Monthly Pulse Check
Economy. FI. FX

December 13th 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 (barring Omicron risks since we do not know much yet).
- 2021 GDP growth is not likely to be repeated. Effect of rate hikes and unfavorable reaction of consumers towards higher inflation generate downside risks and we shift our forecasts down. At the same time inflation is set to stay elevated in 2022. Monetary policy normalization is set to continue.

Monetary policy: Fed. ECB. NBP

- Fed: Attention shifts to exit strategy. First rate hikes in Q2/Q3 2022.
- ECB: Risks balanced. Market pressures for rate hikes in 2022 are unlikely to be delivered.
- NBP: Normalization of rates has just begun. Given the shape of inflation projection, there is no need to deep rate hikes and the most likely scenario is the one in which terminal rate (2.5%) is reached fast. We think that interest rate risks are tilted to the downside vs current market pricing.

FX Market

- Weak zloty with risks tilted to the downside in the very near term. Tensions with the EU, tensions on eastern border, NBP not seeing the value in stronger zloty. Additionally, local currency lost its shield from C/A. However, as the year-end passes and investors get used to other factors, wide interest rate differential (terminal NBP rate expected >3%) may be enough to bring at least some appreciation of local currency vs the euro.

		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	%	-0,8	11,2	5,3	6,1	5,6	4,6	3,1	3,6	-2,7	5,5	4,2
Individual consumption y/y	%	0,1	13,1	4,7	8,5	7,5	5,3	1,8	2,4	-3,0	6,6	4,3
Investment y/y	%	1,7	5,6	9,3	10,5	-2,5	12,6	12,2	10,7	-8,4	6,8	8,3
Inflation rate (eop)	%	3,2	4,4	5,9	8,0	6,1	7,6	6,4	4,5	2,4	8,0	4,5
Unemployment rate (eop)	%	6,5	5,9	5,6	5,6	5,6	5,1	4,9	5,0	6,2	5,6	5,0
NBP repo rate (eop)	%	0,1	0,1	0,1	1,75	2,25	2,50	2,50	2,50	0,10	1,75	2,50
EUR/PLN (eop)	%	4,63	4,52	4,61	4,65	4,50	4,40	4,40	4,40	4,56	4,65	4,40
USD/PLN (eop)	%	3,95	3,81	3,98	4,0	4,0	4,0	4,0	3,9	3,73	4,0	3,9

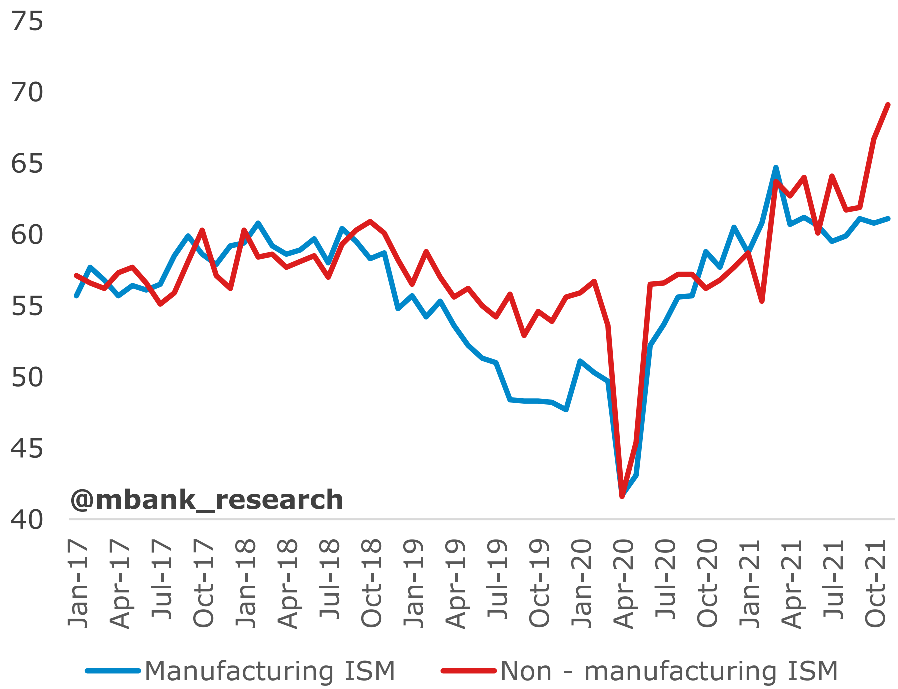
F - forecast

Highlights

- The fourth wave topped with some minor epidemic restrictions in place. At this very moment we globally consider Covid-19 more as a supply than demand shock but omicron risks are pending (see here and 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 from high energy prices and next round of global food price increases. Inflation risk stays elevated and market pressure on central bank is mounting. Fed announced tapering and the case for raising rates will be strong enough in Q2/Q3 2022 (see here). 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. So far, the narrative is consistent and ECB steers away from the need for monetary policy tightening. Ultimately, we think that low rates for longer scenario is still valid, but we start to think about rate hikes in euro zone in 2024 (ECB: see here).
- Polish economy looked good in Q3 (+5.3% y/y GDP growth, +2.1% q/q) but it is for sure the peak of sequential growth. Mobility and expenditures stay high (see here and here) but we see some fatigue, especially in the latter. It is also worth to note that we track nominal expenditures that overstate the condition of consumer demand (it can be easily seen while confronting nominal and retail sales). Supply constraints, high prices and later start of EU-sponsored investment cycle pose risk to the economy. The momentum is sufficient to deliver 5.5% growth in 2021 but the outlook for 2022 is cloudy (see here). Inflation is at the highest level for more than 20 years (7.7 y/y, see here and here) but government's help has arrived. We are close to CPI top and think that expected monetary tightening (2.5% in March) is going to bring inflation to desired level in 2023 (see here).
- MPC decided to deliver another 50pb increase in December. Recent inflation projection (see here) suggests that it is possible to bring inflation down to below 3.5% in 2023 without dramatic rate hikes.
- NBP's asset purchase programme has officially come to an end. It will be used in extraordinary circumstances only (see here and here for the last picture of the balance of structural market operations).

