Monthly Pulse Check
Economy. FI. FX

July 15th 2021

mBank Research

For contact details and classification of the report see the last page.

Our view in a nutshell (≥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 will come but they seem much more manageable now with minimal economic and health 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. Strategy review warrants easy monetary policy.
- 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 early 2022.

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 should help as well but this is the story for Q4 onwards.

		2021 Q1 F	2021 Q2 F	2021 Q3 F	2021 Q4 F	2022 Q1 F	2022 Q2 F	2022 Q3 F	2022 Q4 F	2020 Q1-Q4	2021 Q1-Q4	2022 Q1-Q4
GDP y/y	%	-0,9	11,3	4,9	6,8	6,4	4,9	4,8	5,1	-2,7	5,7	5,3
Individual consumption y/y	%	0,2	14,3	1,8	6,9	7,2	6,2	5,7	5,7	-3,0	5,8	6,2
Investment y/y	%	1,3	14,1	16,5	20,0	5,0	10,0	10,0	10,0	-8,4	13,0	8,8
Inflation rate (eop)	%	3,2	4,4	4,6	5,2	3,9	3,7	4,0	4,2	2,4	5,2	4,0
Unemployment rate (eop)	%	6,5	5,9	5,8	5,8	5,7	5,2	5,0	5,1	6,2	5,8	5,1
NBP repo rate (eop)	%	0,1	0,10	0,10	0,10	0,25	0,50	0,75	1,00	0,10	0,10	1,00
EUR/PLN (eop)	%	4,63	4,52	4,50	4,45	4,40	4,25	4,35	4,30	4,56	4,45	4,30
USD/PLN (eop)	%	3,95	3,81	3,72	3,65	3,58	3,40	3,48	3,44	3,73	3,65	3,44

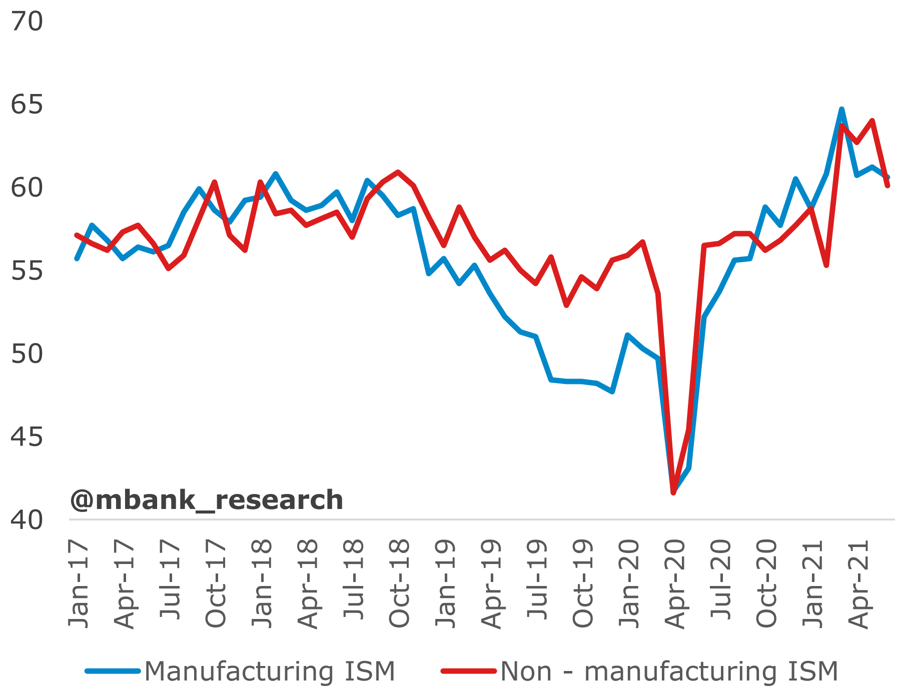
F - forecast

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 as hospitalizations are not rising rapidly. Polish data look promising. The number of cases is very low and inoculations proceed. However, the pace of vaccinations collapsed recently. 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 5,4% (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, that recently has been changed (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 – to be higher than in recent upswings after recessions. 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 confirms it is looking better than we expected. The revision of forecasts seem to be justified. 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 that subsequent waves of infections carry lower economic toll (possible in the Autumn), that there is no meaningful deceleration of current inflation (Autumn/Winter) and strengthening of economic growth progresses (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.
- NBP’s asset purchase programme thrives (see here and here). We take Glapiński’s word for guidance that before rate increases the asset purchase program has to be stopped. Therefore we expect communication with respect to this at the turn of the year (2021/2022).

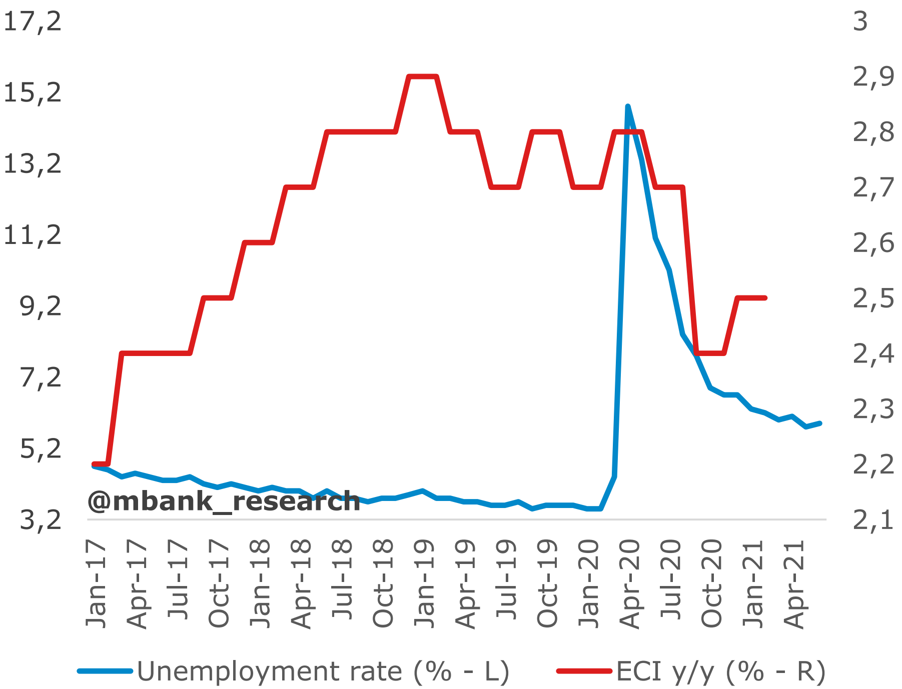
U.S. economy health check

ISM PMI: manufacturing & non-manufacturing



Source: ISM

Labor market: wages & unemployment rate

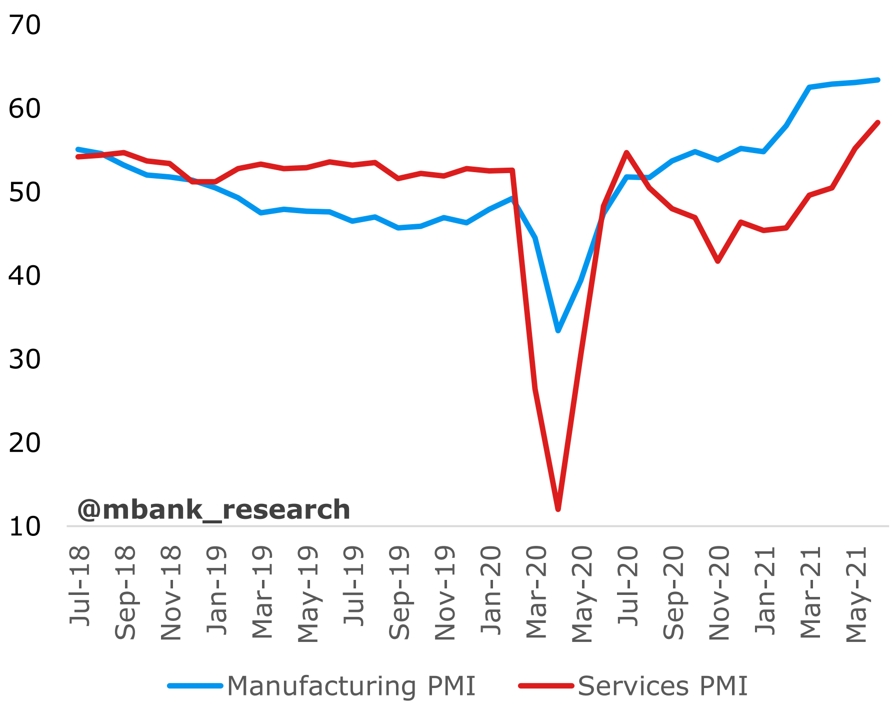


Source: FRED

- Business tendency indicators off the tops but solid. 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.
- A large part of the current price increases are mainly post-pandemic adjustments – they are transitory and driven by small subset of categories. 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). Tapering to start at the turn of 2021/2022. Rate hikes at the turn of 2022/2023.

