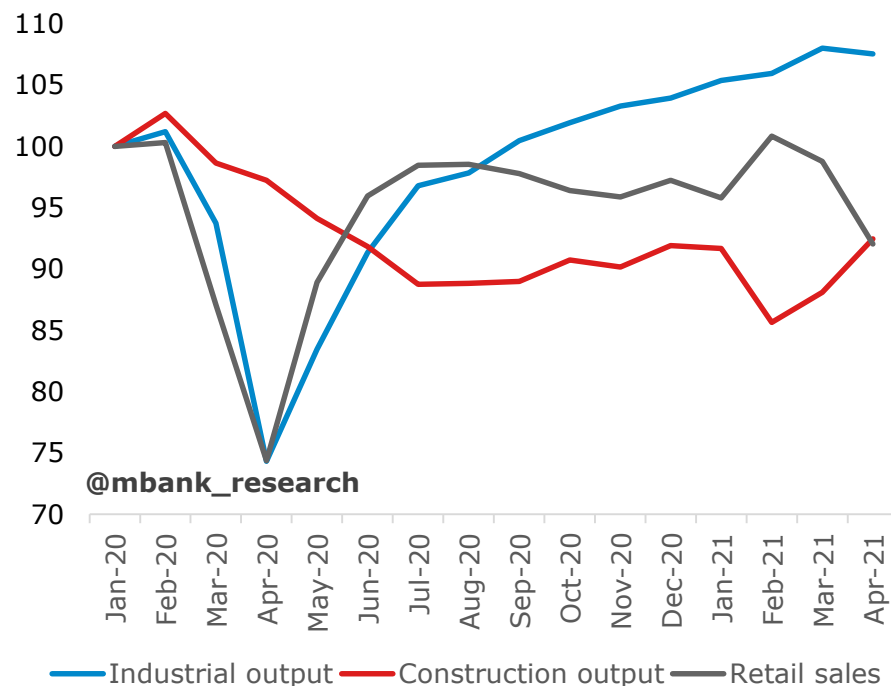
## Poland: Activity is higher as restrictions are being eased

Card expenditures weekly, Jan20 = 100



Source: mBank transaction data. Own elaboration.

Seasonally adjusted, index 2015 = 100

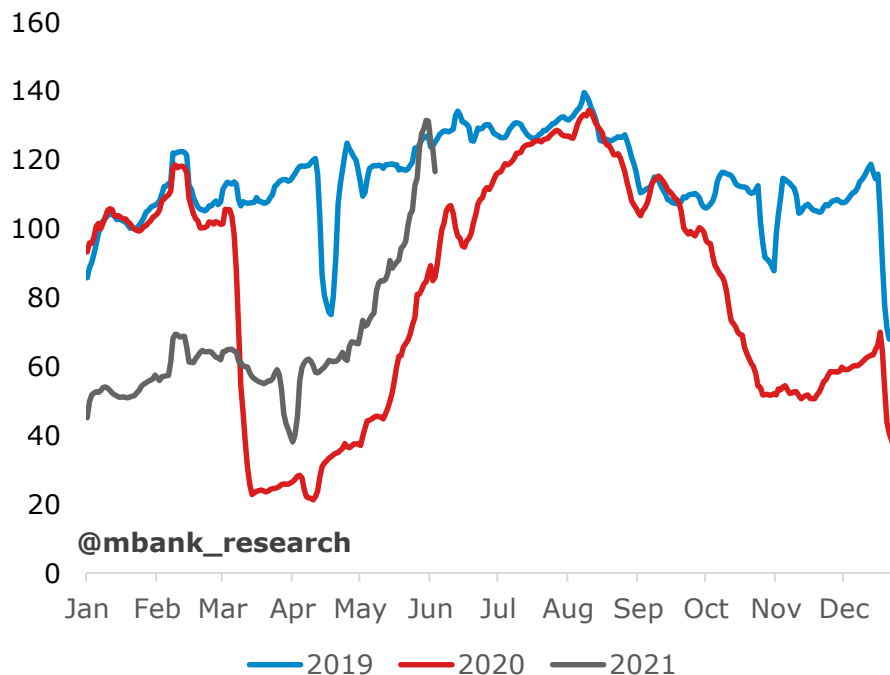


Source: mBank, Statistics Poland

- ❖ Restrictions' easing began in late April/May. It was also the moment when transaction data both in expenses on goods and services started to grow strongly. The rebound was much more significant in services – here the restrictions were stricter and longer (so opening is more visible). Also here, the pent-up demand can be more evident (shops were not closed permanently, only during some periods, consumers could also decide to buy goods online). Detailed expenditures are summed up [here](#) and [here](#).
- ❖ Hard data slowed down slightly, but those are only readings for April (May should be better). It was a month with still some restrictions in retail sales. Industrial output also slowed down but the trend is still quite steep (and higher than pre-pandemic one). In longer term perspectives are positive too – good labor market will result in high consumer activity (therefore good retail sales and services numbers). Realization of pent-up demand and rebuilding stocks will help manufacturing to grow.

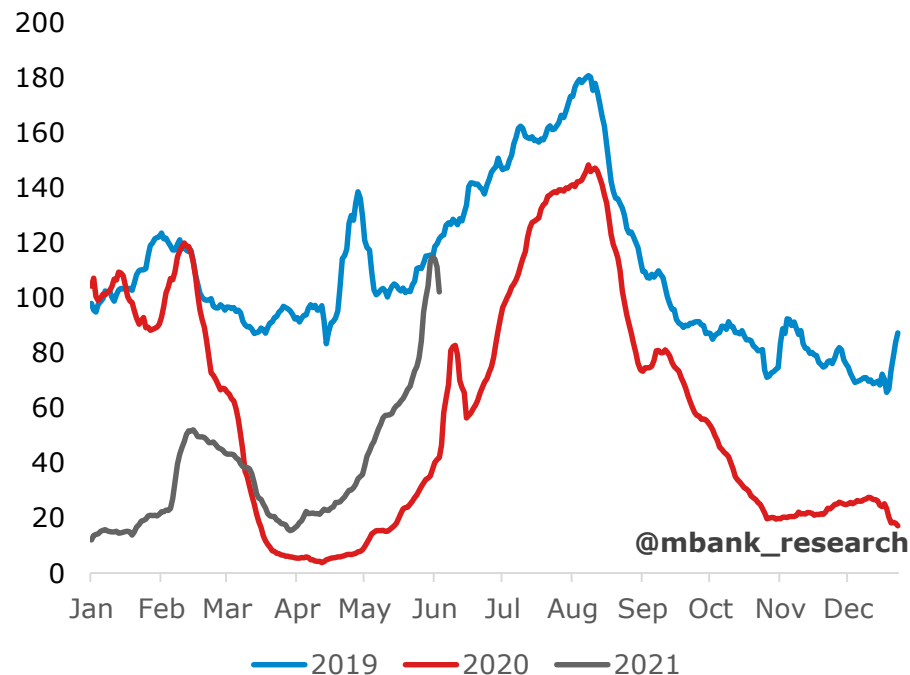
## Poland: Card expenditures, #1

**Restaurants, card expenditures weekly, Jan20 = 100**



Source: mBank transaction data. Own elaboration.

