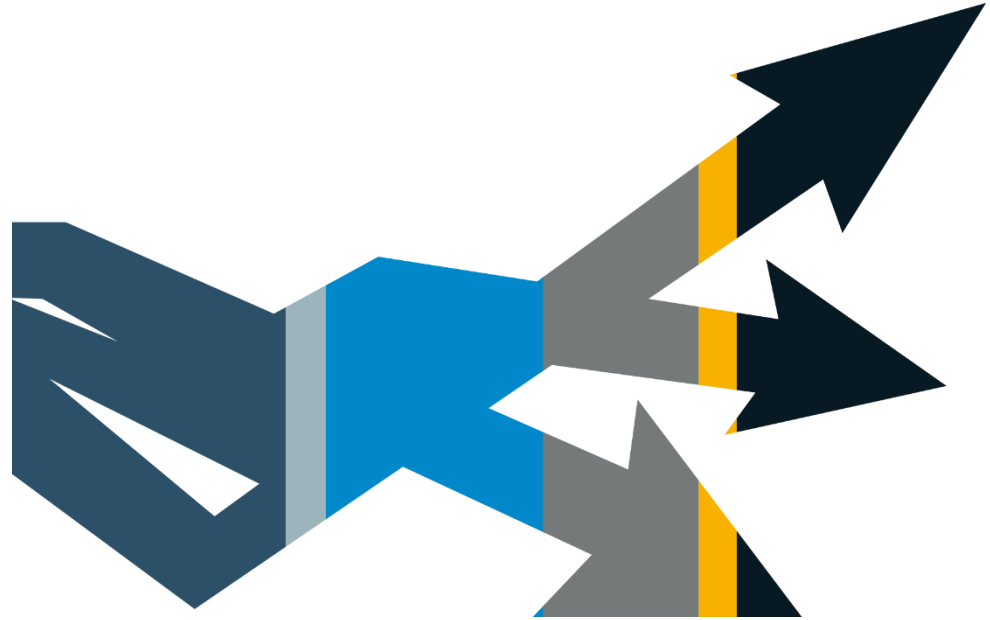


Monthly Pulse Check

Economy. FI. FX

August 17th 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 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. We stand by our GDP forecast of 5.7% 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 in early H2 2021. Return to modest appreciation in H3 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	2021	2021	2021	2022	2022	2022	2022	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	%	-0,9	10,9	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

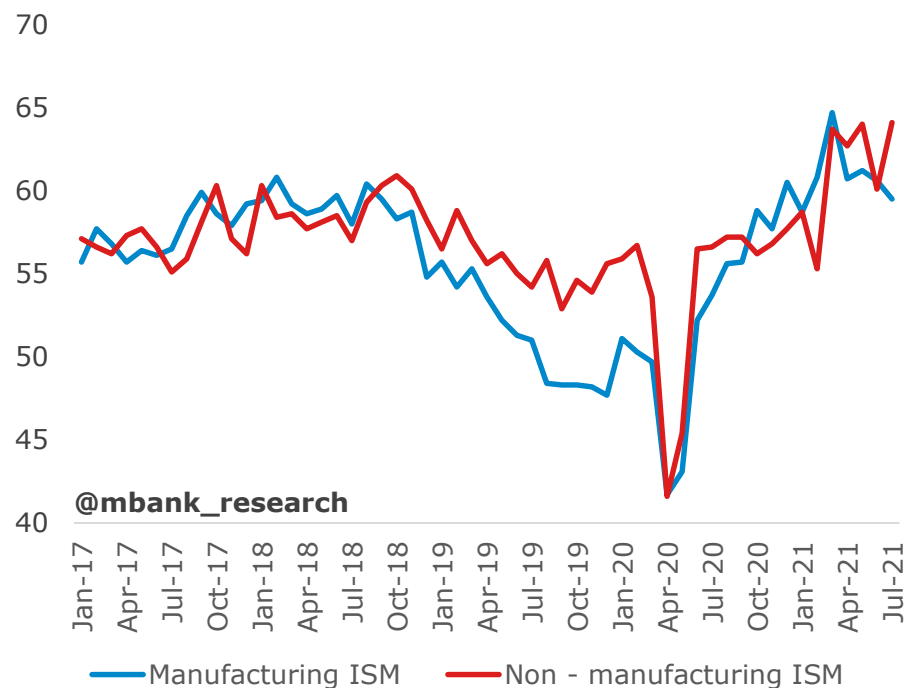
F - forecast

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. Asian countries pursuing zero covid strategy seem more problematic. 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](#)).
- ❖ Growth momentum is faltering. High prices, petering out of pent-up demand, supply bottlenecks and local Covid-19 outbreaks in Asia brew a consistent story of risks. The upward wave of reopening euphoria may be close to an end. At the same time inflation stays elevated. We expect central banks to err on the side of caution (Fed: see [here](#)) or just stay sidelined for a very long time (EBC: see [here](#)). Market participants scale back the bets for higher yields (see [here](#)) on the back of potential output declines led by higher prices and to some extent Covid-19 outbreaks. It seems the pricing went quite far here and the most easily recognizable risk have been accounted for. The behavior of labor markets is crucial for the growth story to continue. Unless we see some easing there, market participants will be treating the period of slower momentum as just another soft patch and act accordingly. Once positive demand narrative dies, so do the bets for higher real rates and inflation.
- ❖ Polish economy looks good (see [here](#)) but the period of spectacular re-acceleration is possibly over. As restrictions are lifted, activity in long abandoned sectors (tourism, restaurants) jump-started and mobility improved a lot (see [here](#) and [here](#)). The improvements stopped lately, though. Industrial output and retail sales are not going to continue at recent speeds. The picture for services is better and construction is yet to see the full swing caused by new wave of public investment. The engines of growth are switching from more spectacular throttle in some of them into more balanced acceleration in all of them (see [here](#)). 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. The composition of MPC changes early next year and as such we do not think it will be important for the moment of liftoff but may govern the expected speed of rates adjustment and terminal rate (see [here](#)).
- ❖ 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

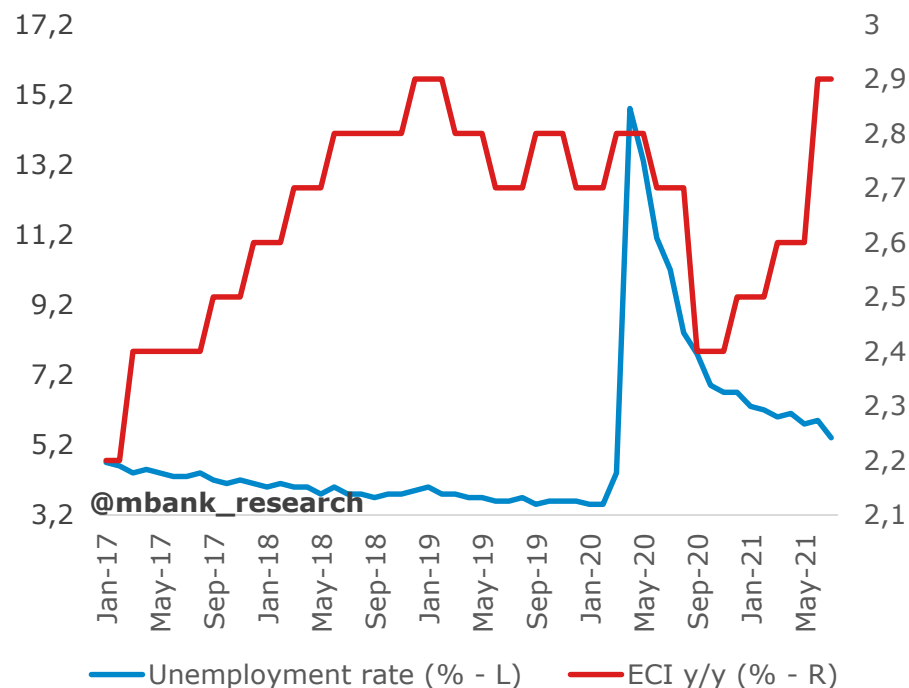
ISM PMI: manufacturing & non-manufacturing



Source: ISM

- ❖ Growth momentum is slowing. The dangers of the fourth wave are not yet materializing domestically but most likely will be somewhat felt (recent drop in U. Michigan's consumer expectations may be exaggerated but telling). High prices (and perception of high inflation) force consumers to cut back a little or use savings buffers. At the same time labor market is slowly improving and financial conditions stay (very) accommodative.
- ❖ Inflation stays elevated but is driven by a relatively small subset of categories. Hence, the U.S. are still far from generating full-blown inflationary pressure and recent prices increases can be deemed temporary. It is still most likely, that huge price increases will dissipate near term on the back of supply normalization. However, we are far from stating that the story after this crisis will be the same as after 2007-2009. The return of inflationary pressure will be faster.
- ❖ The Fed stays in waiting mode, focusing on labor market to pull a trigger on taper. Given the delta risk, slowing growth momentum and problems in Asia, we think the Fed will err on the side of caution and refrain from tapering QE this month and the next. Still, the move at the turn of 2021/2022 seems most appropriate.

