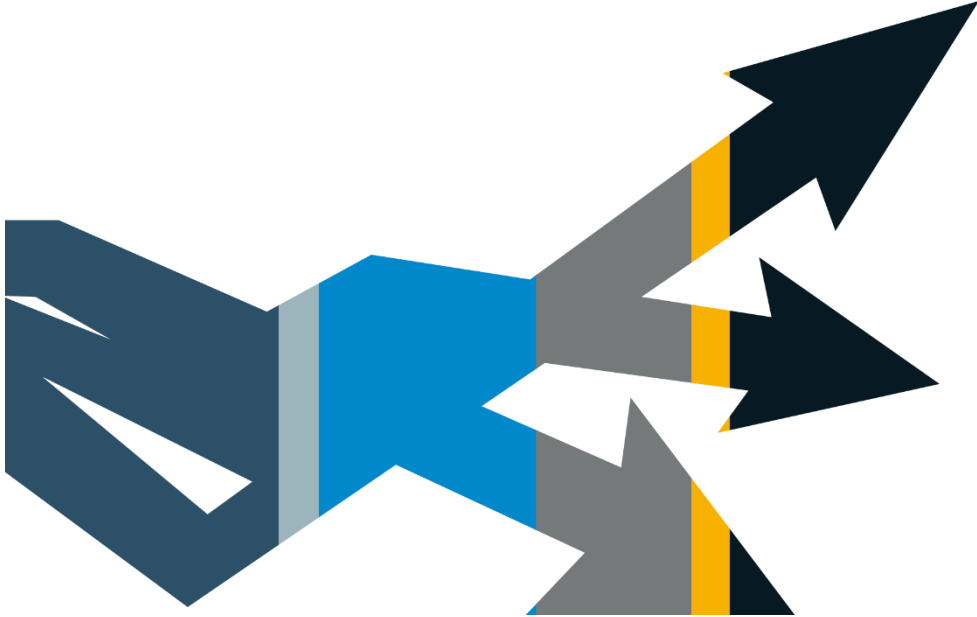


Monthly Pulse Check

Economy. FI. FX

September 14th 2021



mBank Research

For contact details and classification of the report see the [last page](#).



Our view in a nutshell ($\geq 1Y$ horizon) & major forecasts

Macro

- ❖ 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.
- ❖ We stand by our GDP forecast for Poland 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 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	11,1	5,0	6,6	5,8	4,4	5,1	5,1	-2,7	5,7	5,1
Individual consumption y/y	%	0,2	13,3	1,8	6,9	7,1	5,4	5,0	5,1	-3,0	5,6	5,7
Investment y/y	%	1,3	5,0	7,2	12,0	0,0	15,3	14,1	14,1	-8,4	6,4	10,9
Inflation rate (eop)	%	3,2	4,4	5,1	5,6	4,3	4,2	4,0	4,2	2,4	5,6	4,2
Unemployment rate (eop)	%	6,5	5,9	5,7	5,7	5,6	5,1	4,9	5,0	6,2	5,7	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	4,35	4,35	4,30	4,56	4,45	4,30
USD/PLN (eop)	%	3,95	3,81	3,81	3,80	3,79	3,75	3,72	3,64	3,73	3,80	3,64

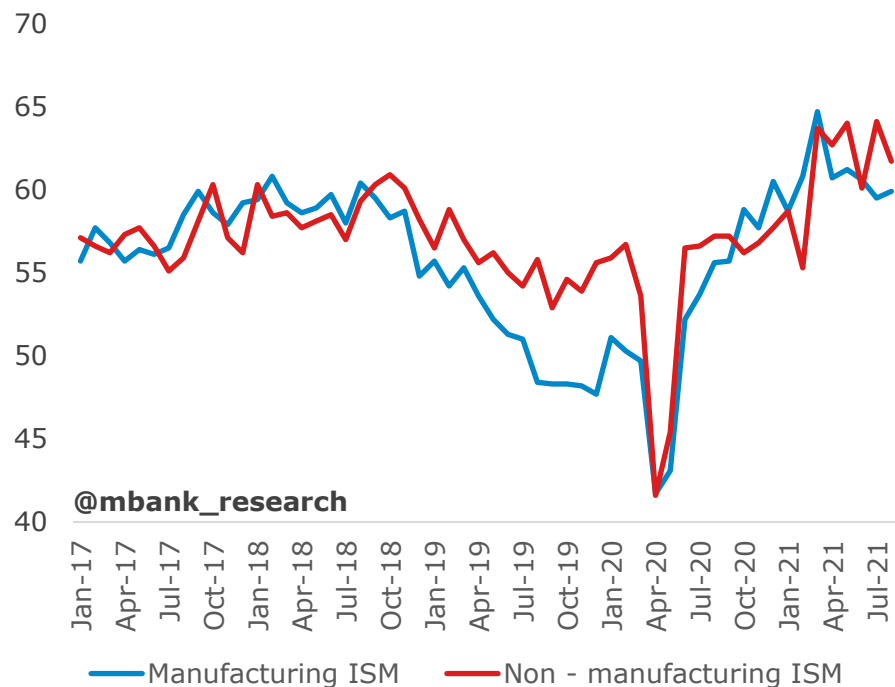
F - forecast

Highlights

- ❖ Fourth wave of covid cases is gaining momentum, but statistics are far from the ones observed earlier. In Poland no restrictions were introduced yet, but next few weeks may bring some local changes. As Minister of Health said: below the level of 1k infections any discussion about restrictions is groundless. The peak is expected in October, Ministry latest forecasts show that we will reach the level of 1k infections daily in the next few weeks – last data was around 500 infections, current statistics can be found [here](#)). We still are convinced that possible restrictions will have minimal economic toll. However, the pace of vaccinations collapsed recently which can pose risks to this scenario.
- ❖ Global picture did not change. High prices, petering out of pent-up demand, supply bottlenecks and local Covid-19 outbreaks brew a consistent story of risks. Inflation stays elevated. Fed announced that the tapering may start by the end of the 2021 (see [here](#)) and still closely looks at the recovery in the labor market (some disappointment in last data, but it is rather problems with workers supply). ECB decided to recalibrate PEPP program (moderately lower pace of PEPP than in previous two quarters) but emphasizes that it is not tapering. (EBC: see [here](#)).
- ❖ Polish economy looks good but the period of spectacular re-acceleration is possibly over. As restrictions are lifted, activity in long abandoned sectors (tourism, restaurants) jump-started but now it lowered again (rather due to seasonality) Mobility is still high(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. Last GDP data was slightly lower than we expected - mostly due to investment. But perspectives for the rest of the year remain positive so we do not change our forecast (5.7% y/y in 2021). GDP reached the pre-pandemic level but is still distant from trend (see [here](#) and [here](#))
- ❖ Inflation is at the highest level for 20 years (5.4 y/y, see [here](#) and [here](#)). Moreover we think it is not the end and in December this year we will see even higher numbers (~5.6% y/y). Next year it will decline but we do not expect CPI to come back to the NBP range. MPC's attitude remains unchanged. They do not want to respond to supply shocks and treats current growth of inflation as temporary. We think MPC needs 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

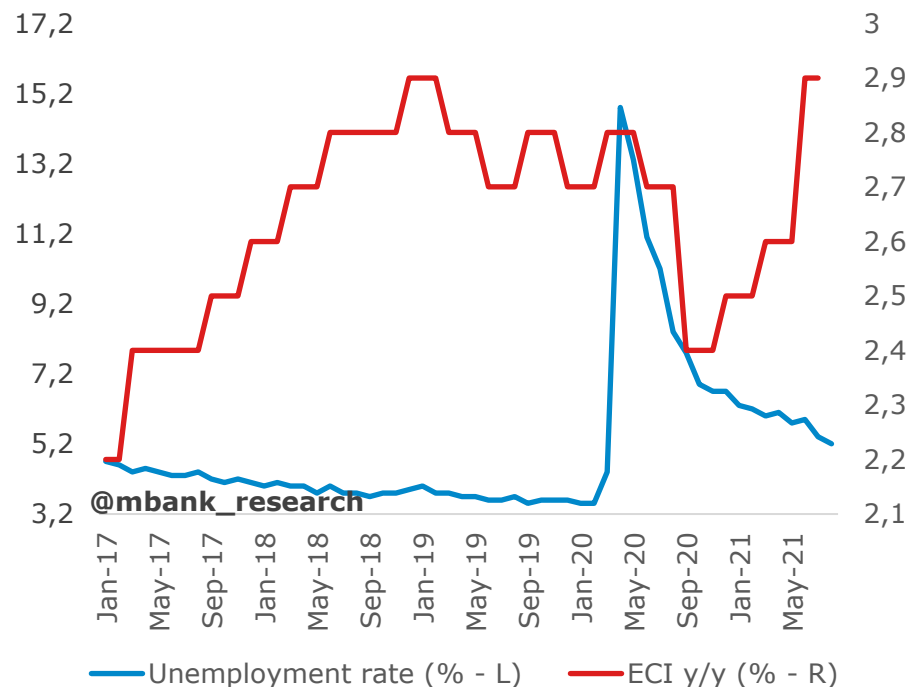
ISM PMI: manufacturing & non-manufacturing



Source: ISM

- ❖ Sentiment data is ambiguous. Index in industry improved slightly, while in services sentiment lowered (but in both cases it is still high above 50 pts.). Firms still emphasize problems with supply chains disruptions, shortage of materials and lack of employees. But the demand is still strong – new orders in both manufacturing and services grew for the 15th consecutive month.
- ❖ Labor market data surprised negatively but only when considering change in employment – both unemployment rate and wage growth suggested rather optimistic overall picture. The demand for labor remains strong (we see it also in JOLTS data), the problem is in attracting new employees (hence wage increases). This is one of the reasons why the report will not discourage the Fed from its plans to tighten the monetary policy.
- ❖ Fed did not provide the specific end date for tapering but we can safely say it will happen this year. Communication is careful, there is no sign of „taper tantrum“.