**Tourism, card expenditures weekly, Jan20 = 100**

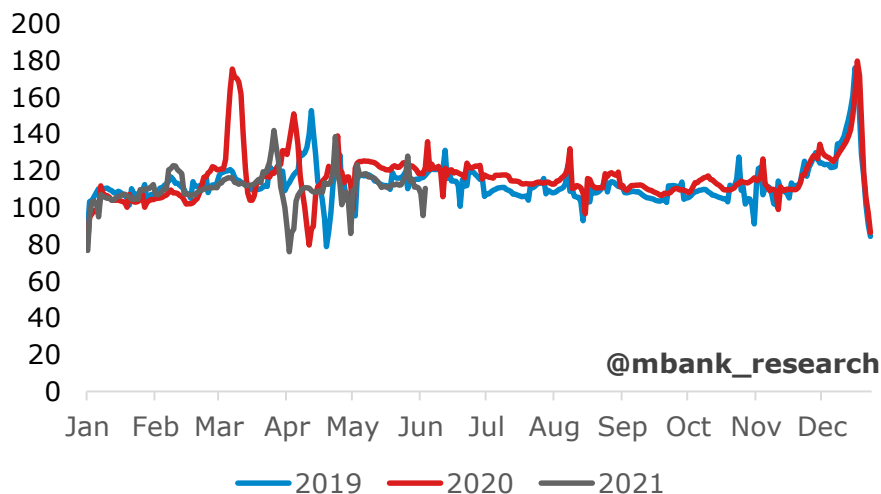


Source: mBank transaction data. Own elaboration.

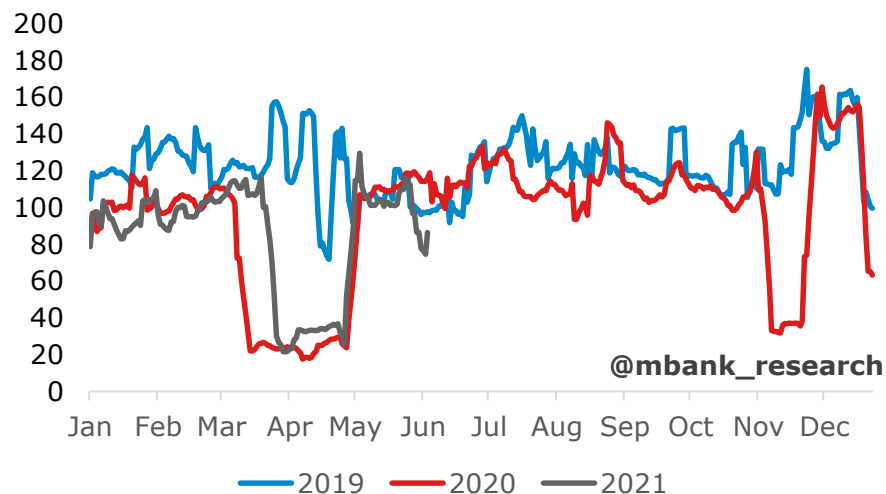
- ❖ In details, restrictions' easing has a various impact on individual service categories. Card expenditures in gastronomy are already at pre-pandemic January level (but here the seasonality is strong, winter expenses are usually lower than the summer ones). In coming months we can expect further improvement (analogously to the last year). Tourism spending also rebounded strongly - further increases can be expected here as well.
- ❖ Expenditures in hairdressers and beauty sector are back at the pre-pandemic level. Nothing should change here – there is no pent-up demand from last months, therefore we do not expect any stronger growth.
- ❖ Card transactions in culture (cinemas, concerts) are still much lower than before the pandemic. It is a result of restrictions (there are no music festivals or concerts, the number of participants is still limited). Lower are also card transactions in transport (e.g. flights).

## Poland: Card expenditures #2, 7-day average

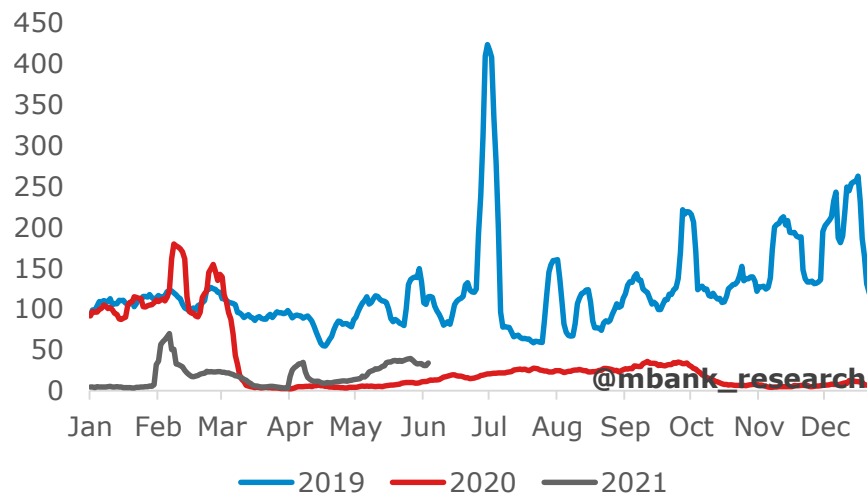
**Food, beverages and non-specialized stores, Jan20 = 100**