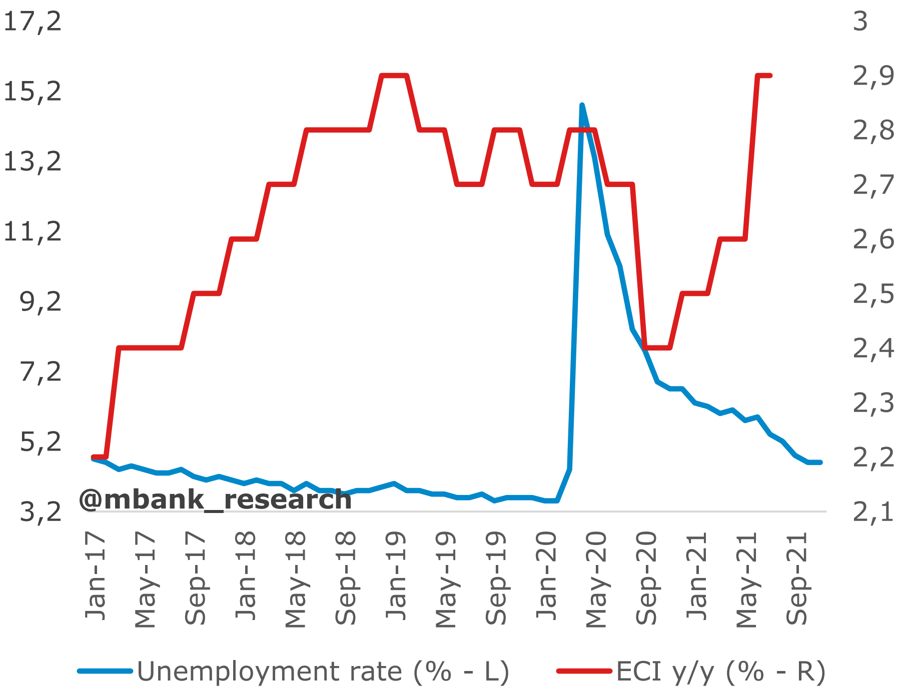
U.S. economy health check

ISM PMI: manufacturing & non-manufacturing



Source: ISM

Labor market: wages & unemployment rate

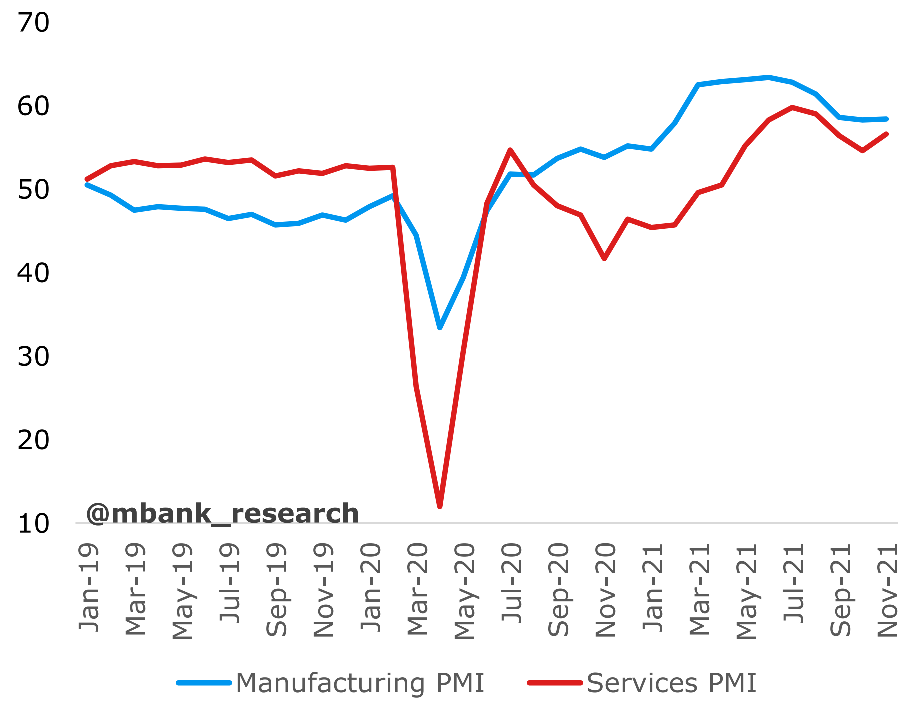


Source: FRED

- The labor market is moving towards the Fed target, but it will take a few more quarters to get there (goals regarding employment and unemployment rate will be probably fulfilled in the second half of next year). The overall condition of the economy is good (or even very good) – there are still supply problems, but the demand remains very strong. Perspectives for next quarters are also optimistic. Firms' sentiment is very high (especially ISM at services which is at new cyclical highs).
- Fed has limited its bond purchases (tapering). The pace of purchases' reduction is going to be increased in December. Communication is carried out carefully and in advance. There are no signs of "taper tantrum". Tightening the monetary policy is much more cautious than after the financial crisis of 2007-2009.
- Fulfilling labor market targets and possibly not so temporary (as previously expected) inflation will result in earlier (than we previously expected) interest rate hikes. We think that monetary policy tightening by interest rates will commence in somewhere around the half of 2022.

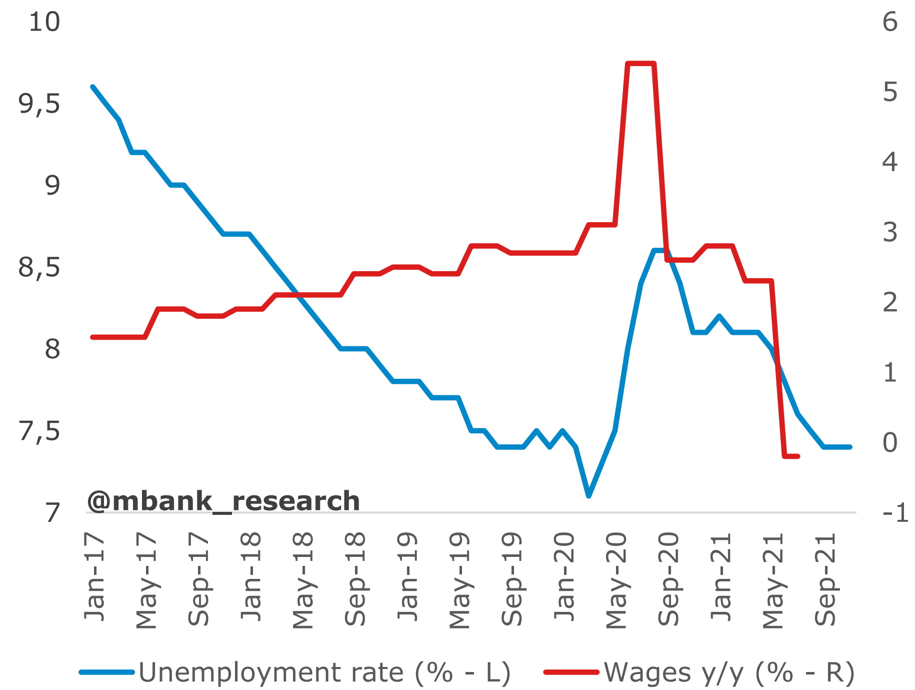
Euro area economy health check

Markit PMI: manufacturing & services



Source: Markit

Labor market: wages & unemployment rate

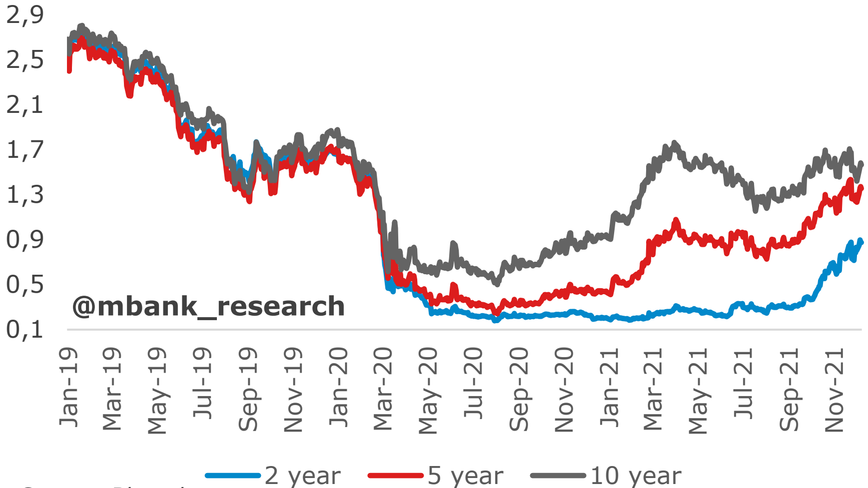


Source: Eurostat

- Firms' sentiment is still lower than in the US, but last month's PMI was a positive surprise. Intensification of worries about the pandemic can stop the index (or lower it).
- The ECB tries to convince market participants that it will not react to higher inflation. ECB claims that inflation is temporary and temporary means that current prints does not affect medium-term inflation.
- Temporarily increased PEPP purchases have returned to normal. The discussion about what can replace this program after its expiration at the beginning of 2022 is ahead of us (in a week, after ECB meeting, we will know much more). ECB will want to avoid a sharp expiry of asset purchases (the risk of fragmentation of the eurozone), hence the base option is to develop another (or change the existing one), transitional or permanent program that will smooth the path of bond purchases, at least in 2022.
- ECB feels comfortable with the notion that rates hikes „most likely" will not happen in 2022.

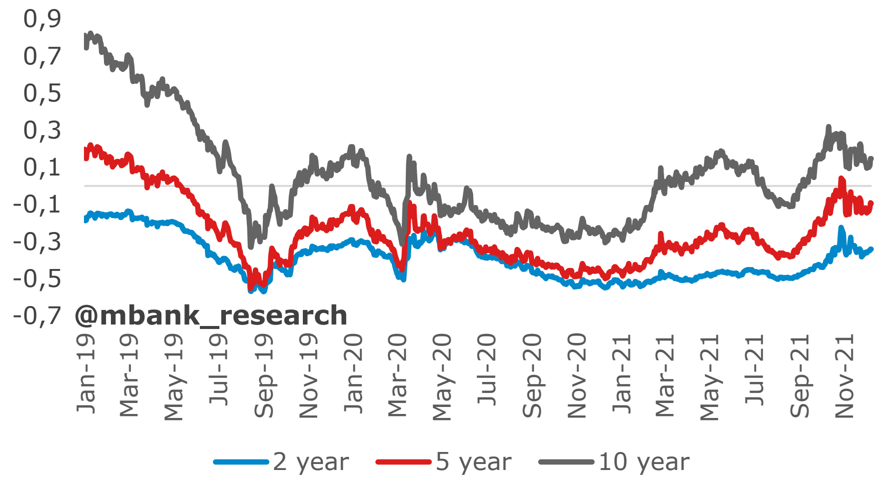
Global rates

US swap rates (%)