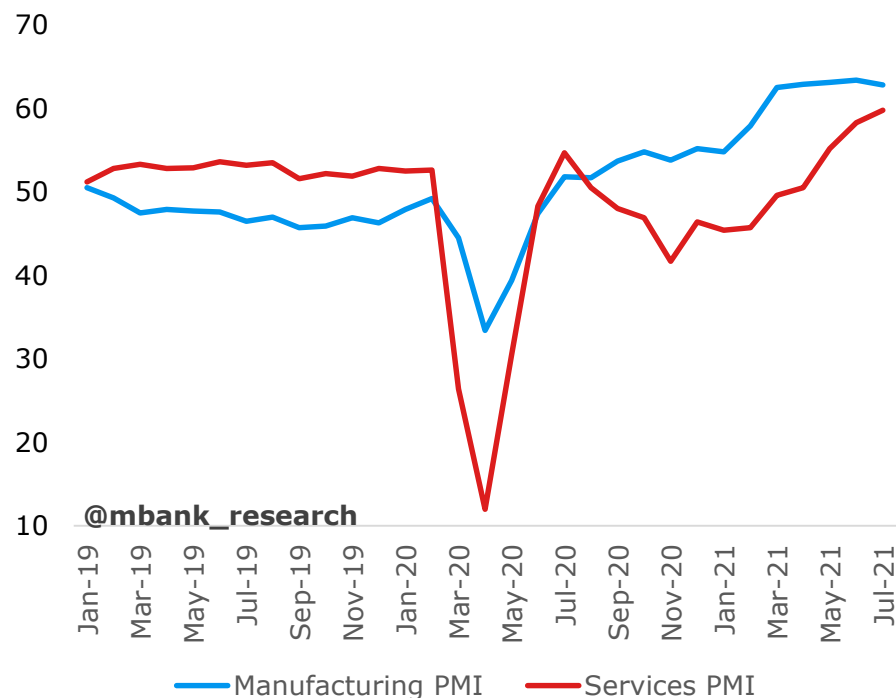
Labor market: wages & unemployment rate



Source: FRED

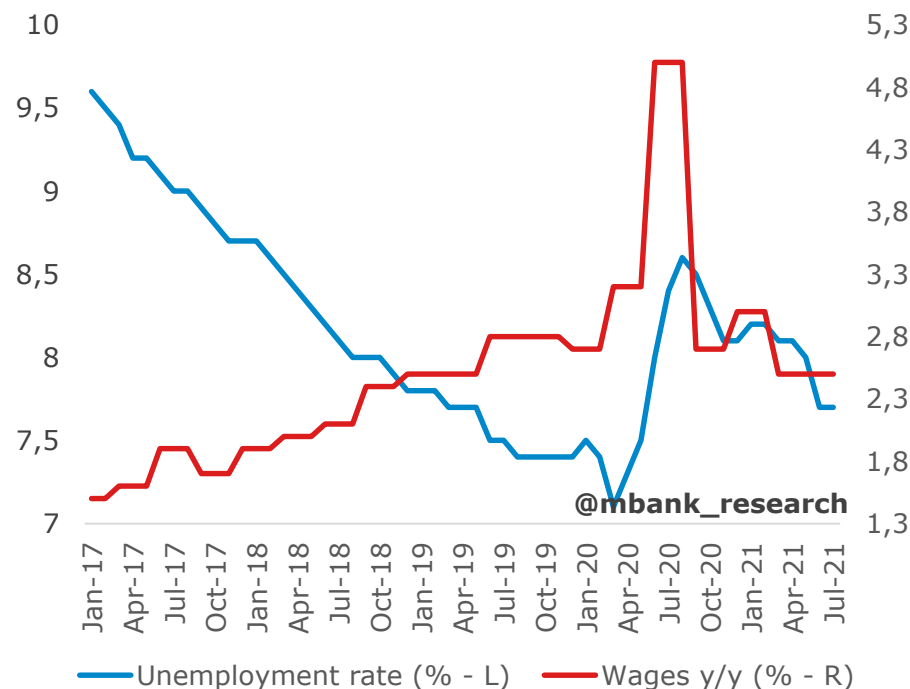
Euro area economy health check

Markit PMI: manufacturing & services



Source: Markit

Labor market: wages & unemployment rate

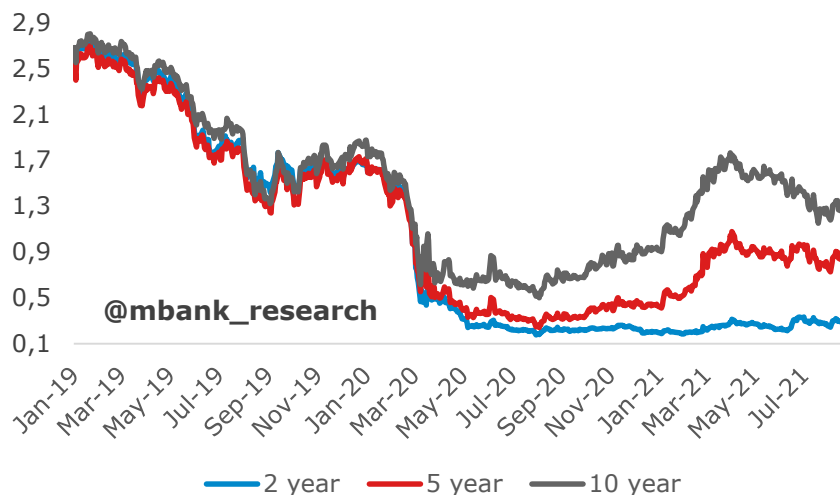


Source: Eurostat

- ❖ Growth momentum is slowing only a bit. Deceleration in China cast shadow over the sustainability of manufacturing recovery. Some industries are struggling being subject to bottlenecks in materials. Delta variant is slowly visible but yet epidemic restrictions are not put back in place (and we think most of them will stay in the drawer). Meanwhile, consumer sentiment improved along with labor market. Financial conditions remain (very) accommodative with weaker euro.
- ❖ Inflation accelerated of late but is in most part driven by reopening and exogenous shocks (oil, food, base effects connected with VAT changes in Germany). ECB forecasts suggest the goal of 2% inflation is not going to be delivered. ECB keeps powder dry for the time being focusing on forward guidance on (low) rates. It is possible, though, that along with more visible delta infections and slower growth, we may see longer round of balance sheet expansion (with PEPP transforming into broader APP).

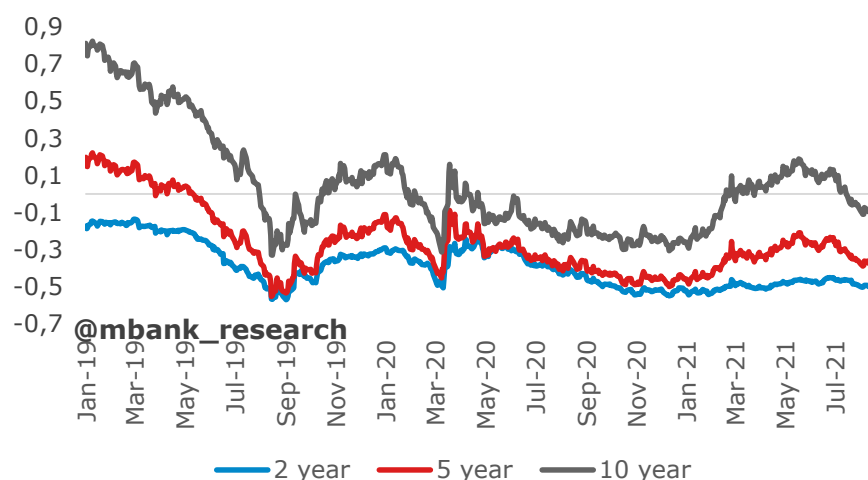
Global rates: short end anchored by monetary policy. Curves flattened. A large chunk of bad news already priced in?

US swap rates (%)



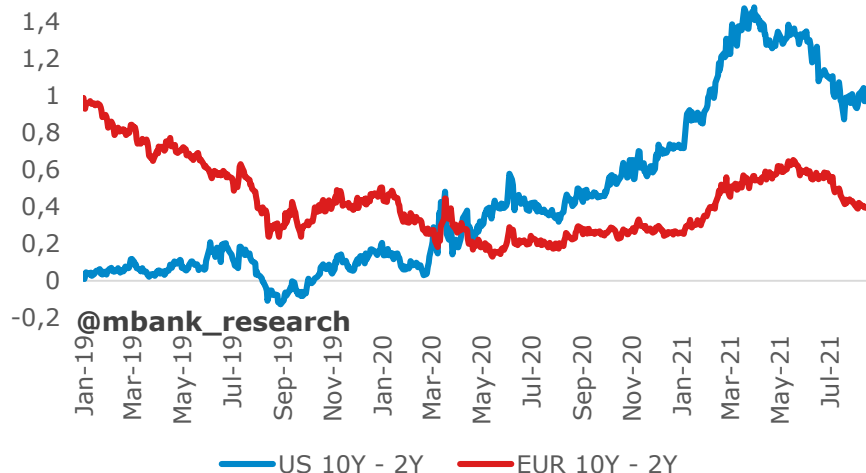
Source: Bloomberg

EU swap rates (%)



Source: Bloomberg

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



Source: Bloomberg

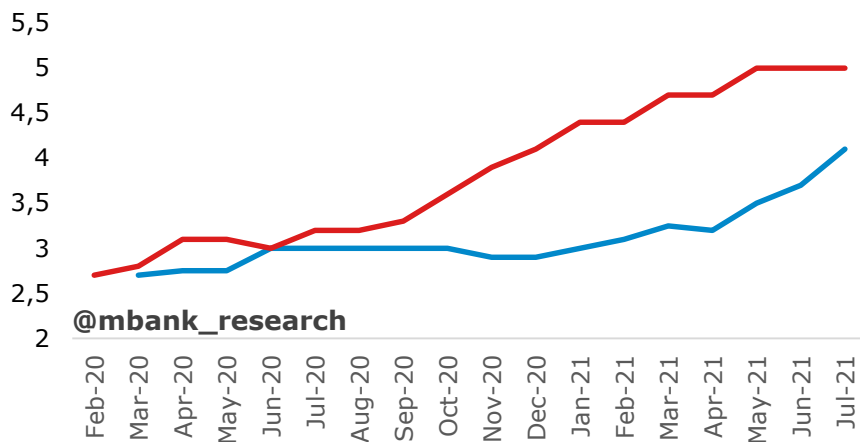
US and EZ inflation expectations (%)



Source: Bloomberg

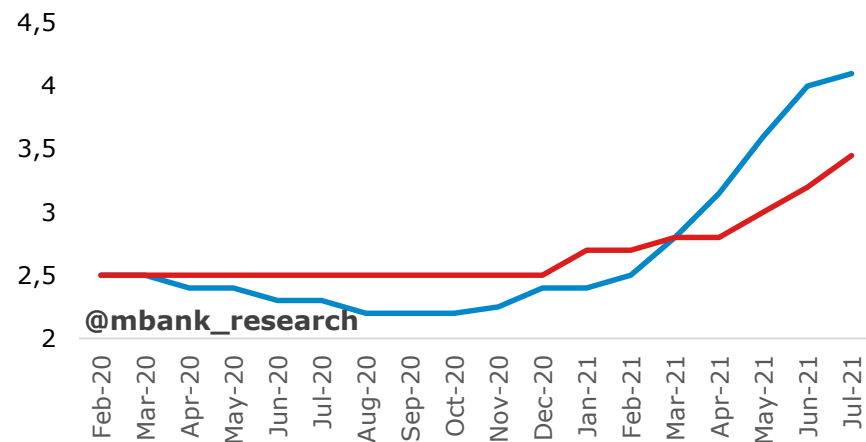
Consensus: what is expected in Poland?