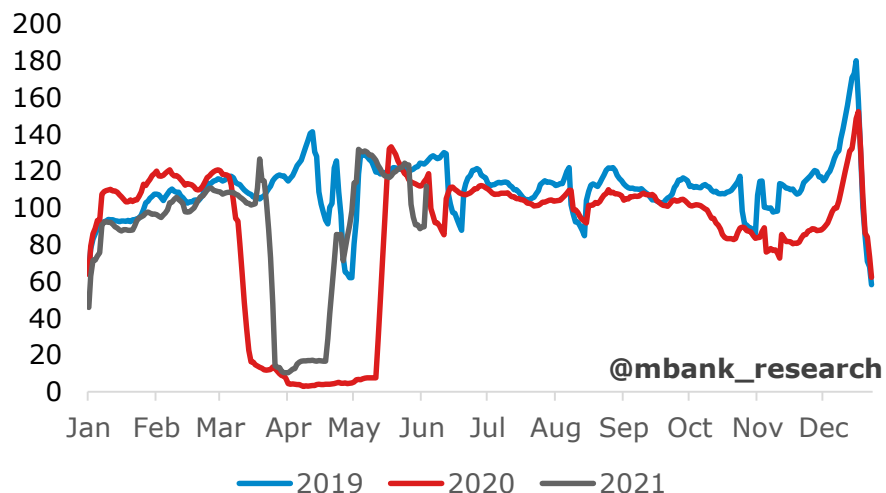
**Clothing, footwear, Jan20 = 100**



**Culture (theatres, cinemas), Jan20 = 100**



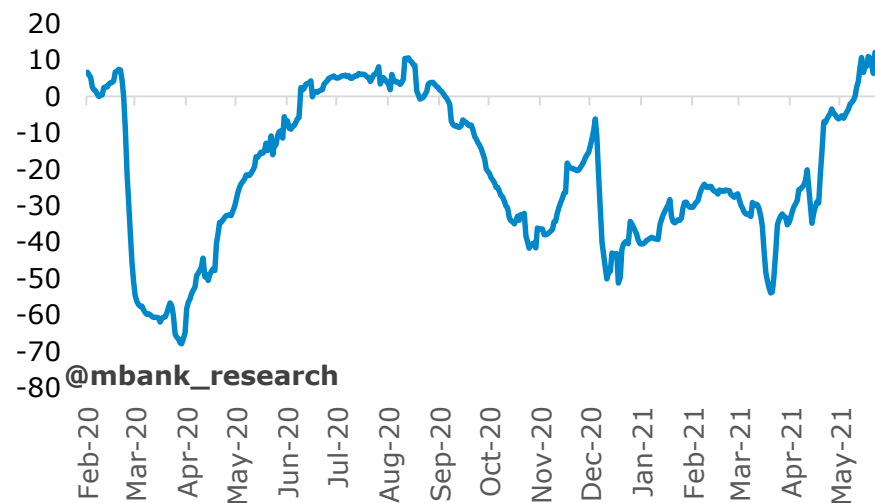
**Hairdressers, beauty, Jan20 = 100**



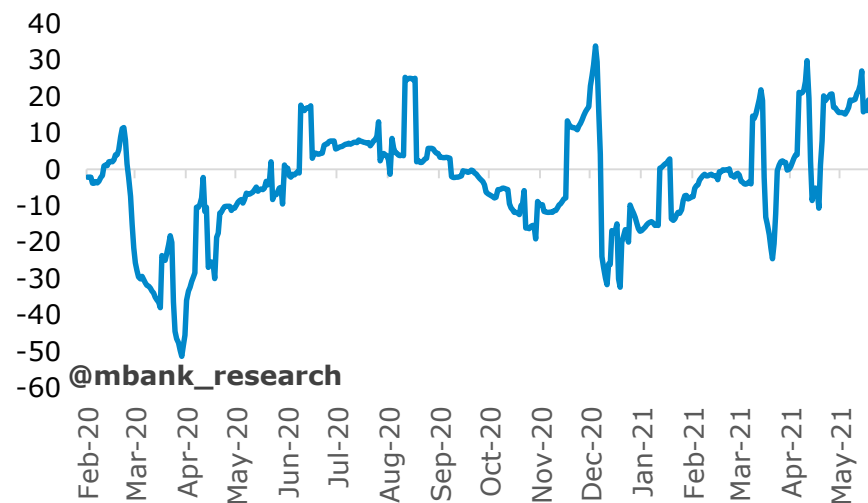
Source: mBank transaction data. Own elaboration.

## Poland: Google mobility, 7-day average

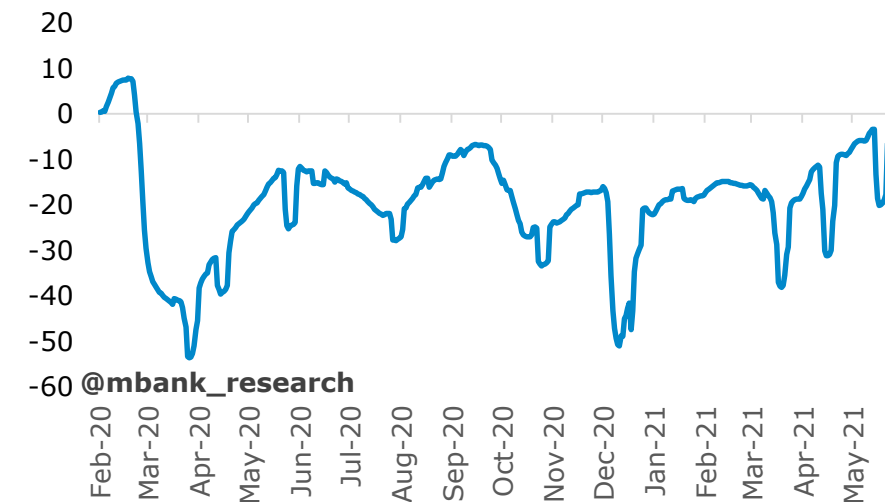
Retail & recreation (% change from Jan20)



Grocery & pharmacy (% change from Jan20)



Workplaces (% change from Jan20)



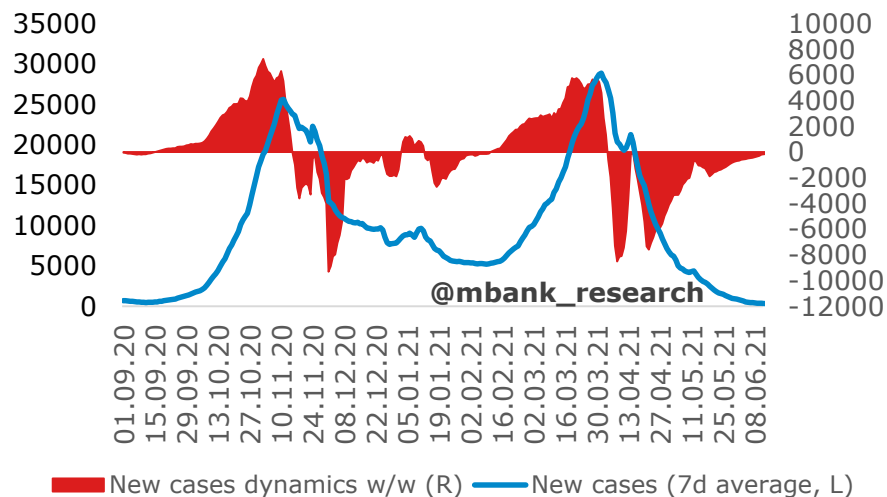
Residential (% change from Jan20)



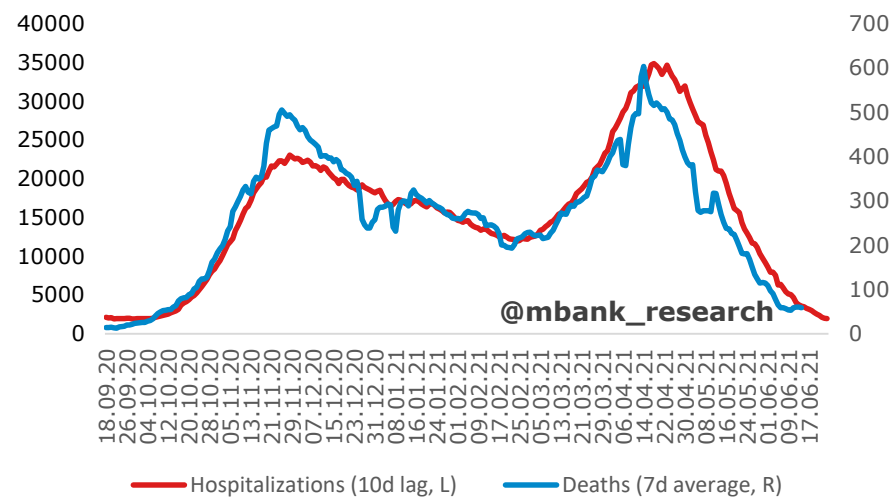
Source: Google mobility data. Insights in these reports are created with aggregated, anonymized sets of data from users who have turned on the Location History. The baseline is the median value, for the corresponding day of the week, during the 5-week period Jan 3–Feb 6, 2020.