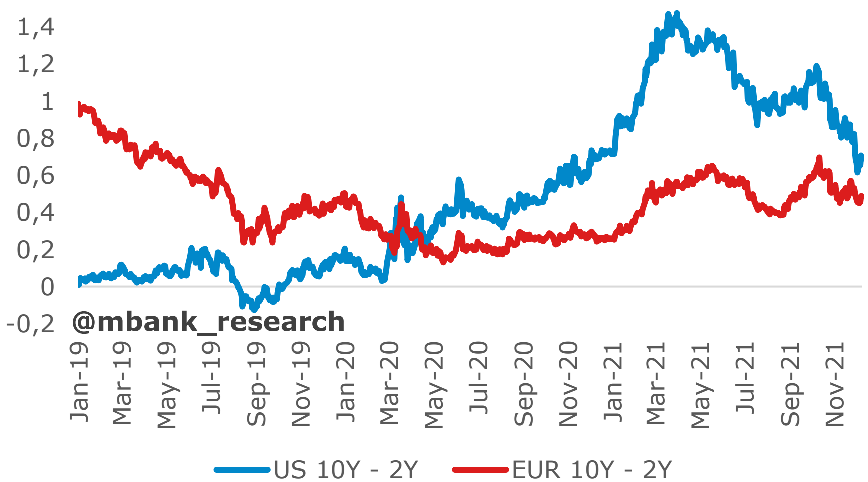
Source: Bloomberg

EU swap rates (%)



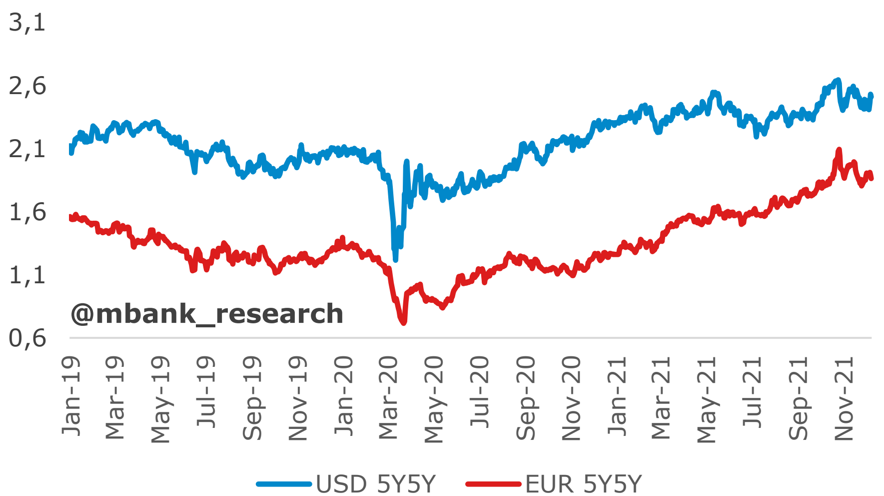
Source: Bloomberg

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



Source: Bloomberg

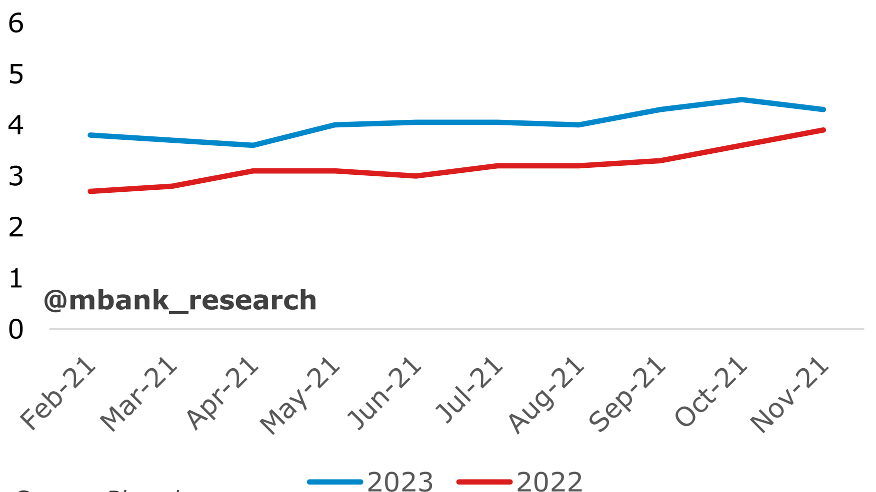
US and EZ inflation expectations (%)



Source: Bloomberg

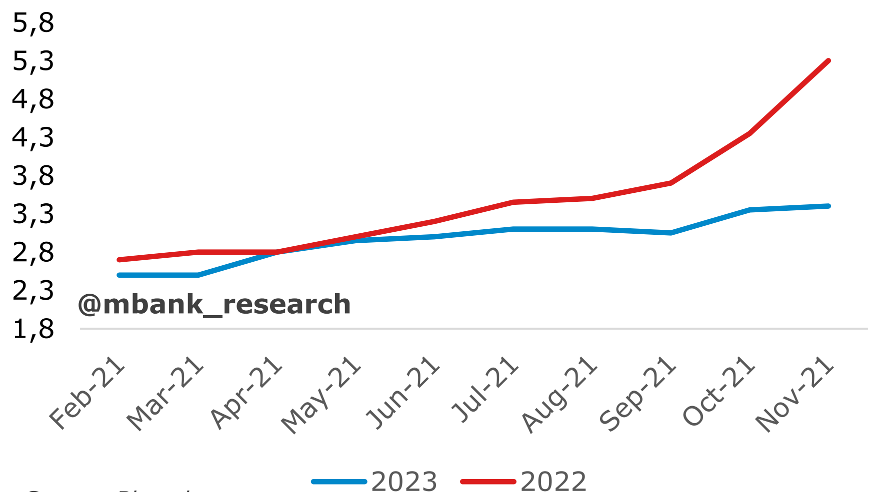
Consensus: what is expected in Poland?

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



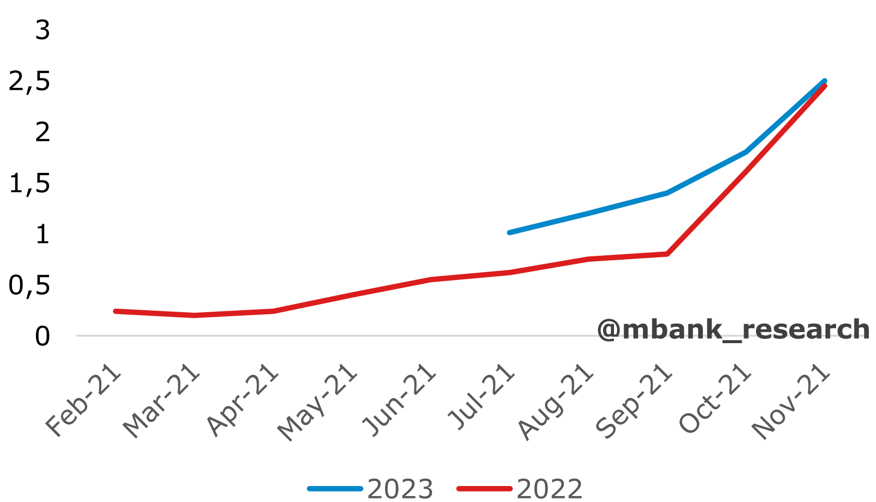
Source: Bloomberg

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



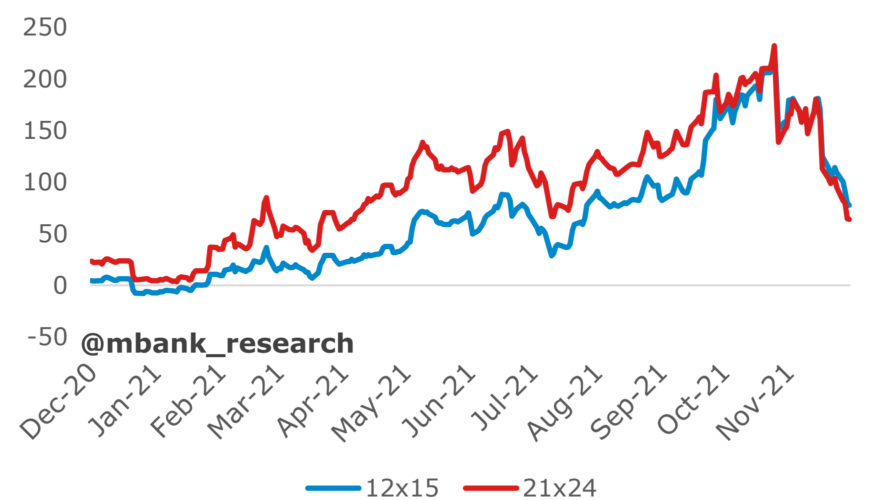
Source: Bloomberg

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



Source: Bloomberg

Rate changes priced in by FRA (bps)