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



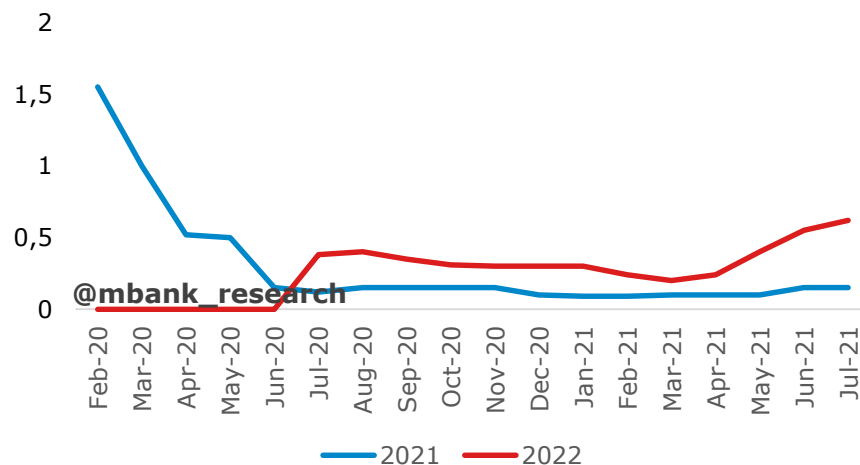
Source: Bloomberg

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



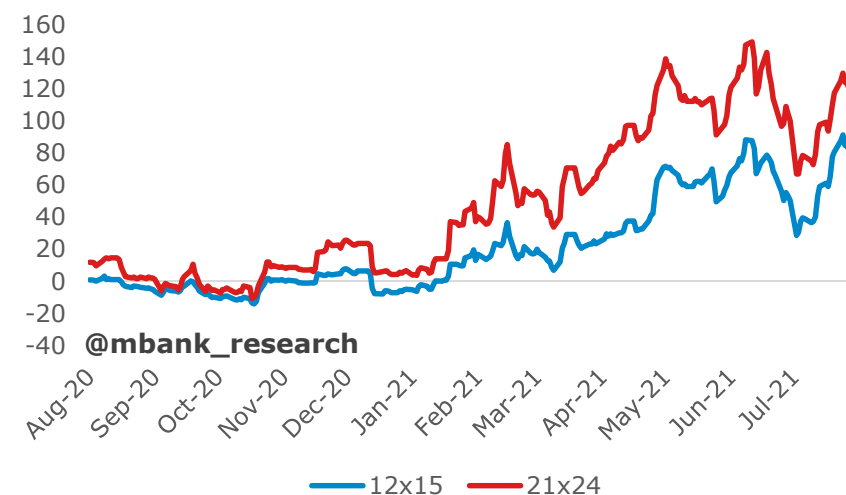
Source: Bloomberg

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



Source: Bloomberg

Rate changes priced in by FRA (bps)



Source: Bloomberg

Upcoming Polish macro releases: August 2021

Publication	Date	Period	mBank	Consensus	Actual	Prior
CPI y/y (%)	30.07[1]	Jul	5,0%	4,7%	5,0%	4,4%
	13.08[2]				5,0%	
PMI (pts.)	02.08	Jul	59,1	59,0	57,6	59,4
Unemployment rate (%)	04.08[3]	Jul	5,7%	5,8%	5,8%	5,9%
	24.08[4]					
Current account (m EUR)	13.08	Jun	-900	514	281	60
Employment y/y (%)	18.08	Jul	2,0%	2,0%		2,8%
Wages y/y (%)	18.08	Jul	9,1%	8,6%		9,8%
Industrial output y/y (%)	19.08	Jul	7,0%	10,8%		18,4%
PPI y/y (%)	19.08	Jul	7,7%	7,6%		7,0%
Construction output y/y (%)	20.08	Jul	4,8%	7,1%		4,4%
Retail sales y/y (%)	20.08	Jul	4,0%	4,9%		8,6%
M3 y/y (%)	23.08	Jul	7,9%	8,1%		7,4%

[1] Flash estimate

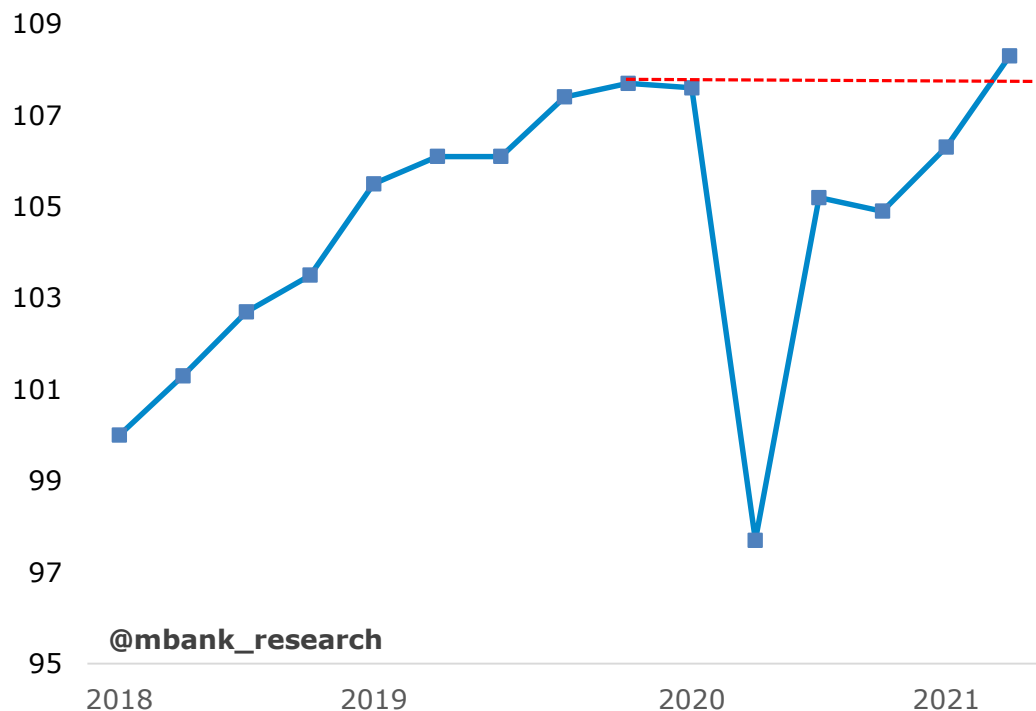
[3] Ministry of Economic Development, Labour and Technology estimate

[2] Final reading

[4] Statistics Poland final reading

Poland: We are home! GDP higher than before the pandemic.

Seasonally adjusted GDP in constant prices (index Q1 2018 = 100)



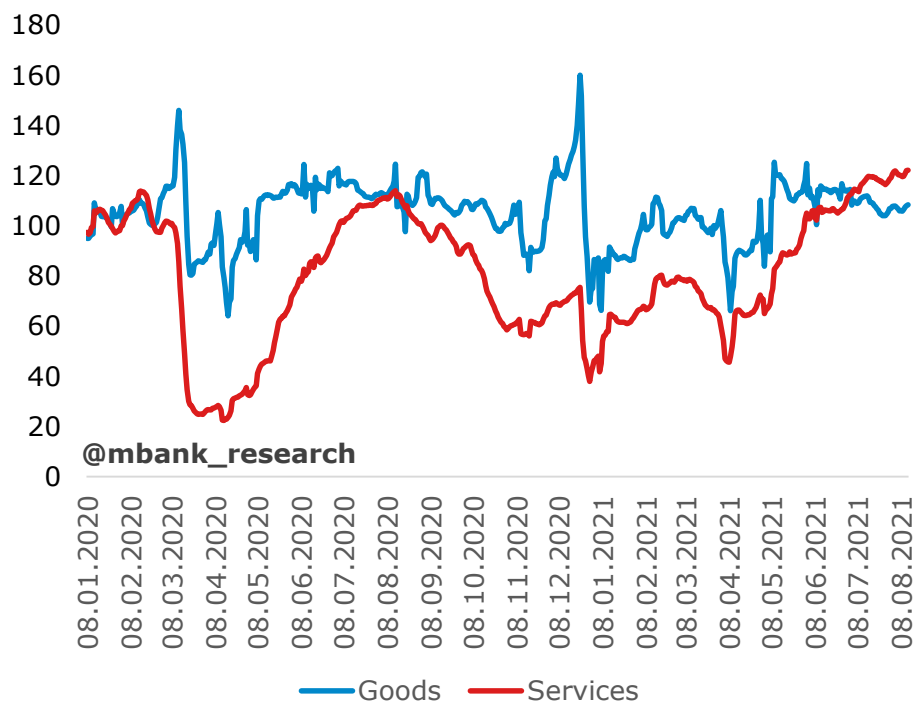
Source: mBank, Statistics Poland

- ❖ GDP growth in 2Q was 10.9% y/y. It is obviously the highest yearly dynamics in history, but the quarterly dynamics is not so impressive (only 1.9% q/q), if we consider earlier monthly data from industry, construction and retail sales. Also card transactions data in services suggested more optimistic scenario. Something weird could happen in inventories, or combination of investments and net exports.
- ❖ Month end (not final*) reading may bring higher numbers in our opinion, but we do not expect our relatively high (12% y/y) forecast to realize. At least we will know more details to dwell on.
- ❖ Maybe we need to wait for the 3rd quarter to catch all the post-pandemic effects (the first quarter almost without restrictions). The result of 10.9% y/y do not change our forecast for the whole year, we still expect GDP to grow by 5.7% y/y. It will require constant growth (not impossible, still our baseline since we do not expect delta to be destructive).

* We will see really final data after many, many years.

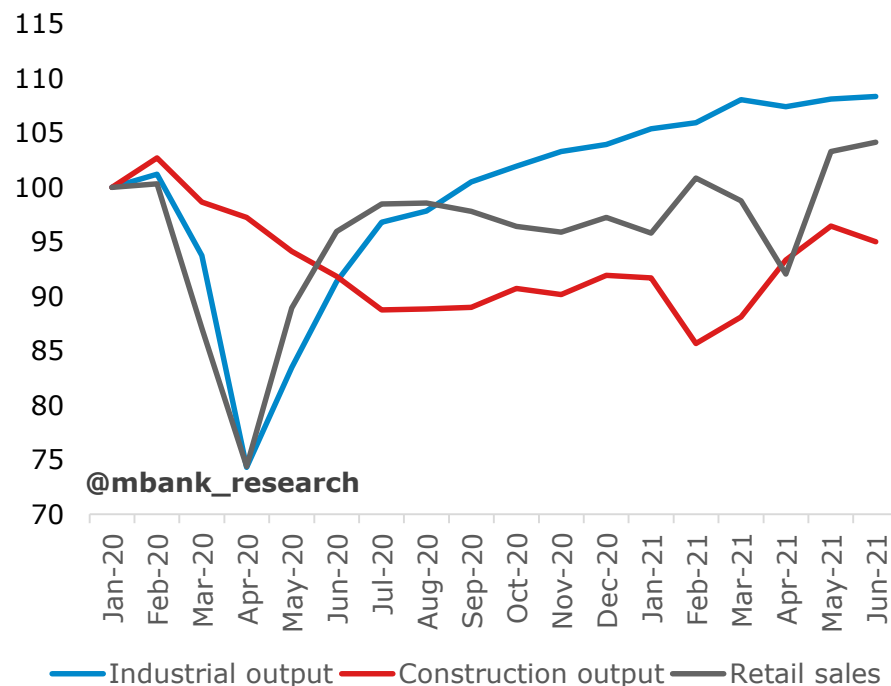
Poland: Fast catching up already behind us

Card expenditures weekly, Jan20 = 100



Source: mBank transaction data. Own elaboration.