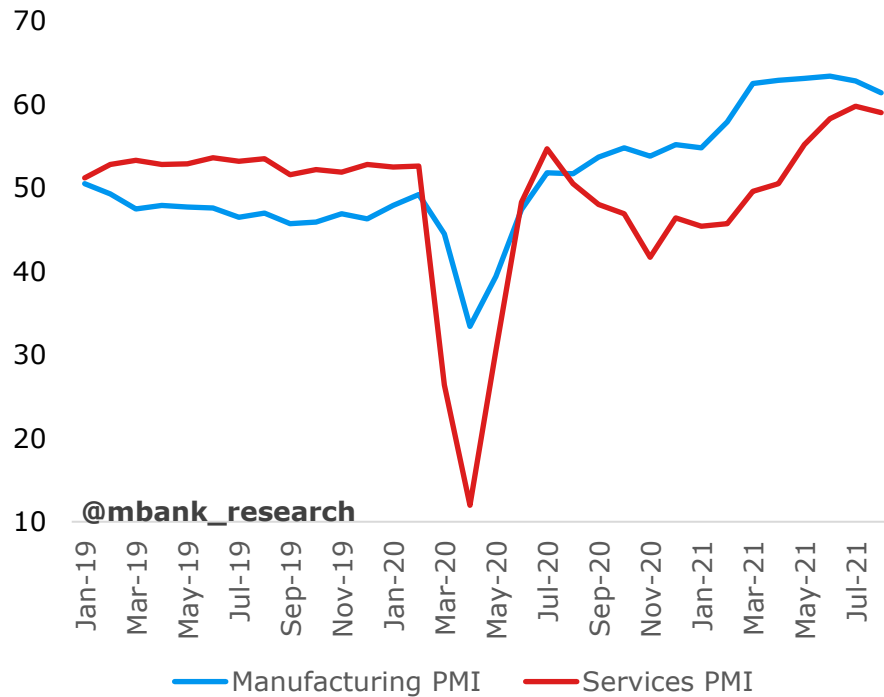
Labor market: wages & unemployment rate



Source: FRED

Euro area economy health check

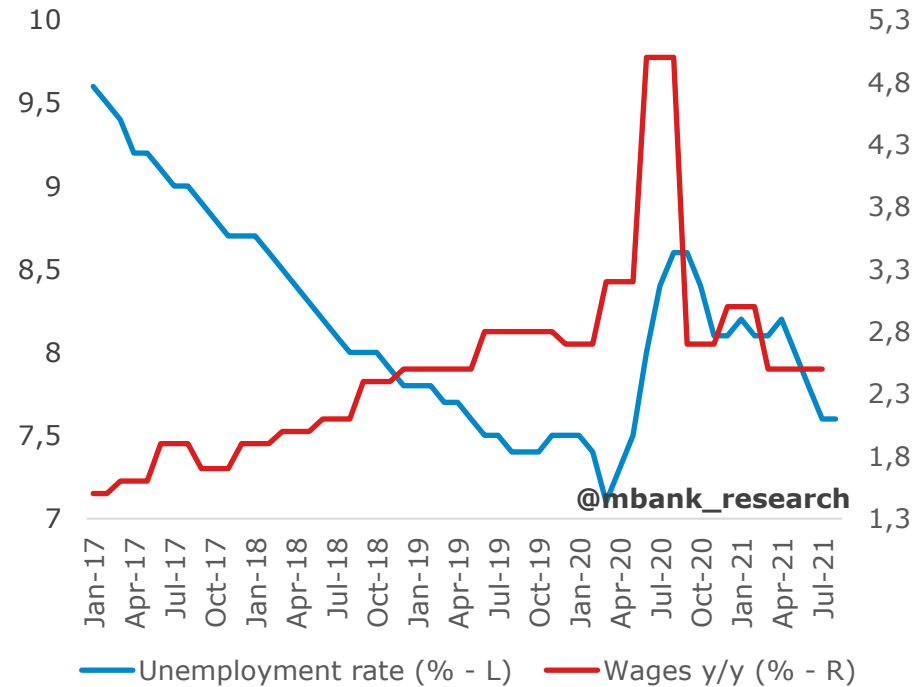
Markit PMI: manufacturing & services



Source: Markit

- ❖ Sentiment in eurozone is still high, but there are some signs of anxiety regarding 4th wave of new covid cases and delta variant. That is why we can observe some cooling of the expansion. Moreover, in manufacturing the supply chain disruptions are global, therefore they do not omit European economy. But the demand also remains solid. GDP numbers for 2Q were also high. ECB estimate on GDP growth was revised to 5% due to good result in Q2 and optimistic data on vaccination campaign (more than 70% of European adults fully vaccinated).
- ❖ Inflation surprised to the upside, but ECB still treats its current behavior as temporary (it will further rise this autumn but decline next year). It was reflected in new ECB forecasts, where inflation in 2022 and 2023 is still below the 2% level (even though it is slightly higher than in the previous round).
- ❖ ECB decided to recalibrate the PEPP programme, but as C. Lagarde emphasized it was just recalibrating, not tapering. The next discussion on PEPP will take place in December. With the inflation still below the target we can expect some continuation of asset purchases after the PEPP ends (PEPP transforming into broader APP). Rates will remain low for long.

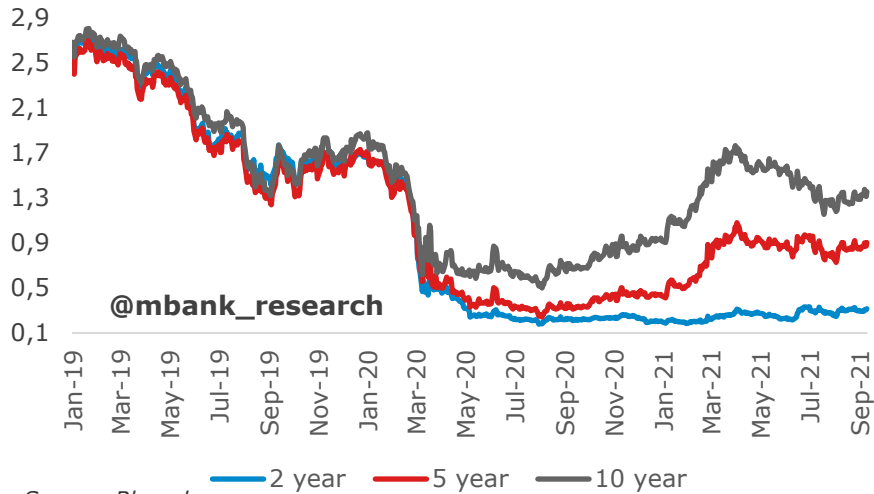
Labor market: wages & unemployment rate



Source: Eurostat

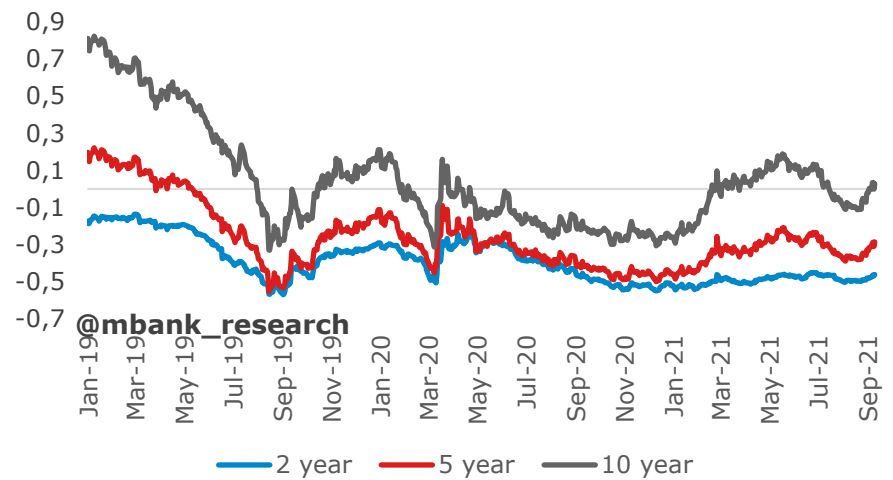
Global rates

US swap rates (%)



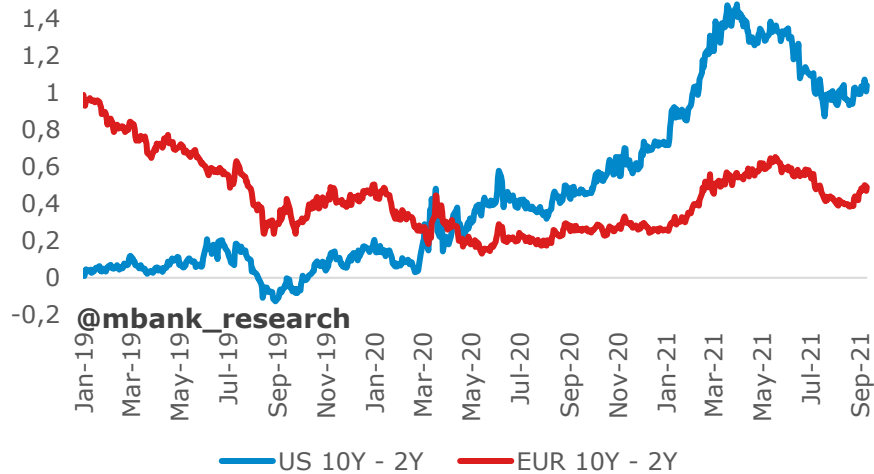
Source: Bloomberg

EU swap rates (%)



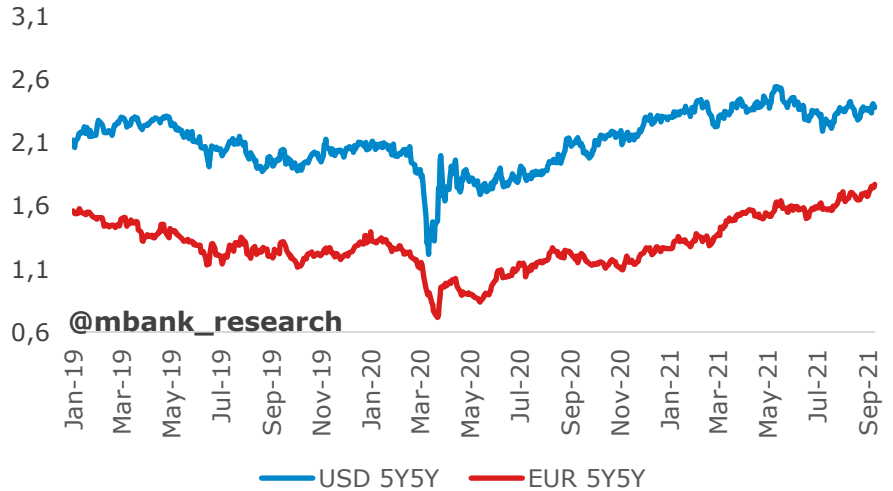
Source: Bloomberg

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



Source: Bloomberg

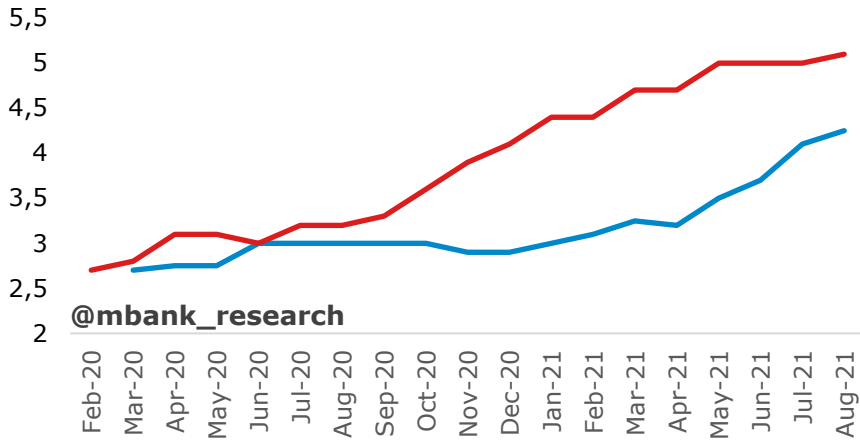
US and EZ inflation expectations (%)



Source: Bloomberg

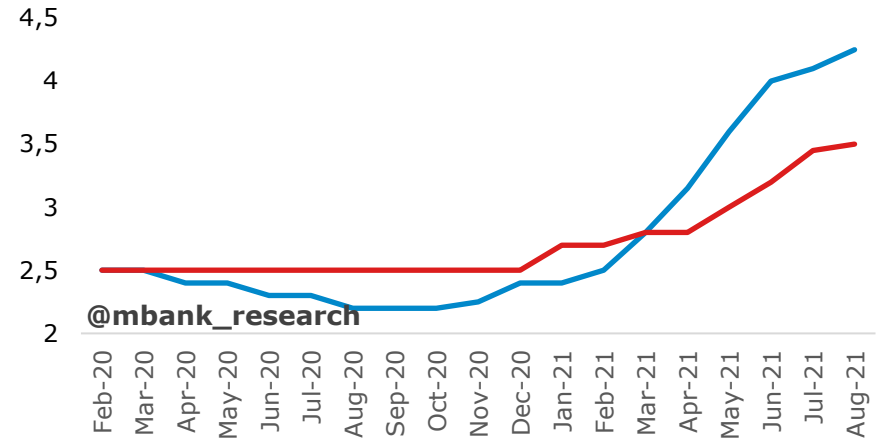
Consensus: what is expected in Poland?

