Monthly Pulse Check

Economy. FI. FX

October 14th 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

- 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. Ongoing supply and price shocks, coupled with higher interest rates pose a more significant risk to growth now than Covid-19.
- We decided to fine tune our GDP growth forecasts. We think Polish economy will enter soft patch that will last for 2-3 quarters. We cut GDP growth for 2021 to 5.2% and 2022 to 4.8%. We do not expect the cycle to be derailed. 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 will also be more inflationary since labor market survived 2020 very well. Monetary policy normalization is set to continue.

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. Still easy monetary policy.
- NBP: Normalization of rates has just began. We are skeptical that ultimately NBP rates will be higher than 1.5%. However, we are quite sure that monetary tightening cycle will be completed in 2022.

FX Market

- Weak zloty with risks tilted to the downside. MPC is reluctant to increase rates and the stretch between actual rates and market expectations is at historical highs. Zloty lost its shield from C/A surplus and in the very short term situation is going to worsen due to physical export limitations (diminished output due to supply constraints) and unfavorable terms-of-trade. Tensions over judicial system with the EU thrive.

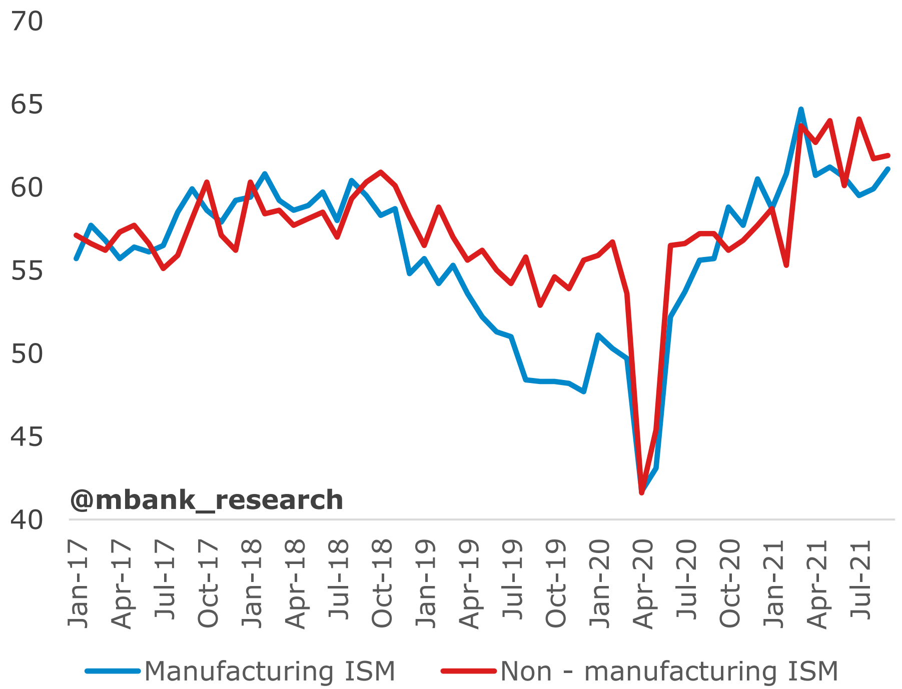
		2021 Q1 F	2021 Q2 F	2021 Q3 F	2021 Q4 F	2022 Q1 F	2022 Q2 F	2022 Q3 F	2022 Q4 F	2020 Q1-Q4	2021 Q1-Q4	2022 Q1-Q4
GDP y/y	%	-0.9	11.1	4.8	5.8	5.2	4.3	4.6	5.1	-2.7	5.2	4.8
Individual consumption y/y	%	0.2	13.3	3.6	8.8	8.2	6.4	4.0	4.5	-3.0	6.5	5.8
Investment y/y	%	1.3	5.0	4.2	7.7	-4.0	11.0	12.0	12.5	-8.4	4.6	7.9
Inflation rate (eop)	%	3.2	4.4	5.8	6.4	5.9	5.9	5.1	4.8	2.4	6.4	4.8
Unemployment rate (eop)	%	6.5	5.9	5.6	5.6	5.6	5.1	4.9	5.0	6.2	5.6	5.1
NBP repo rate (eop)	%	0.1	0.10	0.10	0.75	1.00	1.25	1.50	1.50	0.10	0.75	1.50
EUR/PLN (eop)	%	4.63	4.52	4.61	4.60	4.60	4.50	4.45	4.40	4.56	4.60	4.40
USD/PLN (eop)	%	3.95	3.81	3.98	4.00	4.00	3.88	3.80	3.73	3.73	4.00	3.73

Highlights

- Globally, fourth wave of Covid-19 is losing momentum. However, it does not apply to Poland. No restrictions were introduced yet, but the next few weeks may bring some local changes as the numer of cases is increasing. We are still convinced that possible restrictions will have minimal economic toll. For monitor see here.
- Global picture did not change. High prices, petering out pent-up demand, supply bottlenecks and local Covid-19 outbreaks brew a consistent story of risks. Recently, new ones were added originating form high energy prices and next round of global food price increases. Inflation stays elevated. Fed announced that the tapering is going to start by the end of the 2021 (see here) and still closely looks at the recovery in the labor market. The consensus for rate hikes is beginning to crack. We move our expectations towards faster tightening. ECB decided to recalibrate PEPP program lately (moderately lower pace of PEPP than in previous two quarters) but emphasizes that it is not tapering. High inflation poses risks for expectations on monetary policy in the near term. Ultimately, we think that low rates for longer scenario is still valid. (EBC: see here).
- Polish economy still looks good but the period of spectacular re-acceleration is over. Mobility and expenditures stay high (see here and here). Supply constraints and high prices pose risks for the real sphere of the economy. We decided to fine tune our forecasts. Inflation is at the highest level for 20 years (5.8 y/y, see here and here). Further acceleration is in the pipeline as electricity and gas increases will be introduced in early 2022. We aim for 6-7% inflation in Q1. Risks are clearly tilted to the upside.
- MPC decided to surprise the market with 40pb rate hike in October. We think it’s just beginning of the proper monetary tightening cycle. November inflation projection, we believe, is set to present more or less unchanged picture for demand-driven inflation (~3.5% in monetary policy horizon). Add-ons of food and energy prices, pending adjustment of relative prices and revision of starting point will keep headline inflation above 3.5%. That is why we believe 25bps hike in November is likely. Cycle is going to be front loaded (end in Q2/Q3 at 1.50%). As supply shocks dissipate, MPC will be reluctant to continue above 1.5% with inflation (according to our forecasts) falling to 2.5-3.5% in 2023.
- NBP’s asset purchase programme is coming to an end (see here and here).

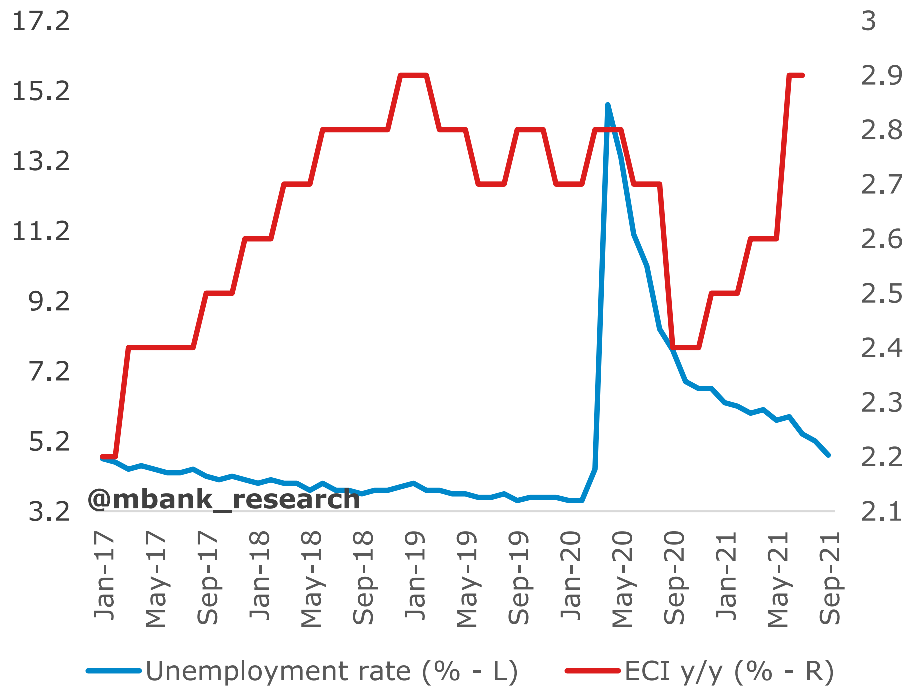
U.S. economy health check

ISM PMI: manufacturing & non-manufacturing



Source: ISM

Labor market: wages & unemployment rate

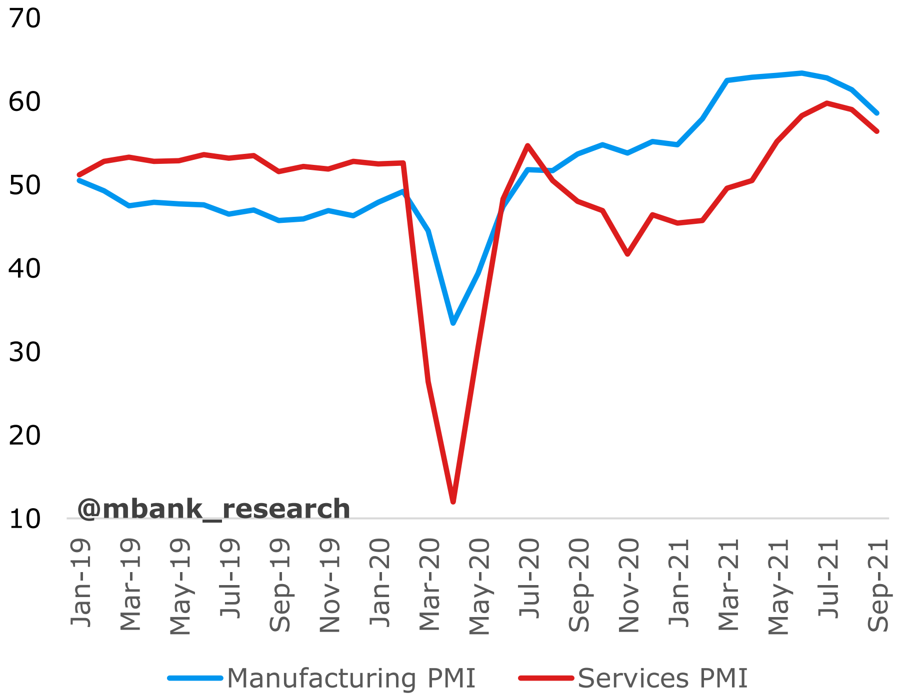


Source: FRED

- Business tendency indicators remain at high levels. A picture of strong, demand driven economy emerges. However, supply constraints remain a real challenge and seem to be the weakest link. Since it is impossible to sell more than is produced, economic activity measured by real data is set to weaken ahead. FRB Atlanta growth tracker points to only 1.3% SAAR GDP growth in Q3.
- Labor market remains on improvement path. Supply side factors are visible here too. With job openings at all time high, employment growth is not spectacular. Wages grow fast as firms lure new workers. BLS estimates that ~5mln people has not been working recently due to epidemics or closure of employer. These people will mostly find work in the months ahead. However, the re-absorbtion process will take time and Fed signals patience on this field. However, current progress is sufficient for tapering to commence until the year’s end.
- At the same time, inflation mandate is fulfilled and the notion that accelerated price growth is only temporary is beginning to crack. We shift our expectations for rate hikes for H2 2022.