Seasonally adjusted, index 2015 = 100

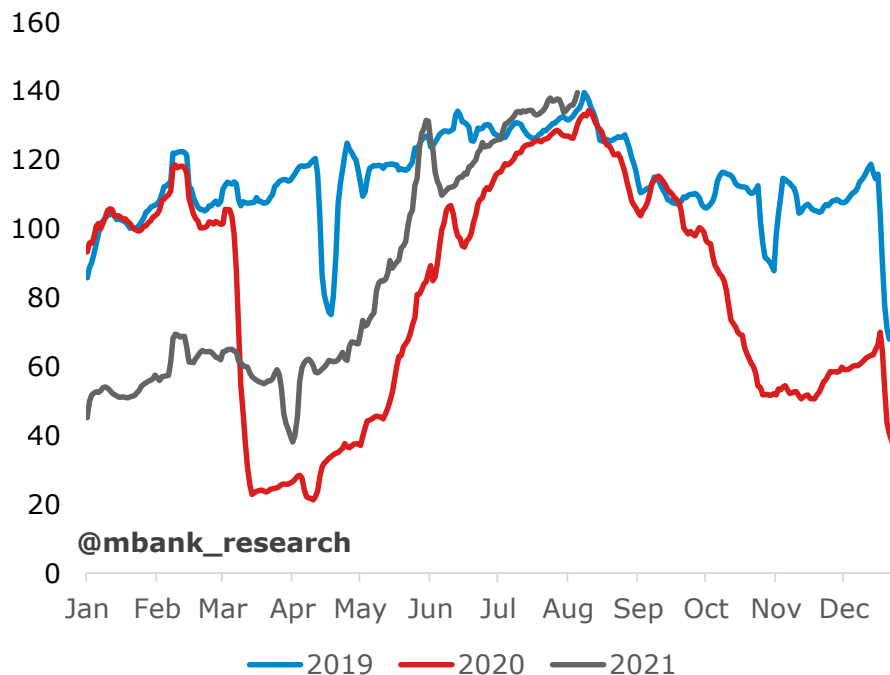


Source: mBank, Statistics Poland

- ❖ High (post-pandemic) dynamics in industrial production and retail sales slowly fade away, but the overall view on Polish short-term statistics remains optimistic.
- ❖ Industrial production is on to the pre-pandemic trend but the June result was the weakest one in three months. It is mostly the effect of supply factors, but in next months, some lower demand for consumer goods can be more and more significant. Some real effects of higher producer prices enter the game. Construction output needs more time to reach the pre-pandemic level, but here it is not only Covid that play an important role (also other factors like investment cycle and prices). This element of final demand should be more and more supportive for the economic cycle onwards.
- ❖ Regarding consumption, services are slowly taking over, and now there we see a return of the volume of expenditures to the previous levels. Part of it comes from the substitution effect away from goods. It will slow down the return of retail sales to the pre-pandemic trend. Overall, however, everything goes according to the plan with regard to consumption (including substitution effect) and consumers still have substantial cash buffers at hand.

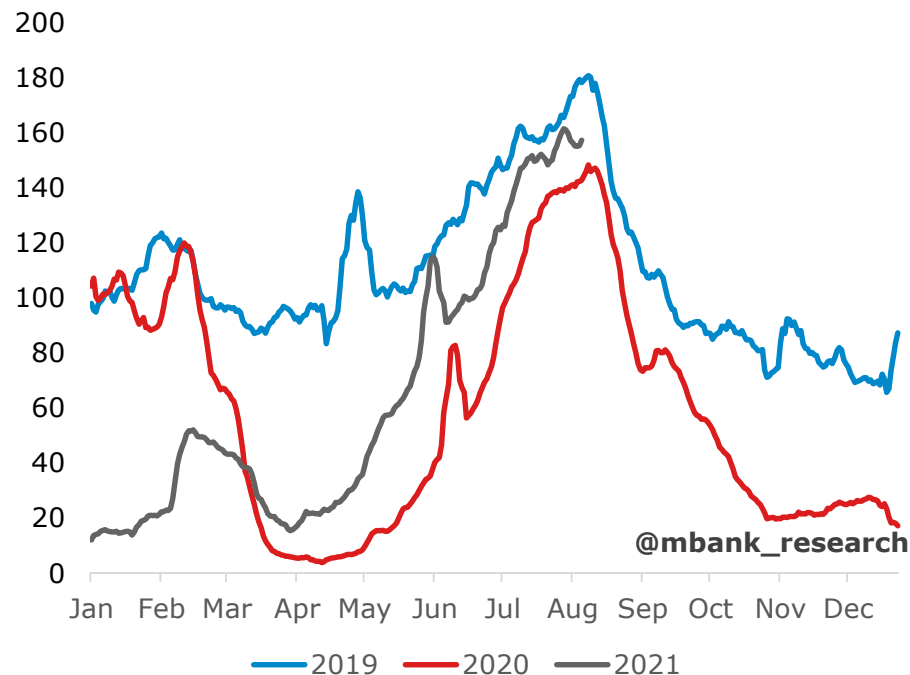
Poland: Card expenditures, #1

Restaurants, card expenditures weekly, Jan20 = 100



Source: mBank transaction data. Own elaboration.

Tourism, card expenditures weekly, Jan20 = 100

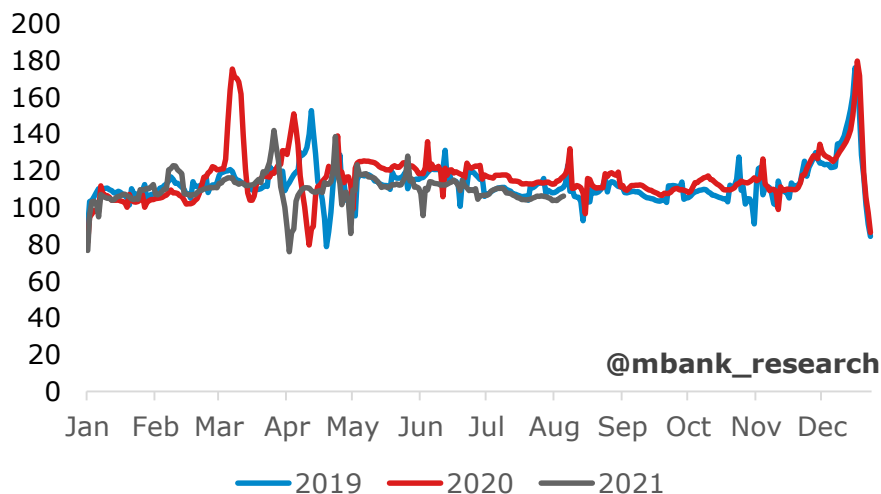


Source: mBank transaction data. Own elaboration.

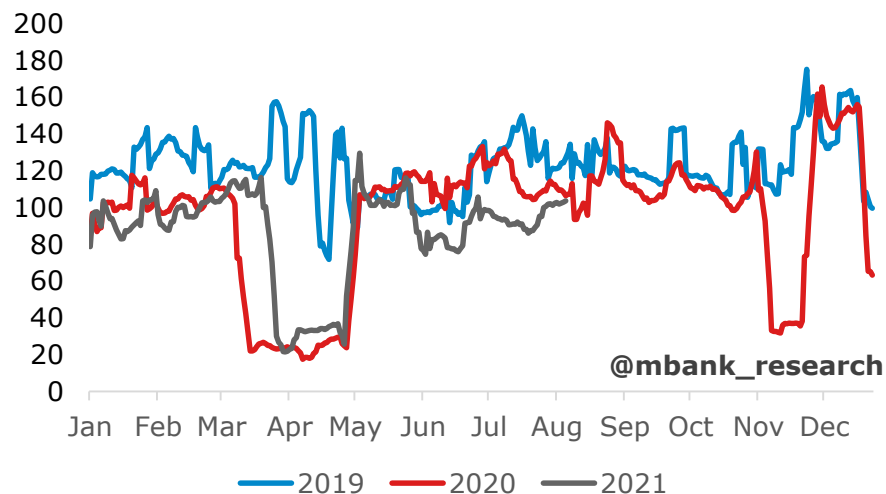
- ❖ In services, card transactions suggest that trends from previous months were continued. The gastronomy is doing quite well, with the expenditures at the pre-pandemic level. Transactions in tourism are still lower than 2 years ago, but the sector is also doing much better than the last year. We suspect cash transactions in mass client segment in tourism may be dominant and hence they go under the radar now. Larger hotels are still under the spell of limited package holiday's demand and lower volume of business trips.
- ❖ Also, in more details we do not see any major changes (compared to previous monthly edition). Expenditures on transport (e.g. airline tickets) and culture (less concerts, limits in public events, maybe still some precaution from consumers) are still much lower than 2 years ago and their acceleration is rather slow. But on the other hand, food and beverages expenditures have not seen any Covid effect for months.

Poland: Card expenditures #2, 7-day average

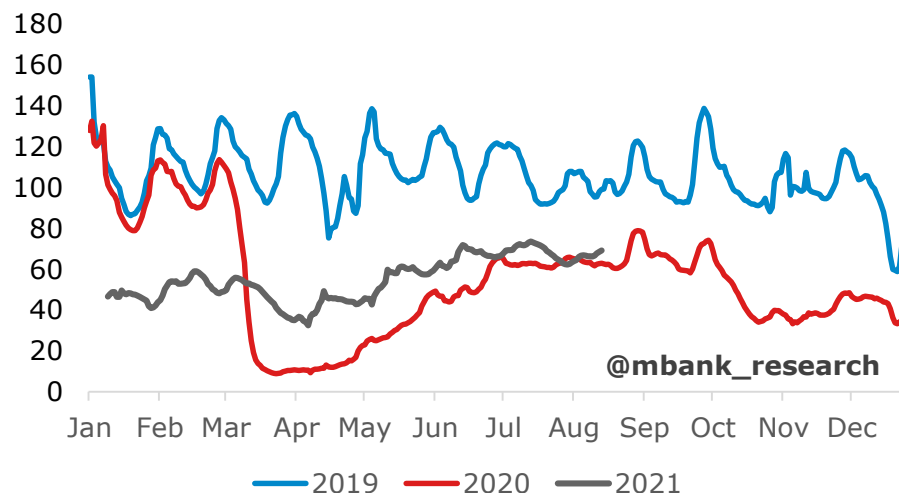
Food, beverages and non-specialized stores, Jan20 = 100



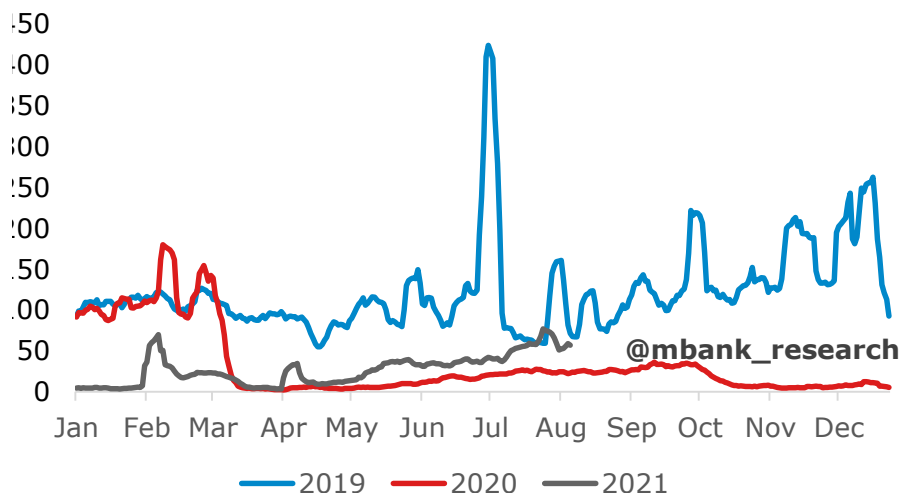
Clothing, footwear, Jan20 = 100



Transport, Jan20 = 100



Culture (e.g. cinemas, concerts), Jan20 = 100



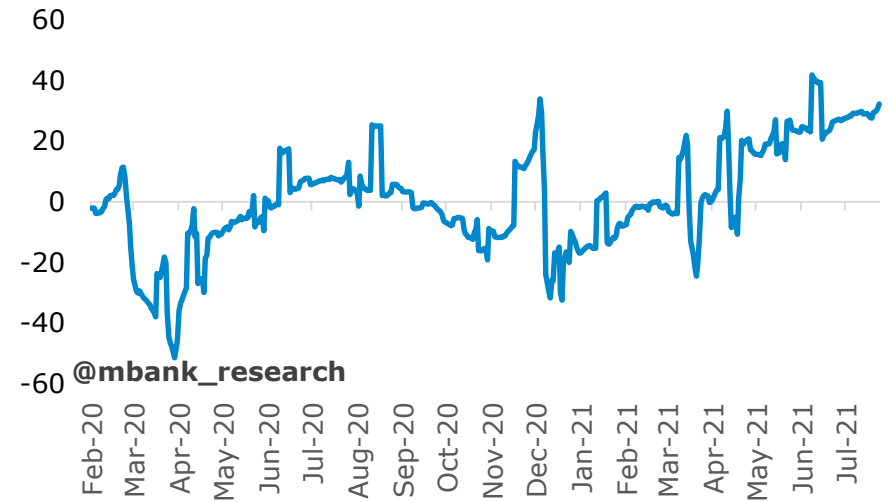
Source: mBank transaction data. Own elaboration.