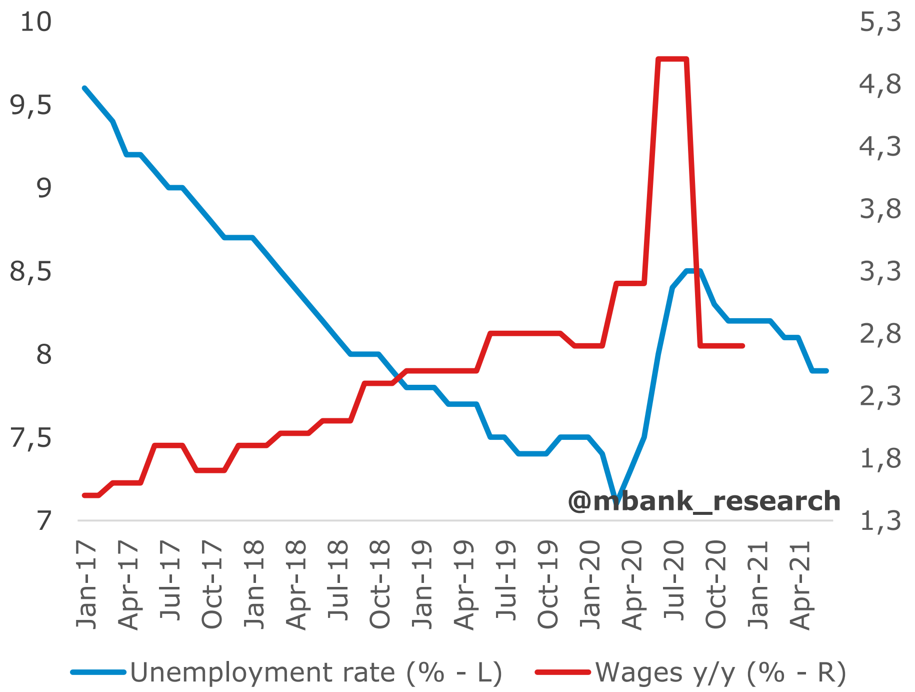
Euro area economy health check

Markit PMI: manufacturing & services



Source: Markit

Labor market: wages & unemployment rate

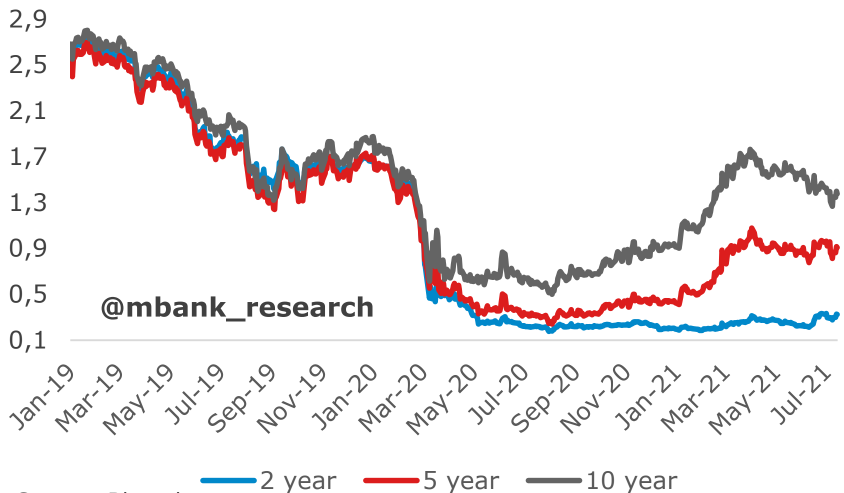


Source: Eurostat

- After 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.
- ECB's strategy review is concluded. Change in infation target is dovish, on balance. Hence, we expect ECB to implement some stronger forward guidance with respect to trajectory of rates and some guidance concerning asset purchases. As the end of PEPP is coming closer, we expect changes in asset purchase programme to be announced and implemented by the end of the year. In the new framework, asset purchases will be on balance higher than expected before the strategy review's closure.
- No rate increases in the next few years.

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 (%)

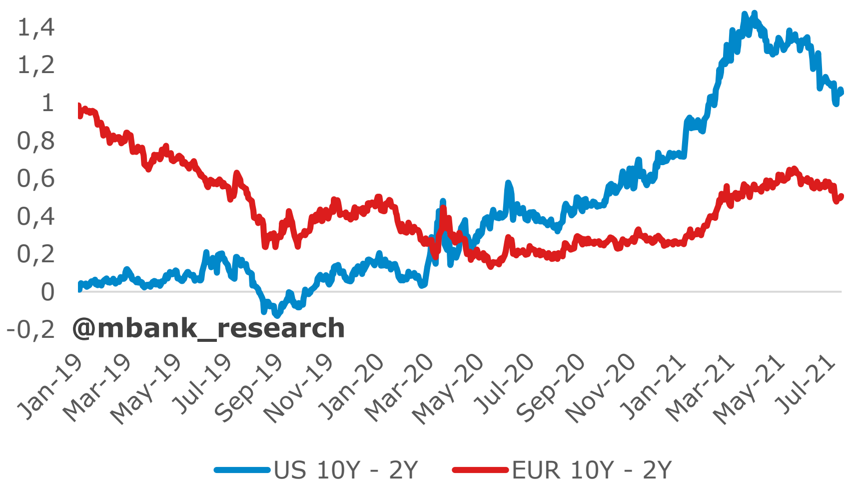


Source: Bloomberg

EU swap rates (%)

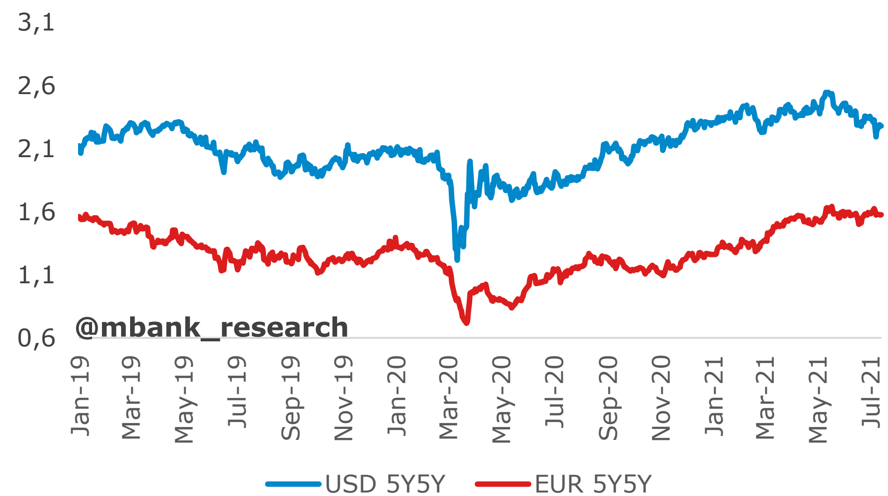
Source: Bloomberg

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



Source: Bloomberg

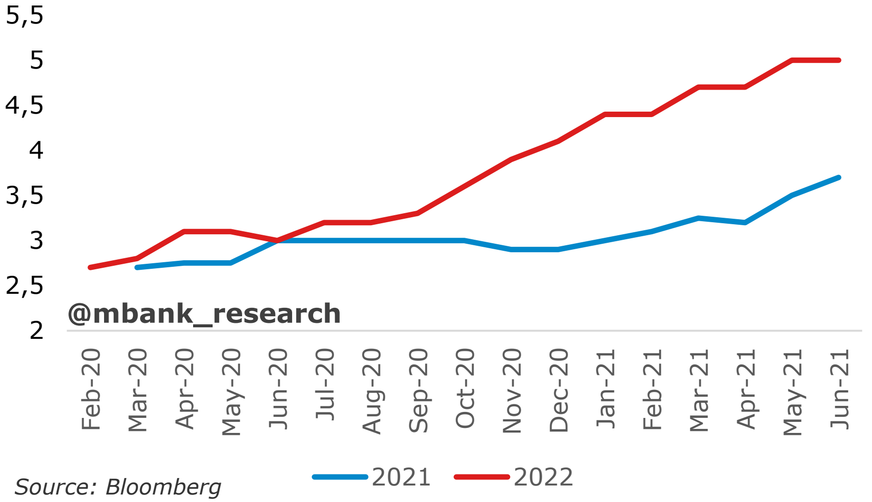
US and EZ inflation expectations (%)



Source: Bloomberg

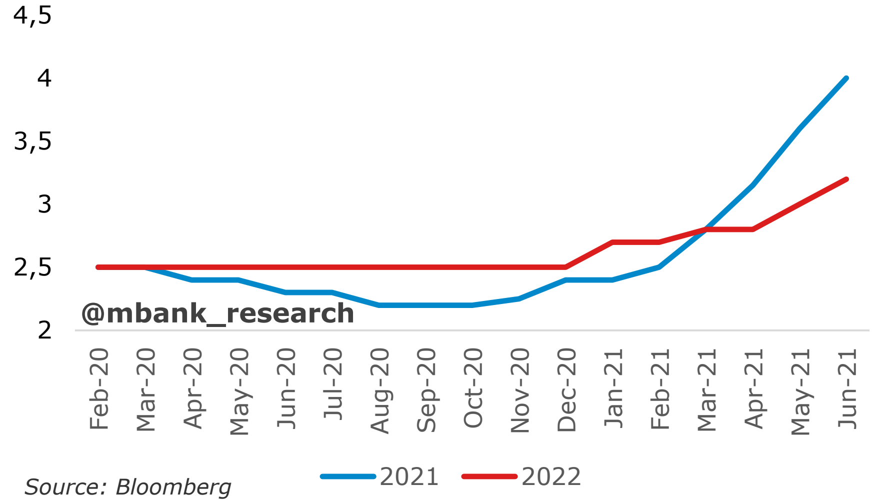
Consensus: what is expected in Poland?

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



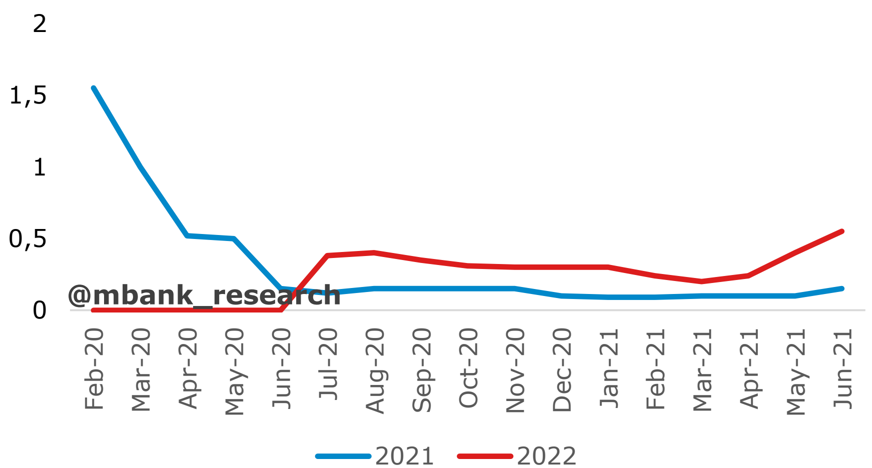
Source: Bloomberg

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



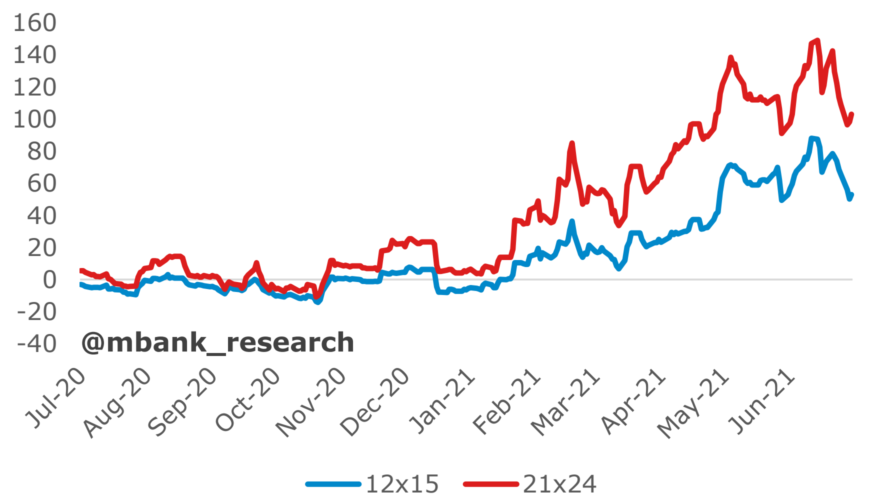
Source: Bloomberg

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



Source: Bloomberg

Rate changes priced in by FRA (bps)