# Poland: COVID-19 situation

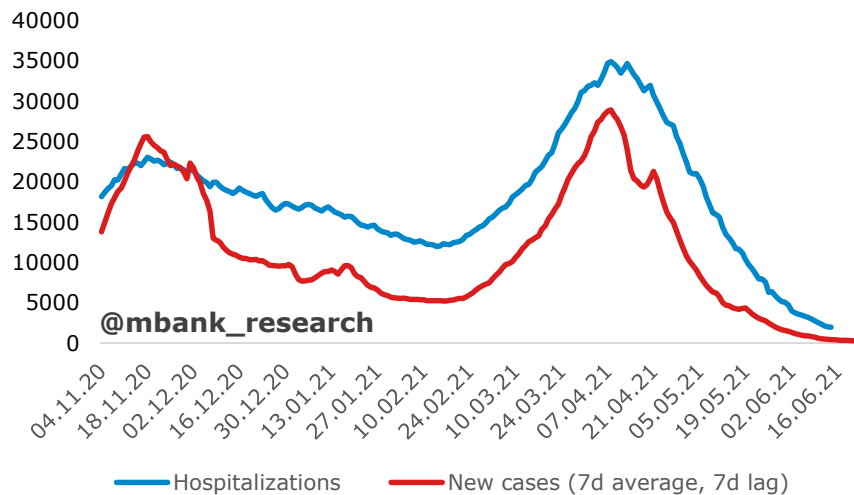
## Daily new cases (7day average)



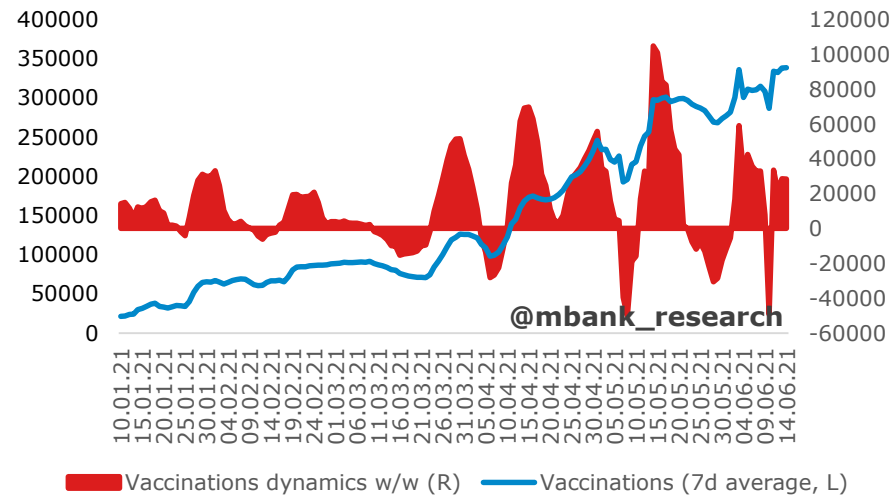
## Hospitalizations vs deaths



## New cases vs hospitalizations



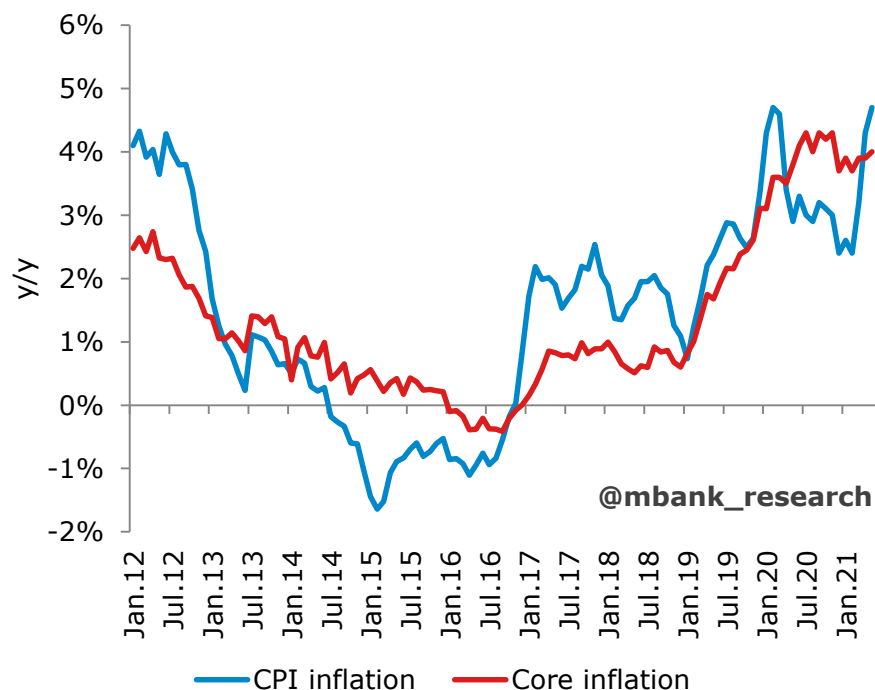
## Vaccinations



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

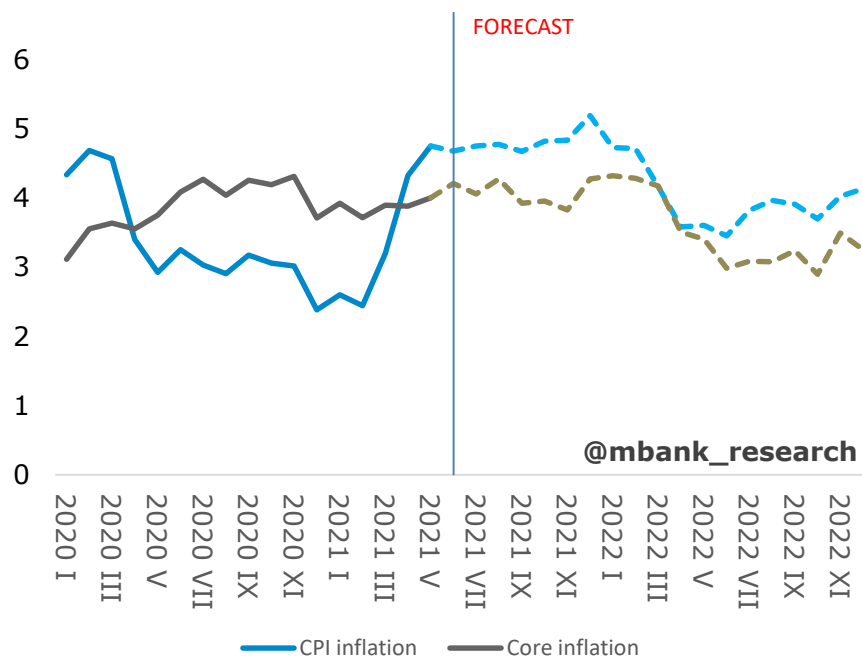
## Poland: Inflation tracker #1

CPI and core inflation (% y/y)