Poland: Google mobility, 7-day average

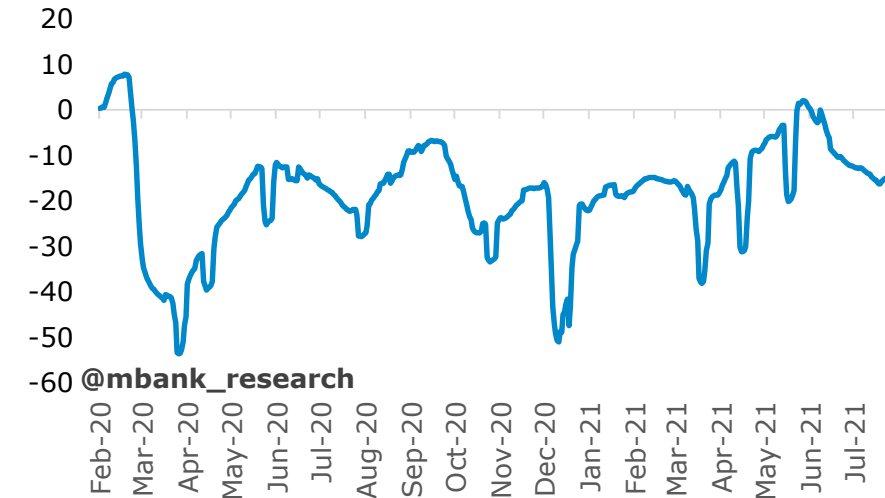
Retail & recreation (% change from Jan20)



Grocery & pharmacy (% change from Jan20)



Workplaces (% change from Jan20)



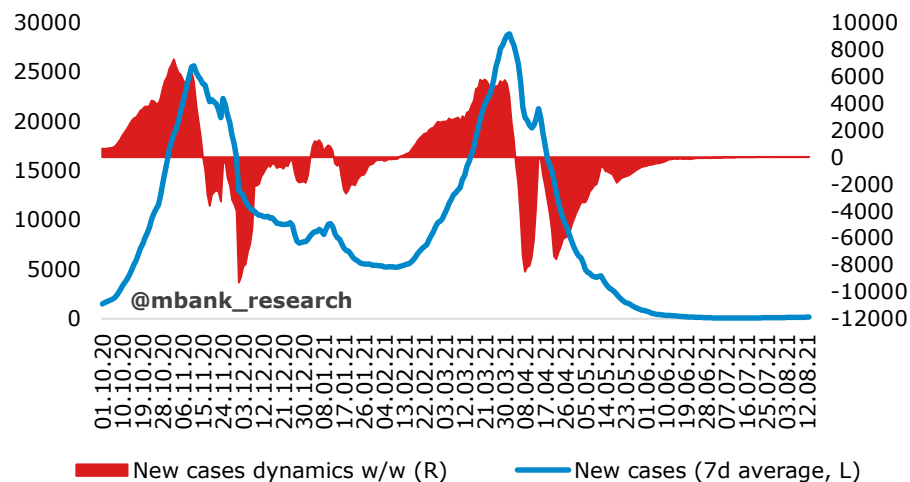
Transit stations (% change from Jan20)



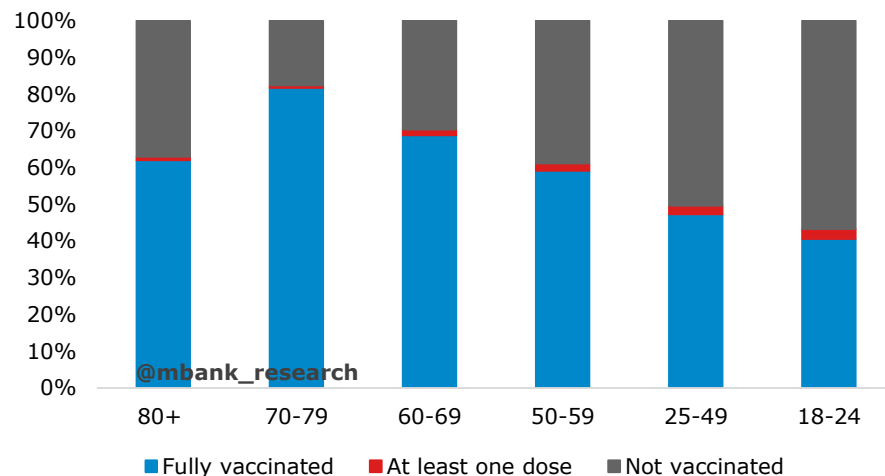
Source: Google mobility data. Insights in these reports are created with aggregated, anonymized sets of data from users who have turned on the Location History. The baseline is the median value, for the corresponding day of the week, during the 5-week period Jan 3–Feb 6, 2020.

Poland: COVID-19 situation

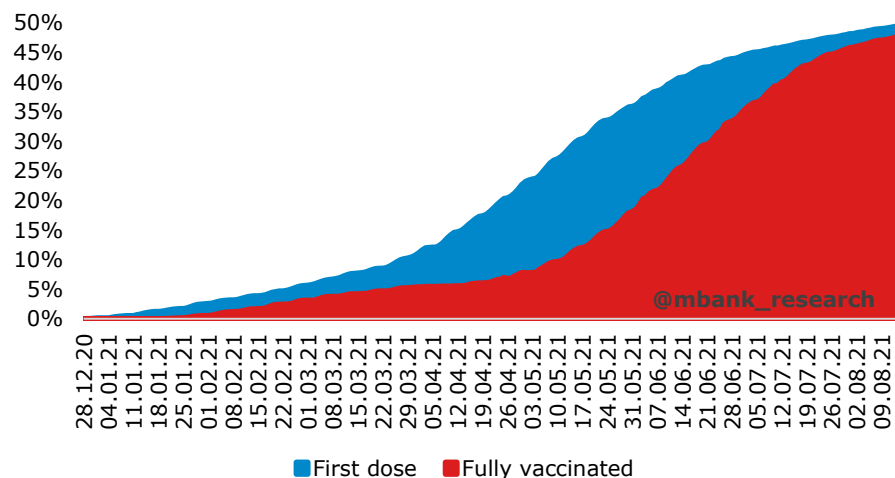
Daily new cases (7day average)



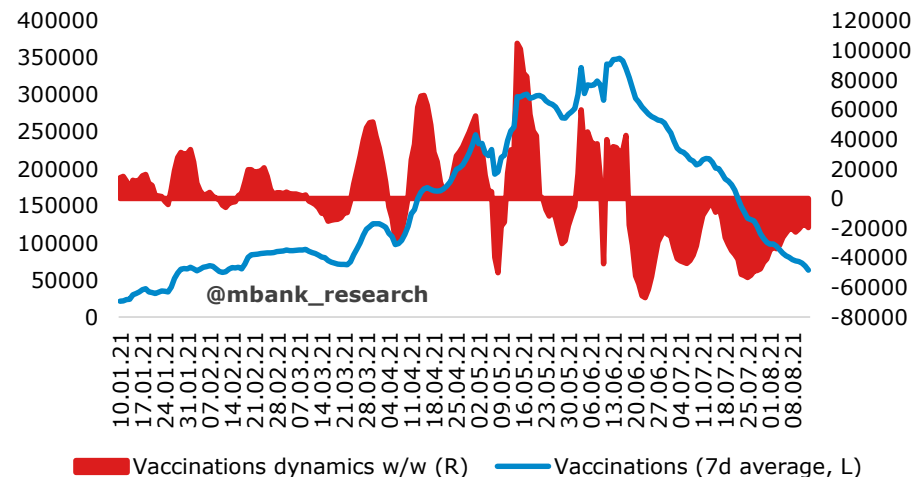
Cumulative uptake (%) of vaccinations by age