Source: Bloomberg

Upcoming Polish macro releases: July 2021

Publication	Date	Period	mBank	Consensus	Actual	Prior
CPI y/y (%)	01.07[1] 15.07[2]	Jun	4,6%	4,5%	4,4% 4,4%	4,7%
PMI (pts.)	01.07	Jun	57,4	57,0	59,4	57,2
Unemployment rate (%)	05.07[3] 23.07[4]	Jun	5,9%	5,9%	6,0%	6,1%
Current account (m EUR)	14.07	May	1000	1505	60	1740
Employment y/y (%)	19.07	Jun	2,7%	2,7%		2,7%
Wages y/y (%)	19.07	Jun	9,9%	9,5%		10,1%
Industrial output y/y (%)	20.07	Jun	17,9%	19,0%		29,8%
PPI y/y (%)	20.07	Jun	6,9%	6,8%		6,5%
Construction output y/y (%)	21.07	Jun	5,0%	7,1%		4,7%
Retail sales y/y (%)	21.07	Jun	9,2%	8,4%		13,9%
M3 y/y (%)	22.07	Jun	8,0%	7,8%		9,0%

[1] Flash estimate

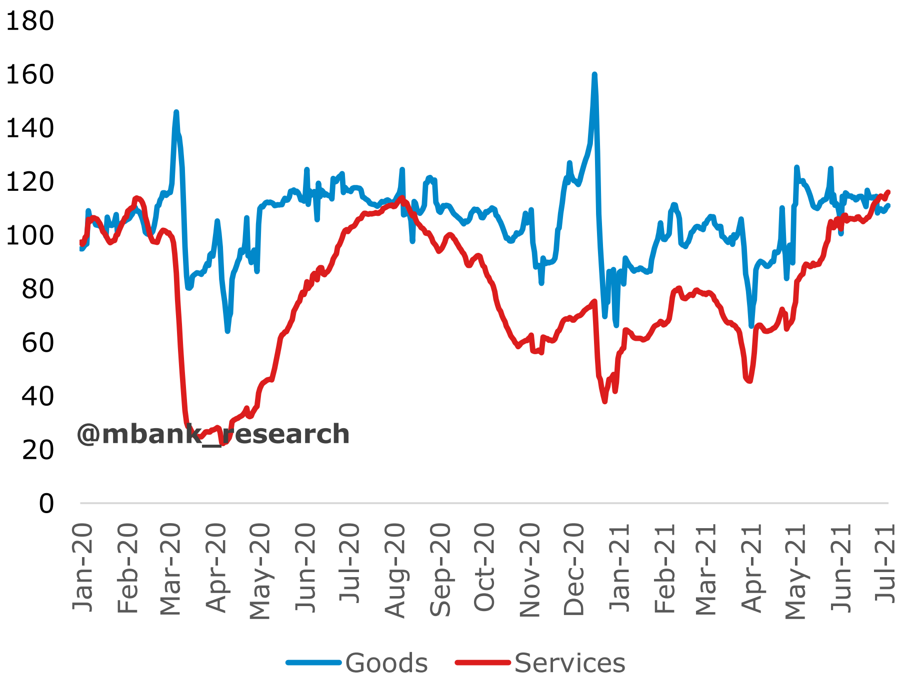
[2] Final reading

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

[4] Statistics Poland final reading

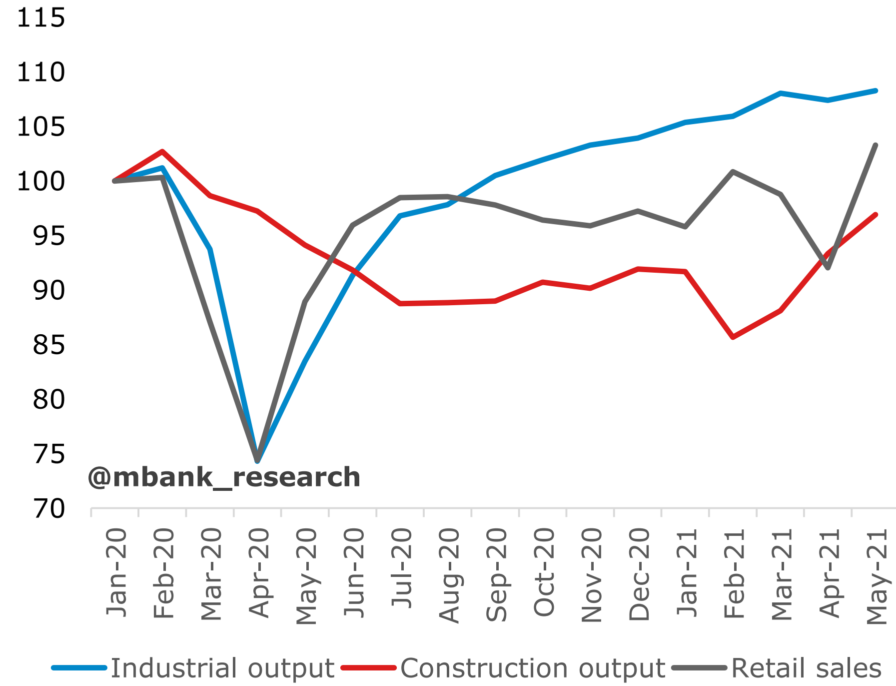
Poland: Activity is still high

Card expenditures weekly, Jan20 = 100



Source: mBank transaction data. Own elaboration.

Seasonally adjusted, index 2015 = 100

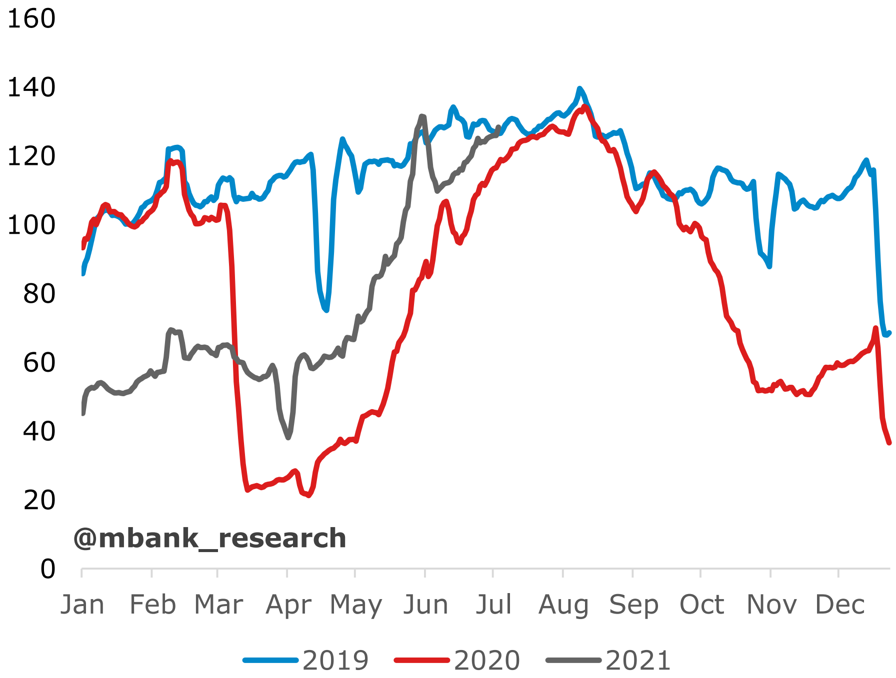


Source: mBank, Statistics Poland

- Hard data for May did not surprise. The most significant rebound was recorded in retail sales – it is the effect of restriction easing (as shopping centers were opened, categories like clothing or furniture recorded high m/m dynamics). Retail sales noted the highest level in its history but is still below the pre-pandemic trend. The pent-up demand for goods rather realized in May, now it is time to moderate. It is just our estimate - we do not know June reading yet, but card expenditures for goods fit in this scenario. Card expenditures for goods stabilized and stay on rising course with respect to services.
- Acceleration in industrial production associated with the restart of supply chains is most likely behind us. But it does not change the overall optimistic view on this part of the economy. Industrial production continue to grow at a pace close to the pre-pandemic trend. Cumulated deviation from trend from last ten years is getting smaller – reading after reading output fills the „hole" resulting from periods of restrictions. Construction production is the only one below the pre-pandemic levels, but high dynamics of building permits and new investment cycle (e.g. EU funds) also make perspectives optimistic.

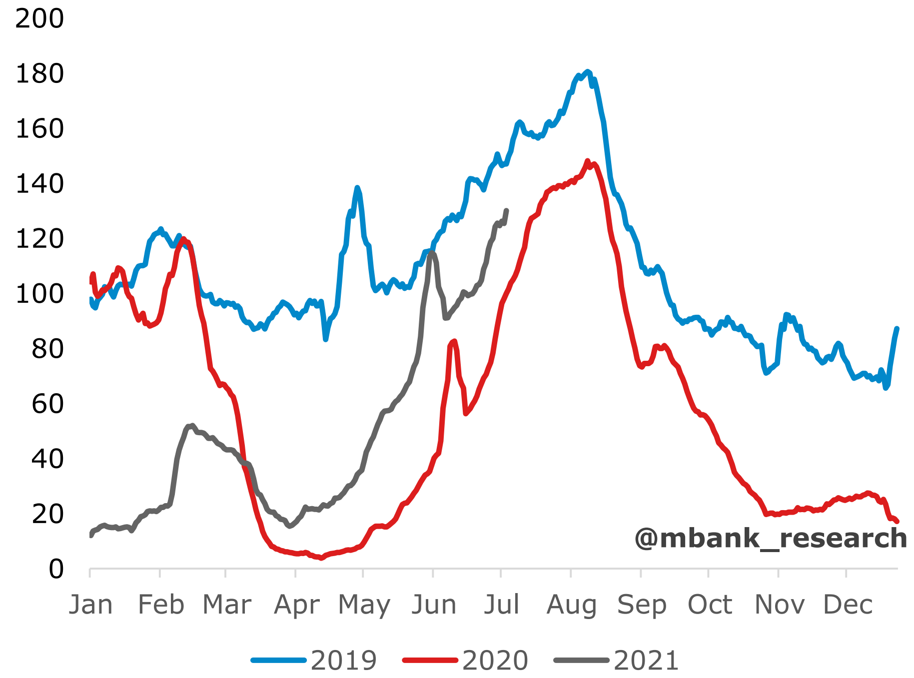
Poland: Card expenditures, #1

Restaurants, card expenditures weekly, Jan20 = 100



Source: mBank transaction data. Own elaboration.