Source: Statistics Poland, NBP, own elaboration

Core and headline inflation forecast

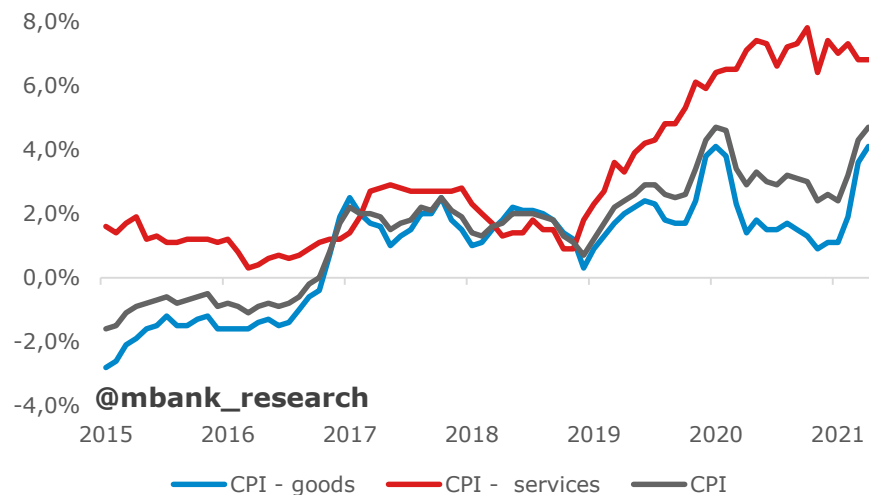


Source: Statistics Poland, own elaboration

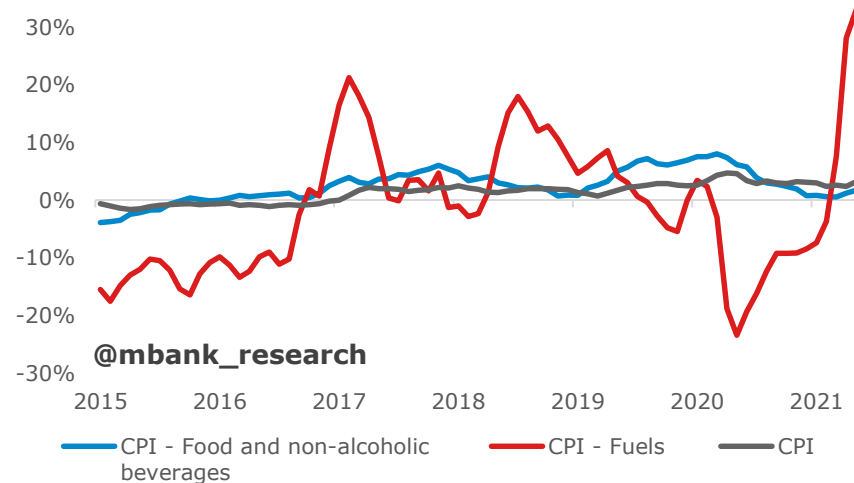
- ❖ The result of 4.7% y/y for May is the highest level for over a year. We do not think that inflation will significantly decline in the coming months. Furthermore we will see yearly dynamics above 5% in the year's end (but not in the summer).
- ❖ Before pandemics, core inflation (services inflation) was running high. It will be still running high given the state of the labor market. Goods inflation will give a boost to inflation mostly in 2021. It will be fading in 2022 but at the same time service inflation will be strengthening. We think that core inflation will be more or less flat in coming 2 years making the breach of 2.5% target almost certain.
- ❖ The reading does not change our view on the MPC next moves. Our forecast is the first rate hike in Q1 2022. MPC must see a consolidation of the recovery and persistence of high inflation to start the cycle of rate hikes. So far, the rhetoric of Governor Glapiński suggests that MPC is changing its view but it will be a slow process. Therefore we do not expect any rapid moves at July's meeting.

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

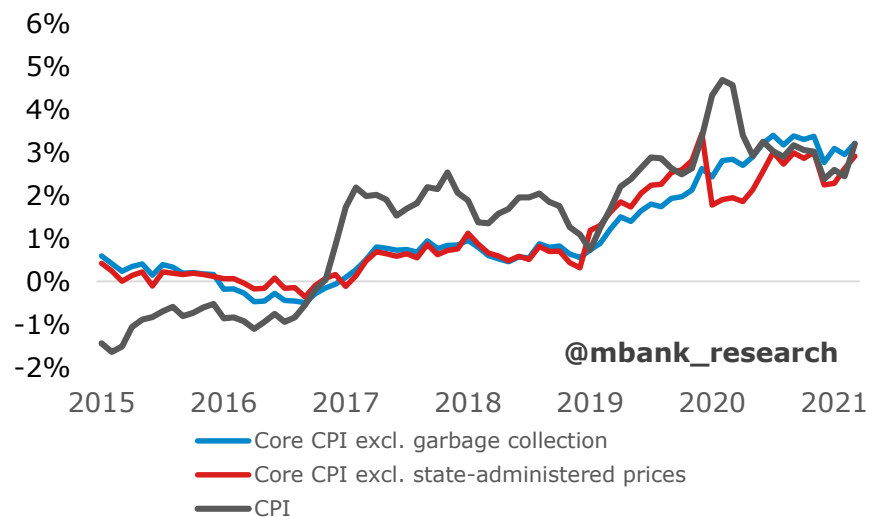
### Goods and services prices (% y/y)



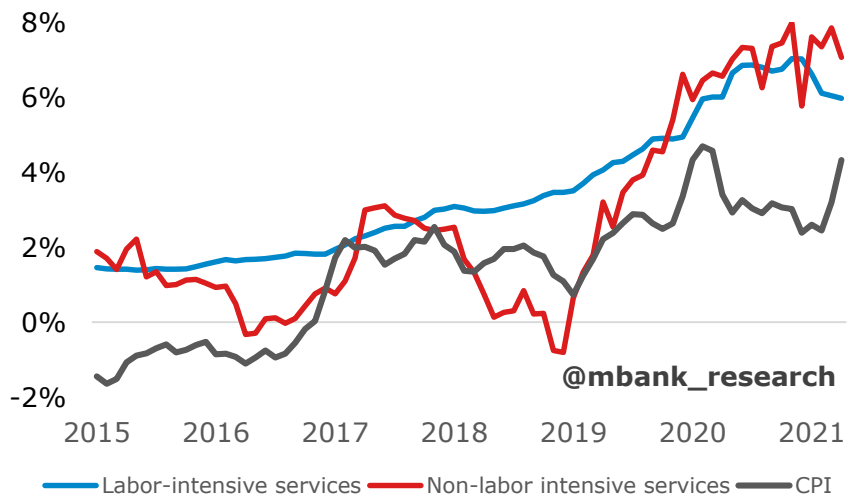
### Food and fuel prices (% y/y)