Cumulative uptake (%) of vaccinations



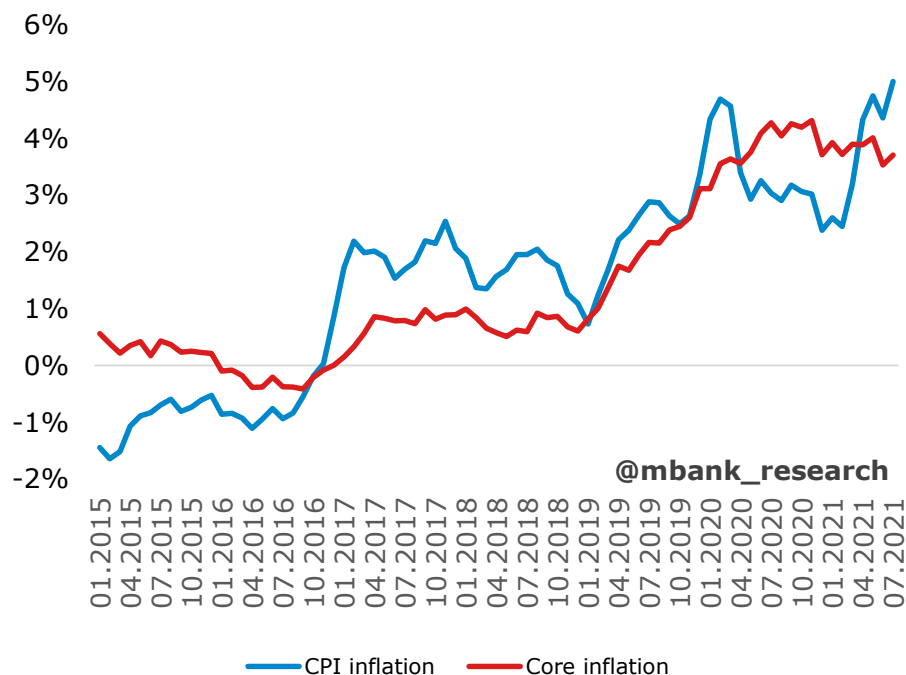
Vaccinations



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

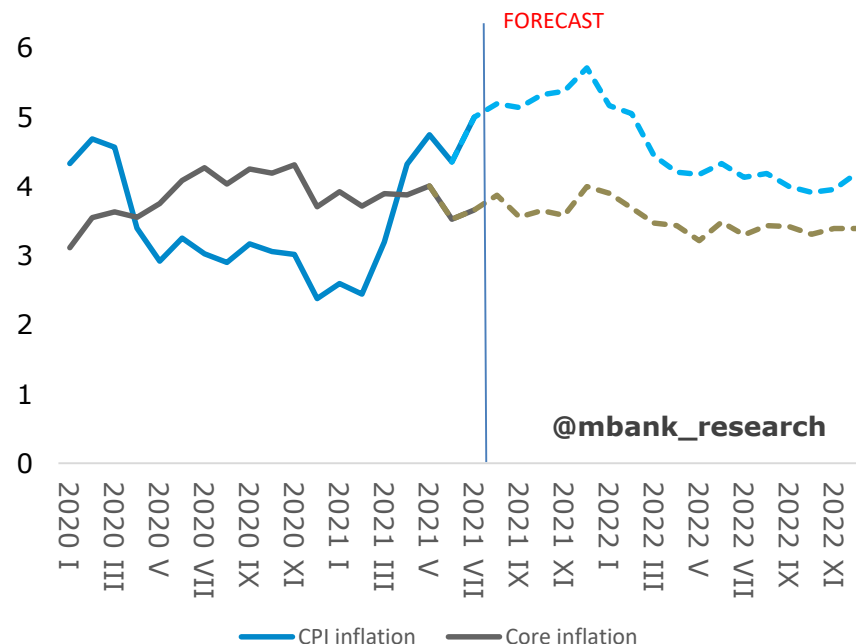
Poland: Inflation tracker #1

CPI and core inflation (% y/y)



Source: Statistics Poland, NBP, own elaboration

Core and headline inflation forecast

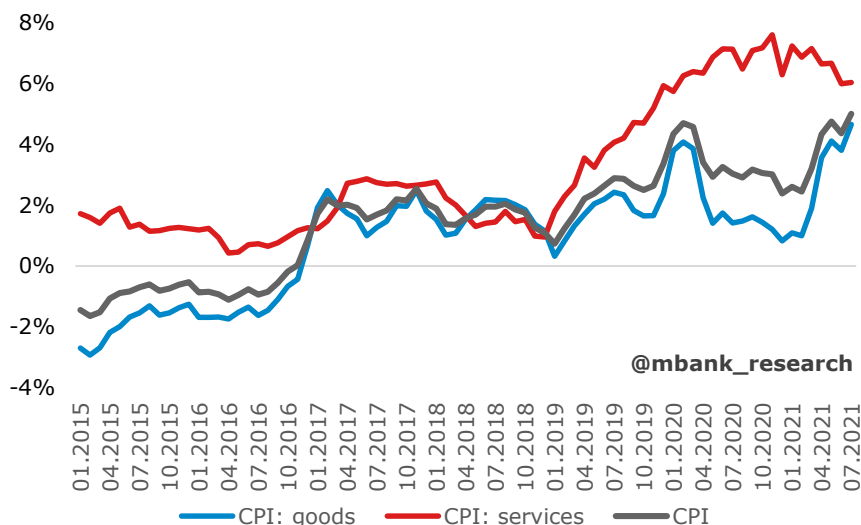


Source: Statistics Poland. own elaboration

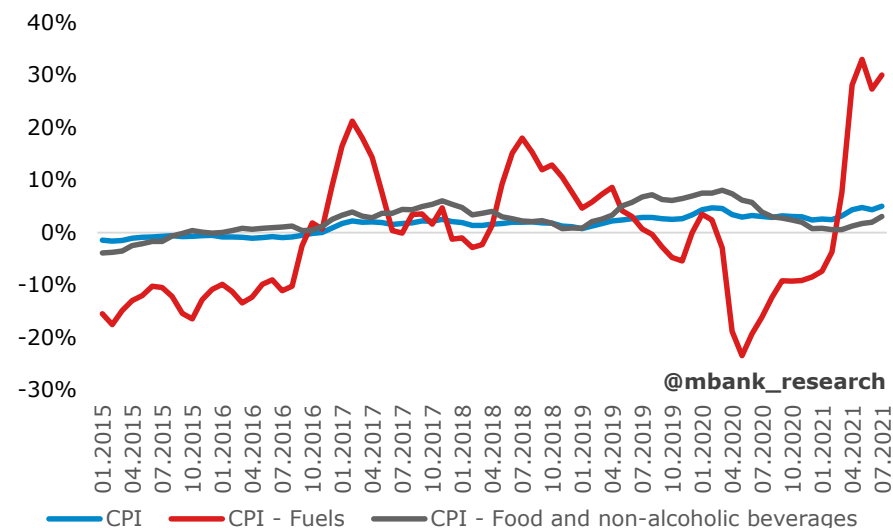
- ❖ July's inflation was at the level not seen for years. The final reading of 5% was the highest since 2011. For higher inflation reading we need to move back to the 2001. Relatively small decline in food prices and high monthly increase in fuel prices are responsible for the acceleration of inflation to around 4.8%. The missing 0.2% was added by core inflation, which accelerated from 3.5% to 3.7%.
- ❖ There seems to be one common pattern in accelerating categories: pent-up demand from pandemic periods (e.g. high prices in tourism and transport). We think this effect is close to being over and we will be slowly switching towards more genuine inflationary pressure, somewhat less spectacular in numbers but more persistent (yet the momentum is enough to carry over 5% inflation rates further).
- ❖ In next months we will see inflation around 5% y/y (with upside risks). It will reach its peak at the end of the year (around 5.5%). What's next? The statistical base will work in part and inflation will slow down a bit. However, it is not enough to bring inflation down to the NBP target.

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

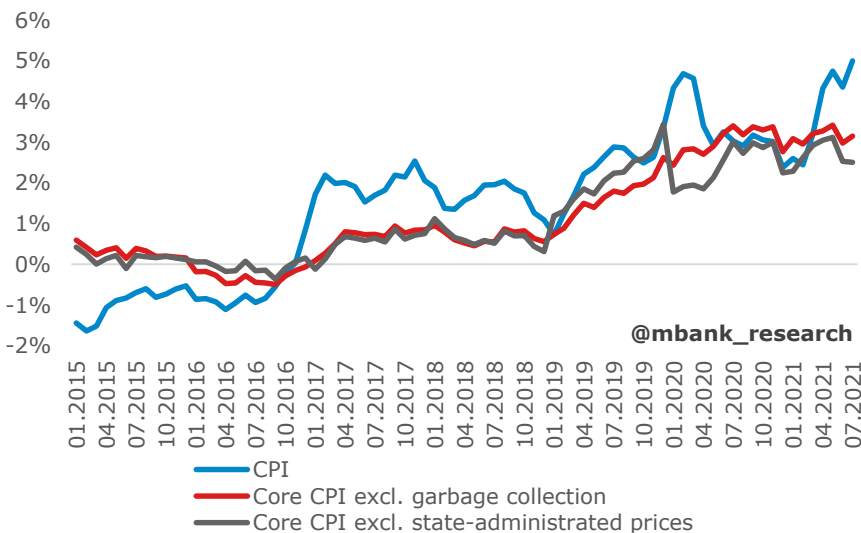
Goods and services prices (% y/y)



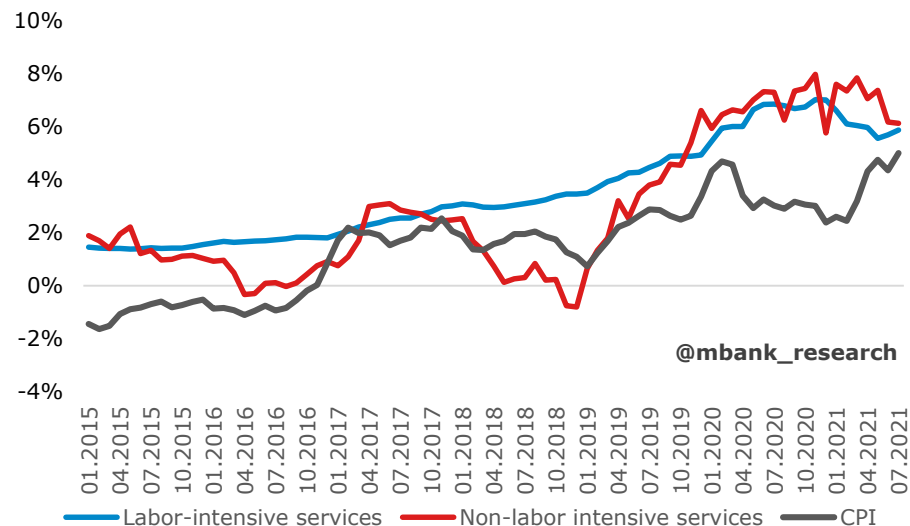
Food and fuel prices (% y/y)



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



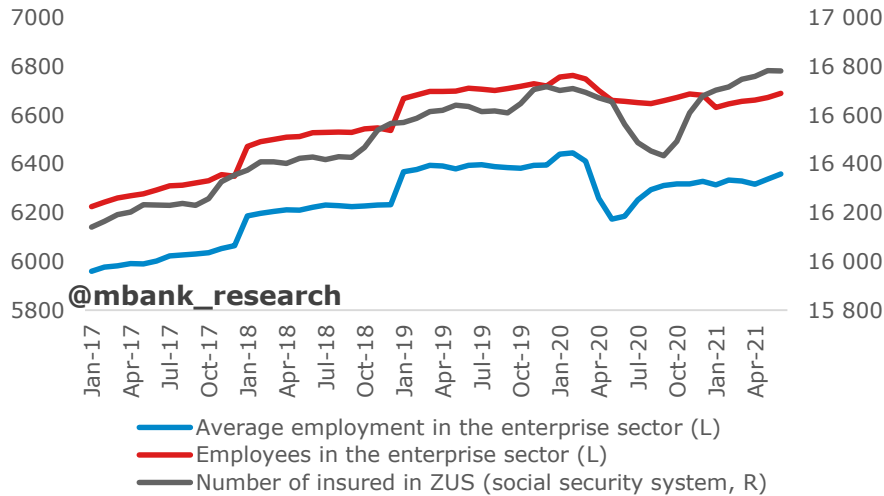
Services (% y/y)



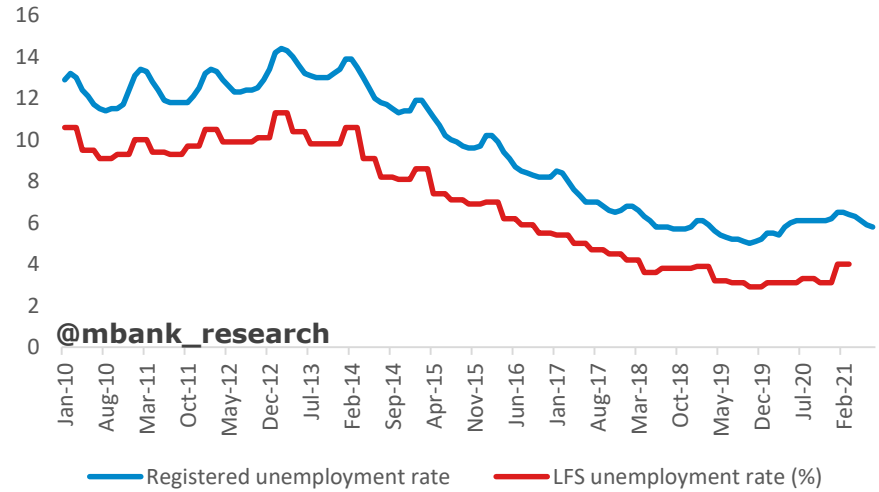
Source: Statistics Poland, own elaboration