Tourism, card expenditures weekly, Jan20 = 100

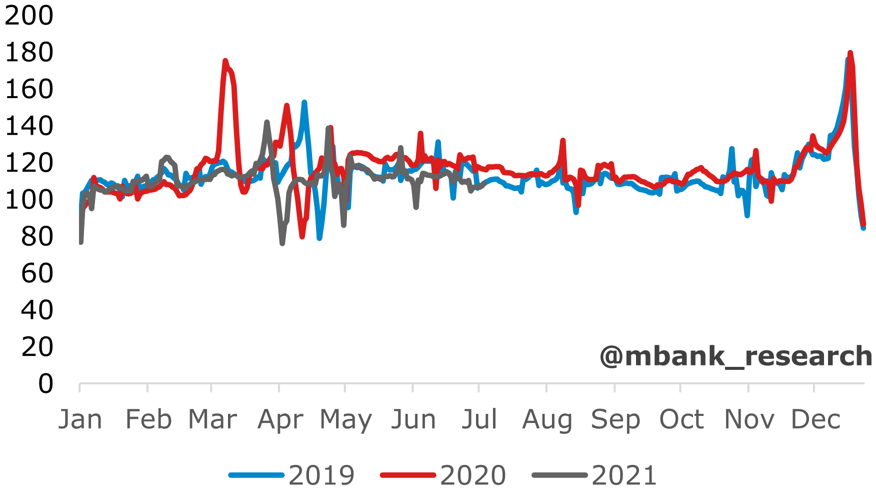


Source: mBank transaction data. Own elaboration.

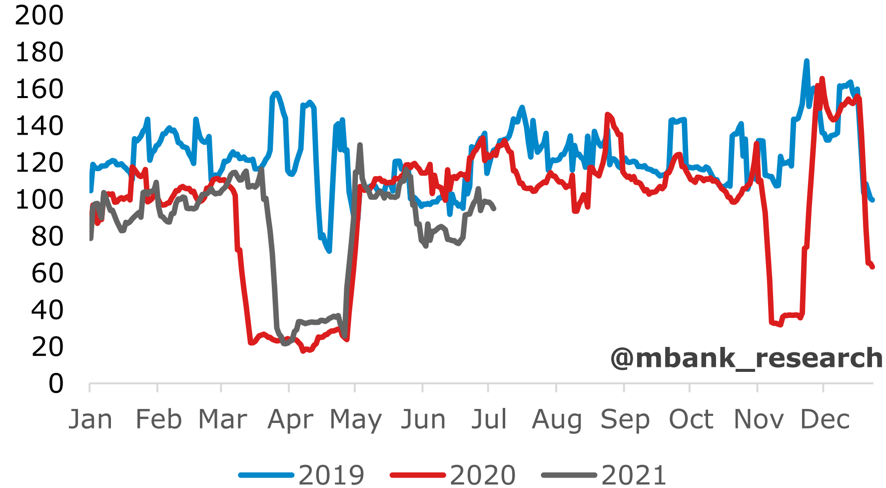
- We can track expenses on services mainly using the card transactions data (there is no official statistical reading). The overall level of expenditures in services is above the pre-pandemic numbers (see slide before). But the situation strongly depends on the category.
- Expenditures in restaurants are at the similar levels as in analogous months before in pre-pandemic years. Seasonality (and even more, the behavior from last year) suggest that they will be even higher in next months. Lower then before COVID-19 are yet expenditures in tourism, but here the overall tendency is also optimistic – levels are higher than a year before and the peak is still ahead of us. The main risk is the possibility of fourth wave of COVID-19, but for now it does not have any significant impact and our baseline scenario assumes that economic activity will be mostly unaffected.
- 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). Those areas are of course opened for further quest towards normality.

Poland: Card expenditures #2, 7-day average

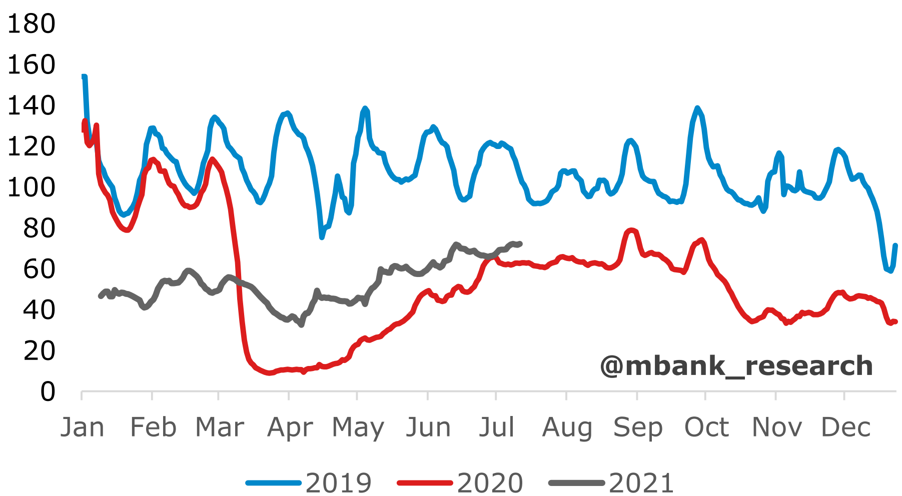
Food, beverages and non-specialized stores, Jan20 = 100



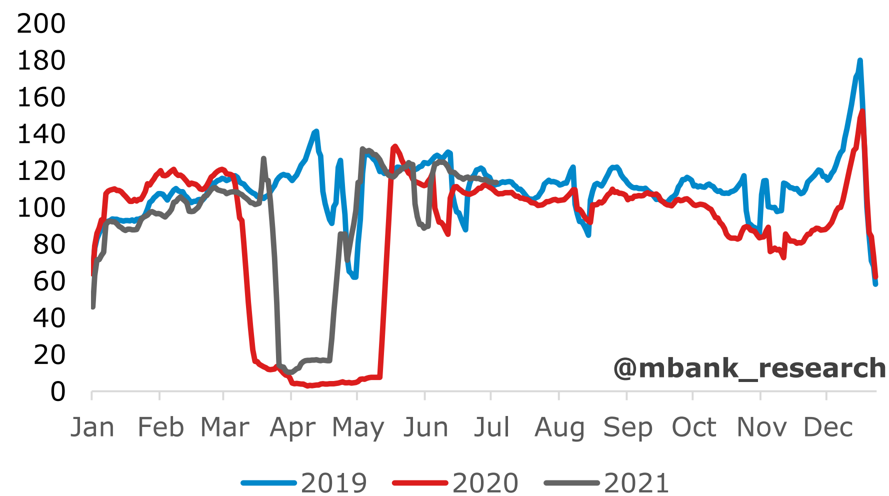
Clothing, footwear, Jan20 = 100



Transport, Jan20 = 100



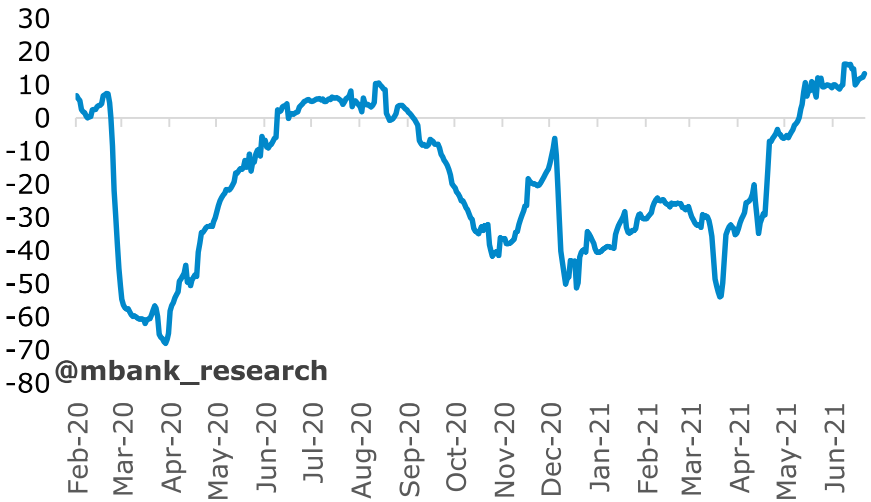
Hairdressers, beauty, Jan20 = 100



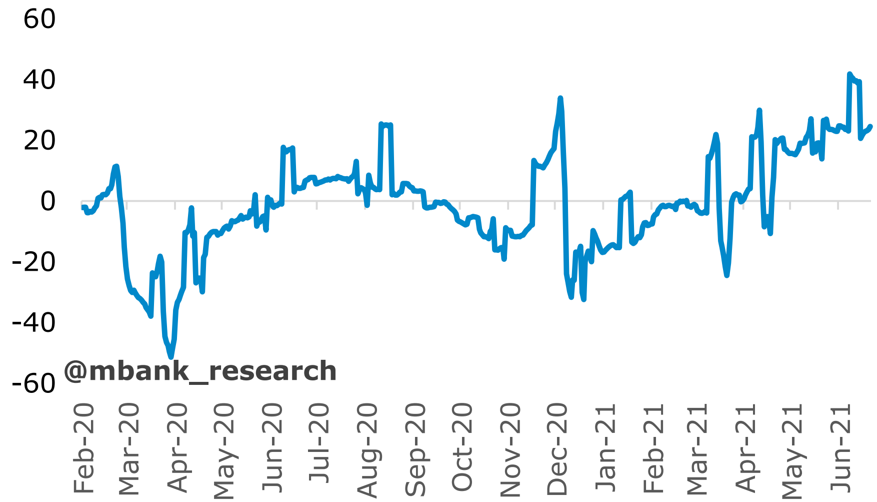
Source: mBank transaction data. Own elaboration.