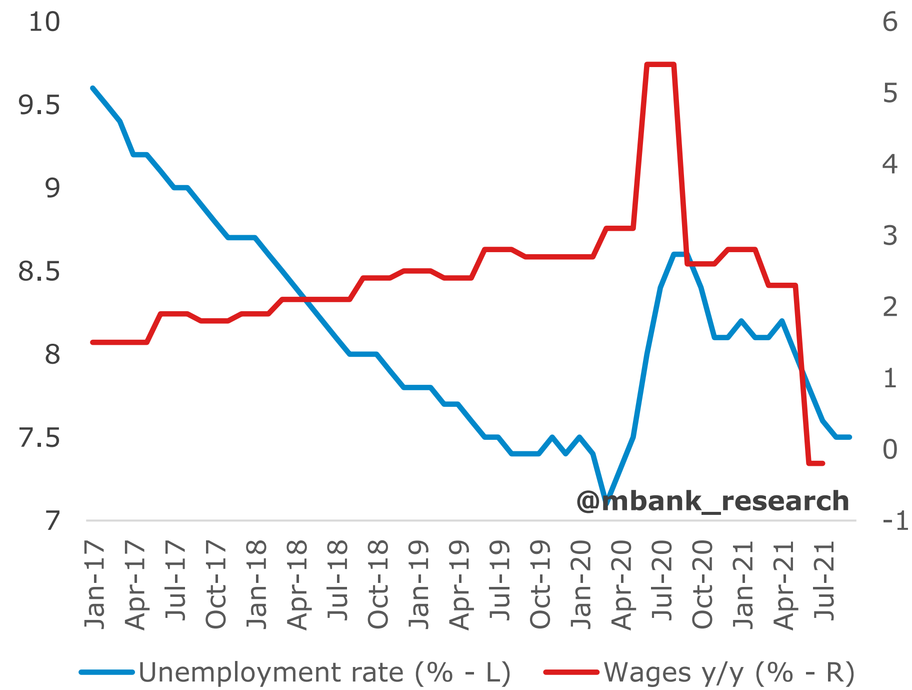
Euro area economy health check

Markit PMI: manufacturing & services



Source: Markit

Labor market: wages & unemployment rate

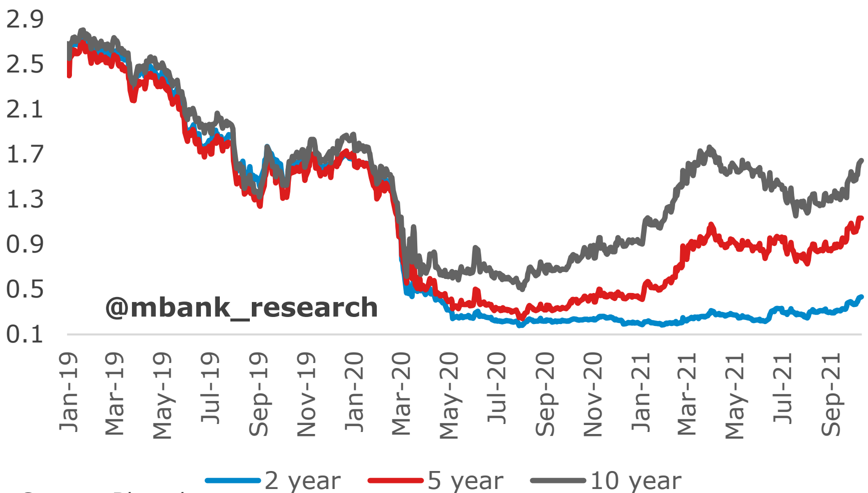


Source: Eurostat

- Sentiment indicators are mixed. Supply constraints are playing role in damping economic activity but at the same time firms are reporting weakening demand along with elevated pricing. Supply shocks are not over (energy and food price shock is pending). Therefore we expect some sort of soft-patch of economic activity to continue. 2022 outlook brightens along with NGEU spending, but supply constraints need to dissipate in order to maximize the impact of new spending. Otherwise it will mostly increase prices.
- Inflation surprises for the upside driven by food and energy prices. At the same time wage growth returned to zero.
- ECB decided recently to recalibrate the PEPP programme, but as C. Lagarde emphasized it was just recalibrating, not tapering. This are complicated by higher inflation that may stay in the eurozone for longer. However, labor market is not showing any signs of wage pressure so the baseline expectation is for price increases to dissipate over time. We stick to the scenario of lower rates for longer.

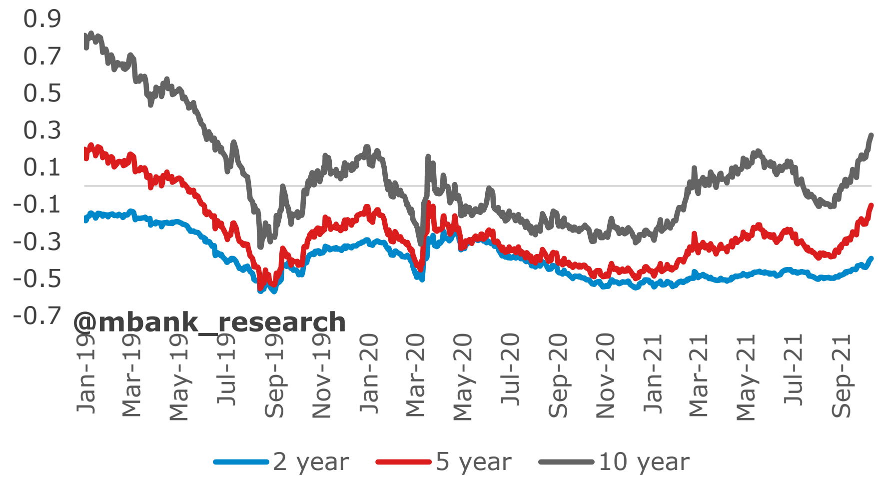
Global rates

US swap rates (%)



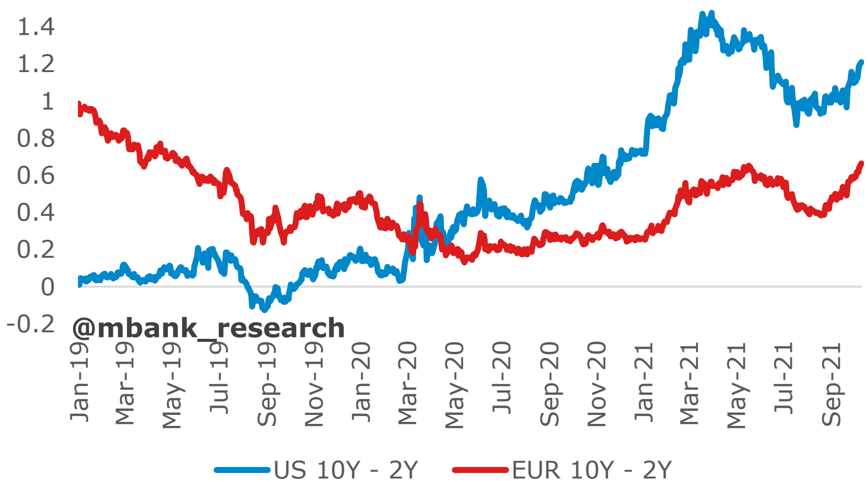
Source: Bloomberg

EU swap rates (%)



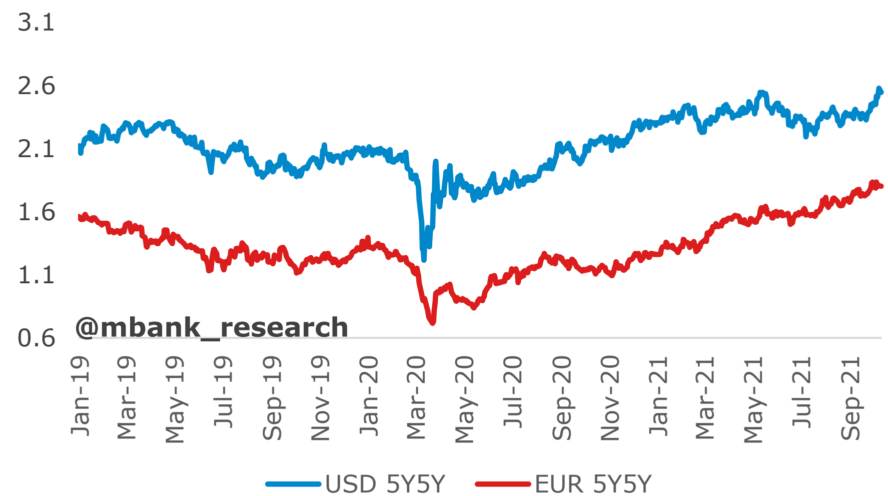
Source: Bloomberg

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



Source: Bloomberg

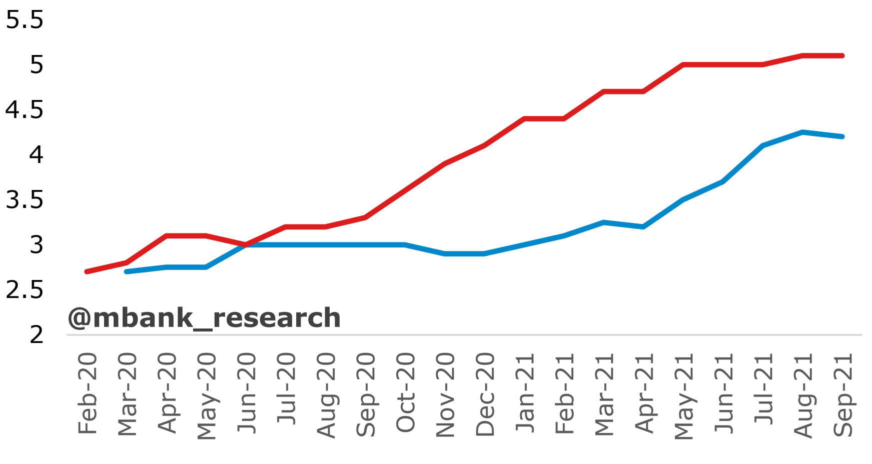
US and EZ inflation expectations (%)



Source: Bloomberg

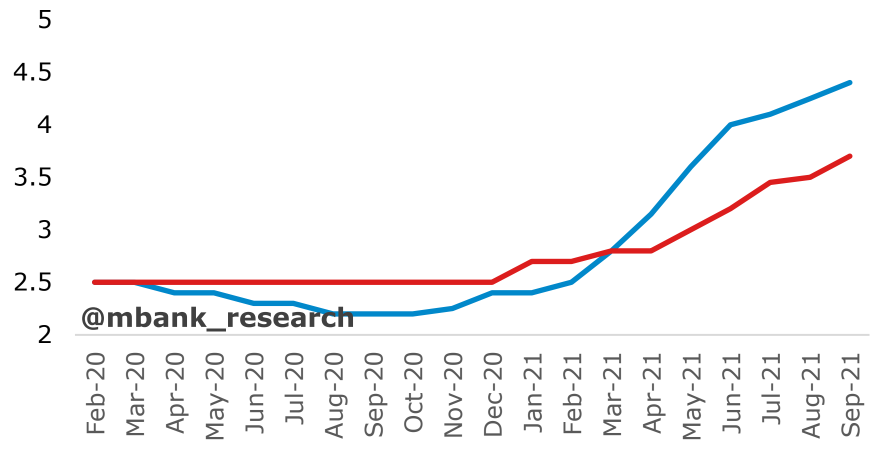
Consensus: what is expected in Poland?