Source: Bloomberg

Upcoming Polish macro releases: December 2021

Publication	Date	Period	mBank	Consensus	Actual	Prior
CPI y/y (%)	30.11[1] 15.12[2]	Nov	7,6%	7,4%	7,7%	6,8%
PMI (pts.)	01.12	Nov	54,1	53,8	54,4	53,8
Unemployment rate (%)	05.12[3] 23.12[4]	Nov	5,4%	5,5%	5,4%	5,5%
Current account (m EUR)	14.12	Oct	-1766	-968		-1339
Employment y/y (%)	17.12	Nov	0,5%	0,5%		0,5%
Wages y/y (%)	17.12	Nov	8,9%	8,9%		8,4%
Industrial output y/y (%)	20.12	Nov	8,8%	8,5%		7,8%
PPI y/y (%)	20.12	Nov	13,4%	12,9%		11,8%
Construction output y/y (%)	21.12	Nov	6,4%	6,0%		4,2%
Retail sales y/y (%)	21.12	Nov	8,2%	8,7%		6,9%
M3 y/y (%)	22.12	Nov	9,5%	9,0%		8,6%

[1] Flash estimate

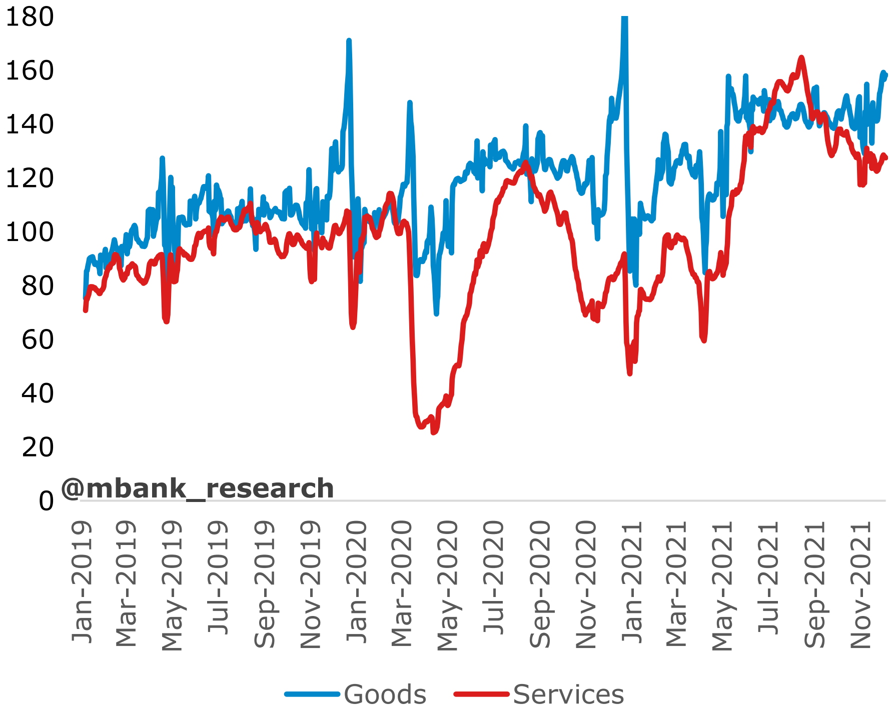
[2] Final reading

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

[4] Statistics Poland final reading

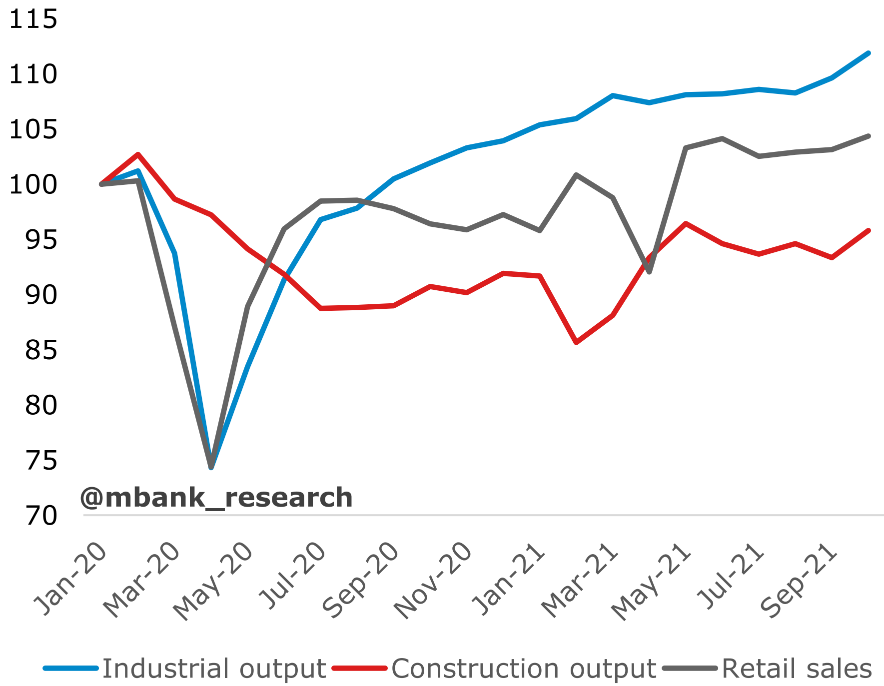
Poland: November brought quite a good real sphere data

Card expenditures weekly, Jan20 = 100



Source: mBank transaction data. Own elaboration.

Seasonally adjusted, index 2015 = 100

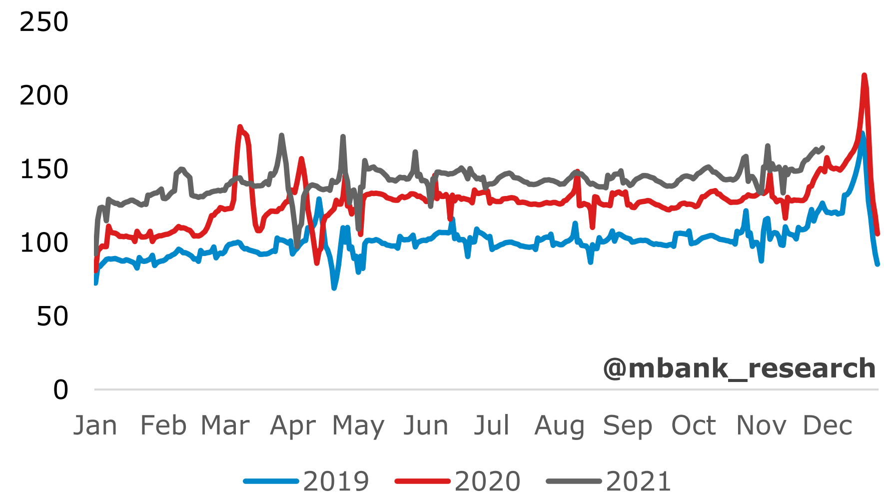


Source: mBank, Statistics Poland

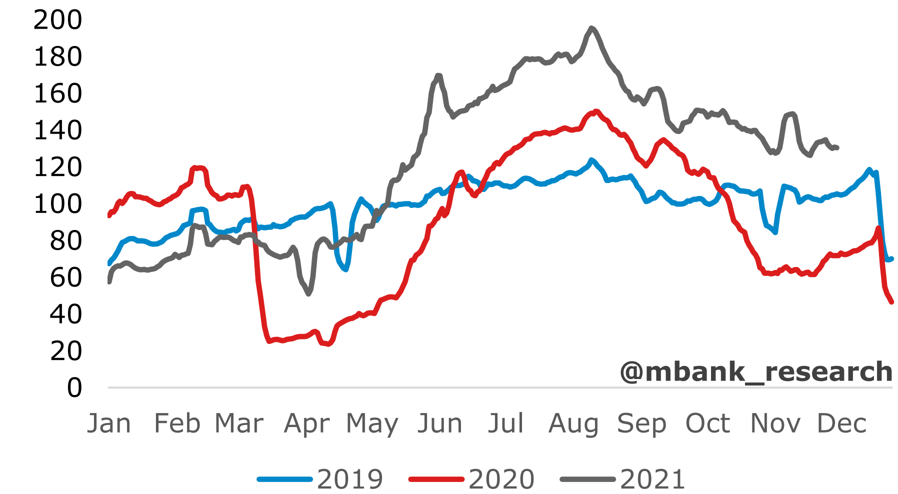
- Industrial production data regularly surprise to the upside. Last surprise (in October data) was mostly due to energy production, but also manufacturing is doing better than expected (given supply chains problems). Problems are visible only in some categories (like automotive production). There are significant differences when looking at types of goods. Production of intermediate and durable consumer goods is above the pre-pandemic trend. Production of non-durable goods is below the trend but the pace of growth is close to the previous one (just lower level). Investment goods slowed down, despite the global investment cycle. Risks remain unchanged – supply problems can still affect industrial production results, but so far the upswing is strong.
- Retail sales in October in constant prices increased by 6.9% y/y, while in nominal terms it increased by 14.4% - still prices are one of the most determinants here. But the overall picture remains good – retail sales is closer to the pre-pandemic trend. The most important risk for next months is lower growth of real disposable income (as a result of high inflation).