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



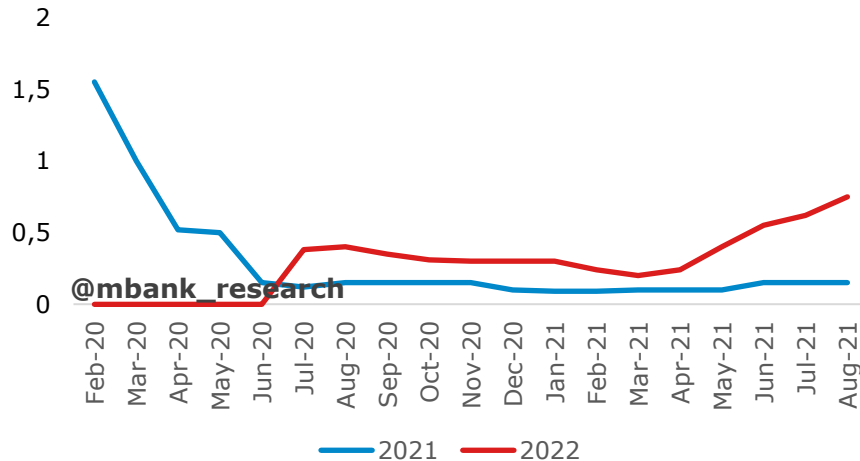
Source: Bloomberg

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



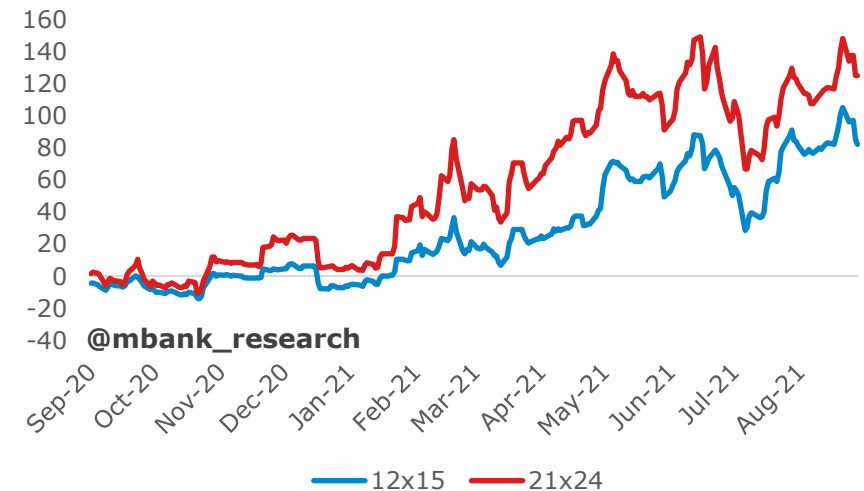
Source: Bloomberg

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



Source: Bloomberg

Rate changes priced in by FRA (bps)



Source: Bloomberg

Upcoming Polish macro releases: September 2021

Publication	Date	Period	mBank	Consensus	Actual	Prior
CPI y/y (%)	31.08[1]	Aug	5,2%	5,2%	5,4%	5,0%
	15.09[2]					
PMI (pts.)	01.09	Aug	56,5	56,5	56,0	57,6
Unemployment rate (%)	06.09[3]	Aug	5,7%	5,8%	5,8%	5,8%
	23.09[4]					
Current account (m EUR)	13.09	Aug	-256	-270	-1827	281
Employment y/y (%)	17.09	Aug	1,1%	1,1%		1,8%
Wages y/y (%)	17.09	Aug	9,0%	8,7%		8,7%
Industrial output y/y (%)	20.09	Aug	13,9%	13,8%		9,8%
PPI y/y (%)	20.09	Aug	9,2%	9,2%		8,2%
Construction output y/y (%)	21.09	Aug	7,1%	7,5%		3,3%
Retail sales y/y (%)	21.09	Aug	5,3%	5,7%		8,9%
M3 y/y (%)	22.09	Aug	9,3%	9,1%		8,8%

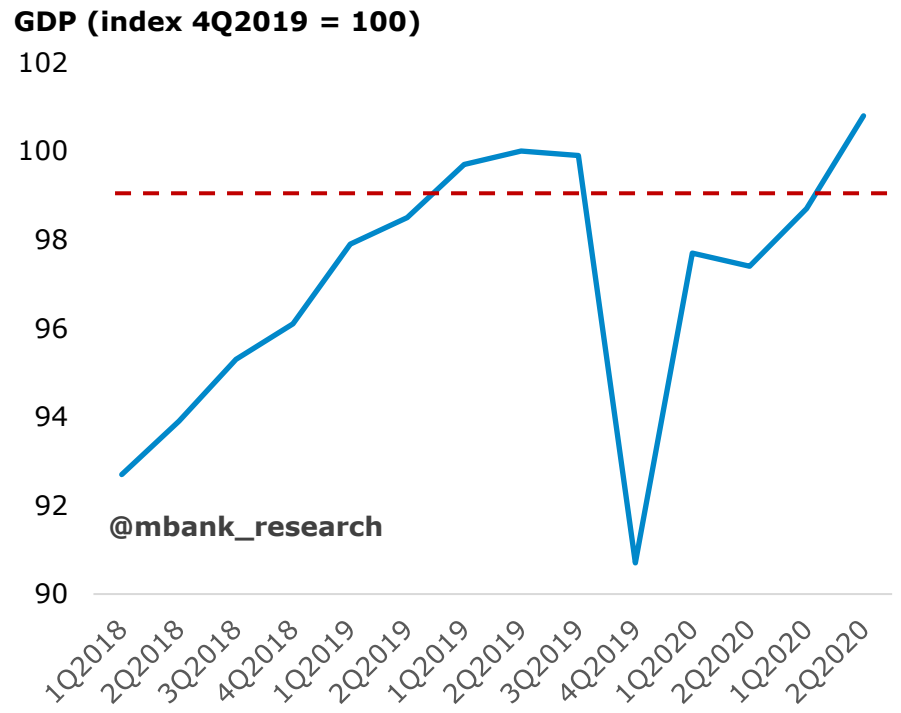
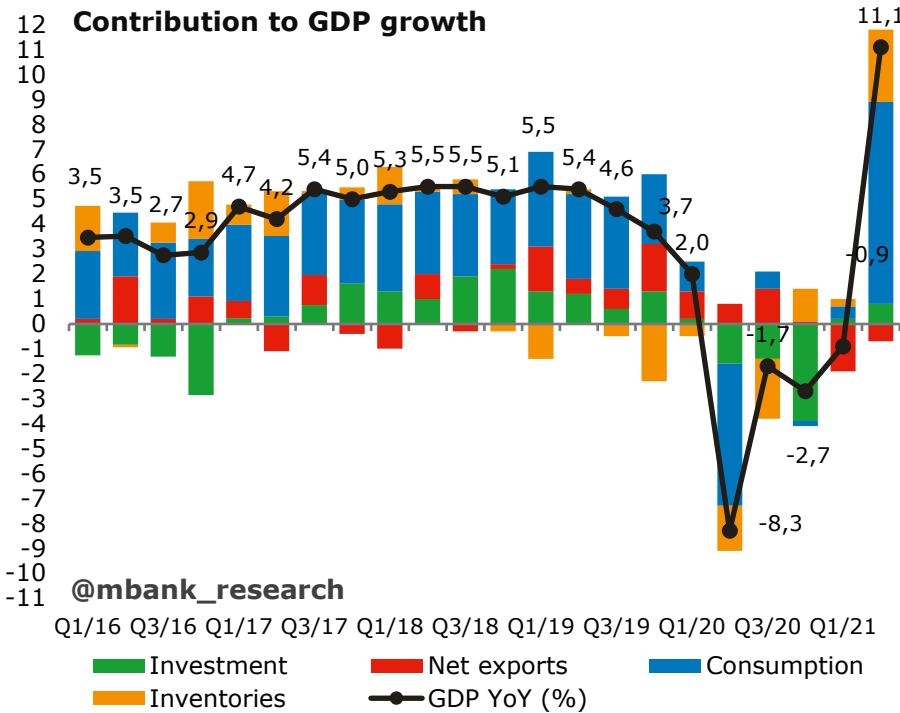
[1] Flash estimate

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

[2] Final reading

[4] Statistics Poland final reading

Poland: GDP higher than before the pandemic...



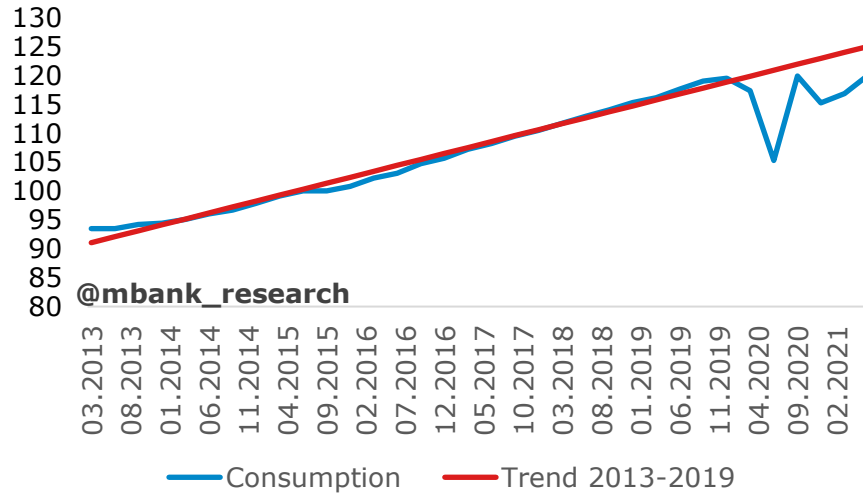
Source: mBank, Statistics Poland

Source: mBank, Statistics Poland

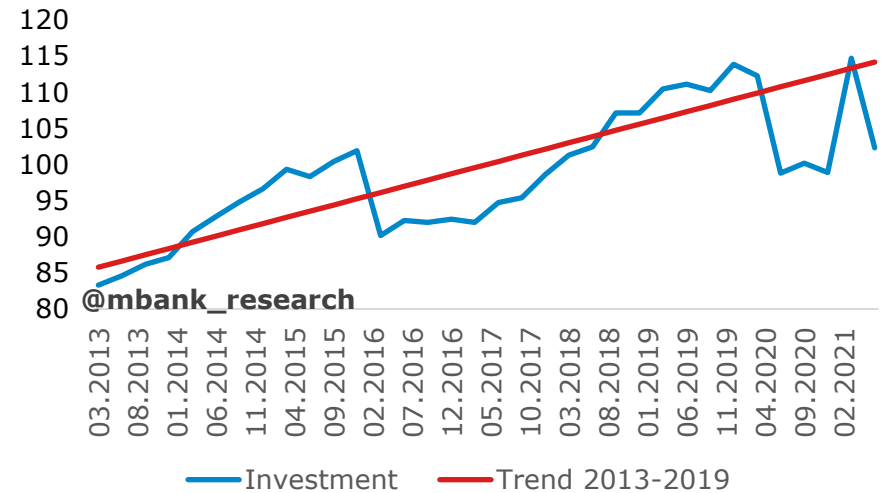
- ❖ GDP growth in 2Q2021 was slightly higher than flash reading indicated (+11.1% y/y vs 10.9% y/y). But still, compared to the monthly data (industrial production, construction and retail sales), it could be treated as disappointment.
- ❖ Structure of the GDP surprised, mostly because of investments. Good result of 1Q2021 was not an indicator of strong rebound, but just an anomaly. In 2nd quarter the stream of investments decreased. Perspectives for investment still remain positive (high sentiment in PMI readings, upcoming EU funds).
- ❖ Consumption was slightly weaker than our estimates (there was no such pent-up demand in services as we expected, maybe we need to wait for the 3rd quarter to catch all the post-pandemic effects). However it was enough to reach the pre-pandemic level.
- ❖ GDP itself is also higher than before the pandemic (higher than in 4Q2019). Despite weak investments, the overall picture and perspectives for next quarters remain positive. We do not change our forecast for the yearly GDP (5.7% y/y).

Poland: ... but there is still some distance to the pre-pandemic trend

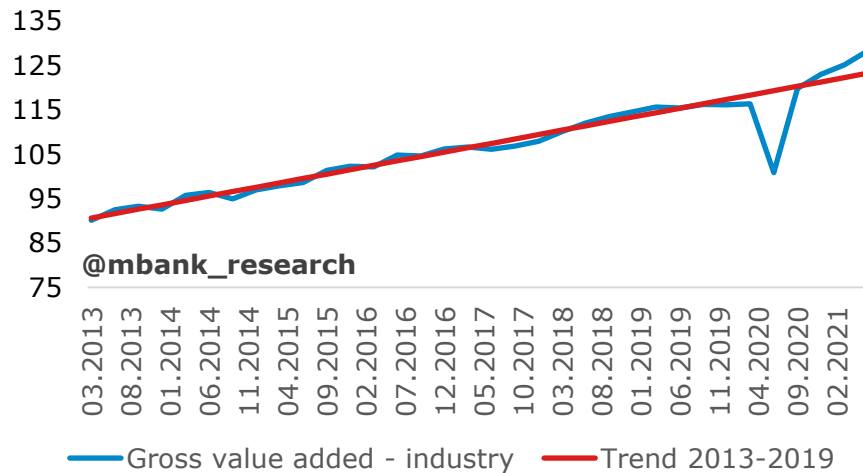
Seasonally adjusted consumption in constant prices (index 2015=100)