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



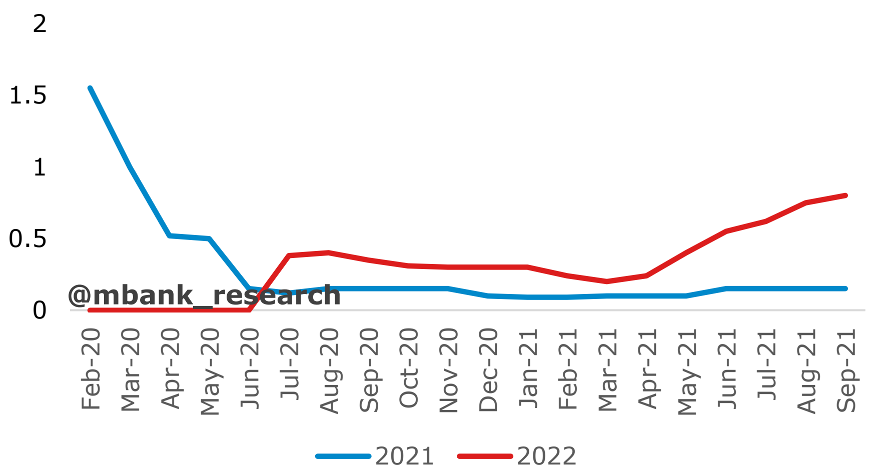
Source: Bloomberg

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



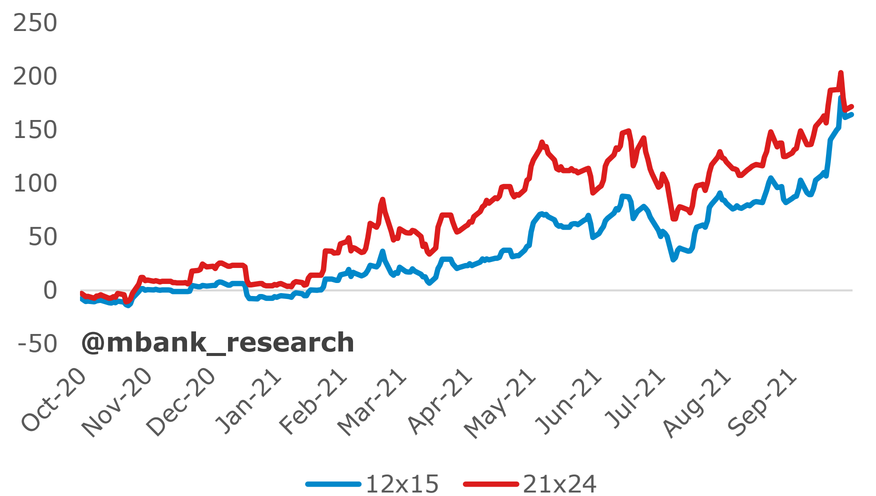
Source: Bloomberg

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



Source: Bloomberg

Rate changes priced in by FRA (bps)



Source: Bloomberg

Upcoming Polish macro releases: October 2021

Publication	Date	Period	mBank	Consensus	Actual	Prior
CPI y/y (%)	01.10[1]	Sep	5,7%	5,6%	5,8%	5,5%
	15.10[2]					
PMI (pts.)	01.10	Sep	54,7	54,7	53,4	56
Unemployment rate (%)	06.10[3]	Sep	5,7%	5,7%	5,6%	5,8%
	25.10[4]					
Current account (m EUR)	14.10	Sep	-1260	-1171		-1287
Employment y/y (%)	19.10	Sep	0,7%	0,6%		0,9%
Wages y/y (%)	19.10	Sep	8,3%	8,6%		9,5%
Industrial output y/y (%)	20.10	Sep	6,4%	8,2%		13,2%
PPI y/y (%)	20.10	Sep	10,1%	10,0%		9,5%
Construction output y/y (%)	21.10	Sep	8,6%	8,3%		10,2%
Retail sales y/y (%)	21.10	Sep	6,9%	5,1%		5,4%
M3 y/y (%)	22.10	Sep	9,0%	8,6%		9,1%

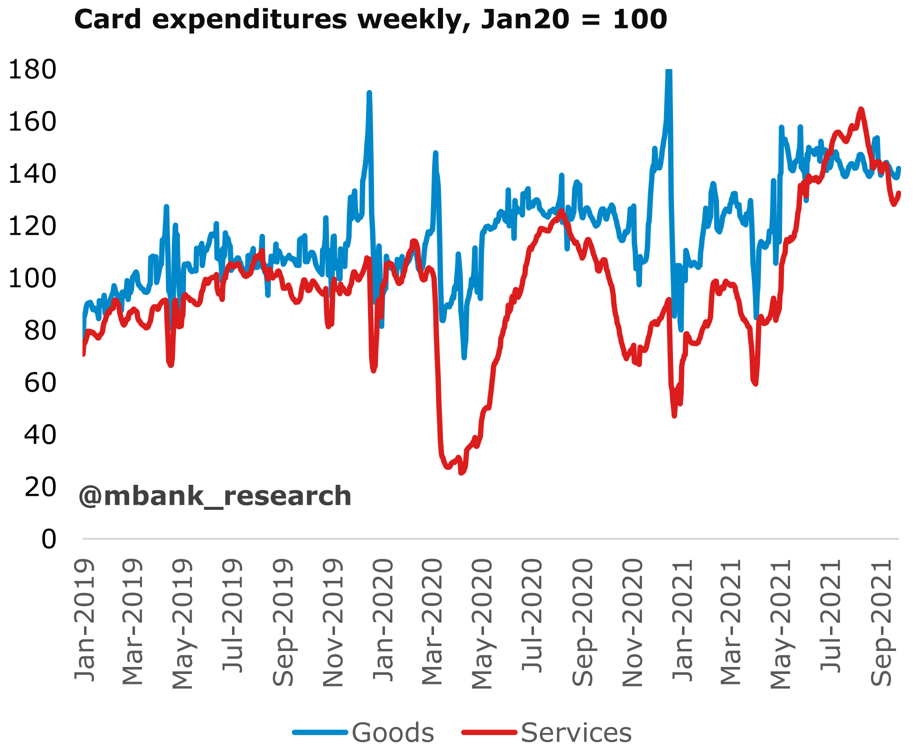
[1] Flash estimate

[2] Final reading

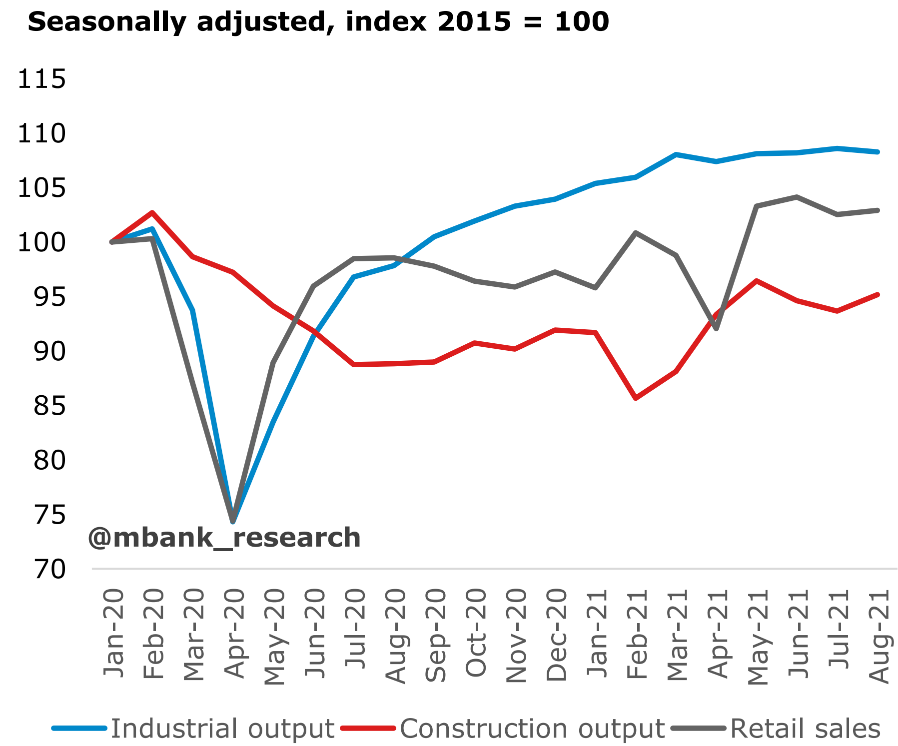
[3] Ministry of Economic Development, Labour and Technology estimate

[4] Statistics Poland final reading

Poland: Fast catching up behind us



Source: mBank transaction data. Own elaboration.

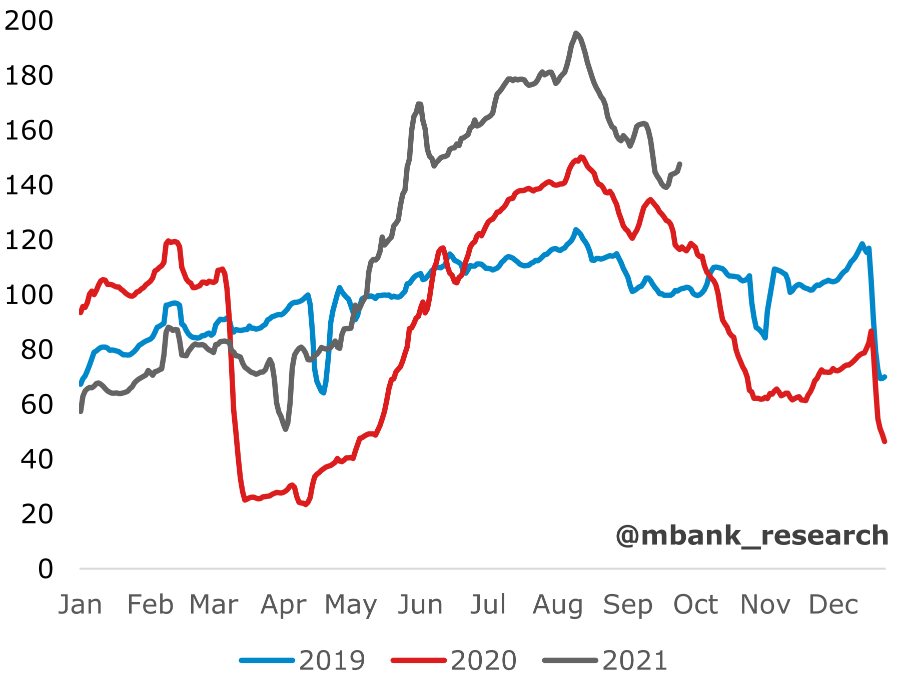


Source: mBank, Statistics Poland

- The signs of slowing industrial output are already visible. Further supply chain problems and increasing energy prices are complicating the things further as terms-of-trade in Polish international trade worsen. At the same time retail sales is moving sideways (mostly because of high prices as nominal retail sales has been on pre-pandemic or even higher for months). We await the new round of infrastructure spending to begin. Construction is mostly driven by housing.
- We think Polish economy enters a very gentle soft patch that will end Q2 2022. Therefore we cut GDP forecasts for 2021 from 5.7% to 5.2% and for 2022 from 5.2 to 4.8%.
- Card transactions suggest that expenditures for goods behave more or less according to standard seasonal pattern (stabilization). At the same consumption of services is decreasing, reflecting patterns from 2020. It reflects, in our opinion, that catching-up process ended. Mind also the fact, that these are nominal data.