Poland: Card expenditures, 7-day average

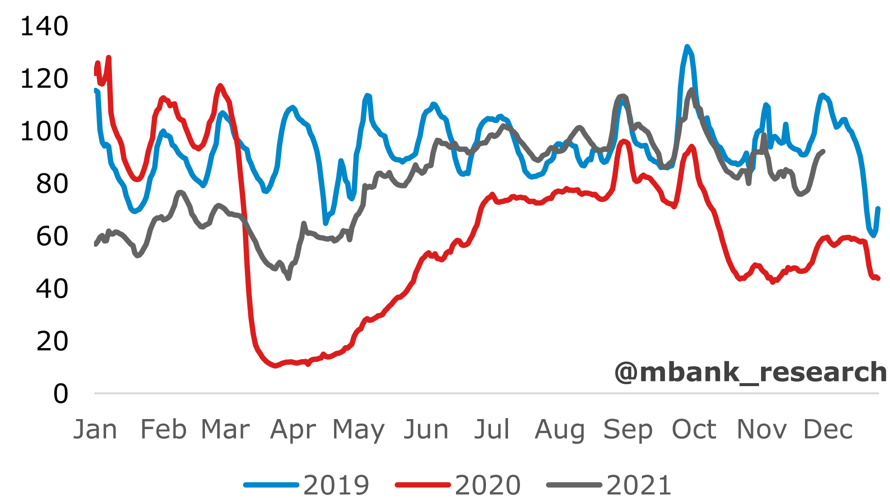
Food, beverages and non-specialized stores, Jan20 = 100



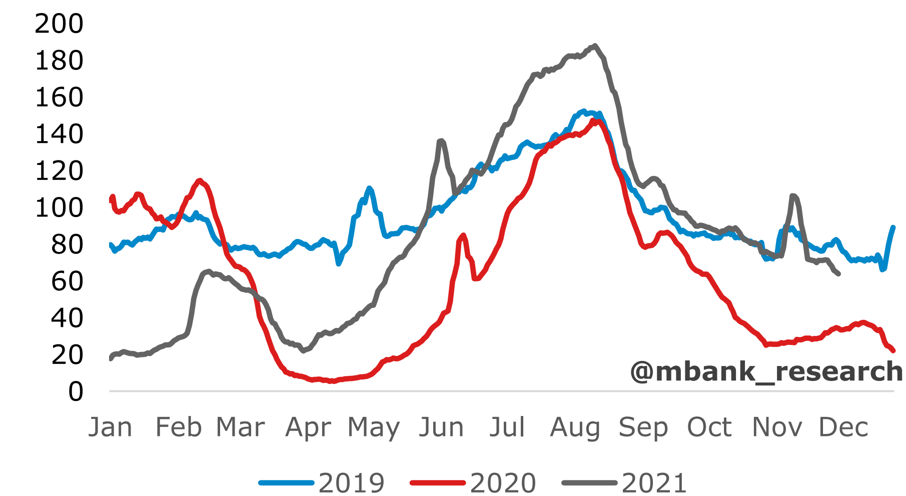
Restaurants, Jan20 = 100



Transport, Jan20 = 100



Tourism, Jan20 = 100



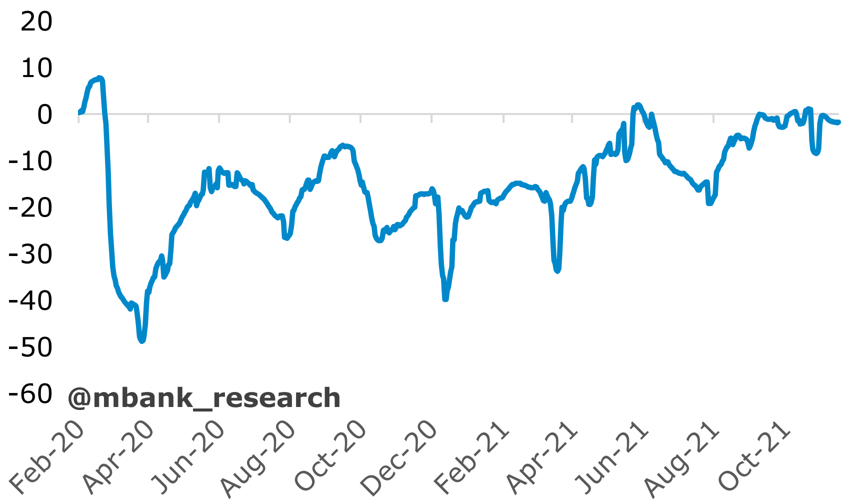
Source: mBank transaction data. Own elaboration.

Poland: Google mobility, 7-day average

Retail & recreation (% change from Jan20)

Residentials (% change from Jan20)

Workplaces (% change from Jan20)

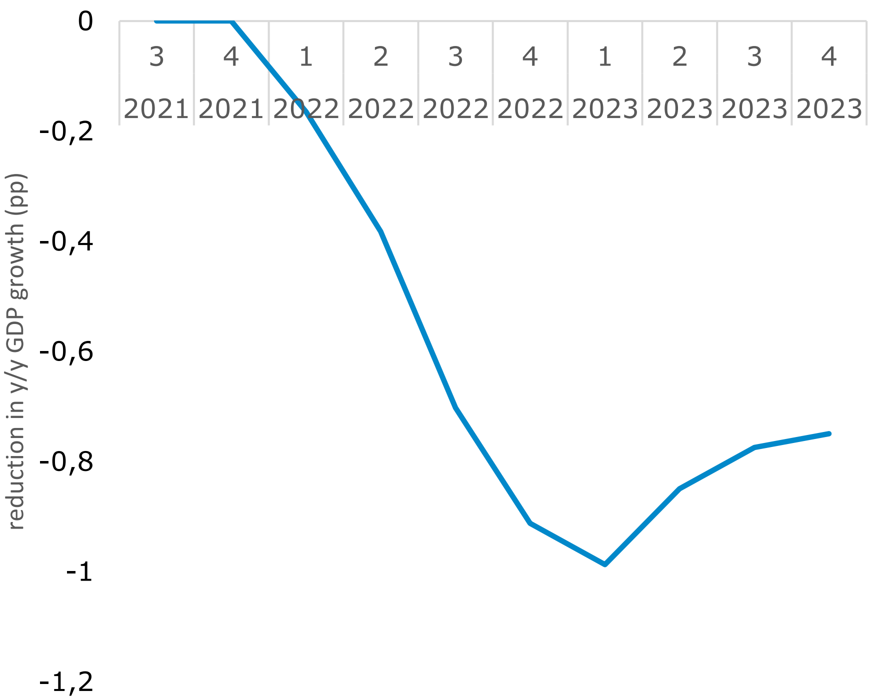


Transit stations (% change from Jan20)

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

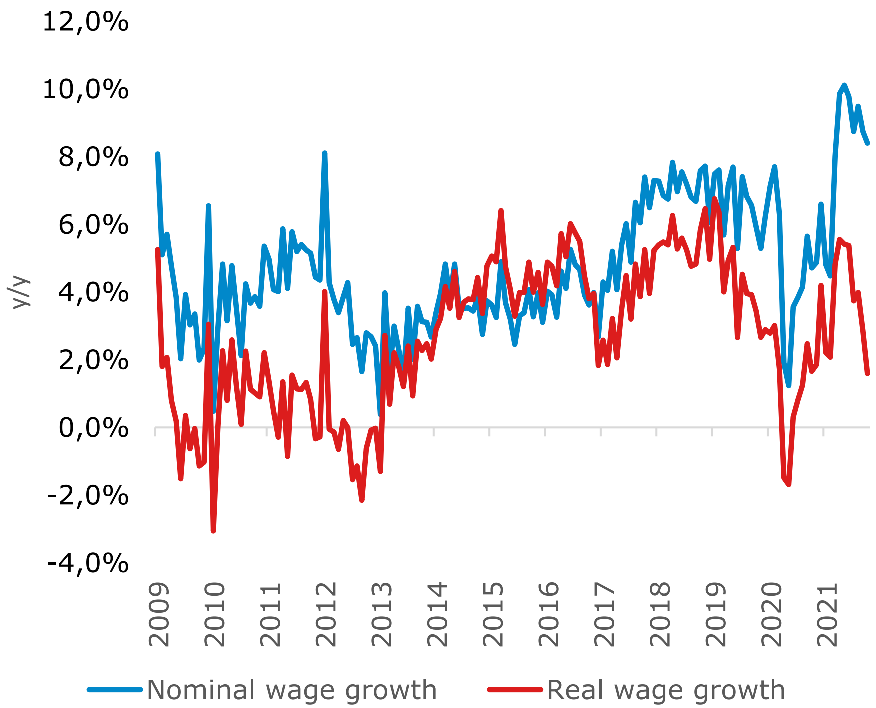
2021 GDP growth is a done deal. Let's focus on 2022-2023: slowing down.