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

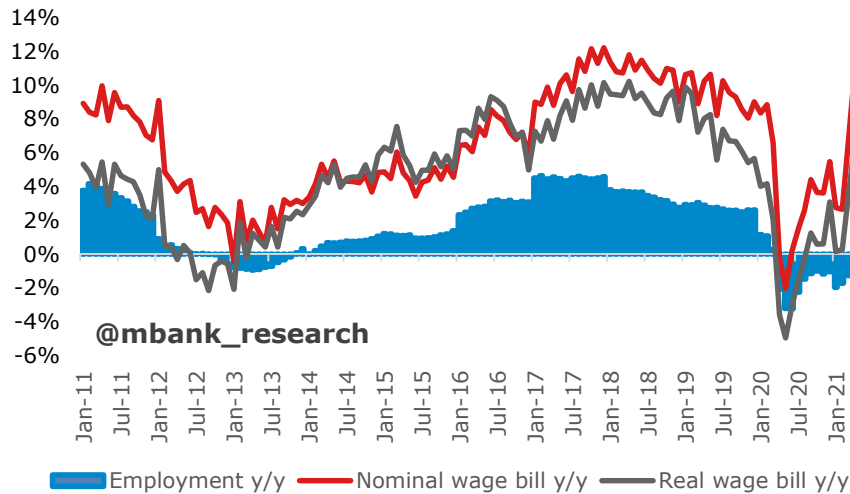
Employment



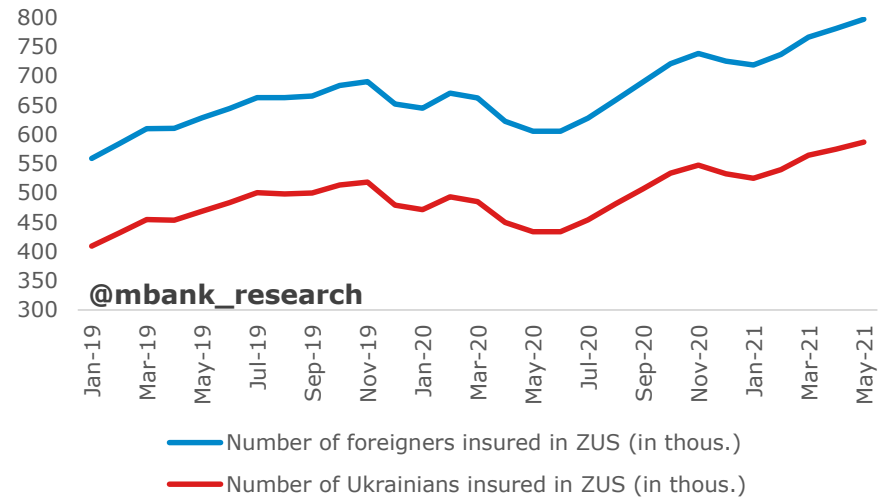
Unemployment rate



Wage bill



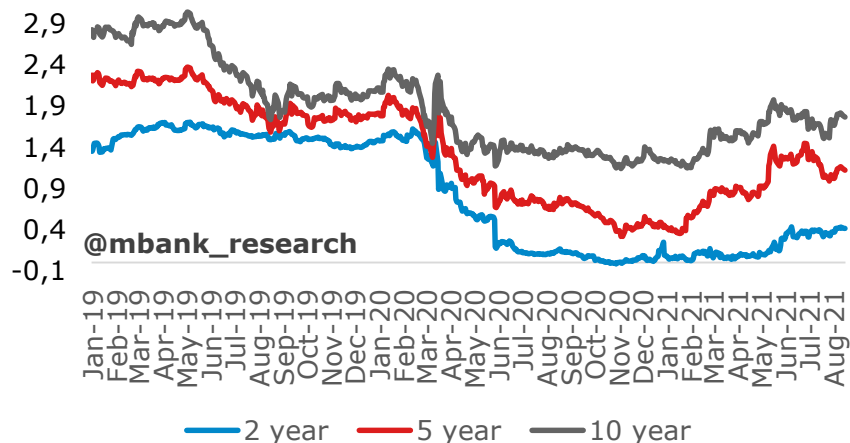
Immigration in the labor force



Source: Statistics Poland, ZUS Statistical Portal, own elaboration

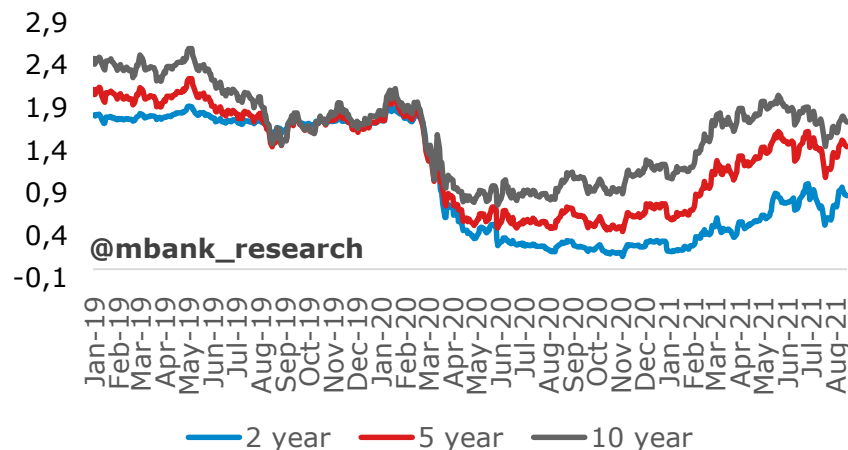
Polish rates, yields and spreads: short end under the spell of monetary policy normalization. Some flattening visible. ASW spreads slowly creep higher.

POLGBs



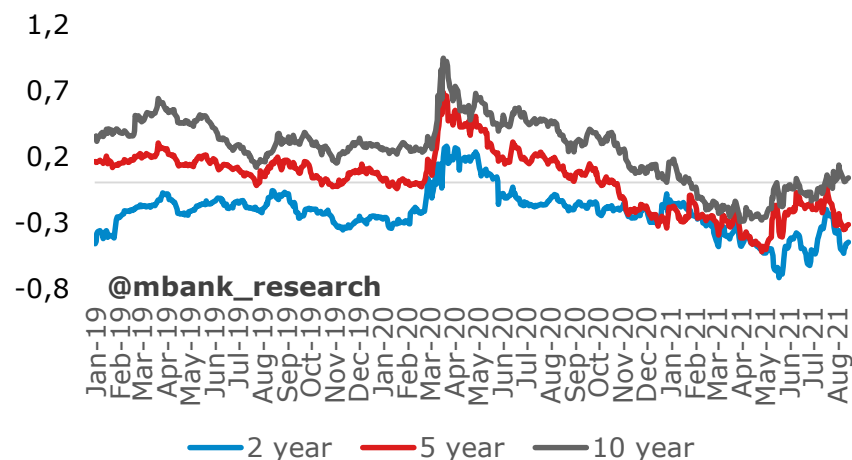
Source: Bloomberg

PL IRS



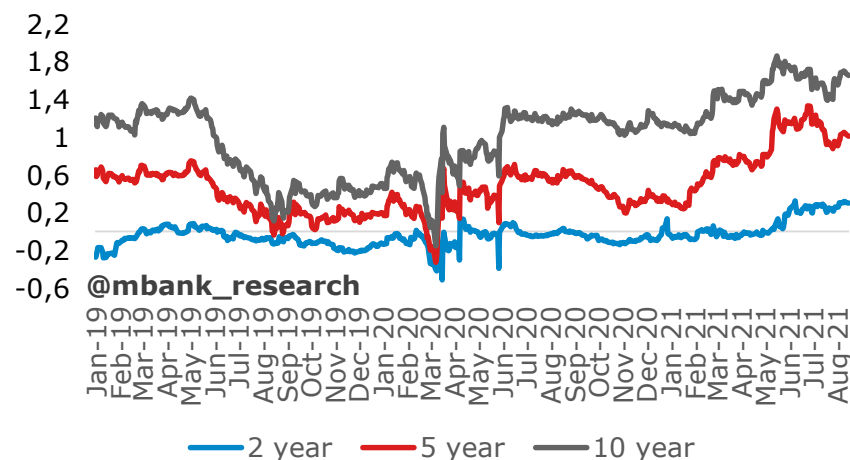
Source: Bloomberg

ASW spread



Source: Bloomberg

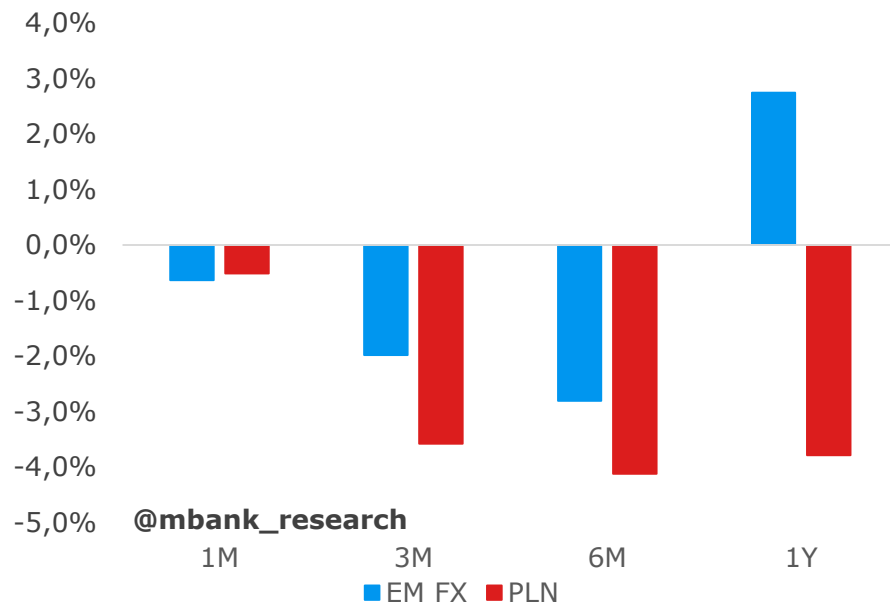
POLGB yield minus 3m WIBOR



Source: Bloomberg

EURPLN again close to 4.55

Still weak zloty



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

Source: Bloomberg

Real effective exchange rate



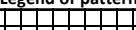
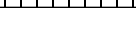
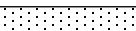

Source: BIS

- ❖ 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. Tensions in the government (movements to secure the ruling majority in the parliament) do not help as well.
- ❖ 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.