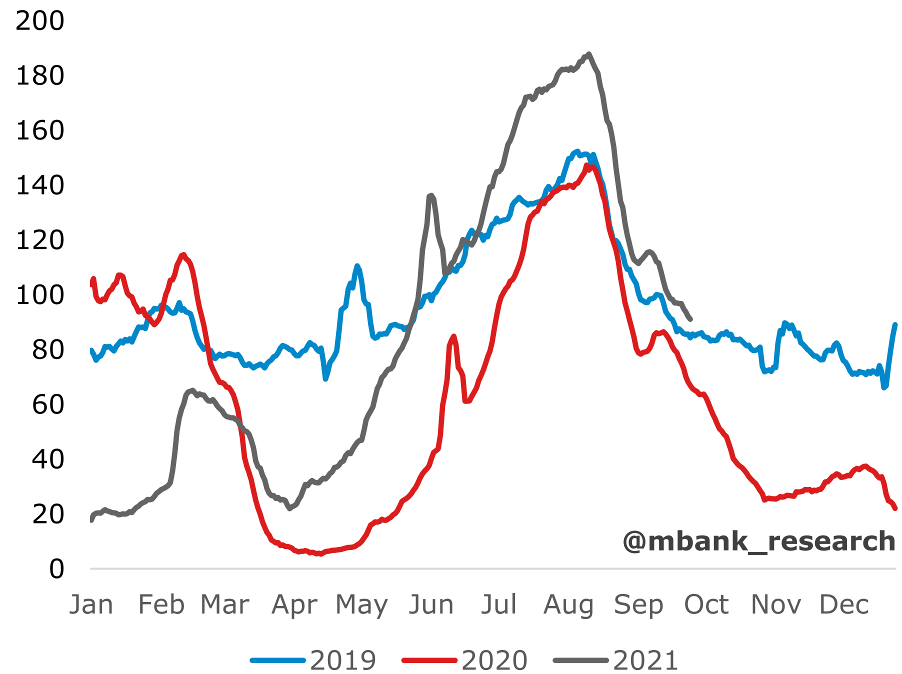
Poland: Card expenditures, #1

Restaurants, card expenditures weekly, Jan20 = 100



Source: mBank transaction data. Own elaboration.

Tourism, card expenditures weekly, Jan20 = 100

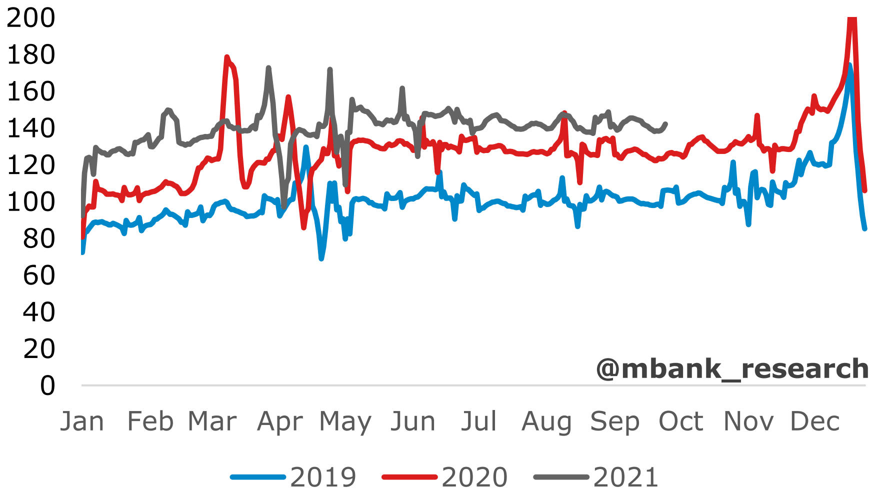


Source: mBank transaction data. Own elaboration.

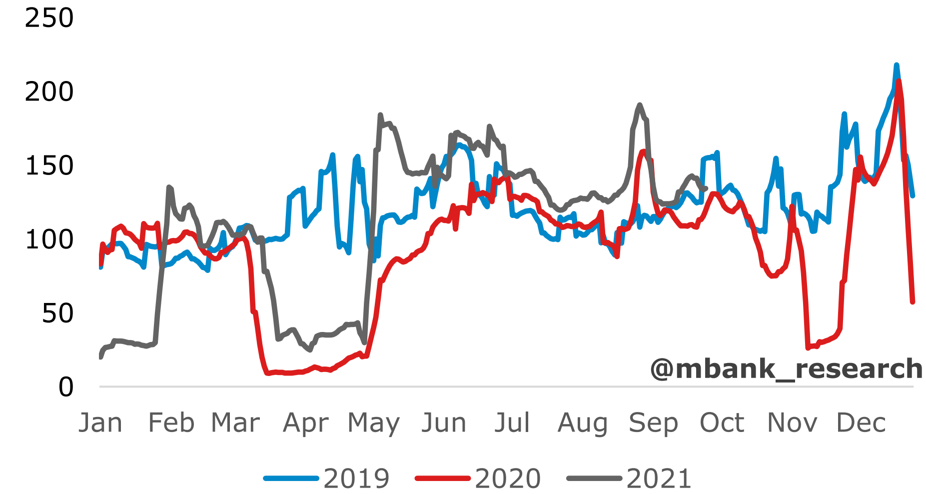
- Card transaction data suggests that expenditures in services slowed down (see the previous slide). It is just a typical seasonal pattern. What matters is the scale of slowdown. Here we still see slightly higher level of card transactions than a year before (mind, however, that these are nominal changes).
- 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 just week consumer expenditures, not substitution to services. But, so far, everything goes according to the plan with regard to total consumption and consumers still have substantial cash buffers at hand. Slight revisions to our macro scenario are mostly driven by exports and perturbations in the stock cycle.

Poland: Card expenditures #2, 7-day average

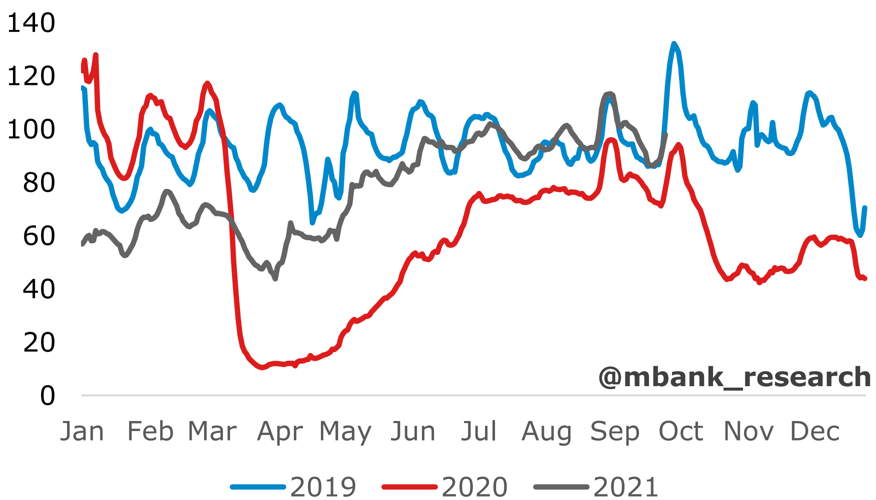
Food, beverages and non-specialized stores, Jan20 = 100



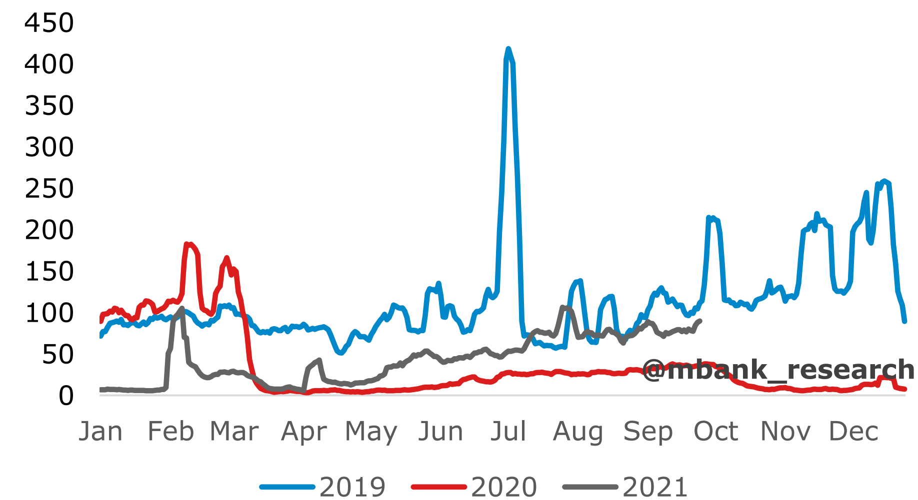
Clothing, footwear, Jan20 = 100



Transport, Jan20 = 100



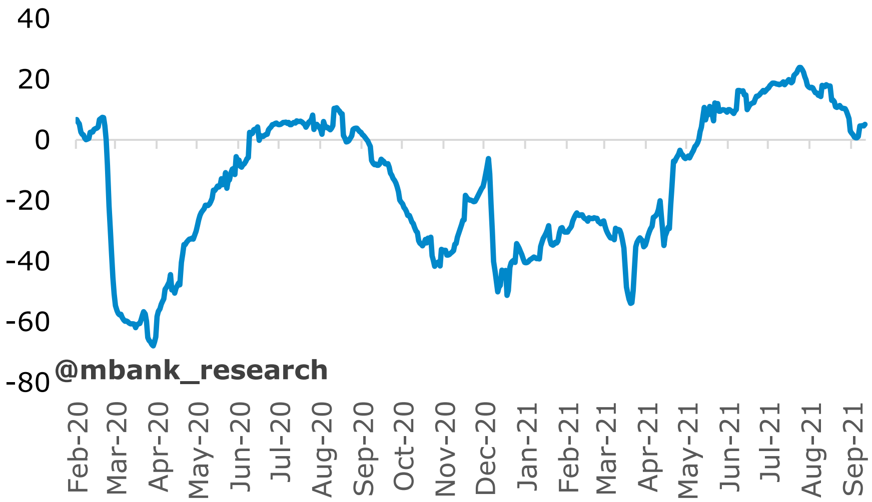
Culture (e.g. cinemas, concerts), Jan20 = 100



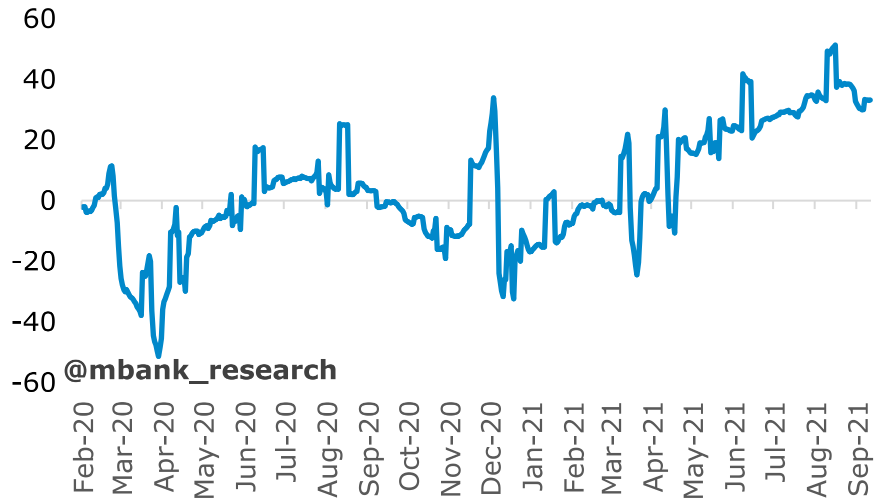
Source: mBank transaction data. Own elaboration.