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



### Services (% y/y)

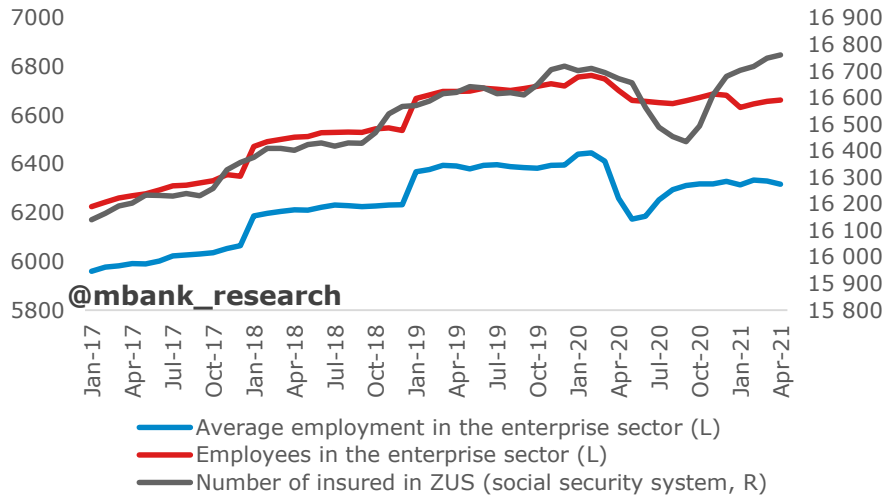


Source: Statistics Poland, own elaboration

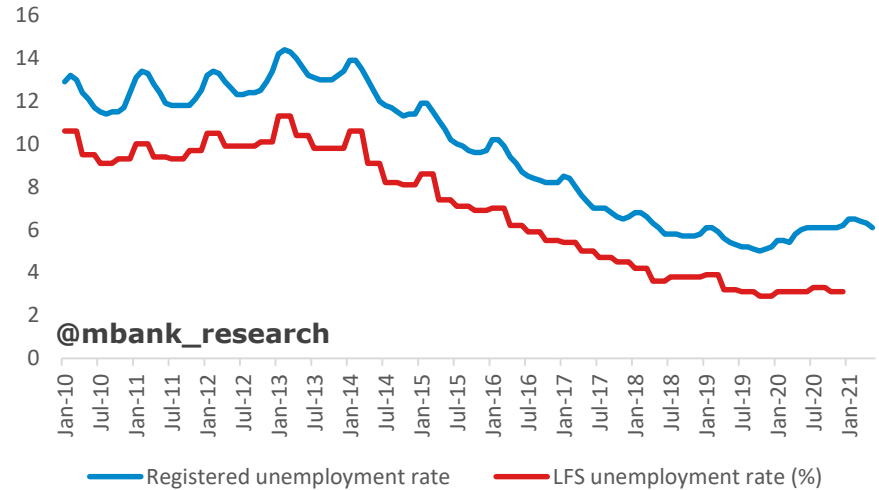


# Poland: Labor market tracker. Gradual improvement. Mind the low, starting level of unemployment rate.

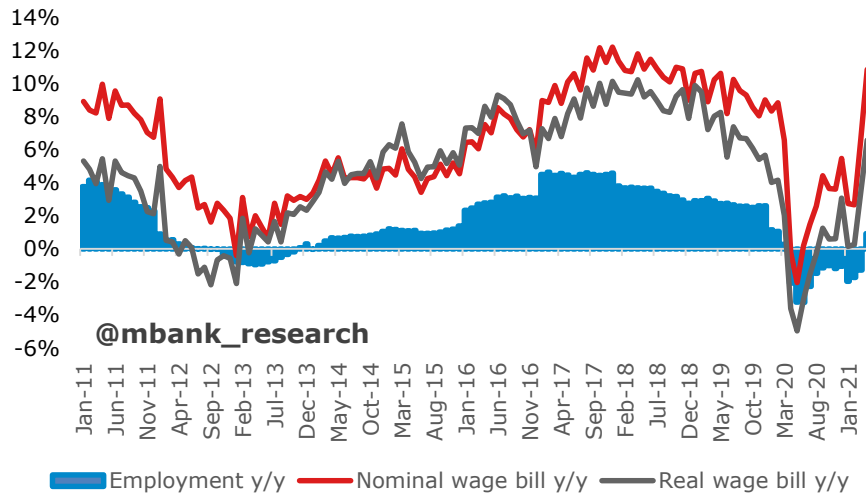
## Employment



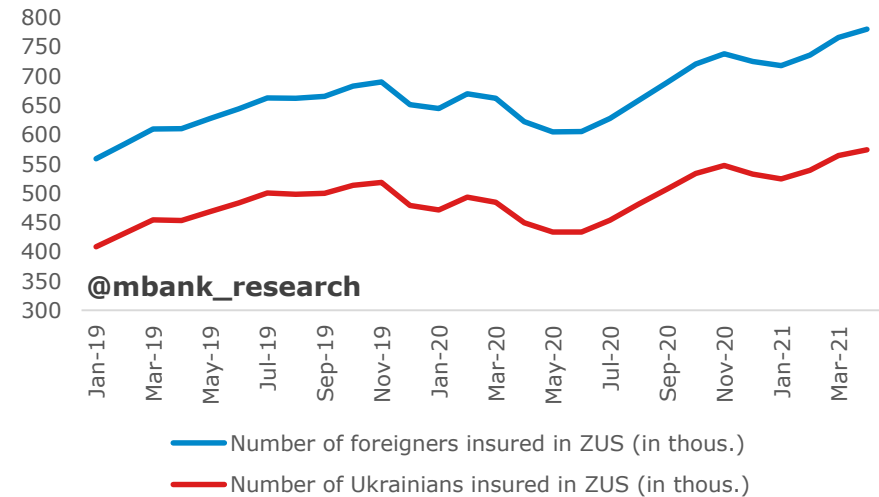
## Unemployment rate



## Wage bill



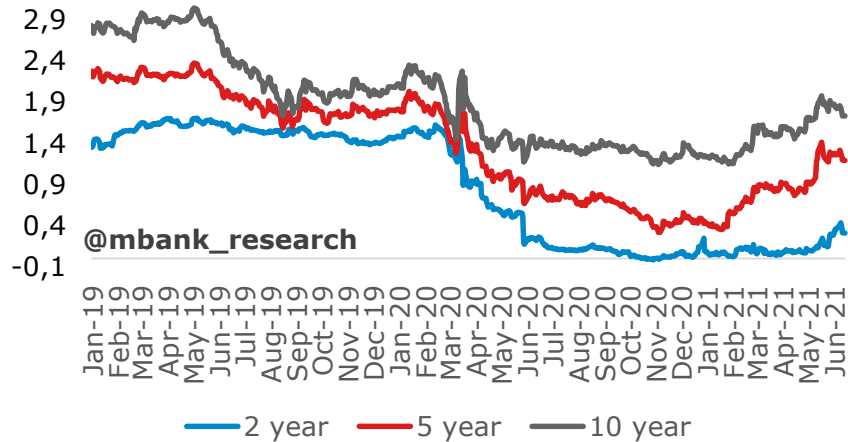
## Immigration in the labor force



Source: Statistics Poland, ZUS Statistical Portal, own elaboration

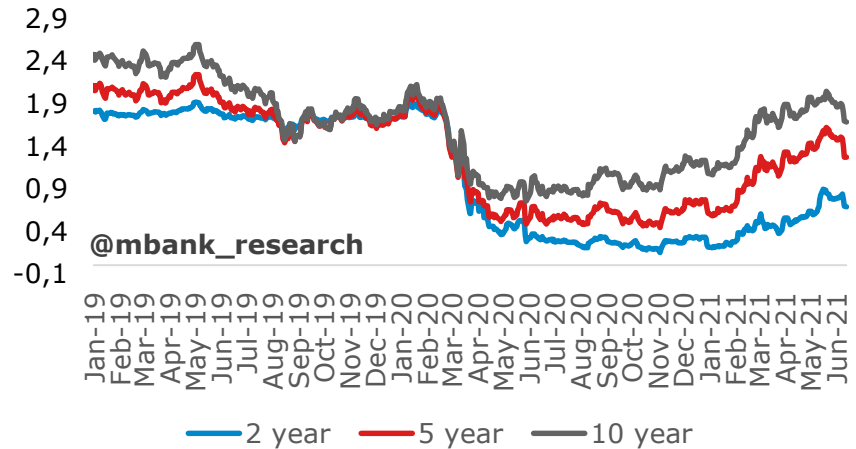
# Polish rates, yields and spreads: short end taking off, correction in longer end may be soon put to the test. ASW spreads normalizing.