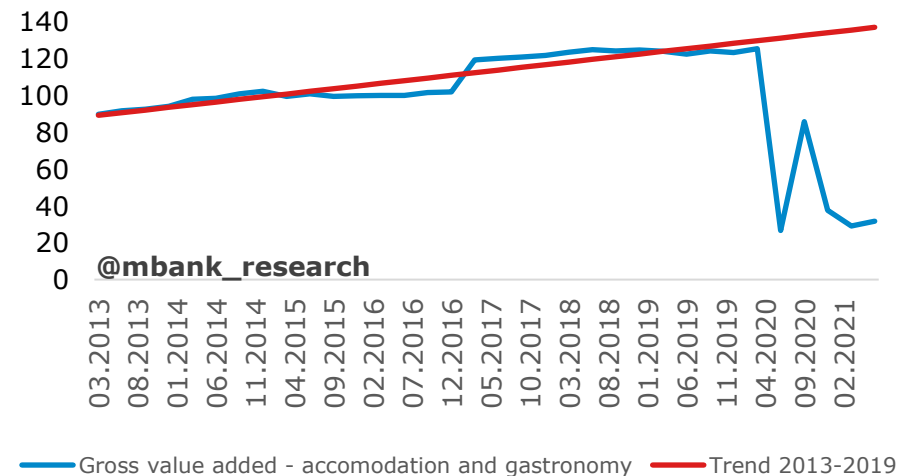
Seasonally adjusted investment in constant prices (index 2015=100)



Gross value added in industry in constant prices (index 2015=100)



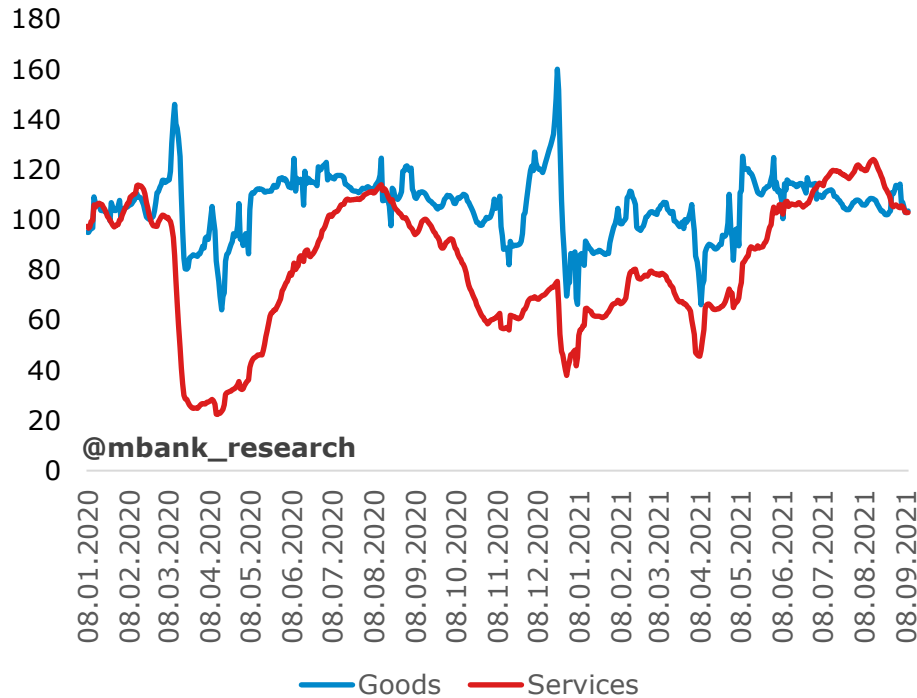
Gross value added in accomodation and gastronomy in constant prices (index 2015=100)



Source: mBank transaction data. Own elaboration.

Poland: Fast catching up behind us

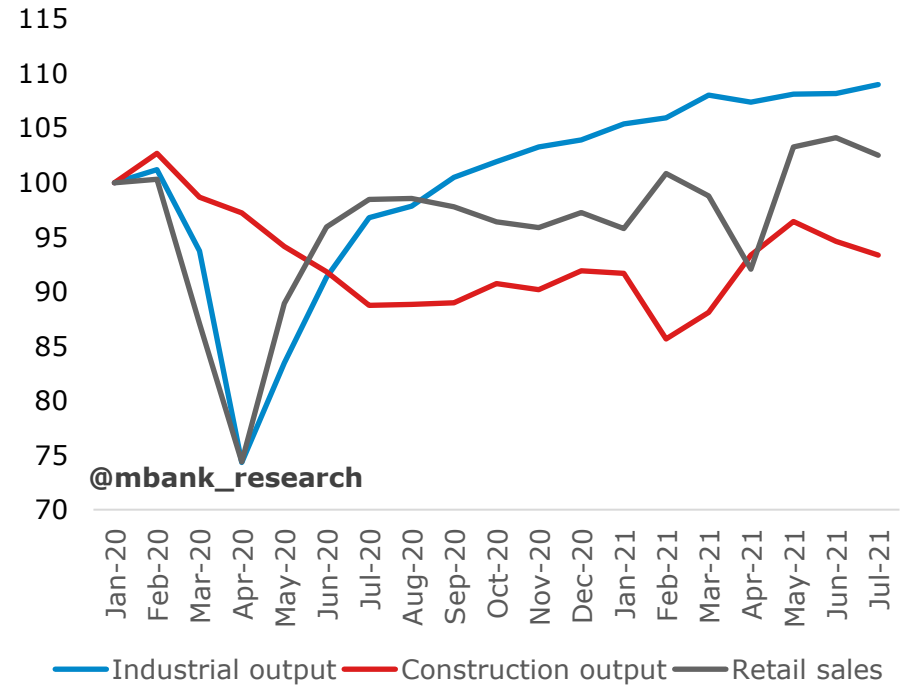
Card expenditures weekly, Jan20 = 100



Source: mBank transaction data. Own elaboration.

- ❖ Industrial production increased and seems not to bother with supply chain disruptions. It does not mean that there is no price effects or supply problems, but they are not so intense to slow down the overall index. In next months they can be more and more visible.
- ❖ Production is on the high pre-pandemic trend. July was the month in which industrial production managed to statistically close the gap resulting from the pandemic - the measure of the cumulative deviation from the trend from the last month finally is positive. In other words, the production stream "lost" has been caught up.
- ❖ Catching up in retail sales is definitely behind us. Monthly readings from last month were lower than expected. Growth was not so intense as a year before, but it should not be a surprises – a scale of restrictions and pent-up demand was also significantly smaller. Some part of relatively low retail sales can be attached to higher consumer prices.

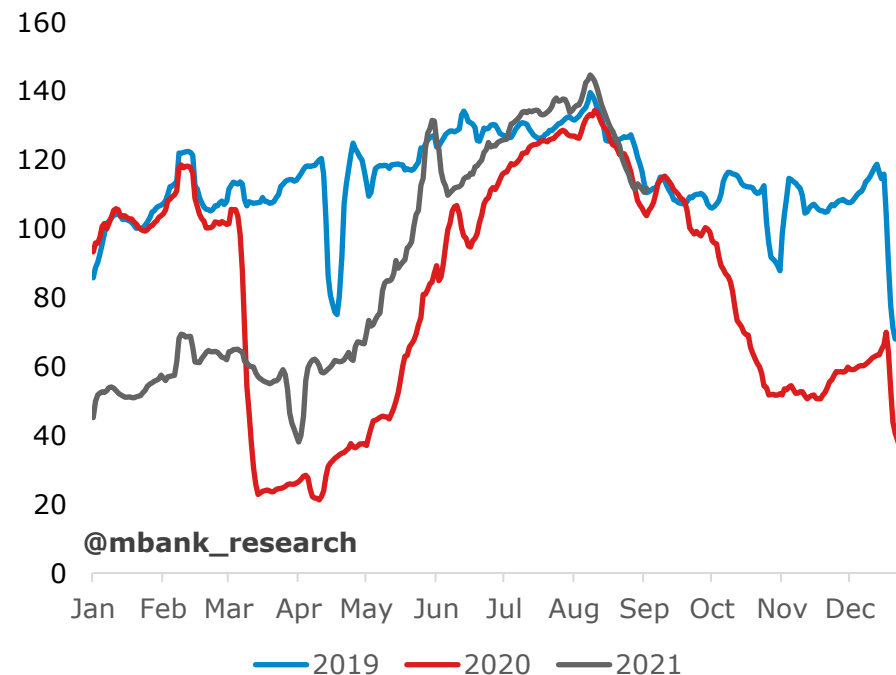
Seasonally adjusted, index 2015 = 100



Source: mBank, Statistics Poland

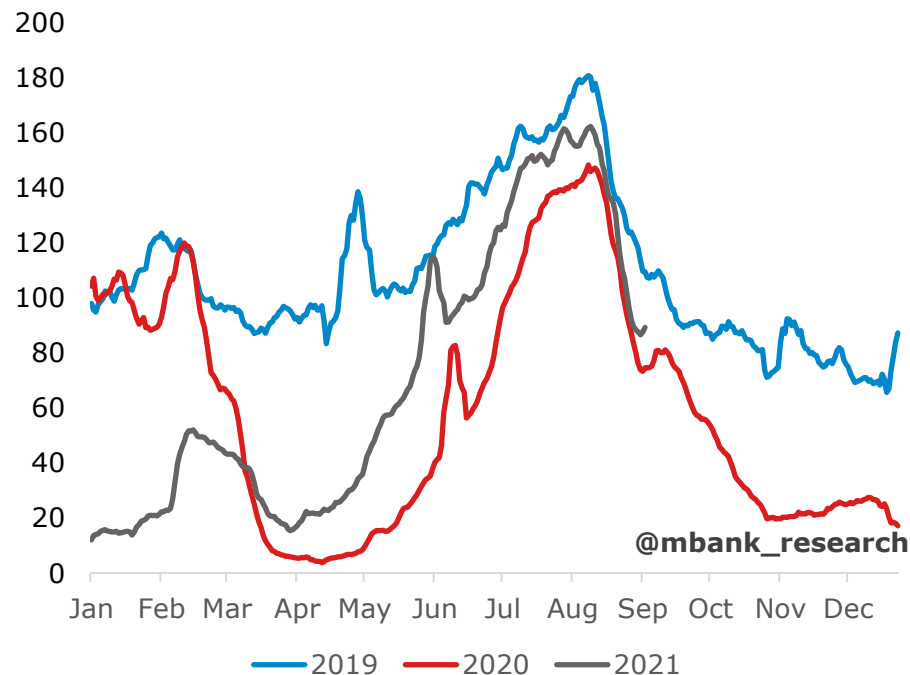
Poland: Card expenditures, #1

Restaurants, card expenditures weekly, Jan20 = 100



Source: mBank transaction data. Own elaboration.

Tourism, card expenditures weekly, Jan20 = 100

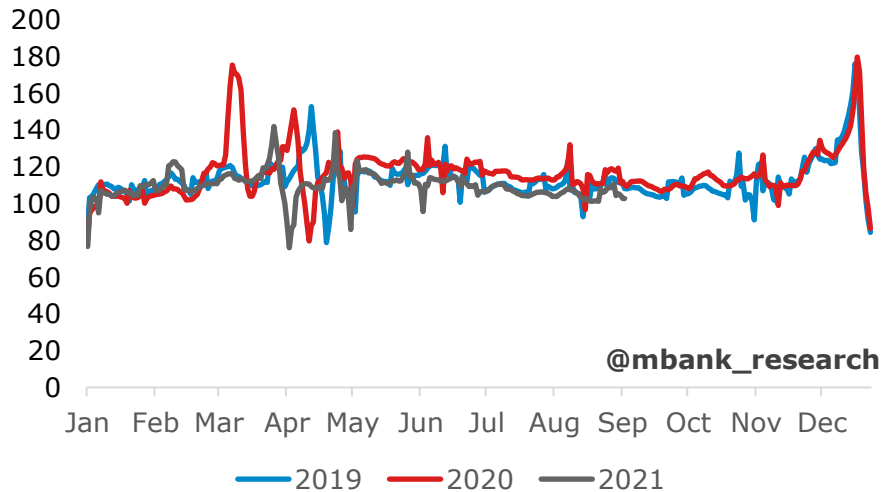


Source: mBank transaction data. Own elaboration.