Effects of interest rate hikes (our scenario, +240bps)



Source: own elaboration on NBP's NECMOD model

Consumption: dark clouds

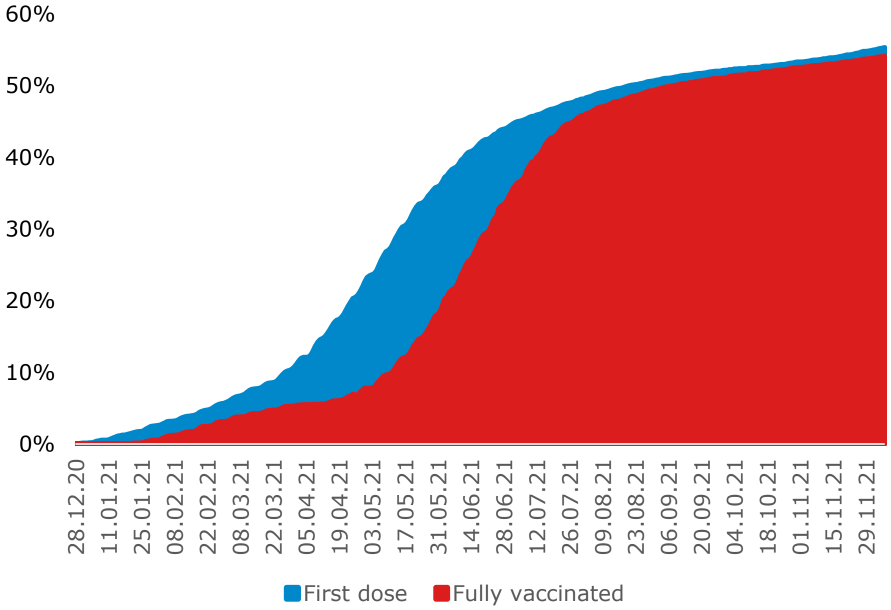


Source: CSO data, own elaboration

- Economic environment is very volatile. 2021 is going to close with ~5.5% GDP growth. Outlook for 2022-2023 is less bright and we aim for GDP growth closer to 4%. Why? We recently indicated risks. It is time to have them calculated in.
- Negative effects in store. Effects of interest rate hikes on economic activity. Much lower real disposable income ahead or no growth at all (v. high inflation, interest rate hikes boosting the cost of credit servicing). Slowing global growth (effects of interest rate hikes, more mature phase of investment cycle, less demand for durable goods, ripple effects of supply chain disruptions, higher price level).
- Any sweeteners? Yes. Savings (money in circulation gained a lot; it is possible a form of savings). Polish Deal: tax changes and additional child disbursements ~ PLN 12 bn in total (~0.5% of nominal GDP, ~0.8% of consumption).
- Cancellation of additional EU funds (Next Gen EU)? Does it make sense to play this? For speculative investors – yes. For economists – no. Actual cancellation is a process of events leading to further withdrawal of funds and possible Polexit. That is why we assume the funds will flow in the end. Cancellation scenario entails a completely different economic story.

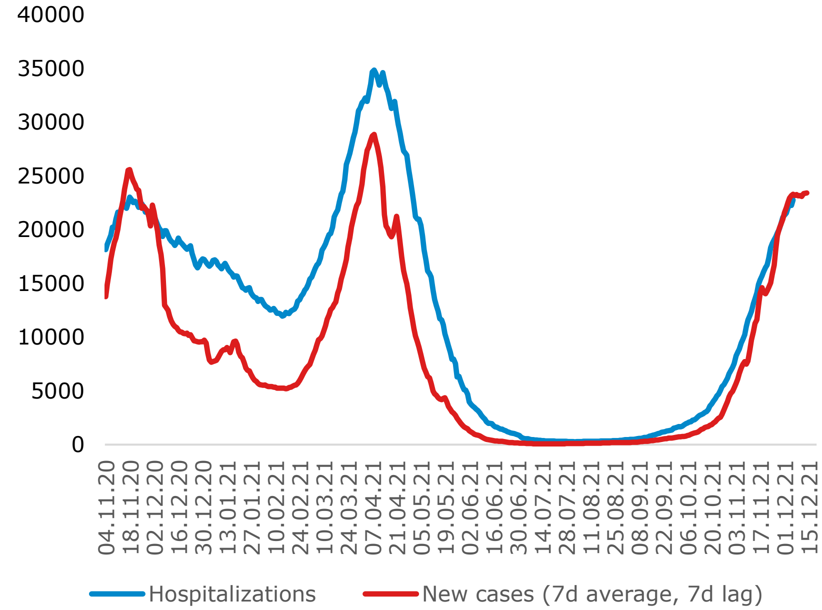
COVID-19: Over to Omicron (B.1.1.529).

Vaccine uptake



Source: ourworldindata.org/coronavirus, Ministry of Health

Calling the top in current wave

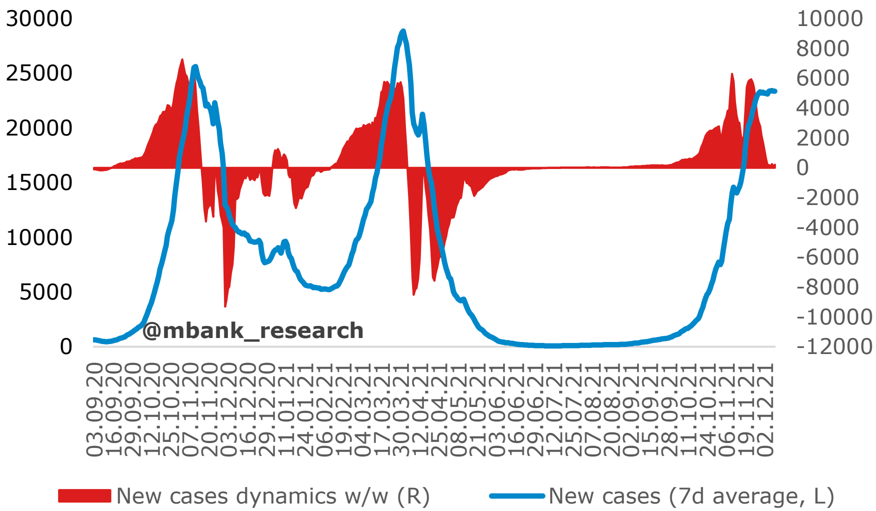


Source: ourworldindata.org/coronavirus, Ministry of Health

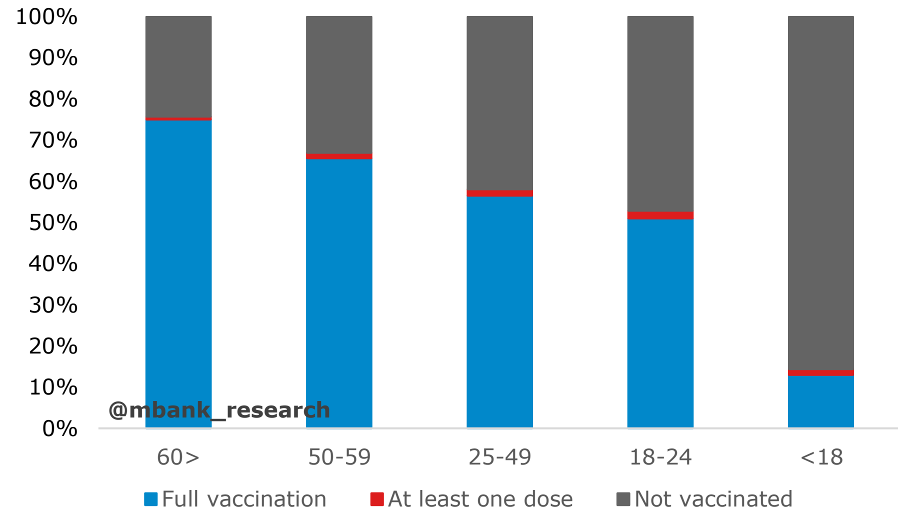
- Fourth wave came and is near the top. With 50% vaccine uptake one can expect no miracles. Fatality numbers are high.
- Some epidemic restrictions may stay in place but we do not see meaningful GDP growth risks here (no change in view).
- Omicron variant pose some new challenges. We do now a little at this stage. It is highly likely that this variant is going to evade immunity (modification of vaccines is needed and will last ~100 days). However, the information on its transmittability and clinical picture is not well documented. It is most likely it will be as transmittable as Delta and will erase some of gained immunity. This variant will most likely be dominant in the spring.
- For additional statistics see here.