## POLGBs



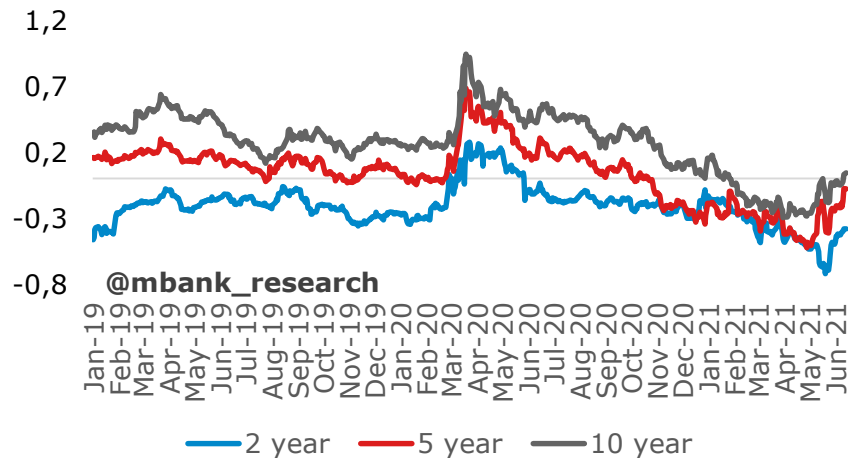
Source: Bloomberg

## PL IRS



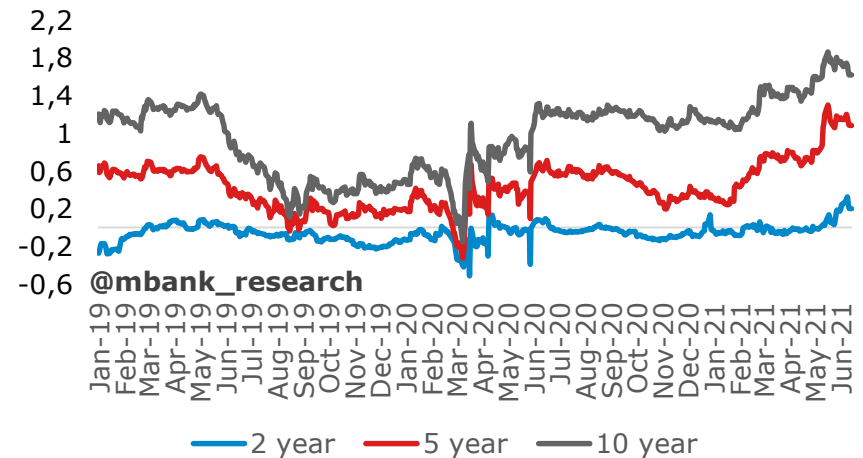
Source: Bloomberg

## ASW spread



Source: Bloomberg

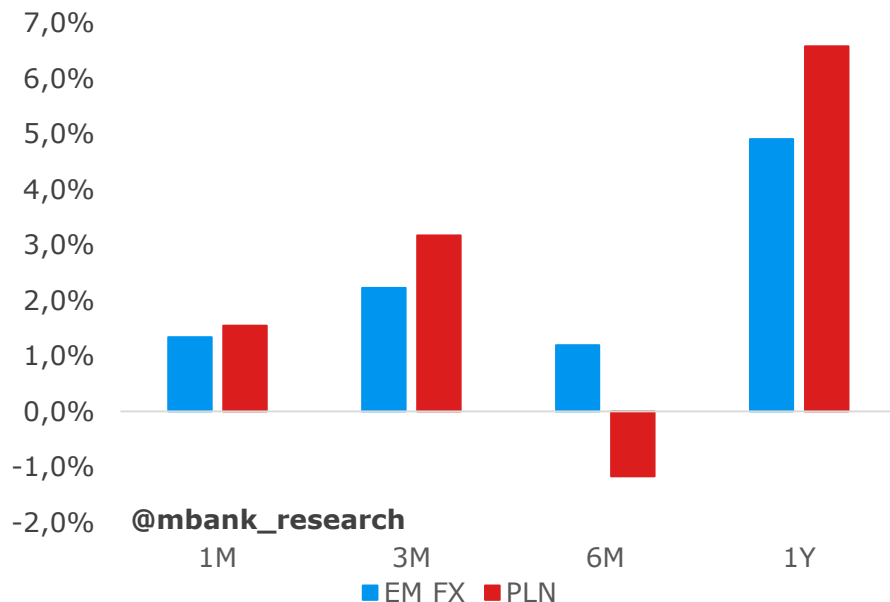
## POLGB yield minus 3m WIBOR



Source: Bloomberg

## PLN: zloty slightly stronger last month, but last days it came back above 4.50

### Weaker June after strong May



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

Source: Bloomberg

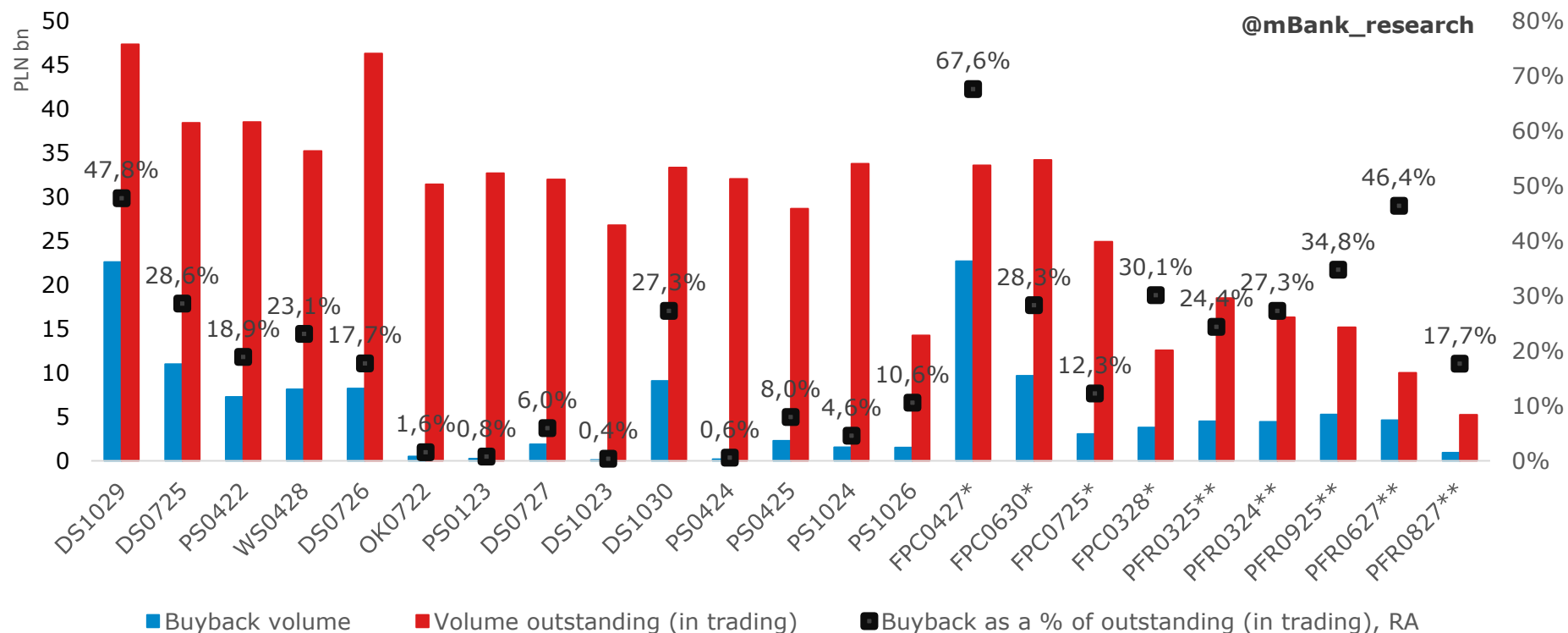
### Real effective exchange rate



Source: BIS

- ❖ May was a good month for zloty. It was getting stronger due to the overall optimism. But last weeks it started to depreciate again.
- ❖ The zloty remains weaker than the currencies of the region, but has depreciated similarly to the forint in the last days. This may be associated with possible concerns about the CJEU ruling on the rule of law. We would not link