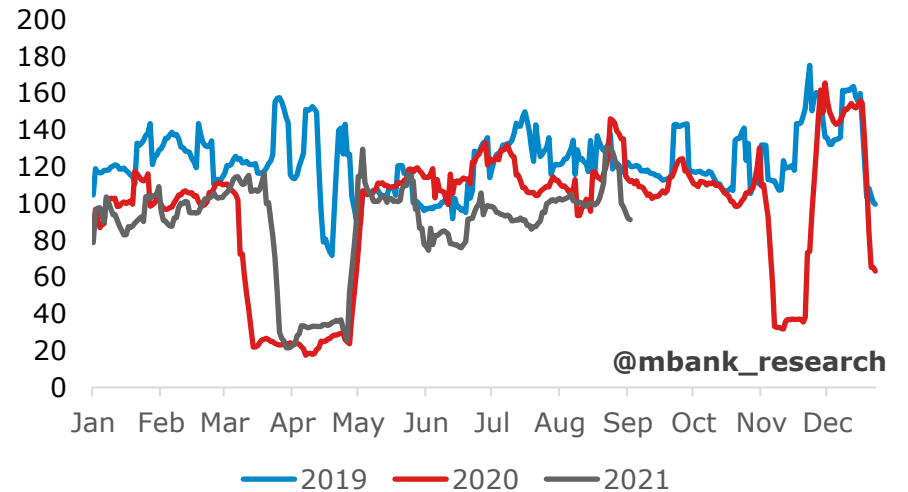
- ❖ Card transaction data suggests that expenditures in services have slowed down (see the previous slide). It is no reason to worry, just typical seasonal pattern. What matters is the scale of slowdown. Here we still see slightly higher level of card transactions than a year before.
- ❖ But there is also some pessimistic point of view. Some substitution between goods and services, that we observed in last 2 months, now seems to have expired. Any negative surprises in retail sales, will suggest week consumer expenditures, not substitution to services. But, so far, everything goes according to the plan with regard to consumption and consumers still have substantial cash buffers at hand.
- ❖ In more details we do not see any major changes (compared to previous monthly edition). Expenditures on transport and culture 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

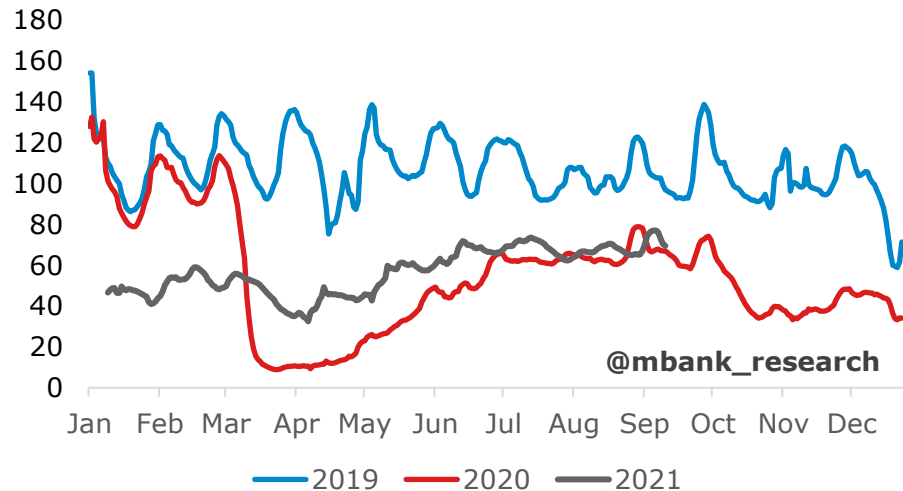
Food, beverages and non-specialized stores, Jan20 = 100



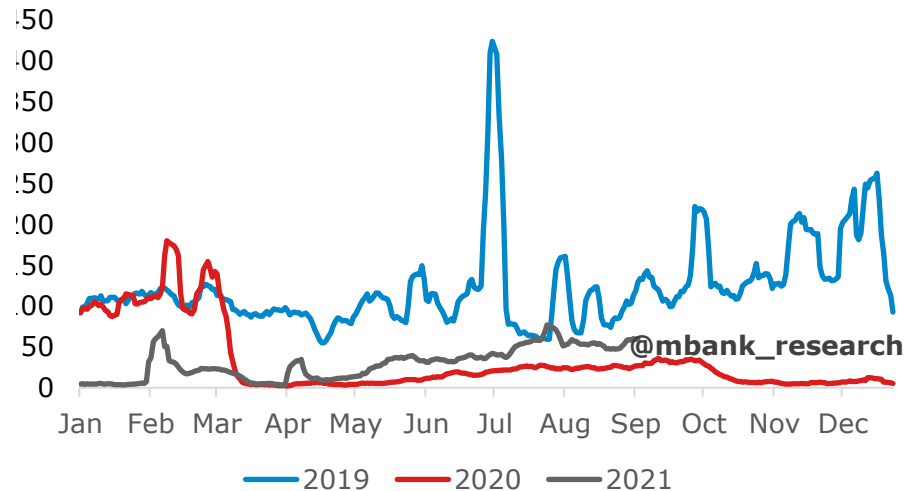
Clothing, footwear, Jan20 = 100



Transport, Jan20 = 100



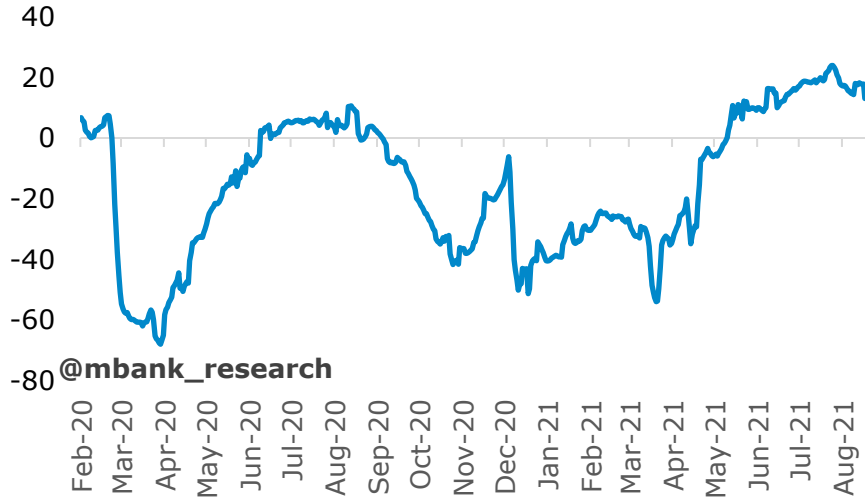
Culture (e.g. cinemas, concerts), Jan20 = 100



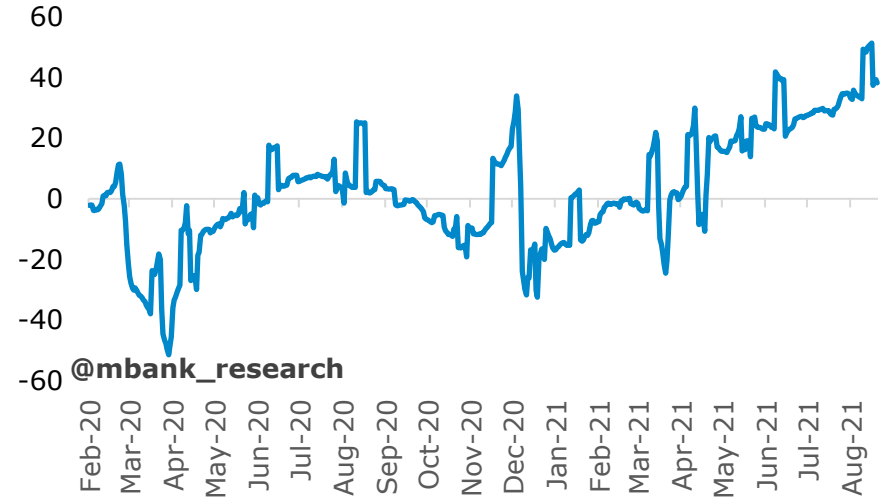
Source: mBank transaction data. Own elaboration.

Poland: Google mobility, 7-day average

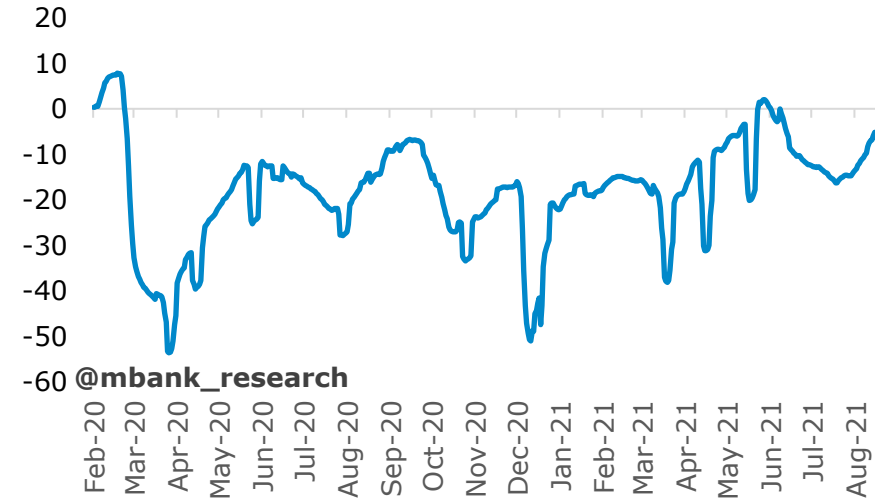
Retail & recreation (% change from Jan20)



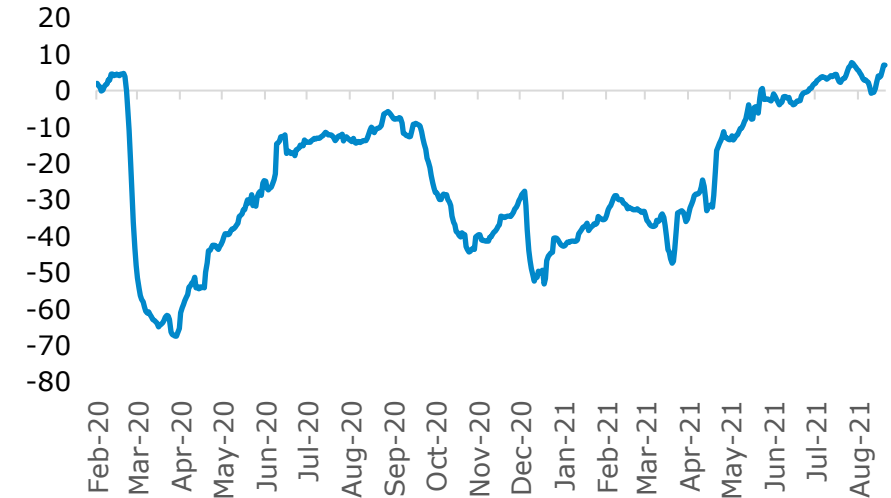
Grocery & pharmacy (% change from Jan20)



Workplaces (% change from Jan20)



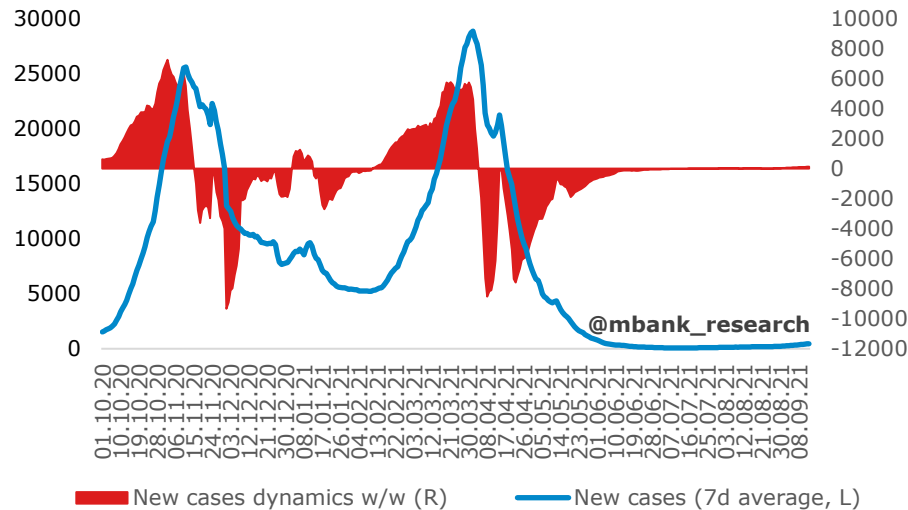
Transit stations (% change from Jan20)