Poland: Google mobility, 7-day average

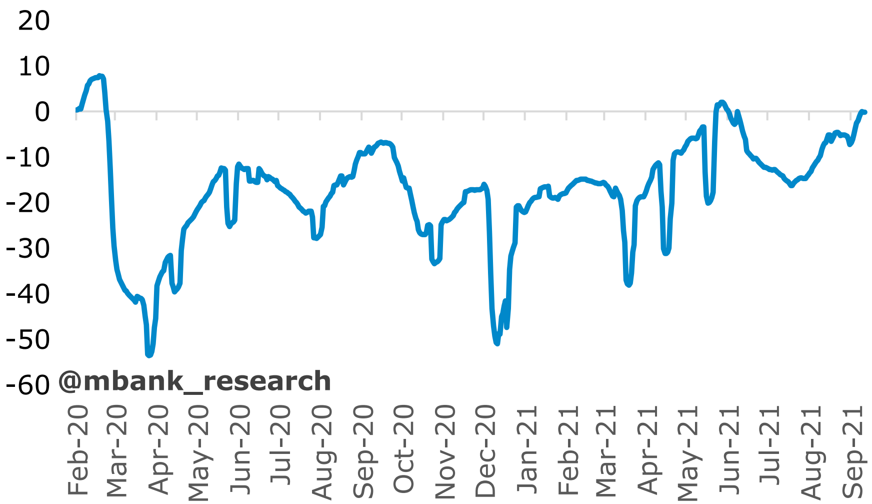
Retail & recreation (% change from Jan20)



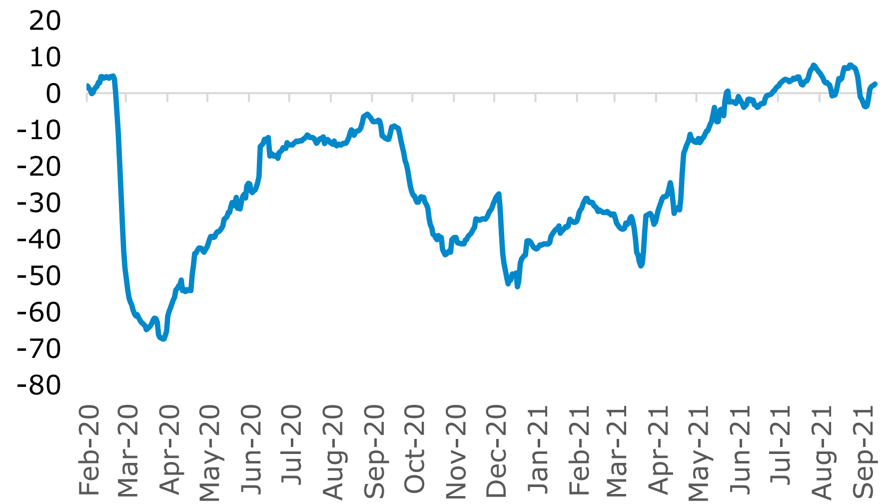
Grocery & pharmacy (% change from Jan20)



Workplaces (% change from Jan20)



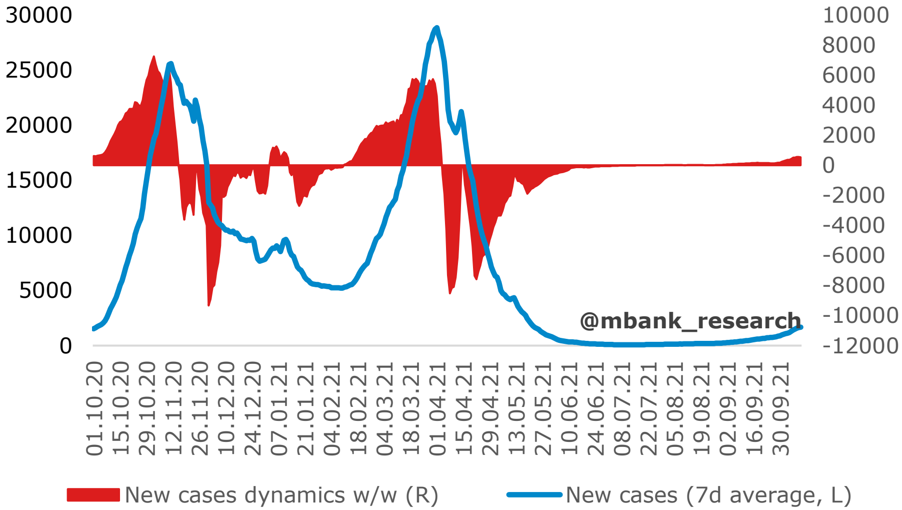
Transit stations (% change from Jan20)



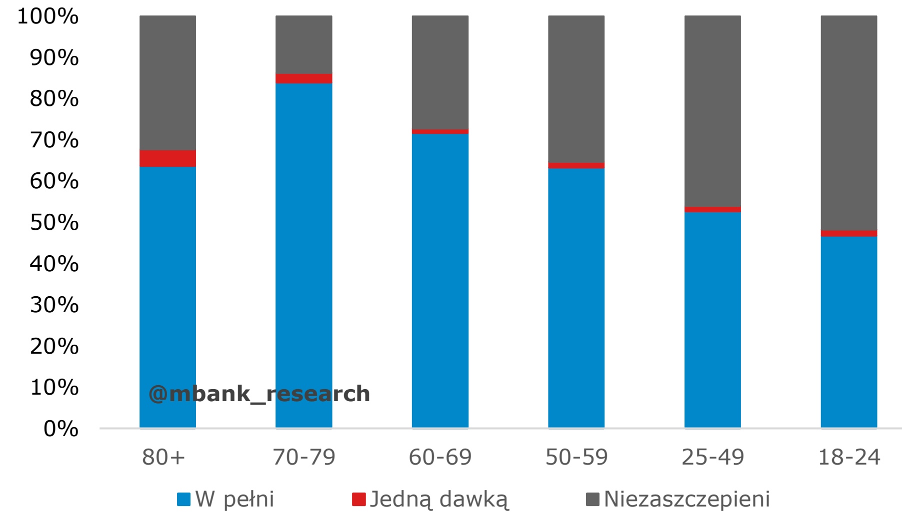
Source: Google mobility data. Insights in these reports are created with aggregated, anonymized sets of data from users who have turned on the Location History
The baseline is the median value, for the corresponding day of the week, during the 5-week period Jan 3–Feb 6, 2020

Poland: COVID-19 situation

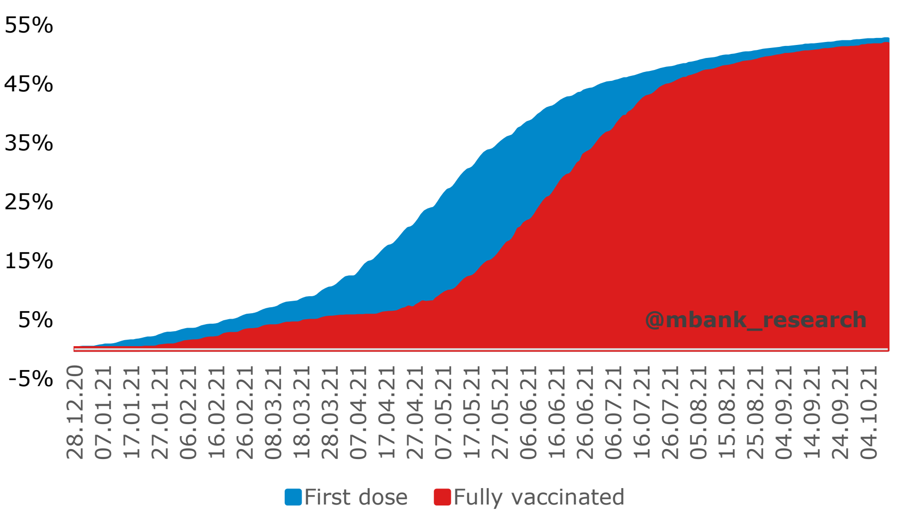
Daily new cases (7day average)



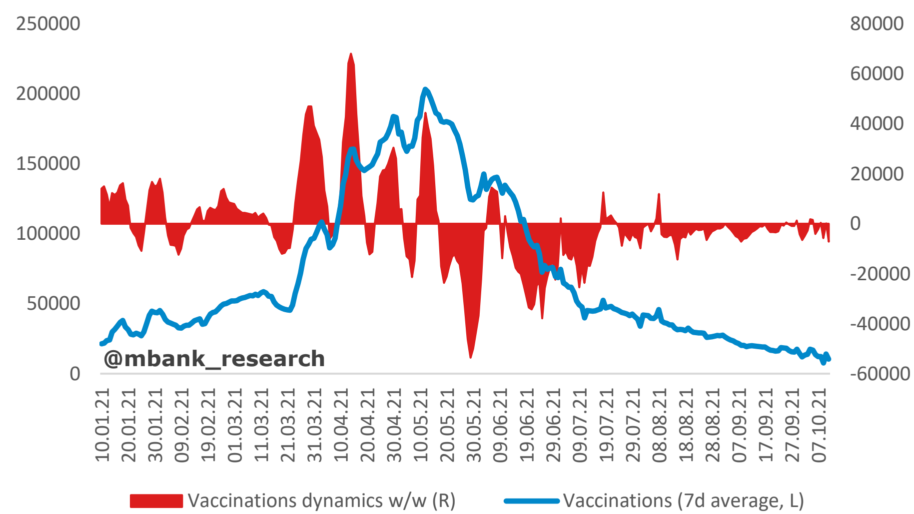
Cumulative uptake (%) of vaccinations by age