this development to recent Glapiński's comments. After all the NBP is turning towards more hawkish message. However, contrary to market pricing present last month, investors got a bit carried away with aggressive rate hikes pricing.
- ❖ What should we expect in the longer-term? NBP will start the interest rate hikes later than other regional central banks (CZK, HUF), which can have a negative impact on zloty. How? Range or horizontal trading is the most likely outcome for some time. Till the end of the year we see zloty stronger as rate hikes will be more aggressively priced in.

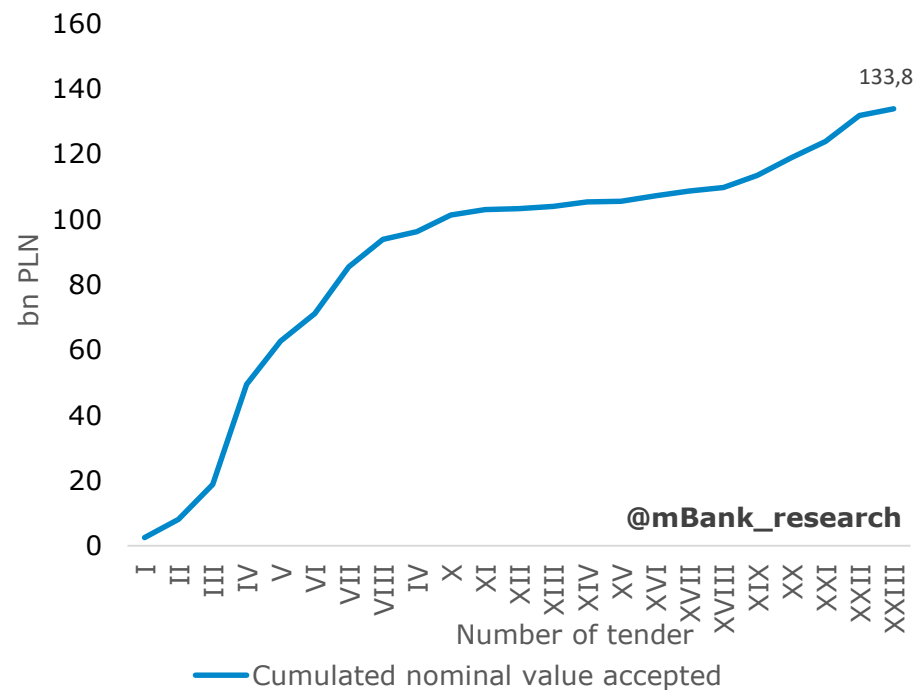
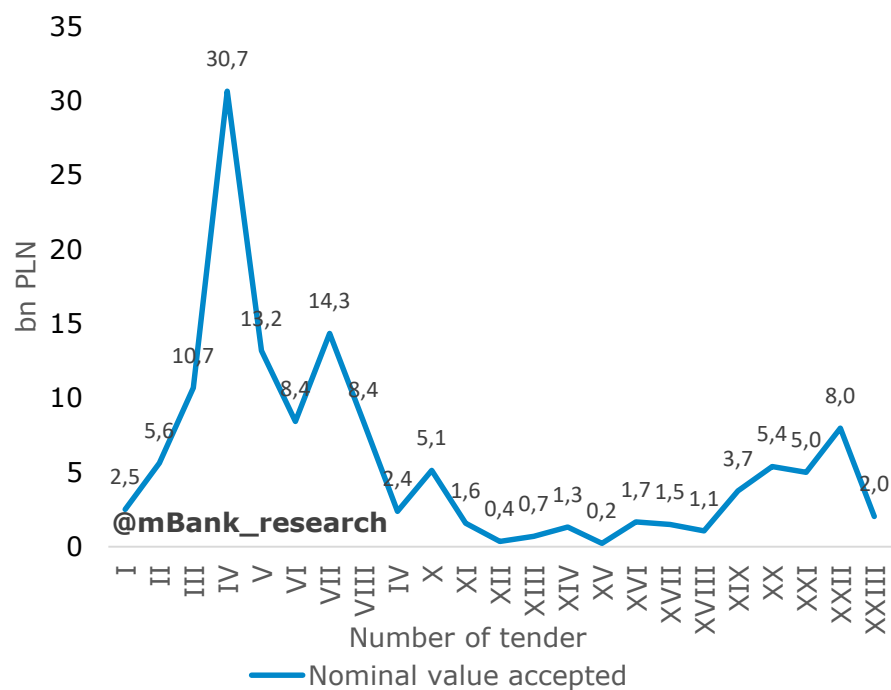
## Appendix: NBP „structural“ portfolio monitor



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

- ❖ The state for 15.06.2021. 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 15.06.2021.

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