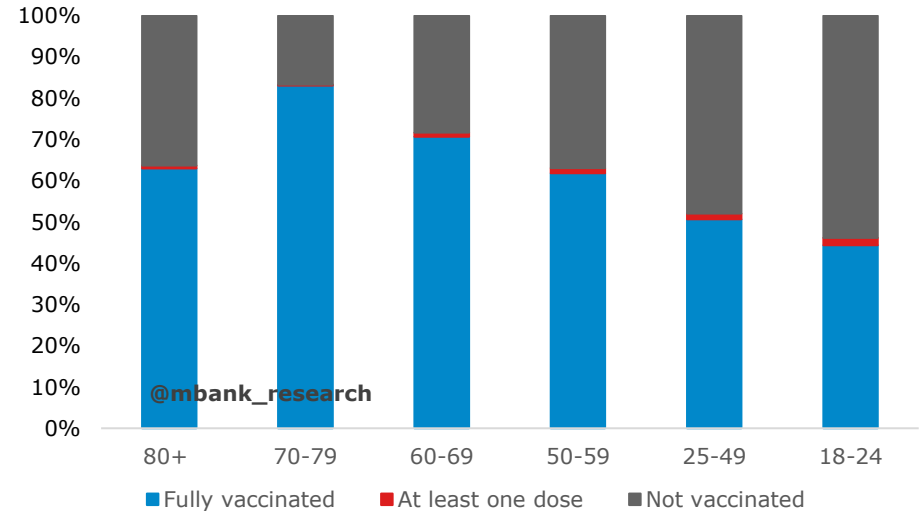
Source: Google mobility data. Insights in these reports are created with aggregated, anonymized sets of data from users who have turned on the Location History. The baseline is the median value, for the corresponding day of the week, during the 5-week period Jan 3–Feb 6, 2020

Poland: COVID-19 situation

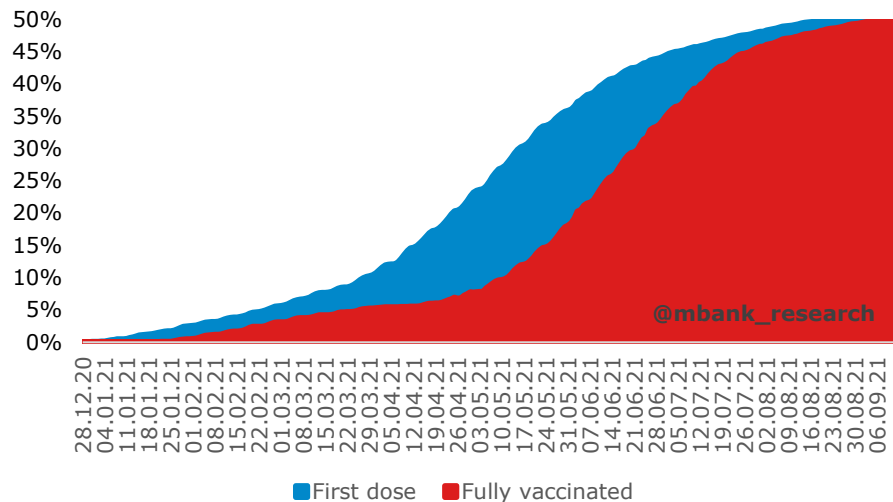
Daily new cases (7day average)



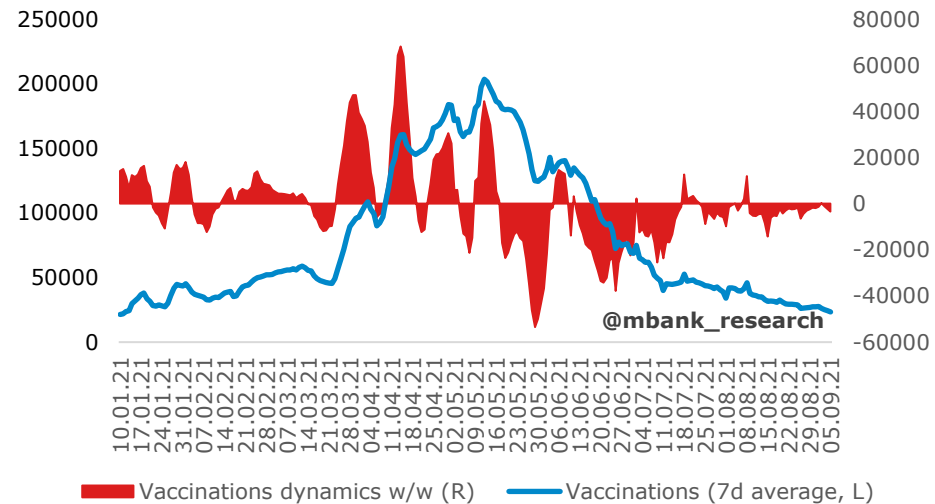
Cumulative uptake (%) of vaccinations by age



Cumulative uptake (%) of vaccinations



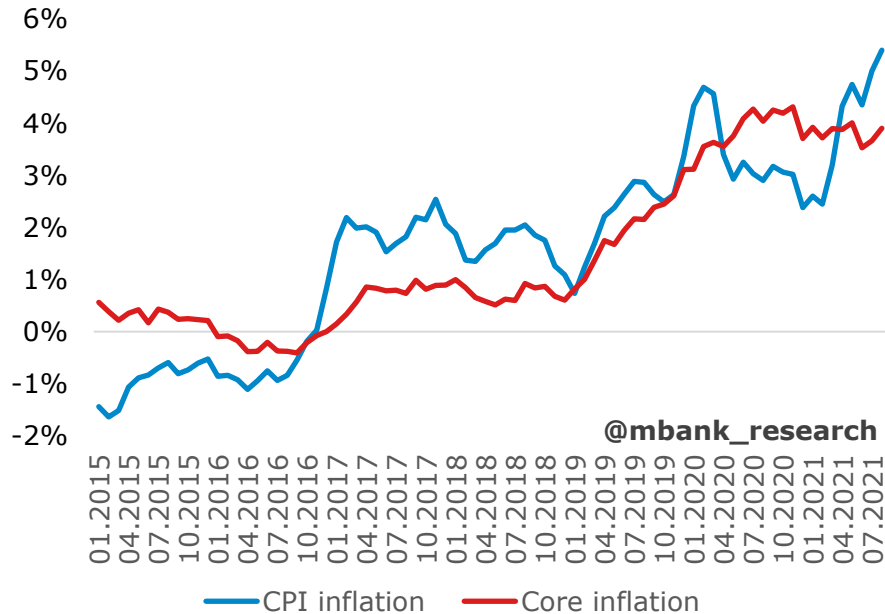
Vaccinations (first doses)



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

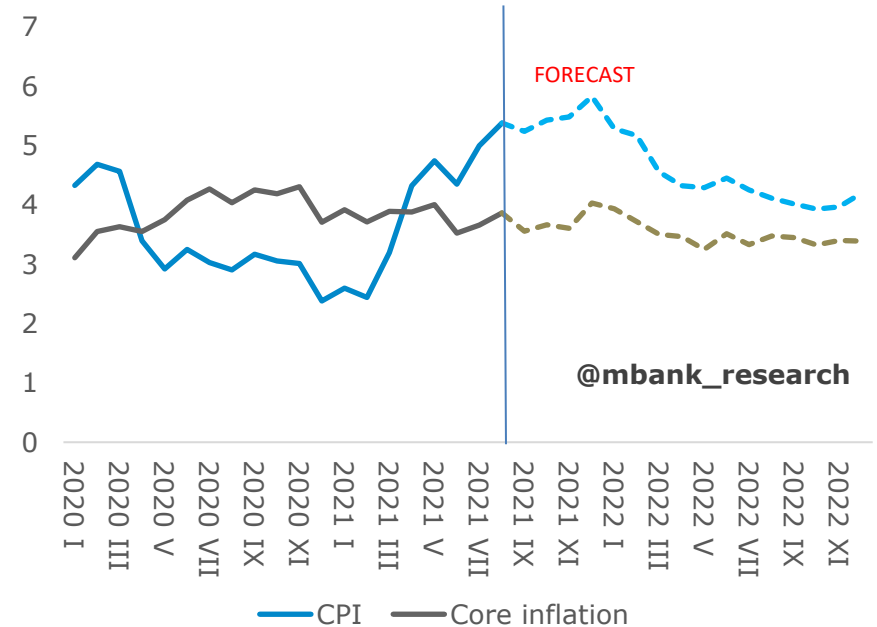
Poland: Inflation tracker #1

CPI and core inflation (% y/y)



Source: Statistics Poland, NBP, own elaboration

Core and headline inflation forecast

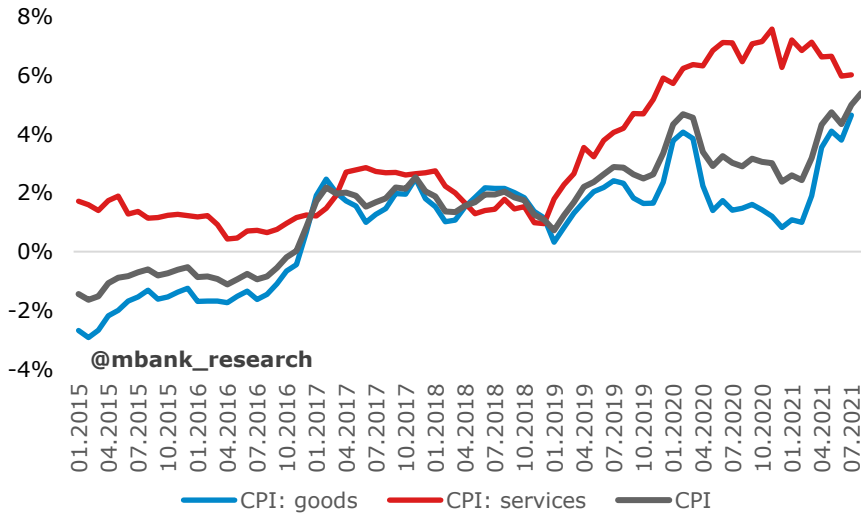


Source: Statistics Poland, own elaboration

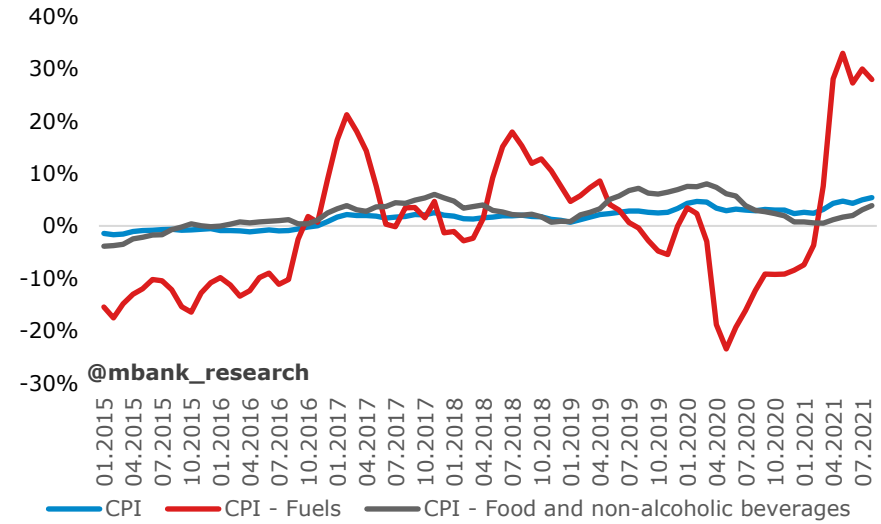
- ❖ Inflation reading (5.4% y/y) is the highest for 20 years. What are the reasons of higher inflation in August? Lower than expected (and lower than seasonal patterns) decrease in food prices, increase in gas prices and fuels. Core inflation also increased (to 3.9% y/y) but in next months it rather should not go higher (last months of price growth in core inflation due to categories dependent on reopening of the economy).
- ❖ We will see consolidation or a slight decline in core inflation next months (but it will still be close to historically high). CPI will be driven by other factors: food prices, electricity and gas prices. The highest inflation reading will be in December (around 5.6%).
- ❖ MPC keeps its rhetoric unchanged. Information after the last meeting did not differ much compared to the July one. Governor Glapinski was very dovish during last press conference (still expects inflation to decrease in 2022 and now do not want to respond to supply shocks). MPC needs lasting demand pressure, strong labor market and good economic sentiment to react. Our forecast is still the same – normalization of interest rates will start in 1Q2022.