Personal changes in the MPC

MPC term of office schedule (as per the day of the decision meeting)

	End of term	Who appoints	2021				2022											
			Sep	Oct	Nov	Dec	Jun	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Adam Glapiński	21.06.2022	President/Sejm																
Grażyna Ancyparowicz	09.02.2022	Sejm																
Eugeniusz Gatnar	25.01.2022	Senate																
Łukasz Hardt	20.02.2022	President																
Cezary Kochalski	21.12.2025	President																
Jerzy Kropiwnicki	25.01.2022	Senate																
Eryk Łon	09.02.2022	Sejm																
Rafał Sura*	16.11.2022	Senate																
Kamil Zubelewicz	20.02.2022	President																
Jerzy Żyżyński	30.03.2022	Sejm																
MPC's decision day			8	6	3	8	5	2	2	6	4	8	6	NO	7	5	2	7
How many hawks?			3	3	3	3	3	4	3	3	3	3	3	3	3	3	3	4
How many doves?			7	7	7	7	7	6	7	7	7	7	7	7	7	7	7	6

Legend of colors:	Legend of pattern:
dove	 NBP President (President + Sejm)
hawk	 Sejm
new dove	 Senate
new hawk	 President
MPC member first meeting	

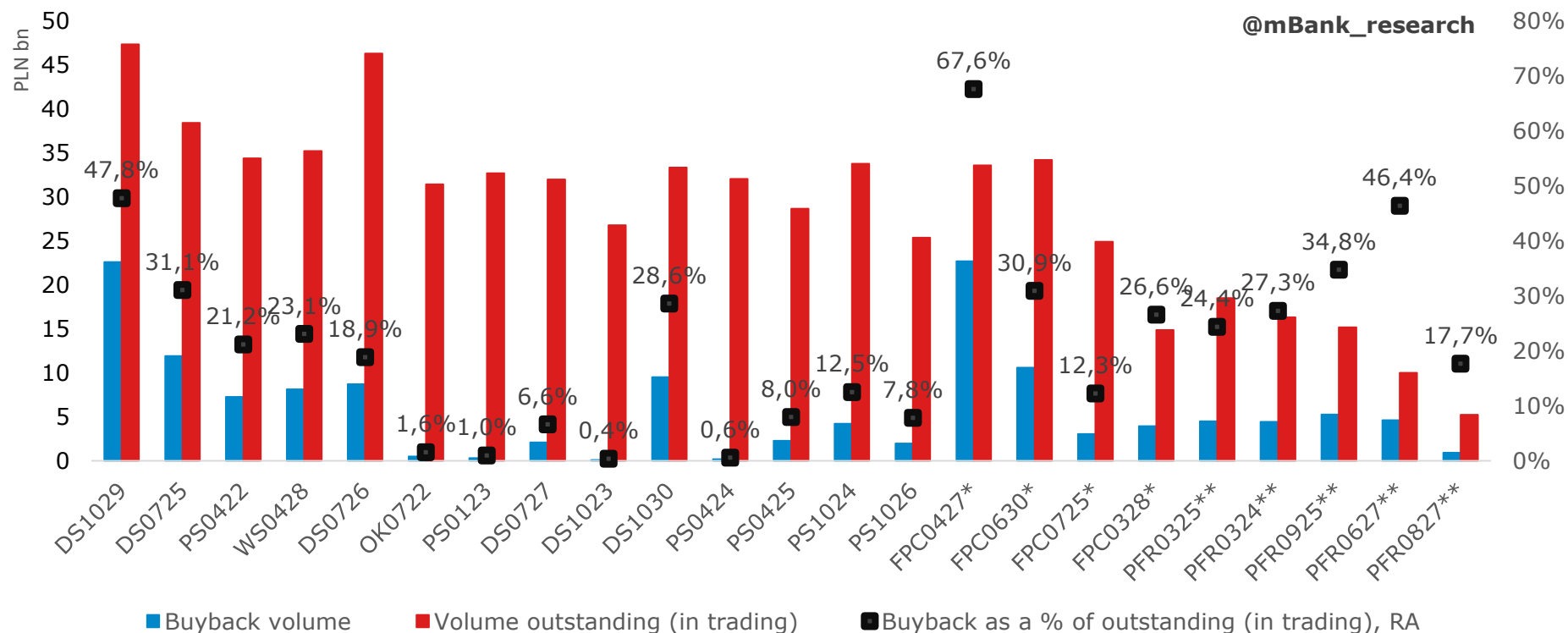
* Possible earlier end of term of office

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Source: Bloomberg

- ❖ In our opinion interest rate hikes are coming. The starting date is on a knife edge. We bet that the probability of hike in 4Q2021 (November) vs 1Q2022 is like 40:60.
- ❖ Decision on the hike will coincide with personal changes in the MPC. But it (rather) should not affect the timing of the first hike. The character of the new MPC will not differ much from the one we know, but the risks are rather tilted to the more hawkish setup. The Senate will probably appoint 2 new hawks (+1 more in Q42022). Sejm in our view will choose doves. There is no clear signal from the president (he appointed 2 hawks and 1 dove the last time). If the MPC will be more hawkish it will result in more aggressive interest rate path priced in (with higher long-term rate). Everything is going to play out in Q1.
- ❖ The unknown date of the end of R. Sura term is also a hawkish risk. He is appointed to the Administrative Court, but the procedure is not finished yet (so he remains in MPC). He will be replaced with Senate's candidate (most likely hawk). If it happens before November meeting, chances for a hike this year increase.

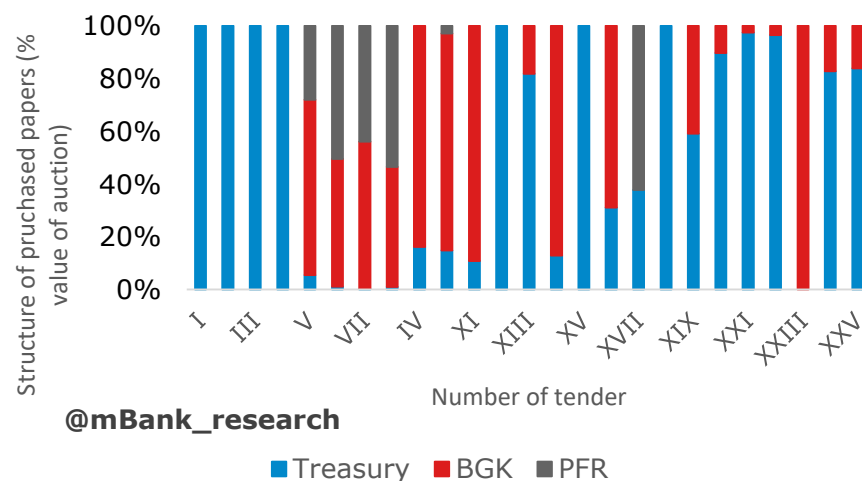
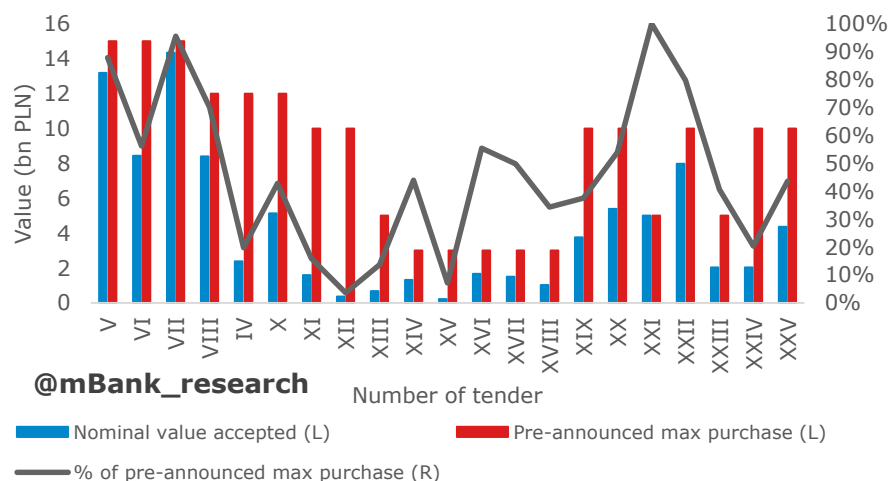
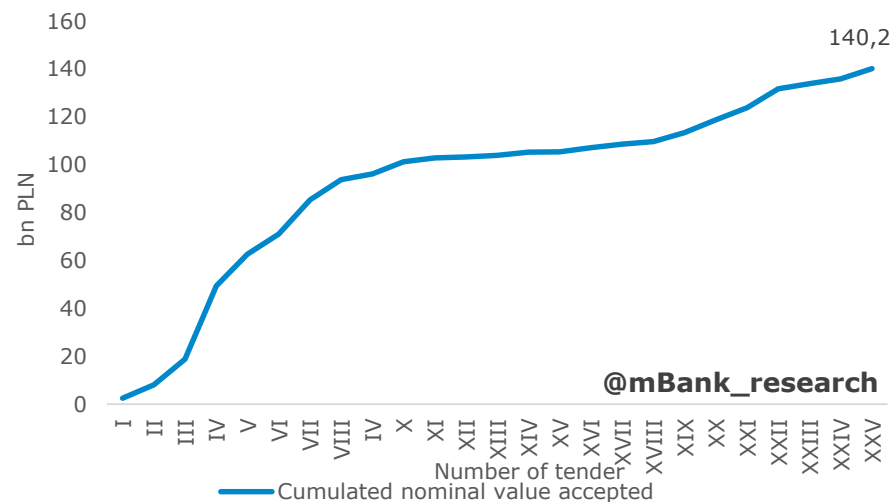
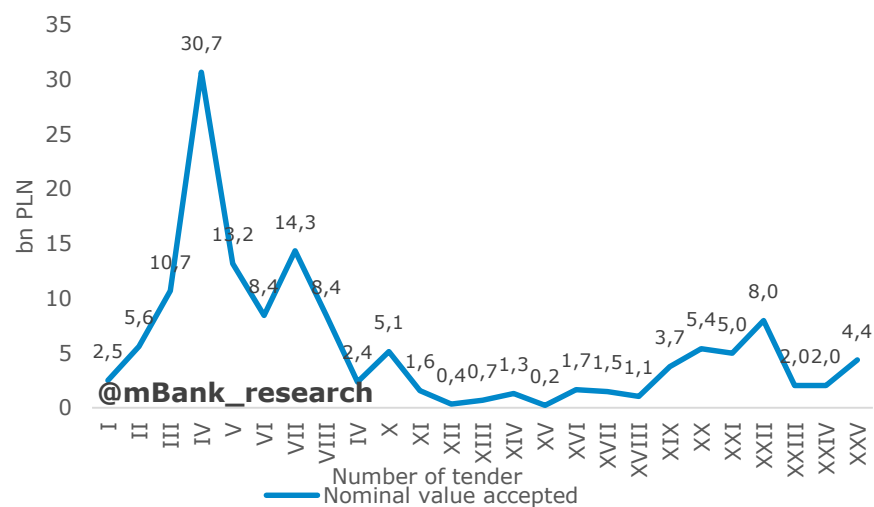
Appendix: NBP „structural“ portfolio monitor



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

- ❖ The state for 17.08.2021. 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 17.08.2021.

Source: Own elaboration on NBP data.

Disclaimer and contact details

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