Poland: Google mobility, 7-day average

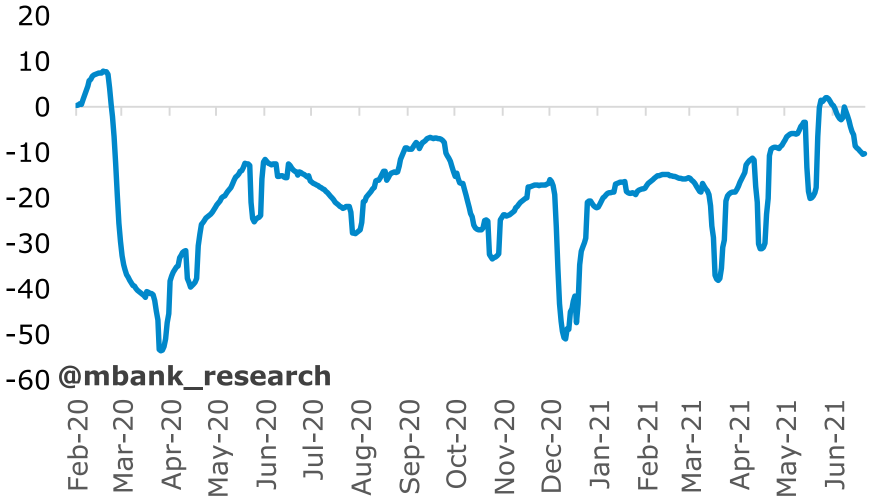
Retail & recreation (% change from Jan20)



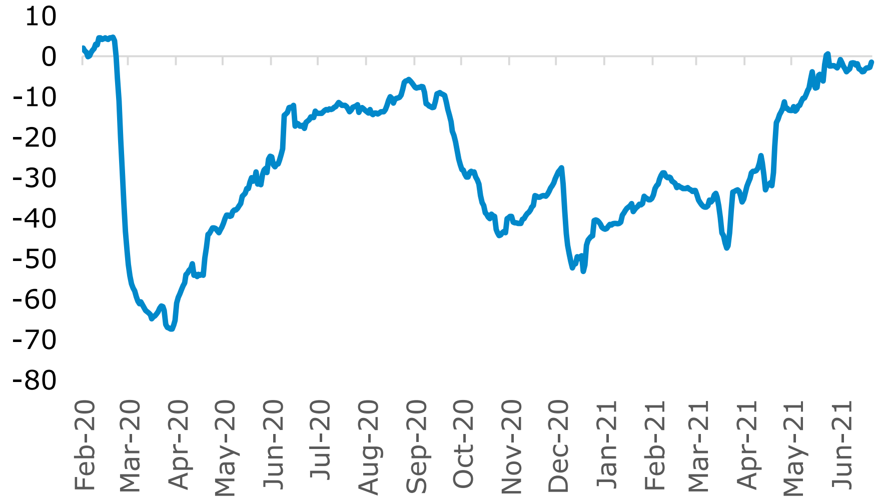
Grocery & pharmacy (% change from Jan20)



Workplaces (% change from Jan20)



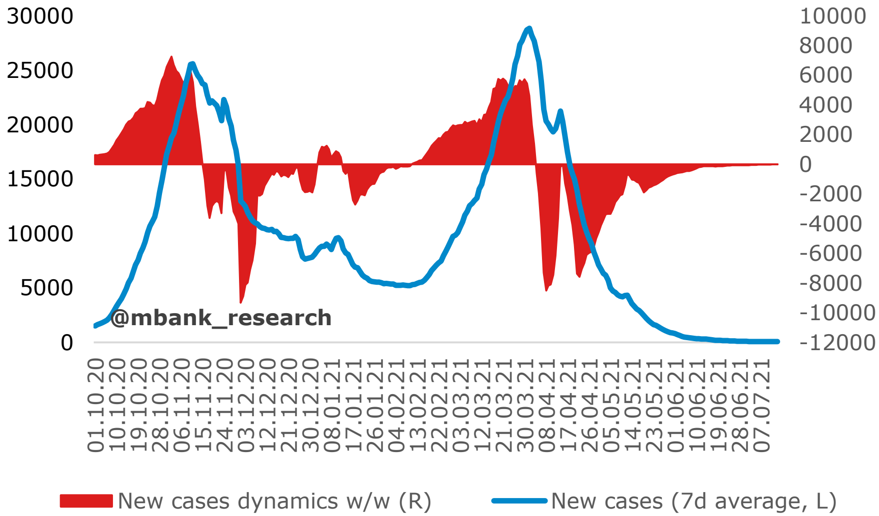
Transit stations (% change from Jan20)



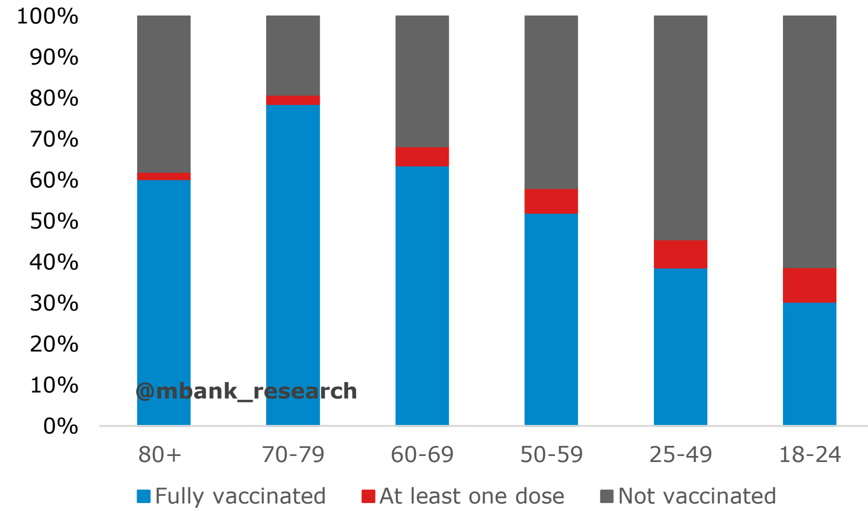
Source: Google mobility data. Insights in these reports are created with aggregated, anonymized sets of data from users who have turned on the Location History
The baseline is the median value, for the corresponding day of the week, during the 5-week period Jan 3–Feb 6, 2020

Poland: COVID-19 situation

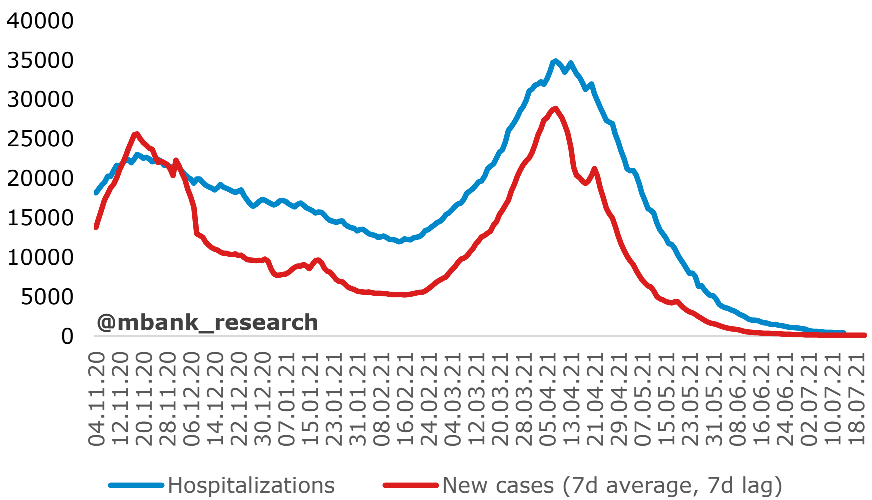
Daily new cases (7day average)



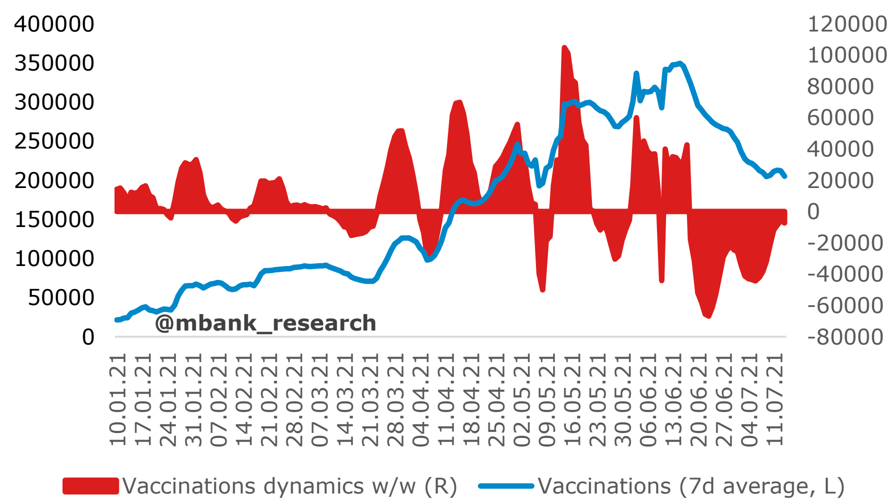
Cumulative uptake (%) of vaccinations by age