Cumulative uptake (%) of vaccinations



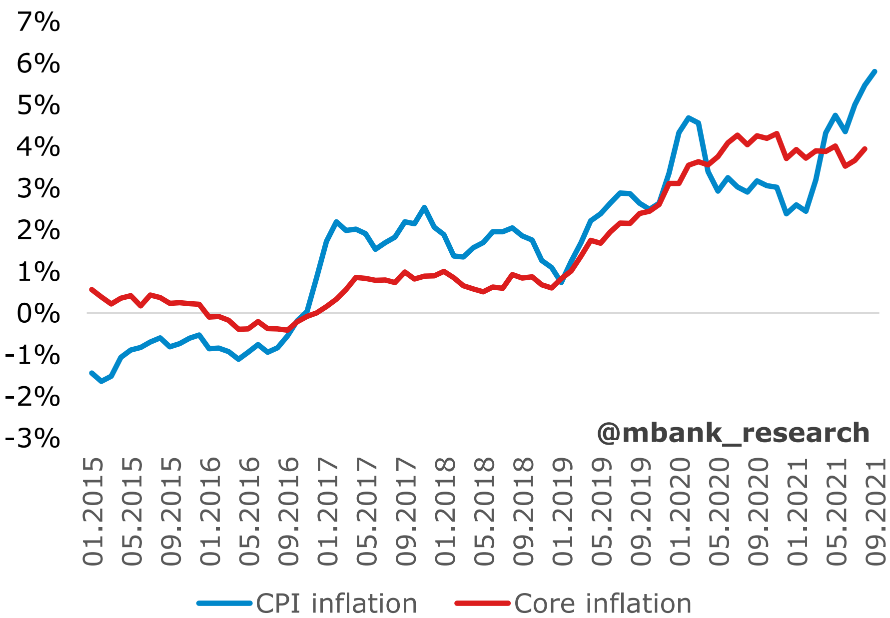
Vaccinations (first doses)



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

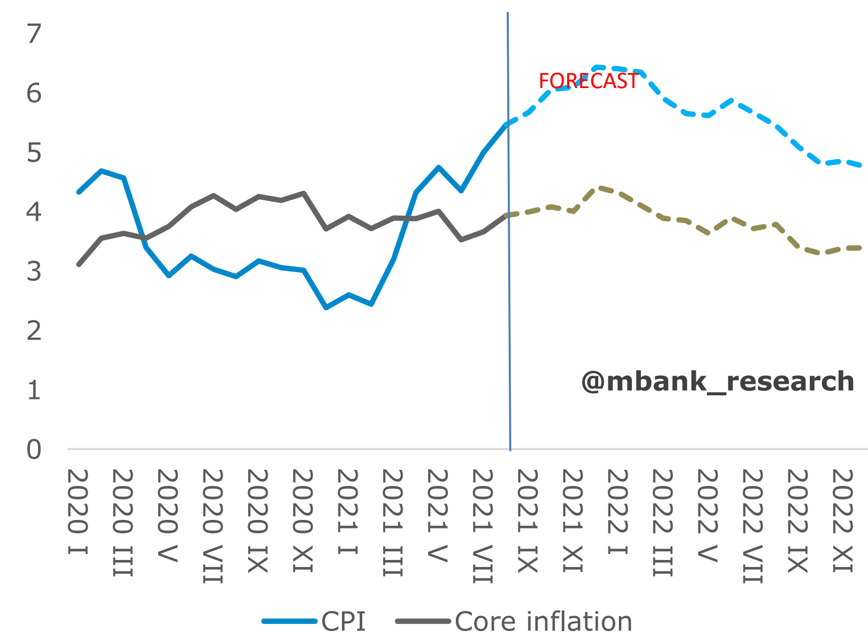
Poland: Inflation tracker #1

CPI and core inflation (% y/y)



Source: Statistics Poland, NBP, own elaboration

Core and headline inflation forecast

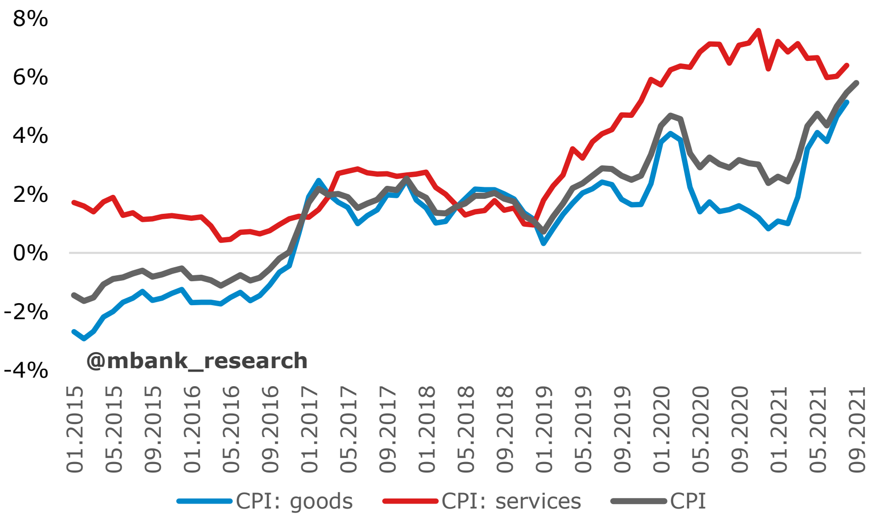


Source: Statistics Poland. own elaboration

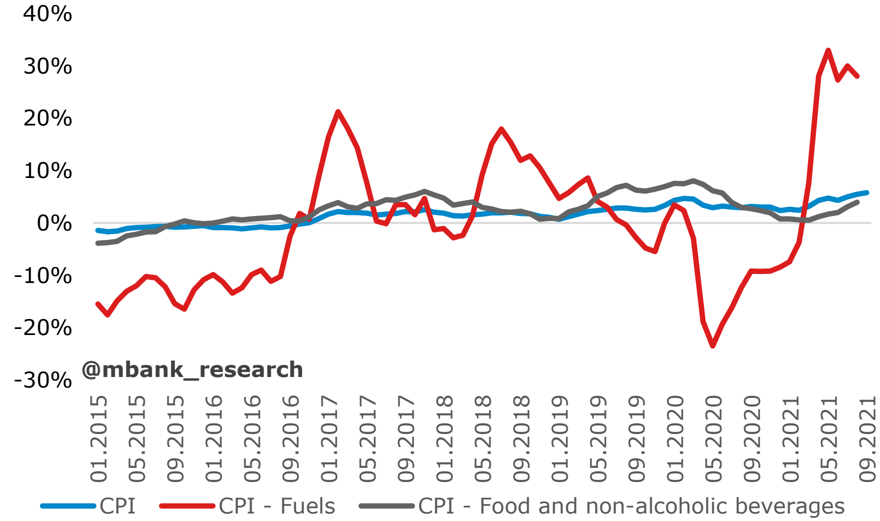
- Inflation reading (5.8% y/y) is the highest for 20 years. Reasons for price increases stay the same: soaring fuel and food prices, post-covid adjustments and constant, stubbornly high super-core (see core inflation stripping administrative price increases in the next slide). Further acceleration of inflation is in the pipeline as electricity and gas increases will be introduced in the early 2022. This period will be also traditionally plagued by second–round adjustments (relative prices). We aim for 6-7% inflation in Q1. Risks are clearly tilted to the upside.
- MPC decided to surprise the market with 40pb rate hike in October. We think it's just beginning of the proper monetary tightening cycle. November inflation projection, we believe, is set to present more or less unchanged picture for demand-driven inflation (~3.5% in monetary policy horizon). Add-ons of food and energy prices, pending adjustment of relative prices and revision of starting point will keep headline inflation above 3.5% in monetary policy horizon. That is why we believe another 25bps hike in November is likely. Cycle is going to be front loaded (end in Q2/Q3 at 1.50%). As supply shocks dissipate, MPC will be reluctant to continue above 1.5% with inflation (according to our forecasts) falling to 2.5-3.5% in 2023.

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

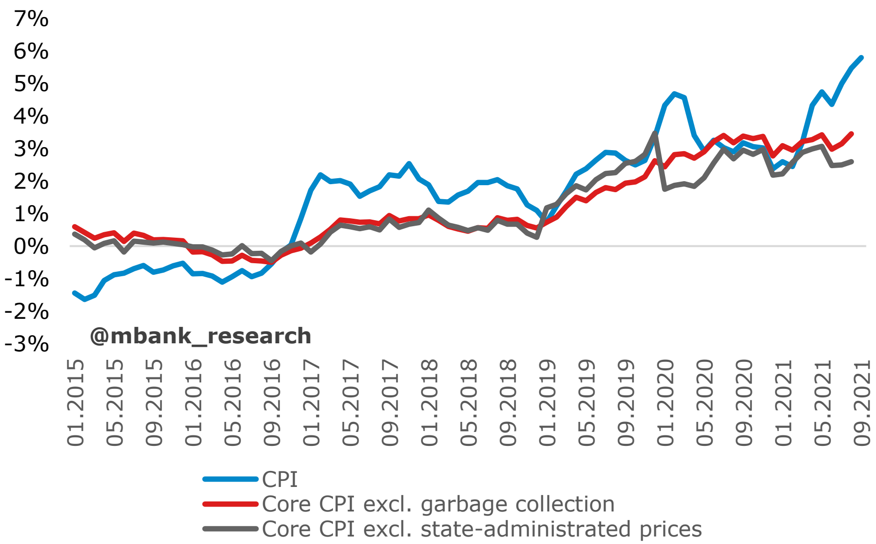
Goods and services prices (% y/y)



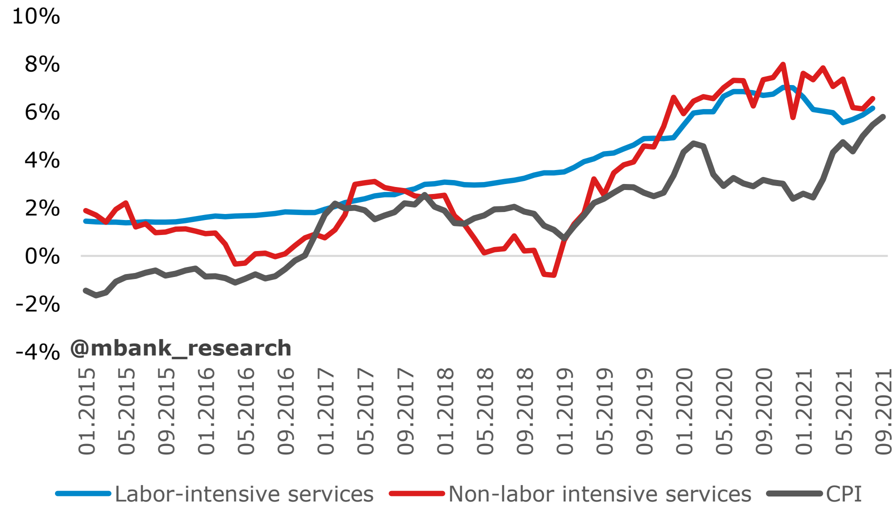
Food and fuel prices (% y/y)



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



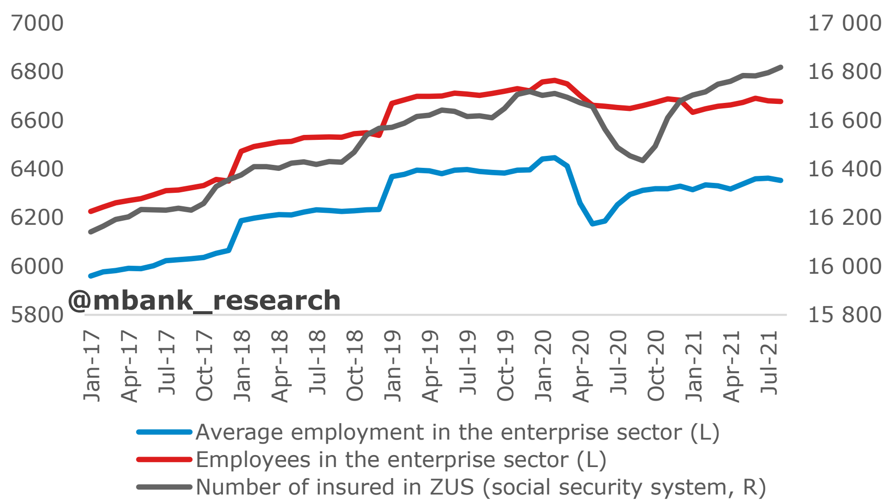
Services (% y/y)