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

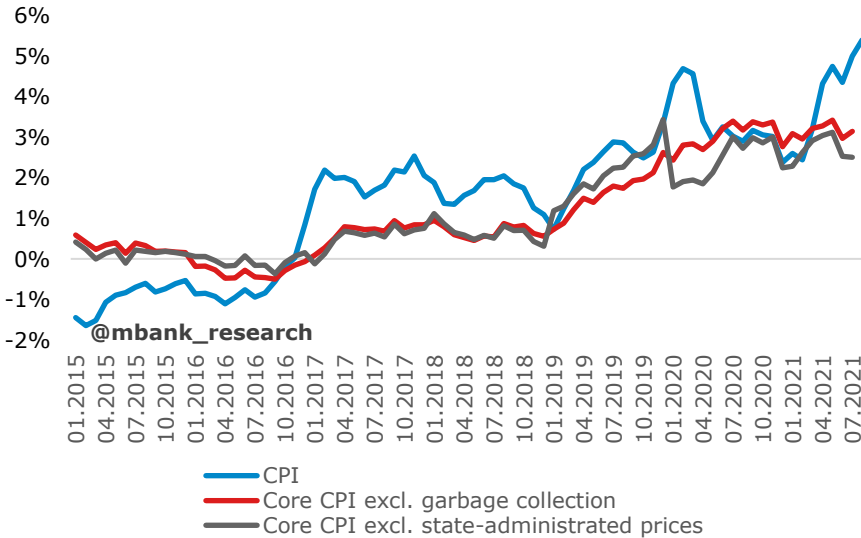
Goods and services prices (% y/y)



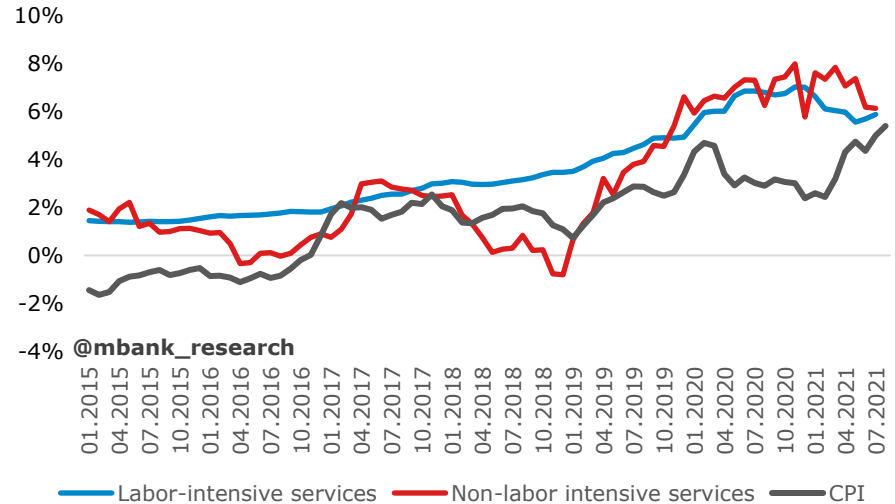
Food and fuel prices (% y/y)



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



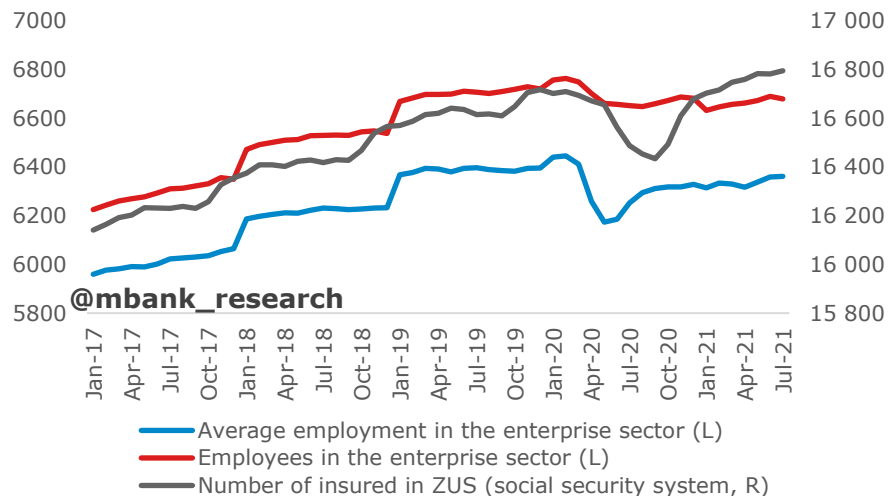
Services (% y/y)



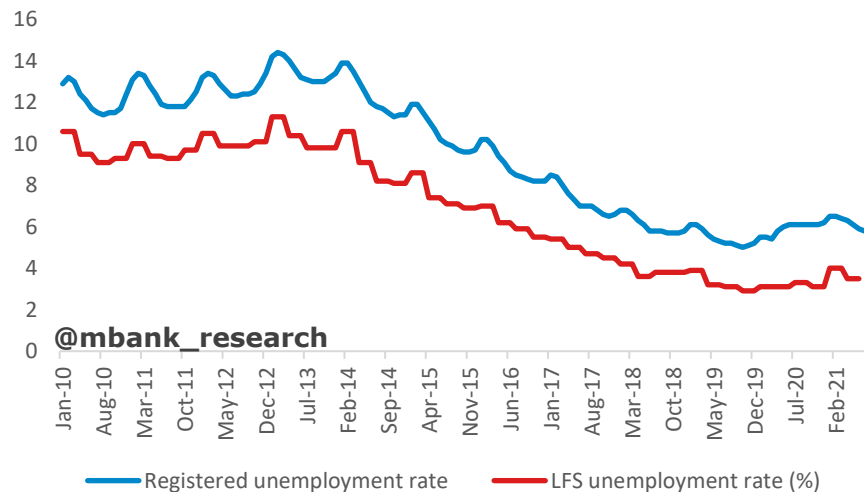
Source: Statistics Poland, own elaboration