New cases vs hospitalizations



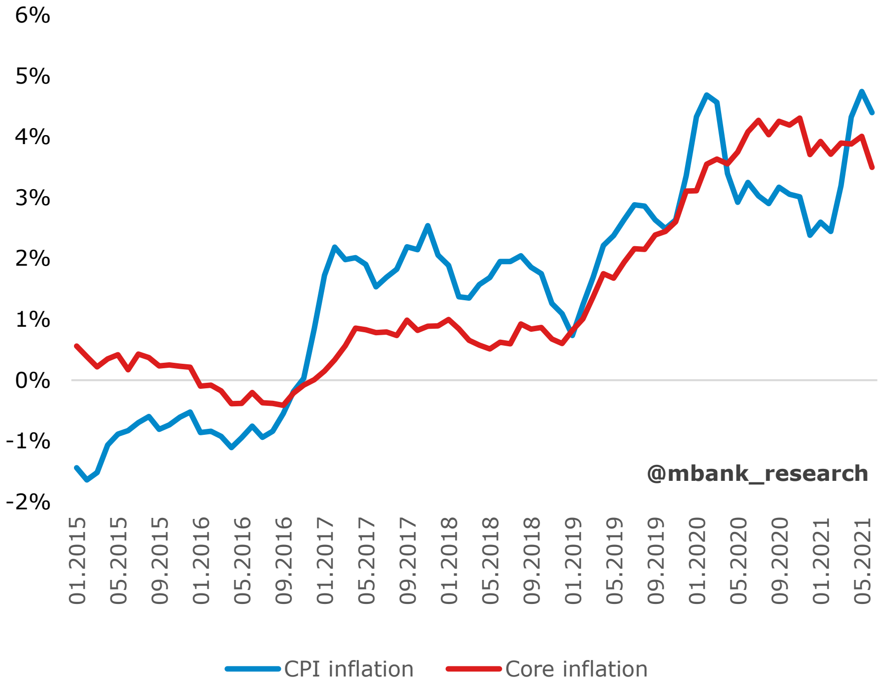
Vaccinations



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

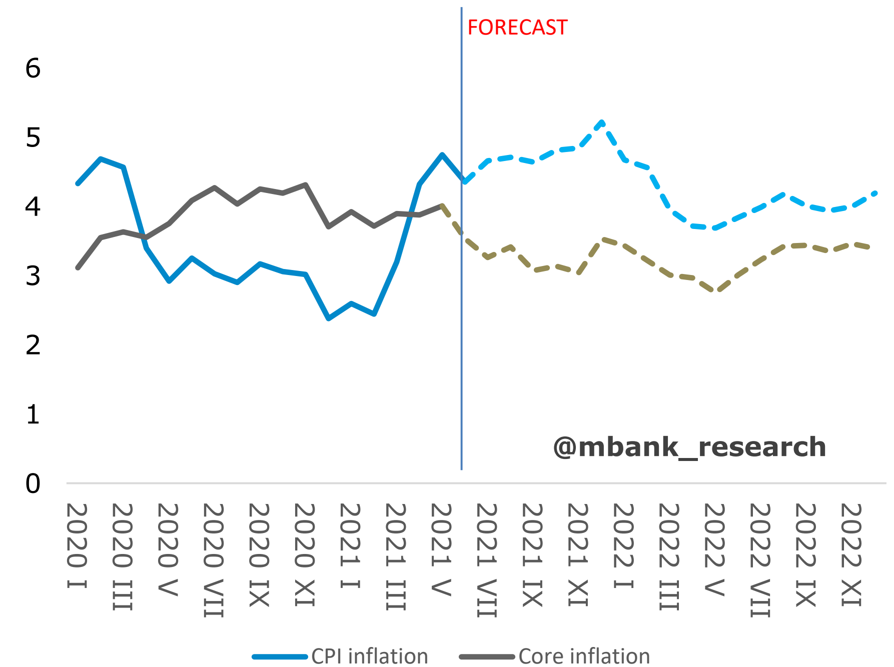
Poland: Inflation tracker #1

CPI and core inflation (% y/y)



Source: Statistics Poland, NBP, own elaboration

Core and headline inflation forecast

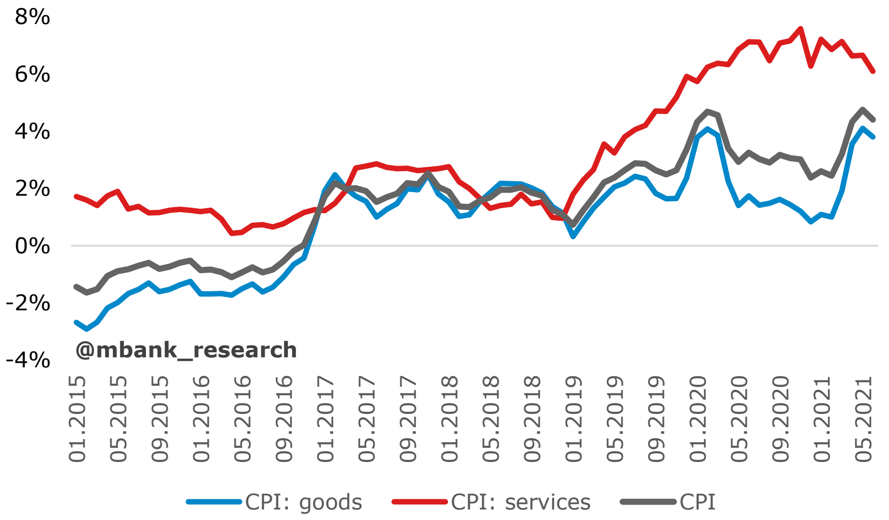


Source: Statistics Poland. own elaboration

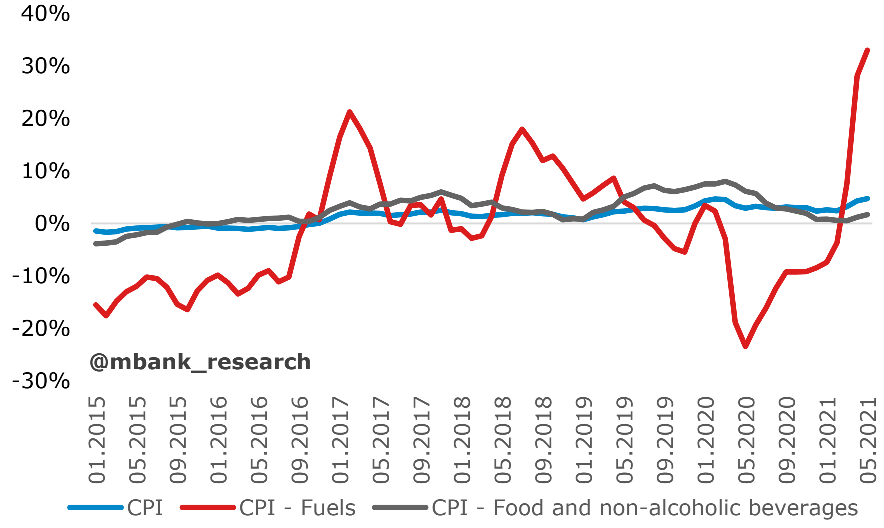
- June's drop of inflation does not imply a reversal in our view. Next months are set to bring inflation closer to 5% again.
- Before pandemics, core inflation (services inflation) was running high. It will be still running high given the state of the labor market. Goods inflation will give a boost to 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 soon. Yet, the evolution of stance can be felt.

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

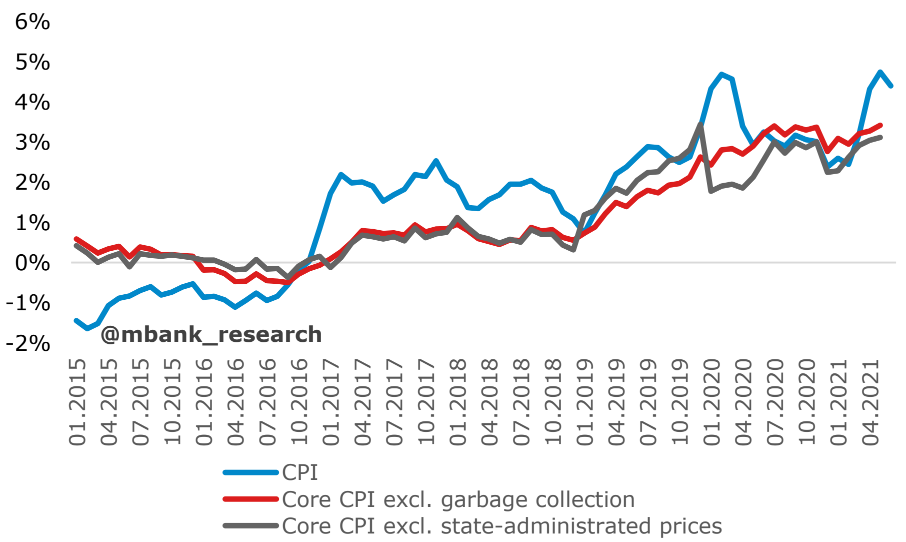
Goods and services prices (% y/y)



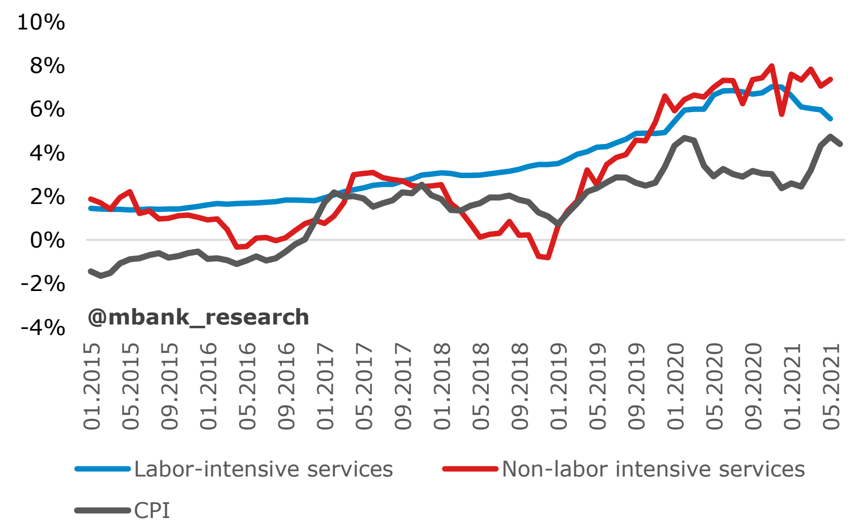
Food and fuel prices (% y/y)



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

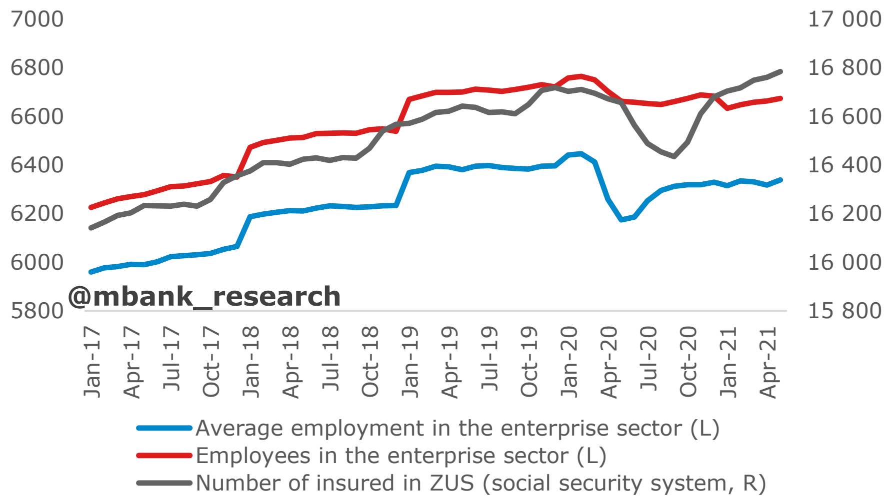


Services (%% y/y)

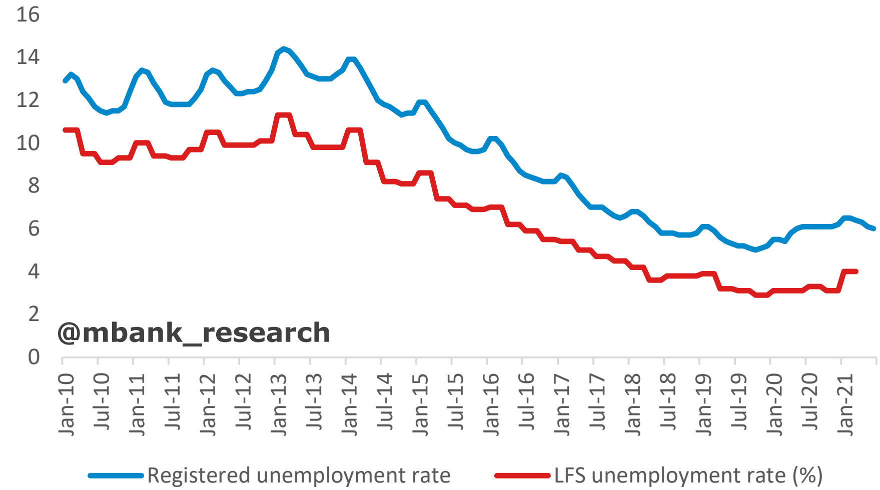


Poland: Labor market tracker. Gradual improvement. Mind the low, starting level of unemployment rate.