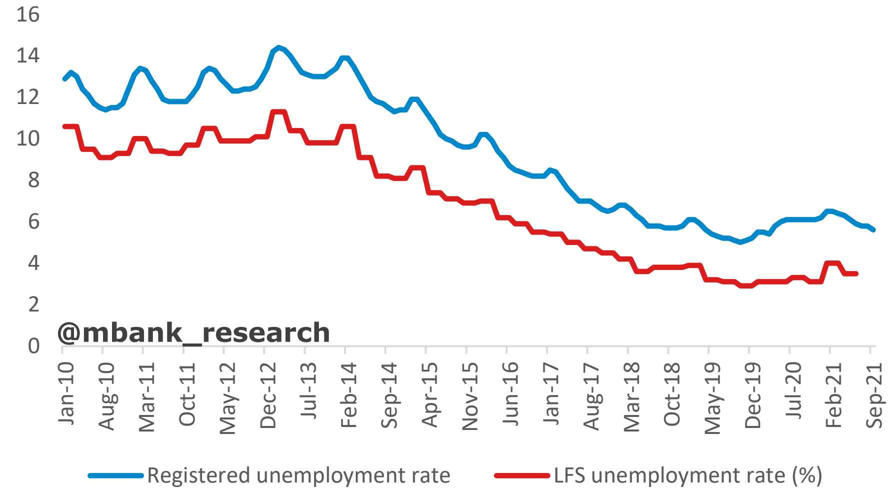
Source: Statistics Poland, own elaboration