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

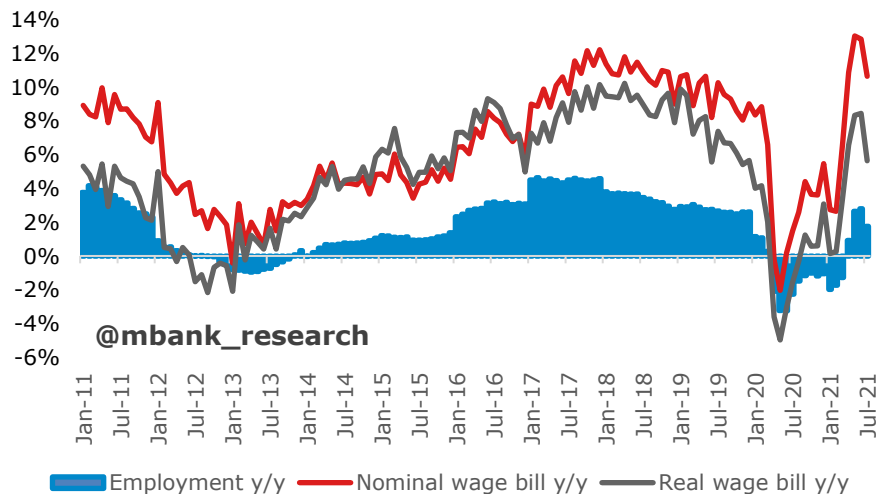
Employment



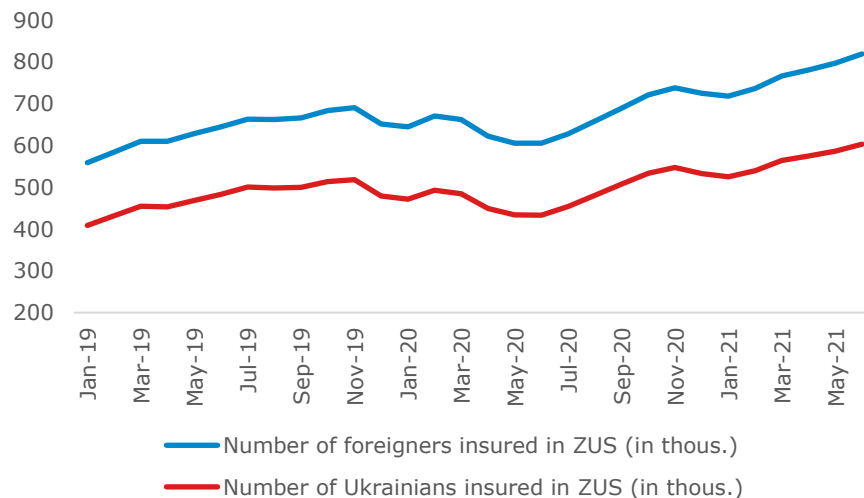
Unemployment rate



Wage bill



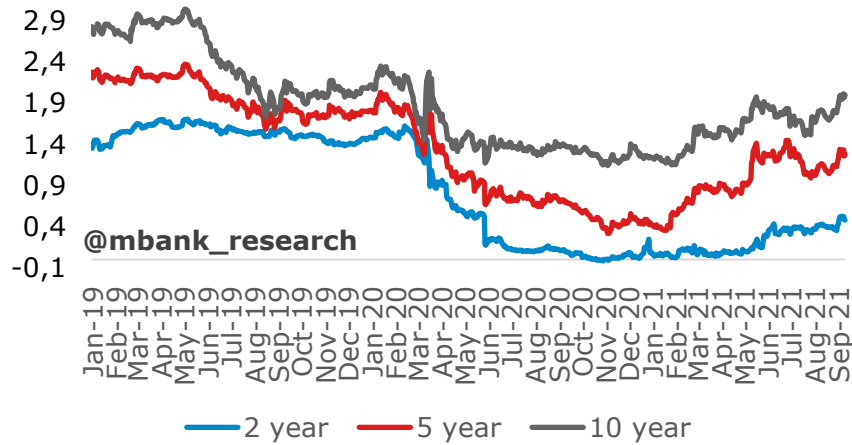
Immigration in the labor force



Source: Statistics Poland, ZUS Statistical Portal, own elaboration

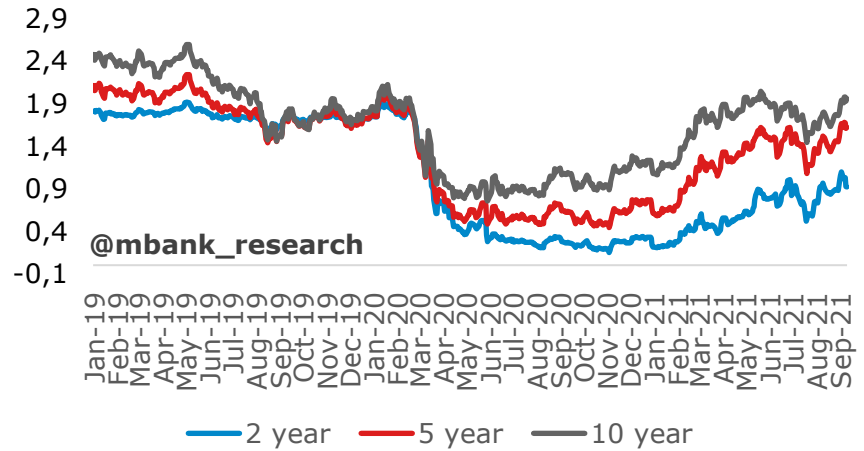
Polish rates, yields and spreads

POLGBs



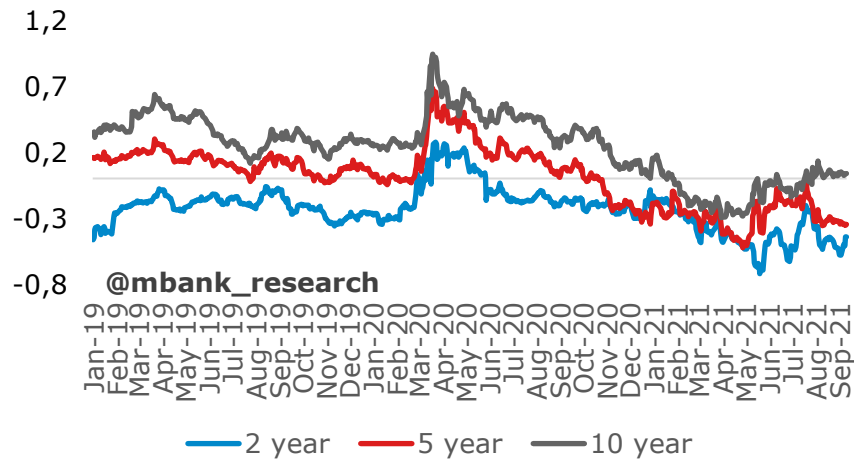
Source: Bloomberg

PL IRS



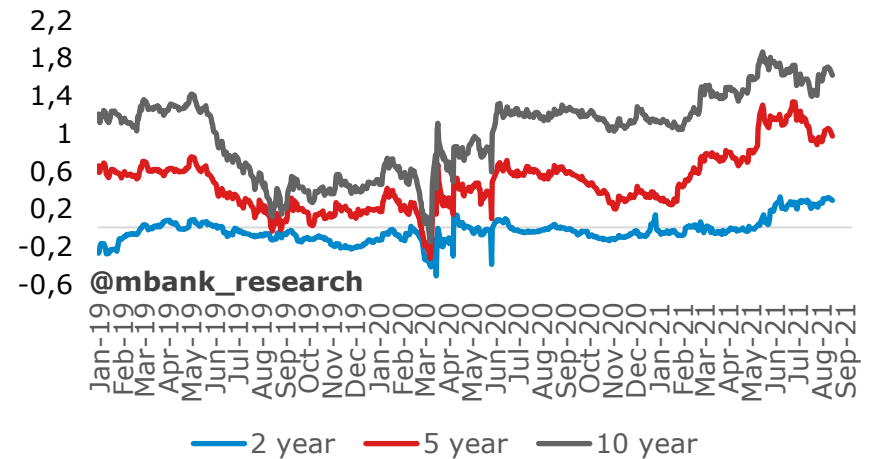
Source: Bloomberg

ASW spread



Source: Bloomberg

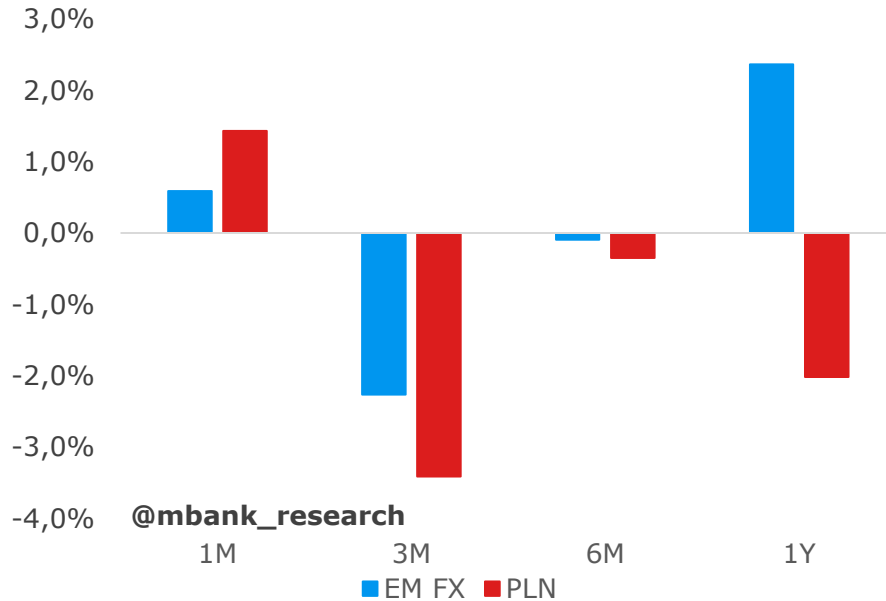
POLGB yield minus 3m WIBOR



Source: Bloomberg

EURPLN again close to 4.55

Still weak zloty



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

Source: Bloomberg

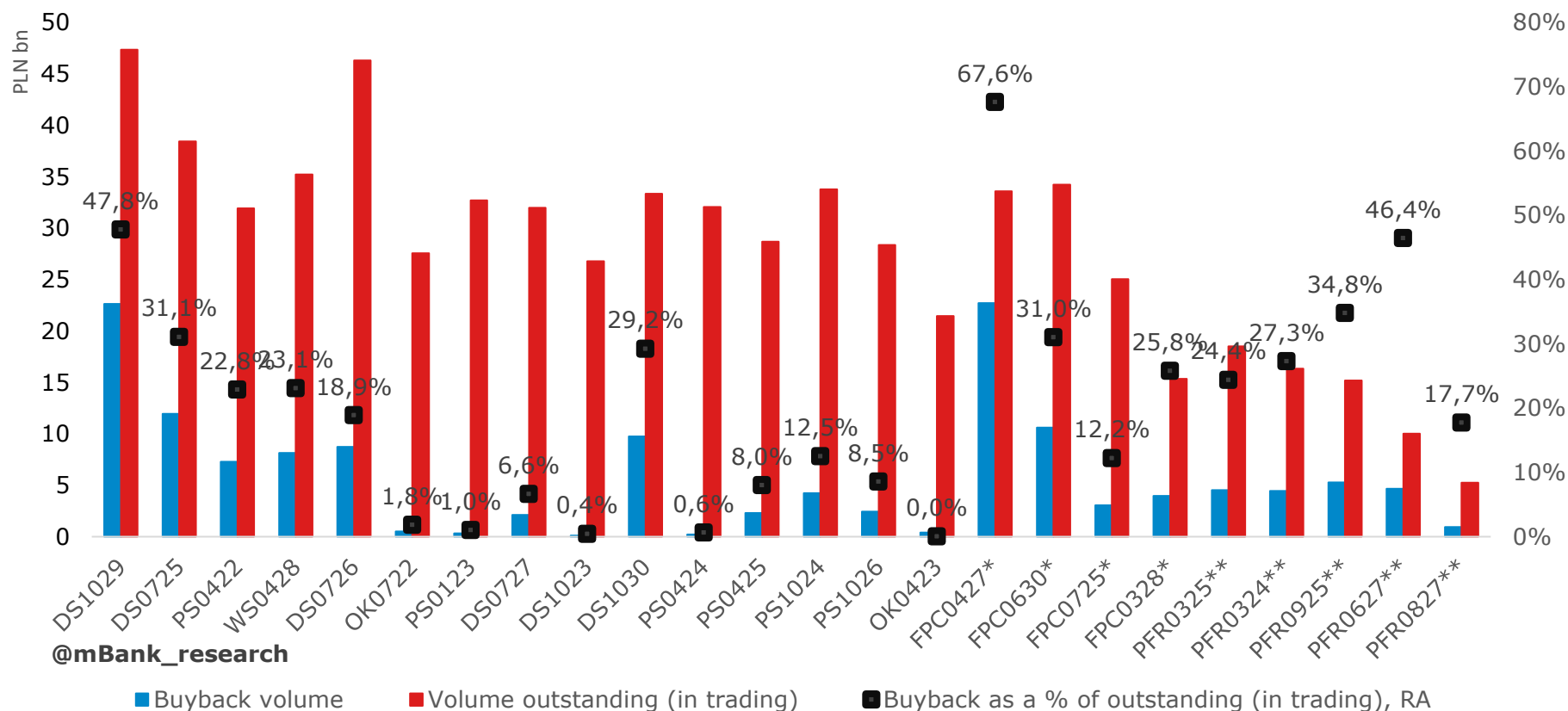
Real effective exchange rate



Source: BIS

- ❖ In the end of the month, we saw some appreciation of zloty, which was the result of expectations on earlier start of interest rate normalization. But the last MPC meeting changed the attitude, and EURPLN moved back close to 4.55. The zloty remains weaker than the currencies of the region. Part of it stems from movement 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.

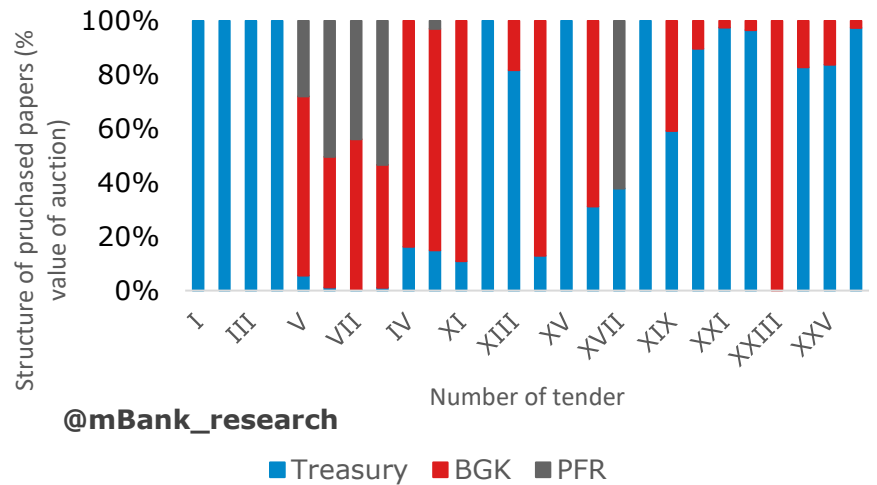
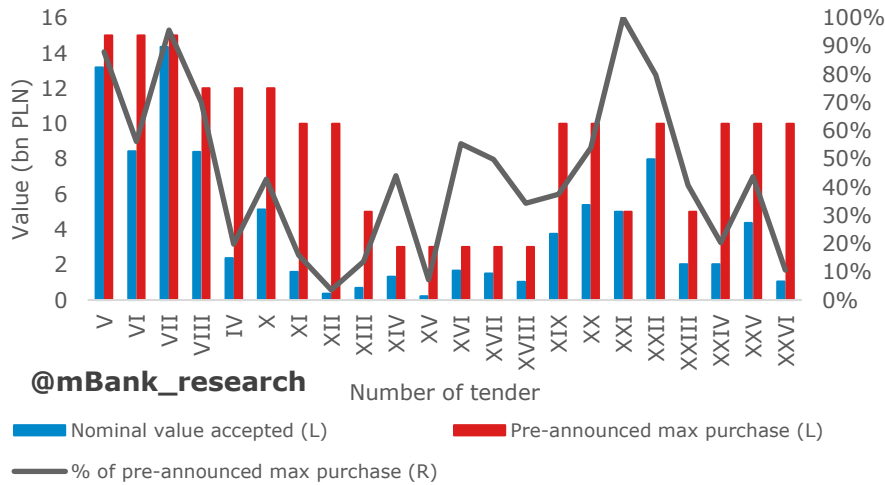
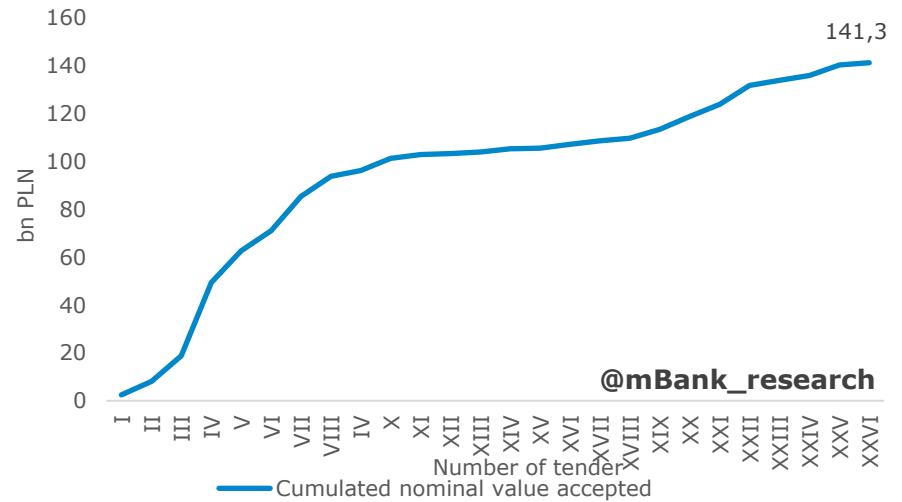
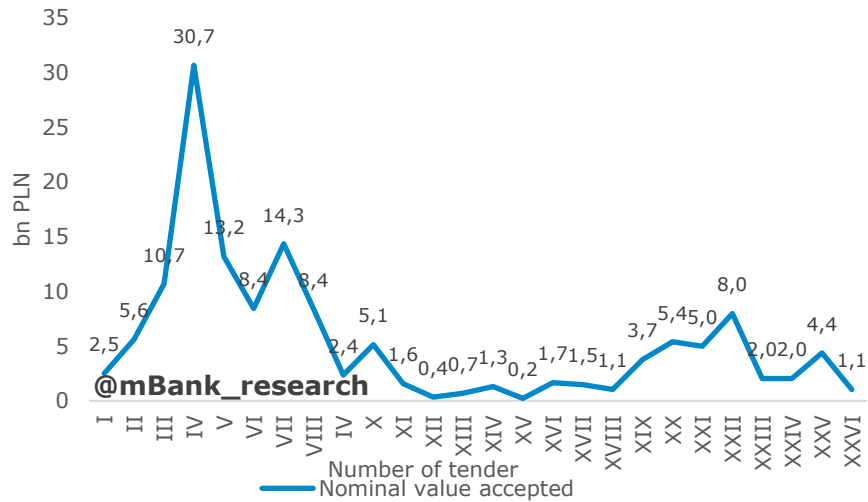
Appendix: NBP „structural“ portfolio monitor



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

- ❖ The state for 14.09.2021. 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 14.09.2021.

Source: Own elaboration on NBP data.

Disclaimer and contact details

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