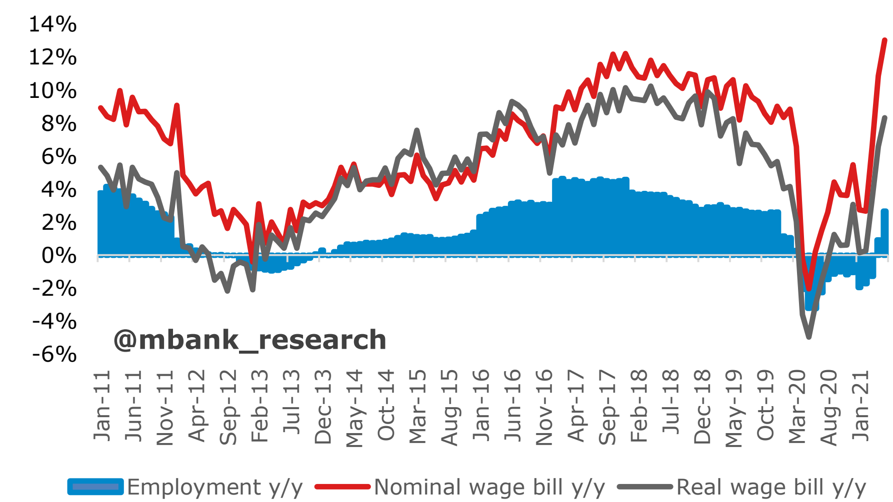
Employment



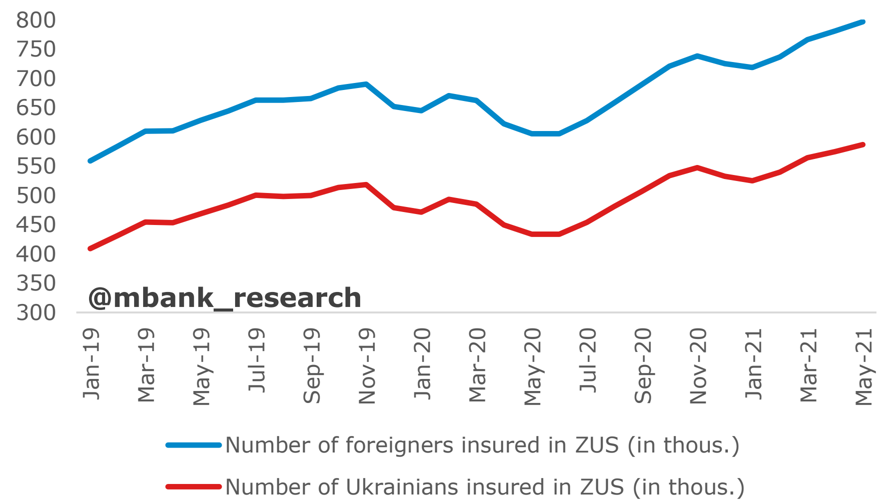
Unemployment rate



Wage bill



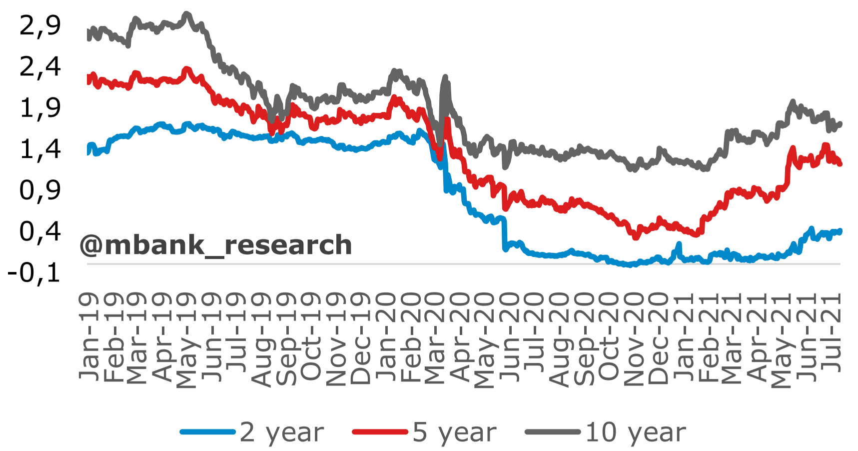
Immigration in the labor force



Source: Statistics Poland, ZUS Statistical Portal, own elaboration

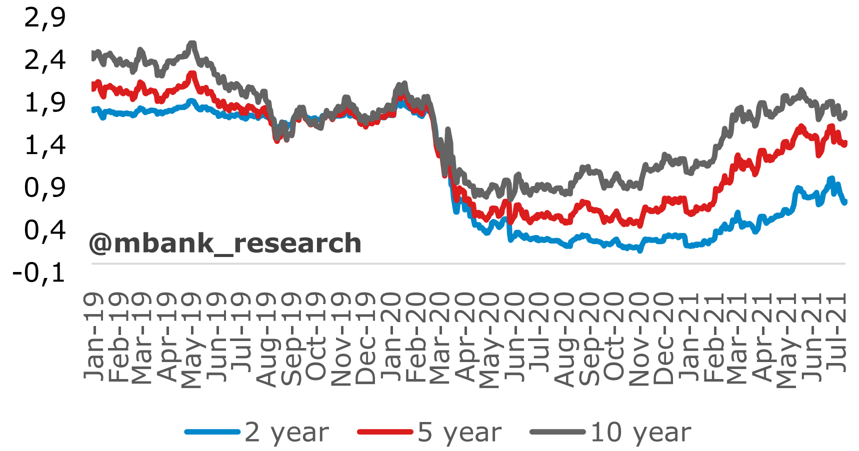
Polish rates, yields and spreads: short end took off, correction in longer end may be soon put to the test. ASW spreads normalizing.