Poland: COVID-19 situation (additional stats)

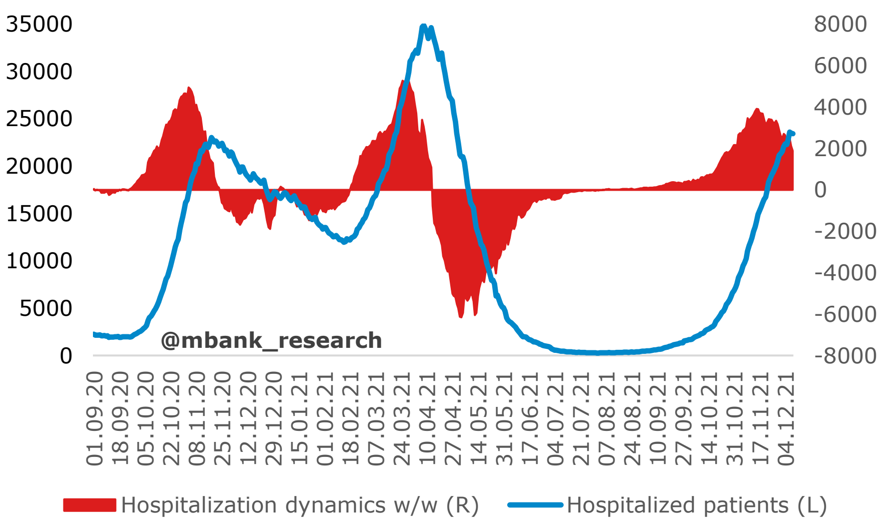
Daily new cases (7day average)



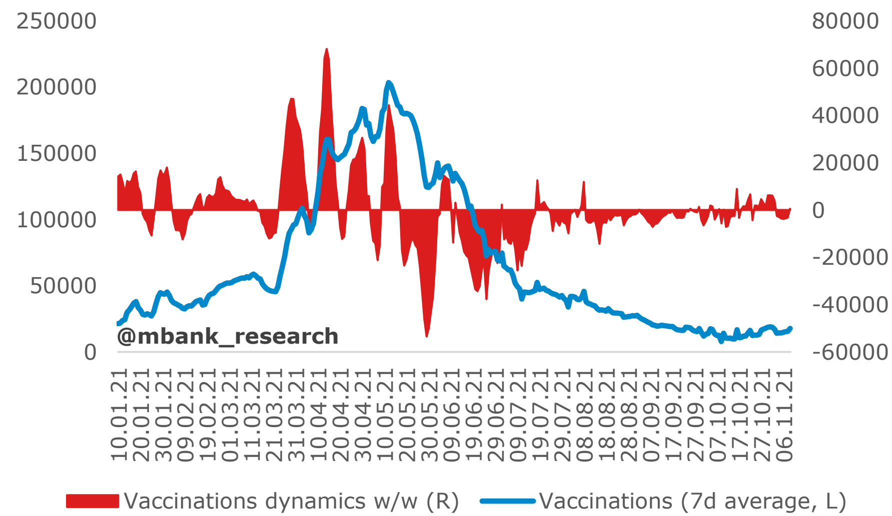
Cumulative uptake (%) of vaccinations by age



Daily new hospitalizations



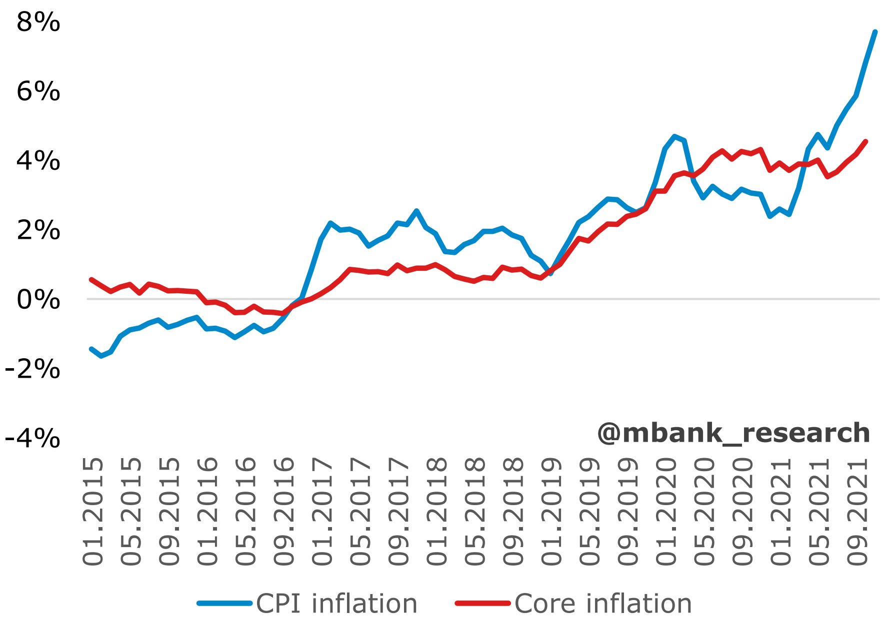
Vaccinations (first doses)



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

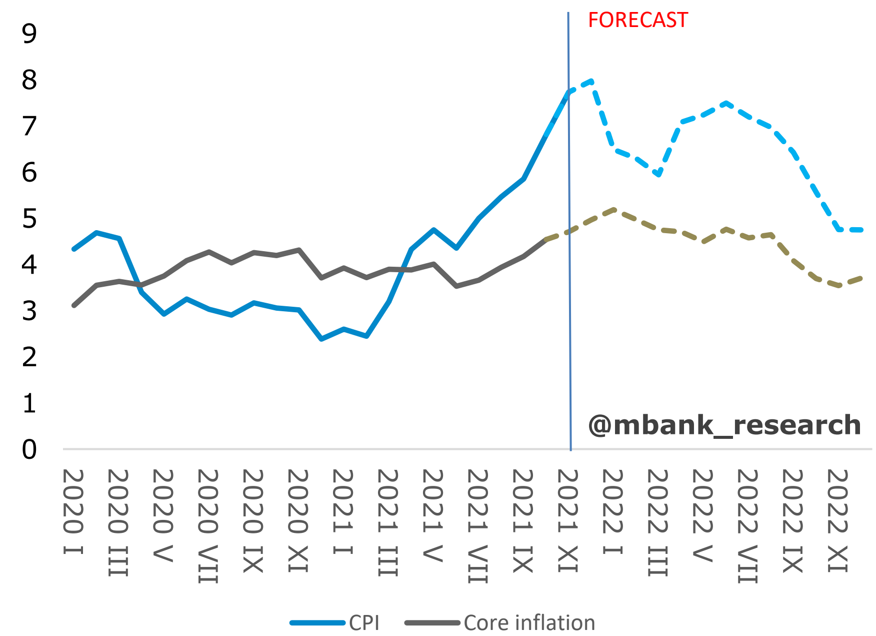
Poland: Inflation tracker #1

CPI and core inflation (% y/y)