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

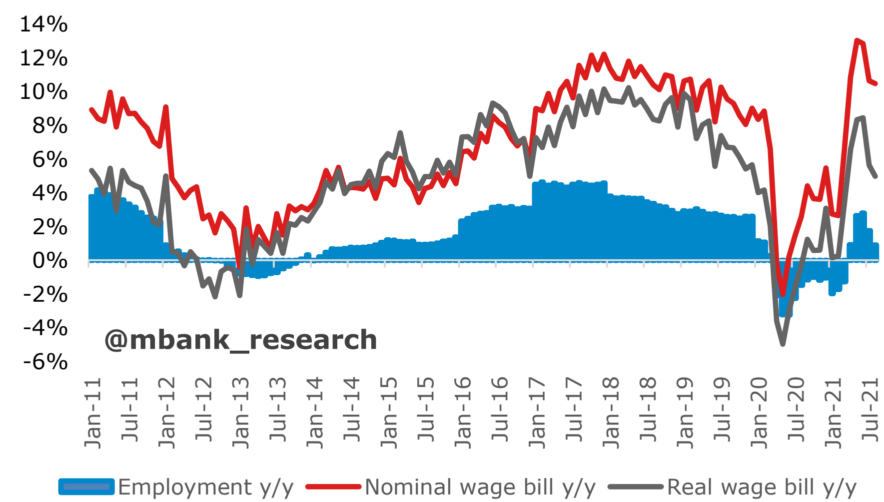
Employment



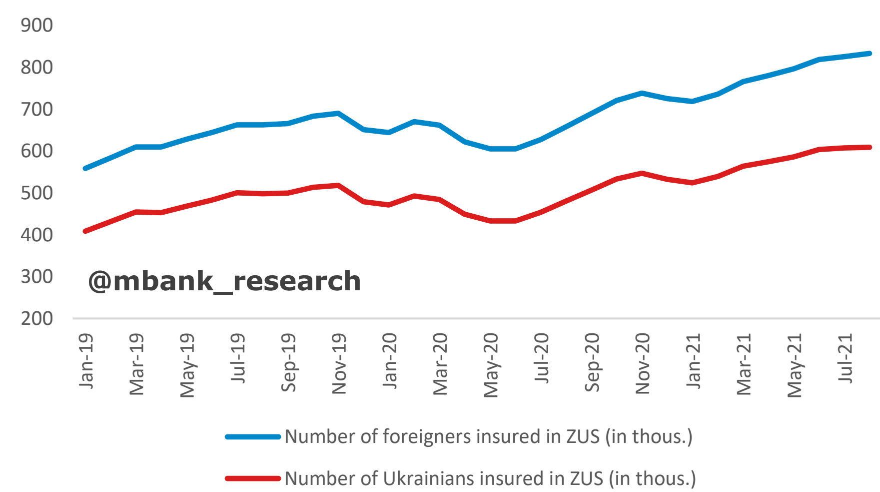
Unemployment rate



Wage bill



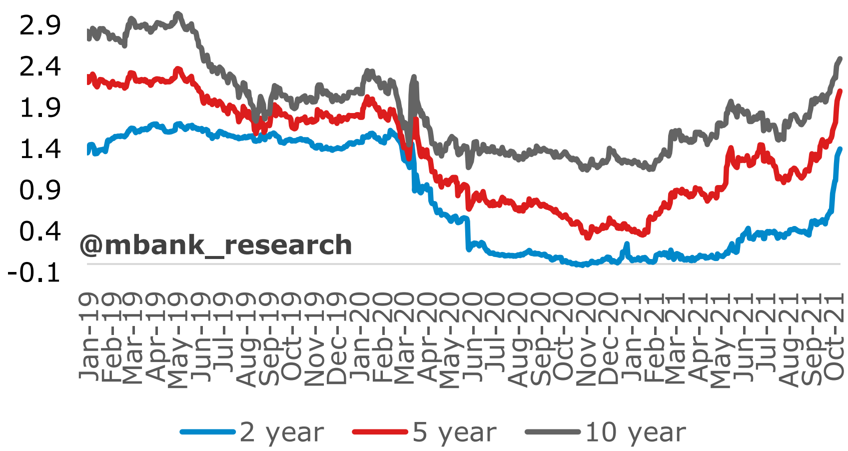
Immigration in the labor force



Source: Statistics Poland, ZUS Statistical Portal, own elaboration

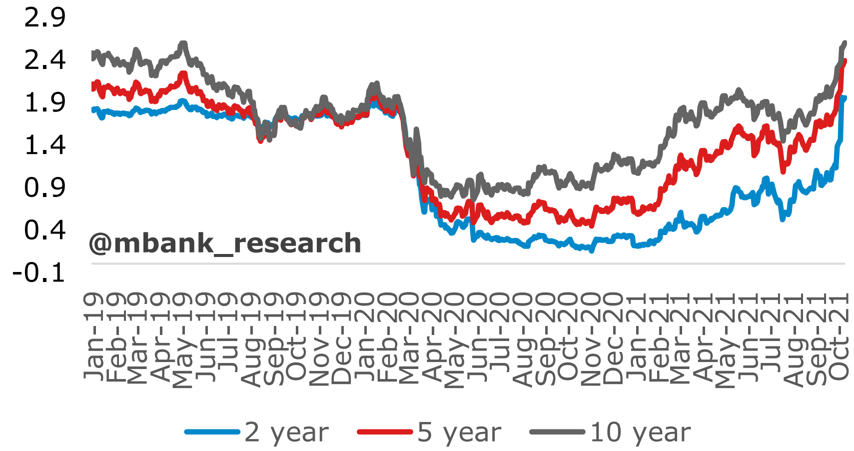
Polish rates, yields and spreads

POLGBs



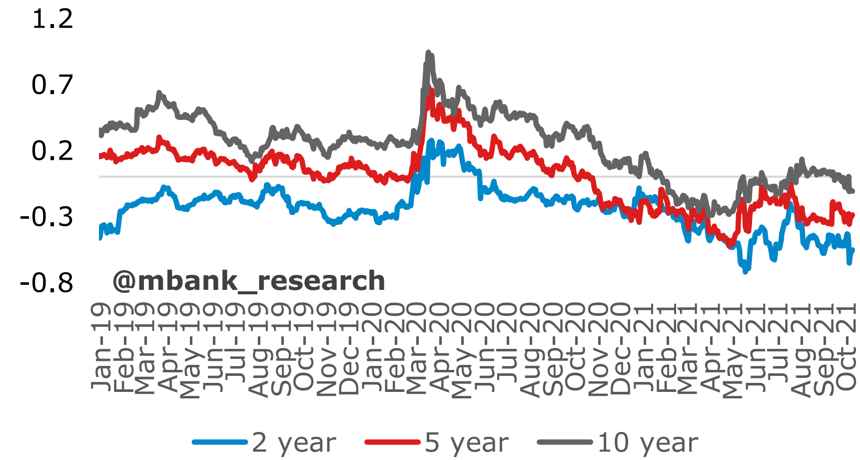
Source: Bloomberg

PL IRS



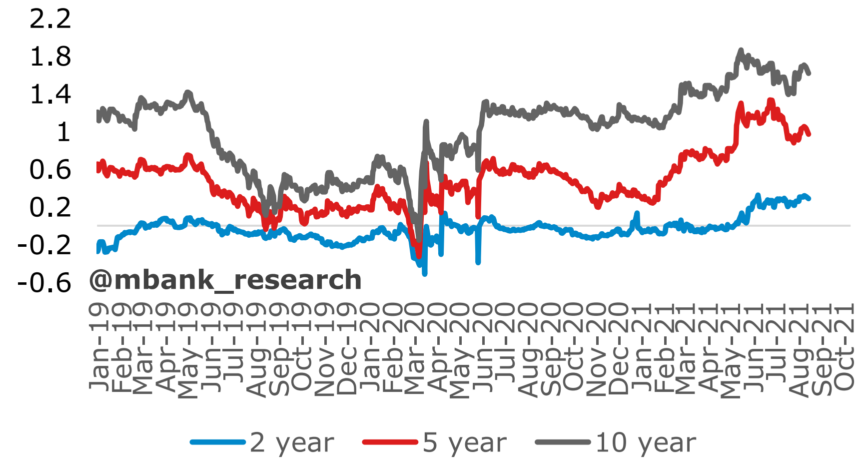
Source: Bloomberg

ASW spread



Source: Bloomberg

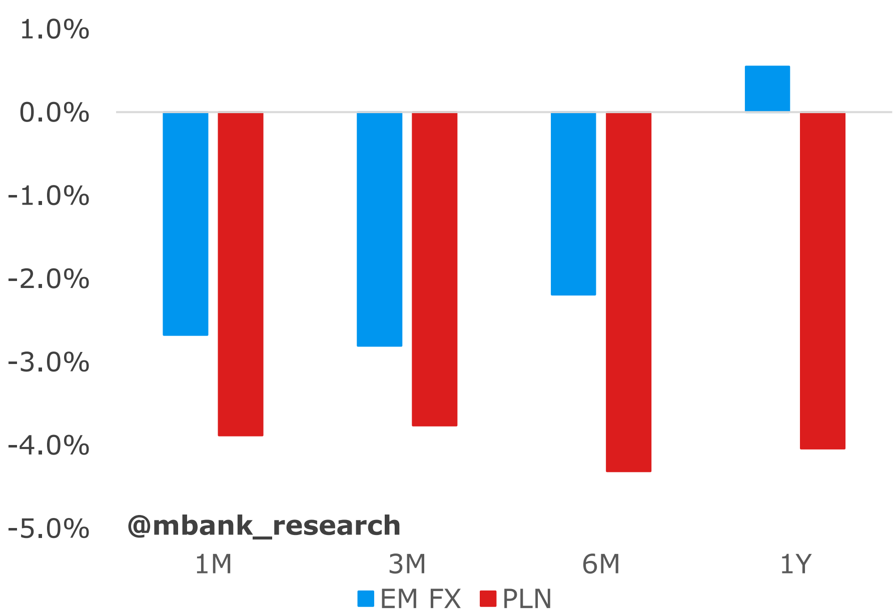
POLGB yield minus 3m WIBOR



Source: Bloomberg

EURPL, plenty of depreciation risks

Still weak zloty



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

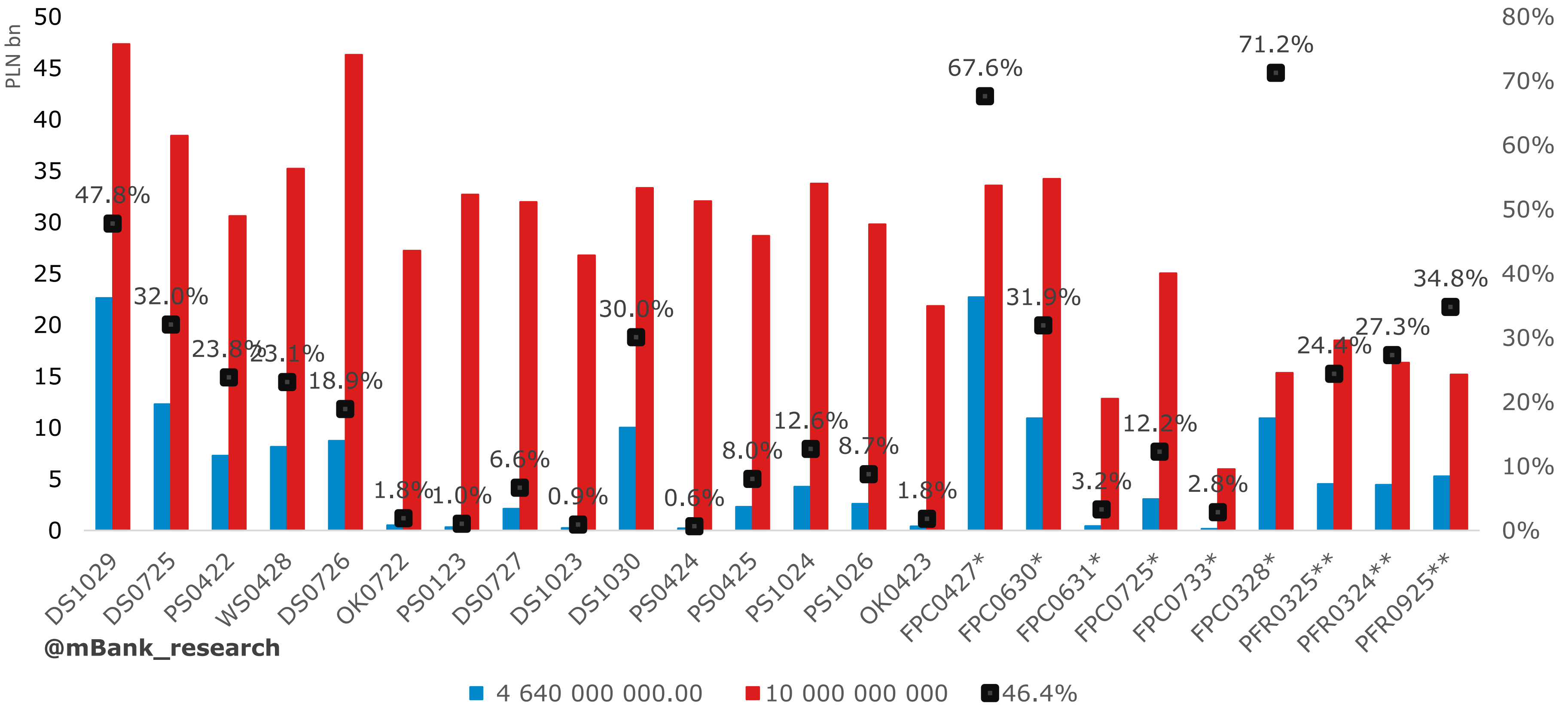
Source: Bloomberg

Real effective exchange rate

Source: BIS

- Situation became very complicated near term. Although NBP started rate hikes, it seems lagging the other central banks in EM (and fails to give a clear message that this is going to be a fully fledged cycle). At the same time tensions over the judical system between the government and the EU thrive.
- C/A surplus is evaporating fast and unfavorable terms-of-trade is going to make situation worse in the next few months, exacerbation the potential problems of global overspending on goods (amid supply constraints).
- We decided to lower forecasts for PLN. We do not expect any appreciation in the next few quarters. As supply shocks recede and inflation start to snap back (it is most likely Poland will be after the series of rate hikes; limited causality here OFC), we expect some mild appreciation to kick in late 2022. Risks are tilted towards weaker zloty near term.

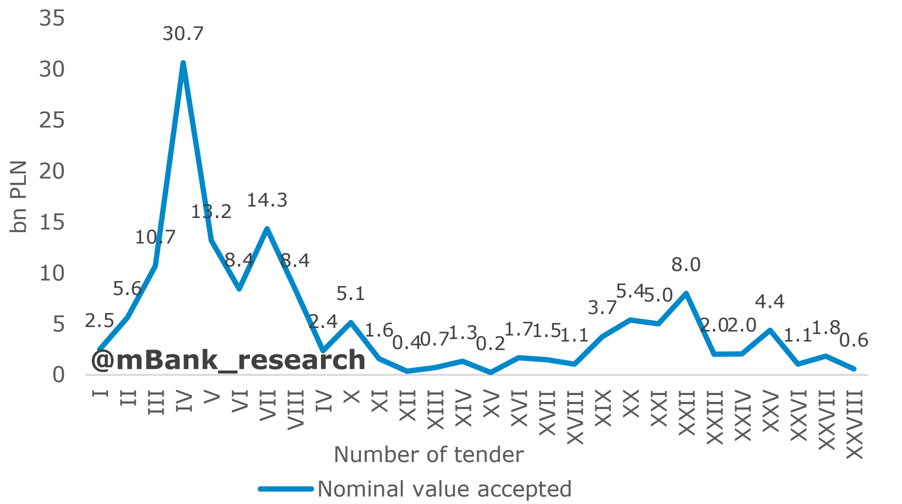
Appendix: NBP „structural" portfolio monitor

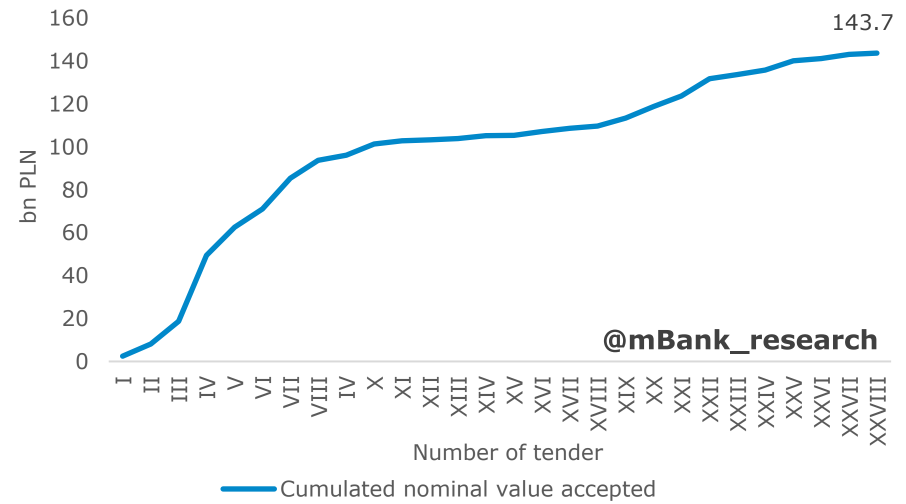


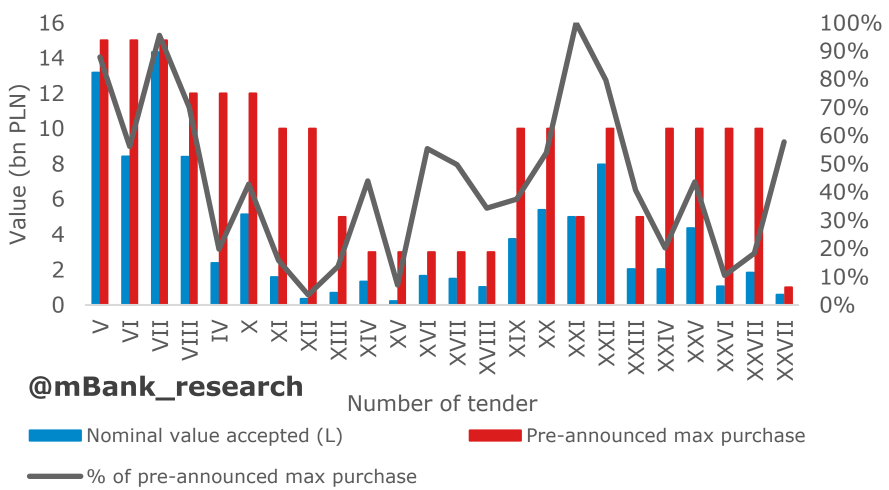
Source: Own elaboration on MF, NBP, NDS data.

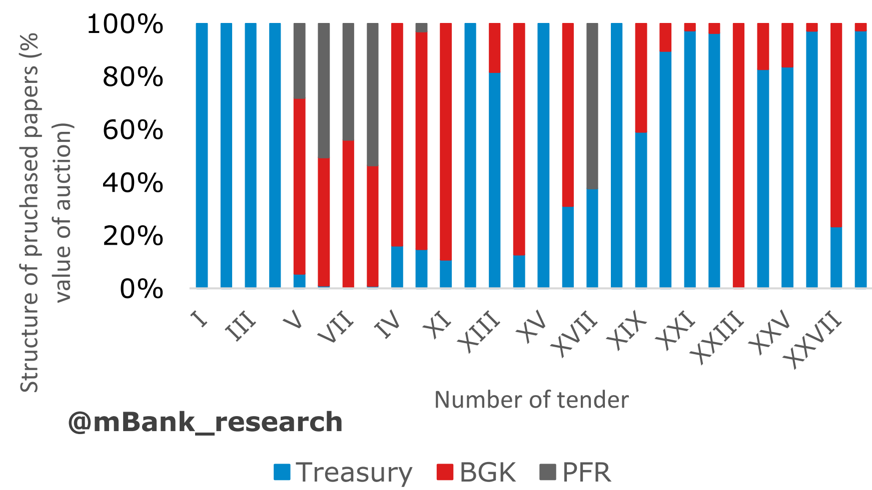
- The state for 13.10.2021. We present cumulative numbers.
- NBP launched structural open market operations in March 2020 and they constitute a purely new instrument introduced to fight the crisis.
- **Recent central bank's communication suggests that the regular program of purchases is coming to an end and will be used only when market situation demands it.**

Appendix: NBP purchases, the timeline









- The state for 13.10.2021.

Source: Own elaboration on NBP data.

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