POLGBs



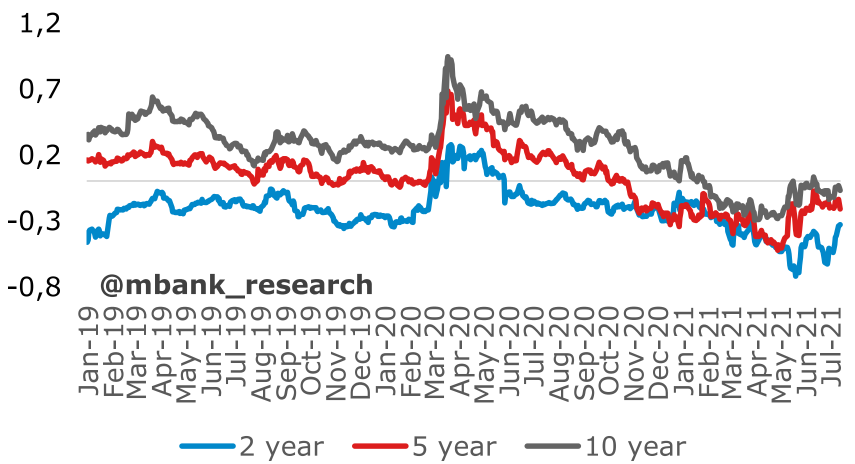
Source: Bloomberg

PL IRS



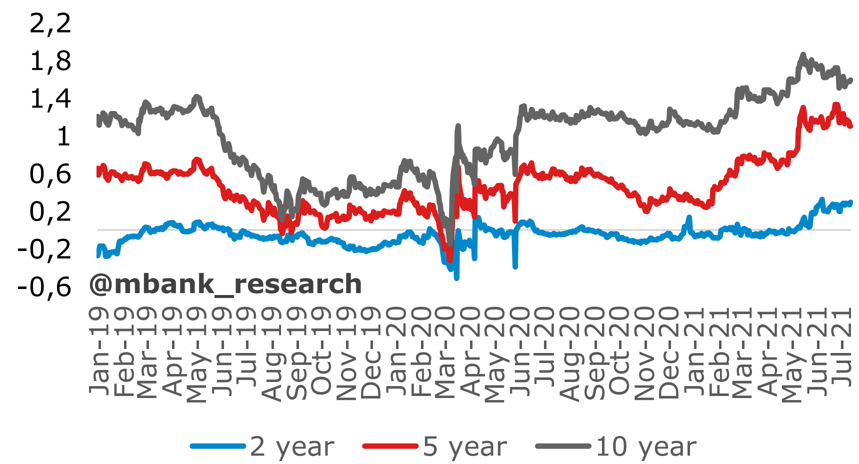
Source: Bloomberg

ASW spread



Source: Bloomberg

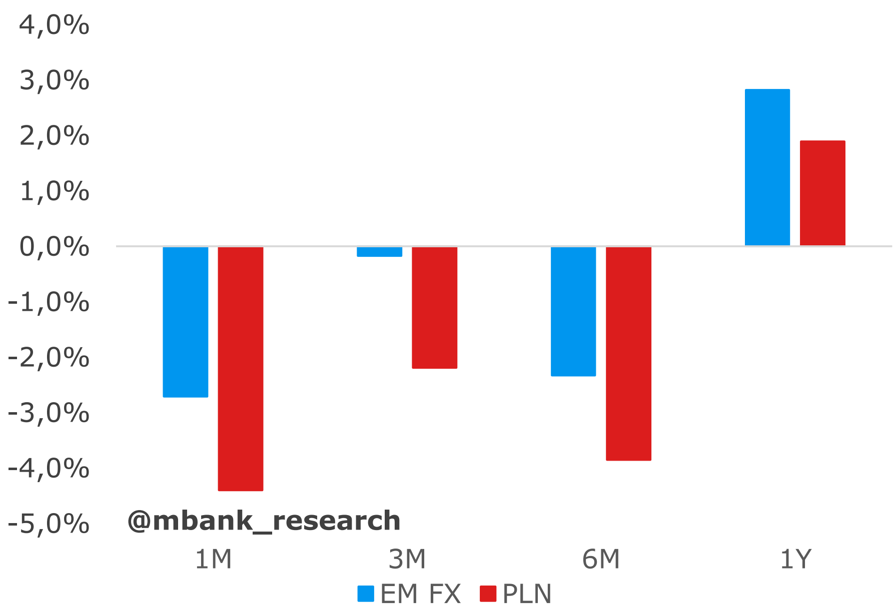
POLGB yield minus 3m WIBOR



Source: Bloomberg

EURPLN again close to 4.55

Weaker June after strong May



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

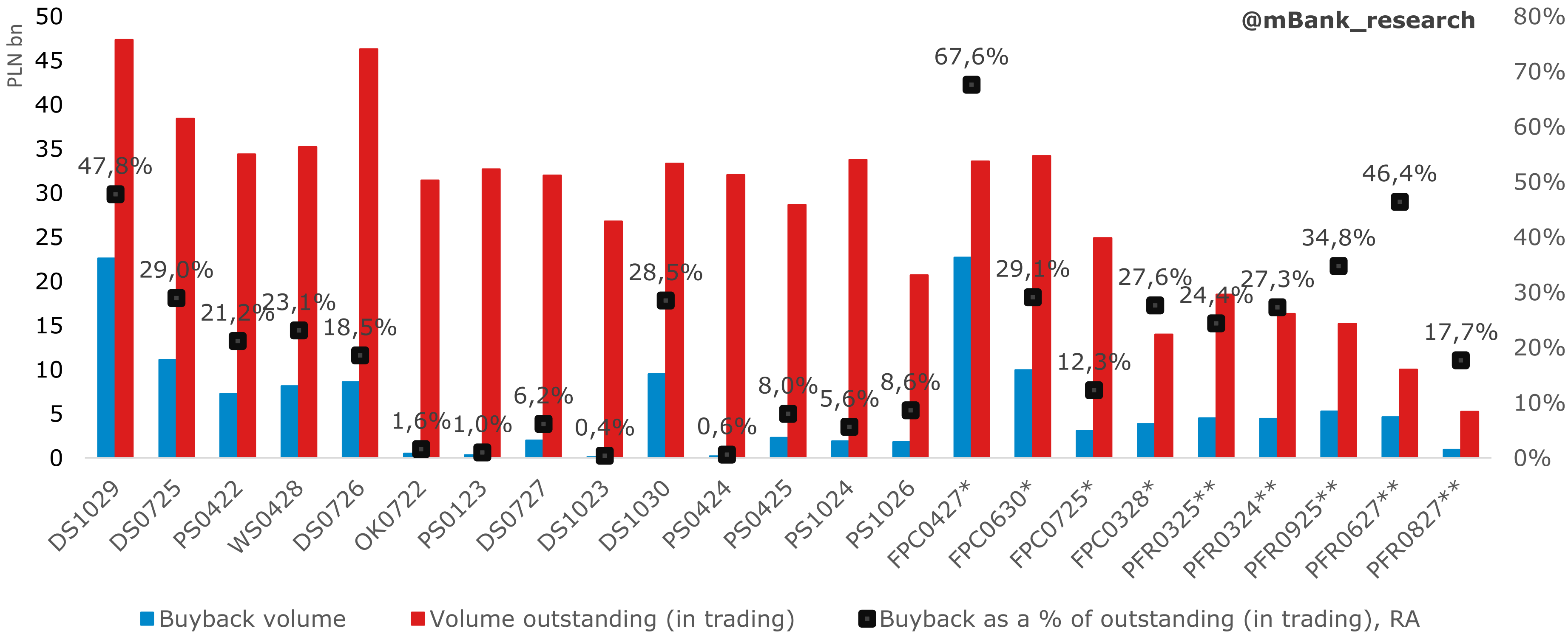
Source: Bloomberg

Real effective exchange rate

Source: BIS

- The zloty remains weaker than the currencies of the region. Part of depreciation stems from recent movement (lower) in expected market rates (the market postponed the timing of first hike closer to our forecast). However, it may not be a dominant story soon as tensions between European Commission, ECJ and Poland are on the rise again on the back of judiciary reforms and overall rule of law issues.
- What should we expect in the longer-term? NBP will start the interest rate hikes later than other regional central banks (CZK, HUF). Therefore range or horizontal trading is the most likely outcome for some time. Till the end of the year we see zloty only a bit stronger as rate hikes for 2022 will be more aggressively priced in starting from Q4.

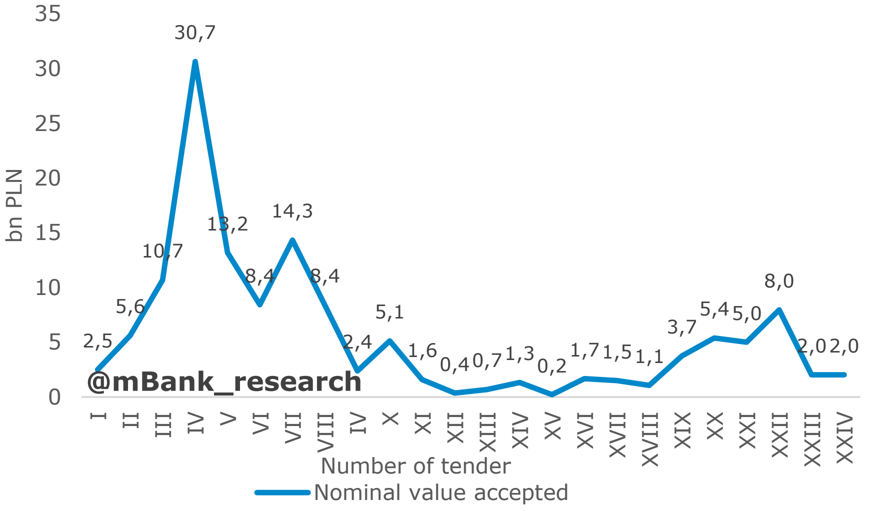
Appendix: NBP „structural" portfolio monitor

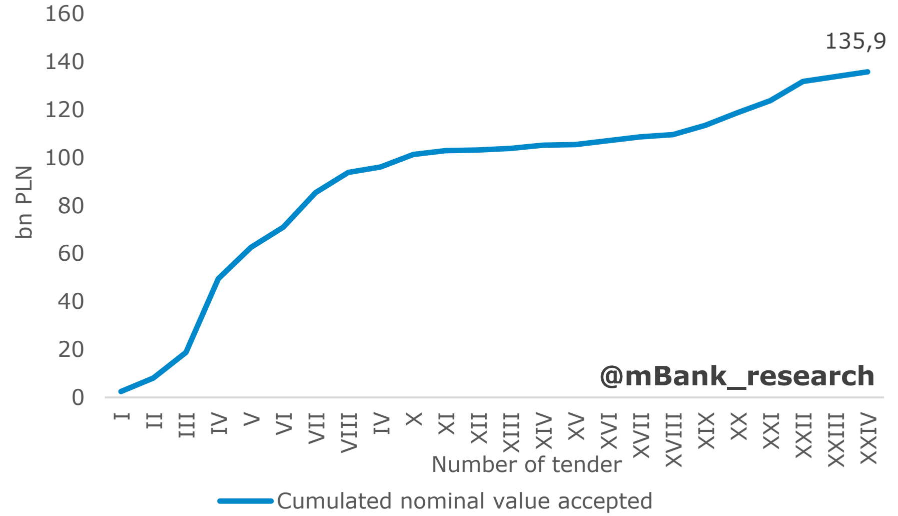


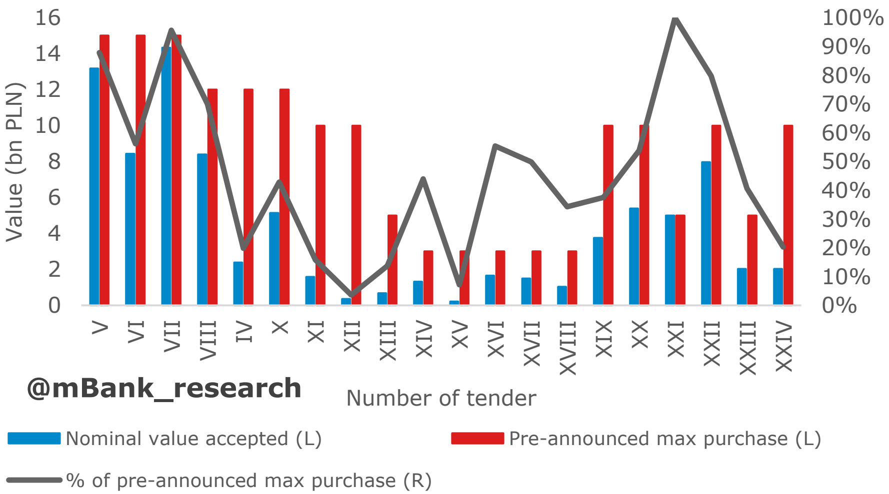
Source: Own elaboration on MF, NBP, NDS data.

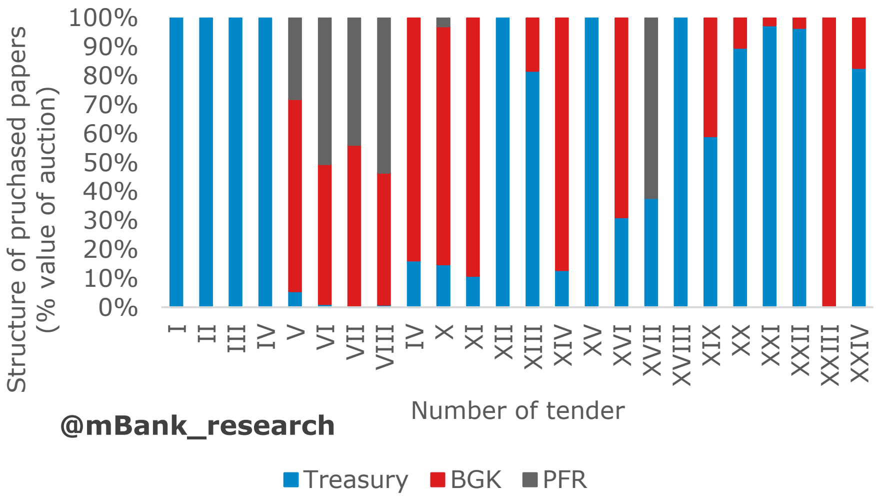
- The state for 15.07.2021. We present cumulative numbers.
- NBP launched structural open market operations in March 2020 and they constitute a purely new instrument introduced to fight the crisis. On March 11th this year NBP communicated that the schedule and elasticity of the operations may be enhanced to better meet current more challenging (higher) yield environment.

Appendix: NBP purchases, the timeline









- The state for 15.07.2021.

Source: Own elaboration on NBP data.

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