Source: Statistics Poland, NBP, own elaboration

Core and headline inflation forecast

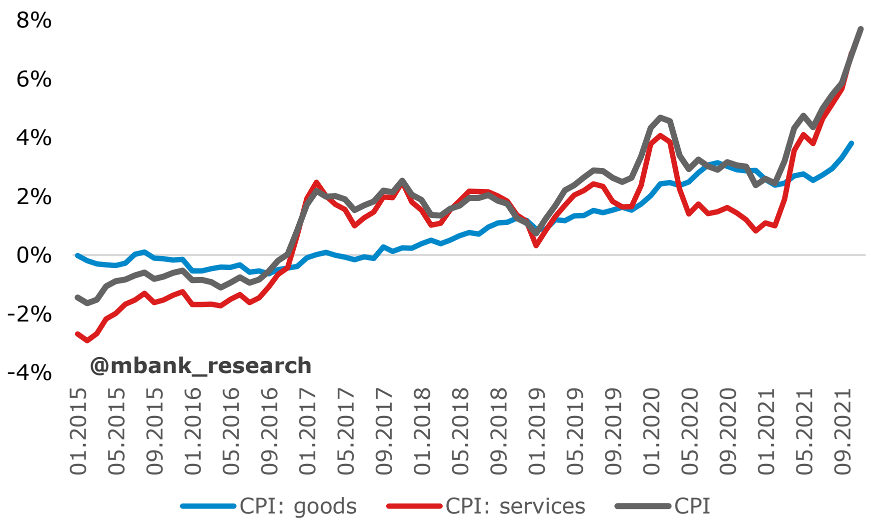


Source: Statistics Poland. own elaboration

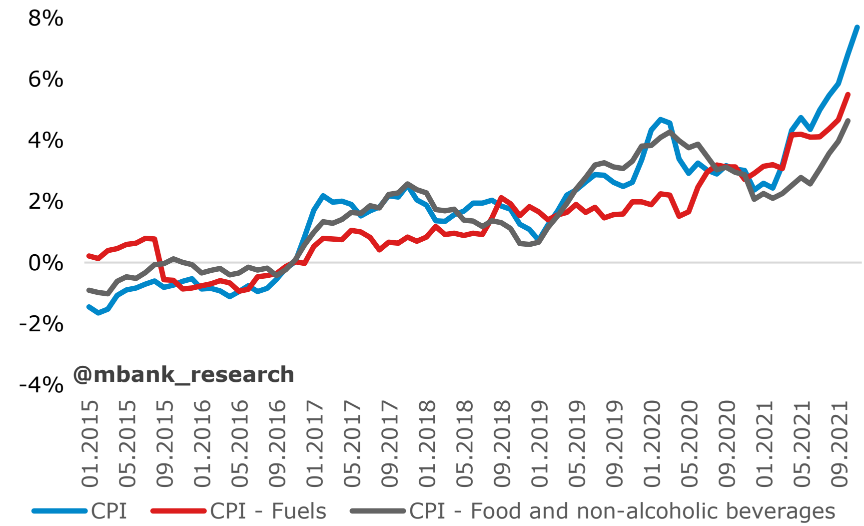
- CPI at 7.7% in November was slightly above our expectations (7.6% y/y, consensus was at 7.4%), but the composition was not so alarming. The contribution of core inflation was lower than we expected.
- We are probably close to the peak in inflation (it is either behind us or we will see it in December). If fuel retailers react fast on decrease in Brent prices (we see some effect already) we will probably not see 8% y/y in the end of the year.
- Since last edition of Monthly Pulse Check there were some legislative changes introduced in order to decrease inflation. Governmental anti-inflationary package includes lower VAT and excise on energy consumption, lower excise on fuels and additional benefit (cash) for some households. It should lower inflation in first half of the year (the inflation path for 2022 will be lower by 0.5pp) but in the longer horizon can be slightly pro-inflationary (in the end it is fiscal expansion). The new inflation path for 2022 presented above includes the changes from the package. Currently, the government informs that in case situation demands it, the package can be extended. Our view on perspectives of inflation in 2023 is presented here.

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

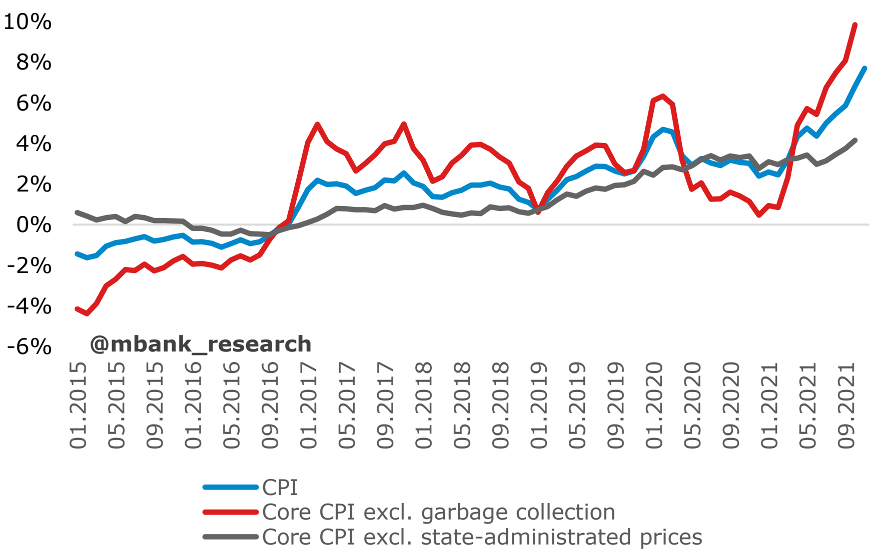
Goods and services prices (% y/y)



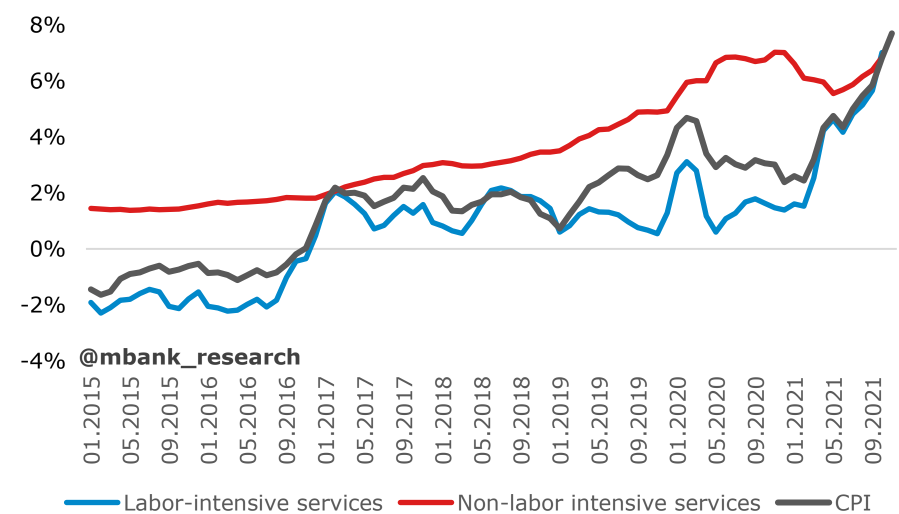
Food and fuel prices (% y/y)



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



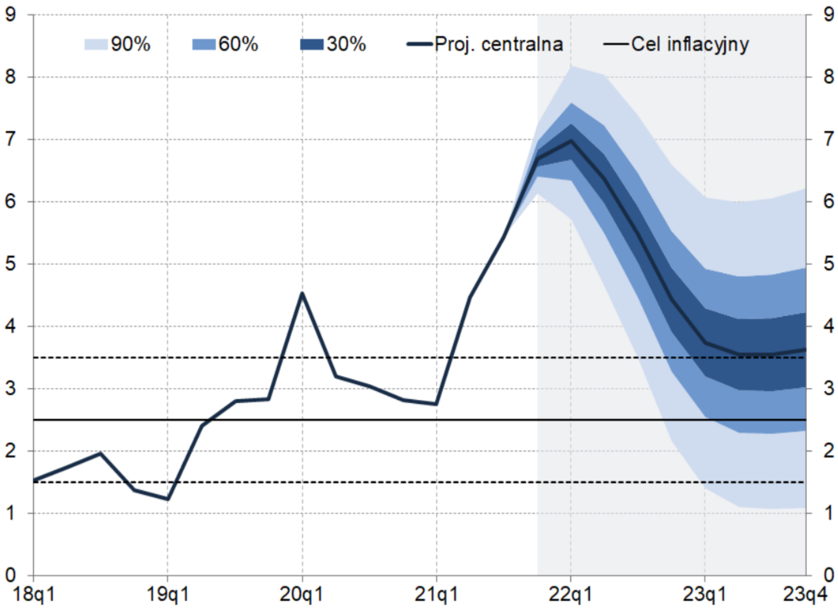
Services (% y/y)



Source: Statistics Poland, own elaboration

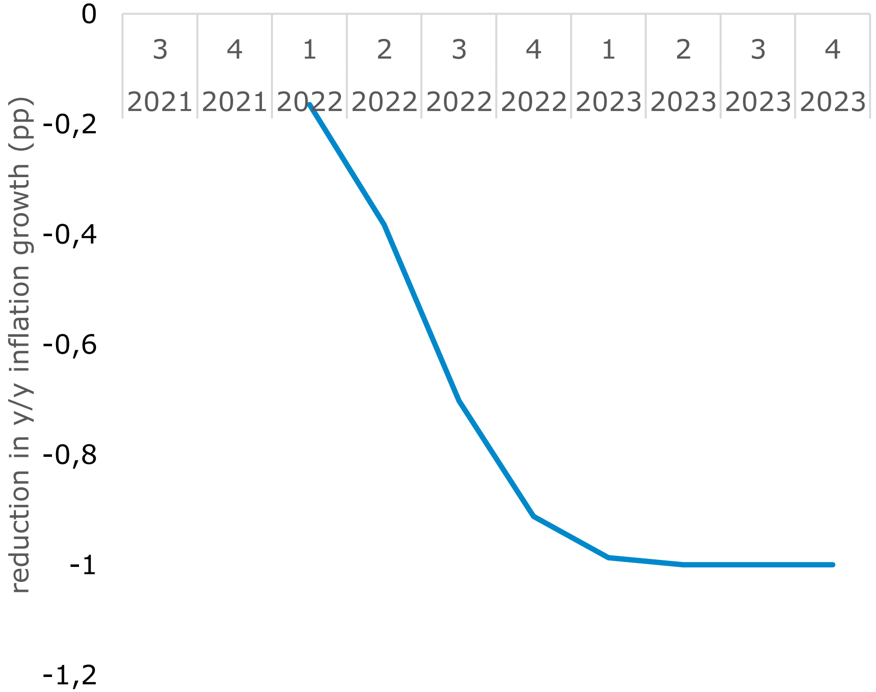
Inflation: 2023 in NBP's target? Yes.

Current NBP projection was made at 0.5% reference rate



Source: NBP projection.

240bps hikes have a meanigfull effect on inflation

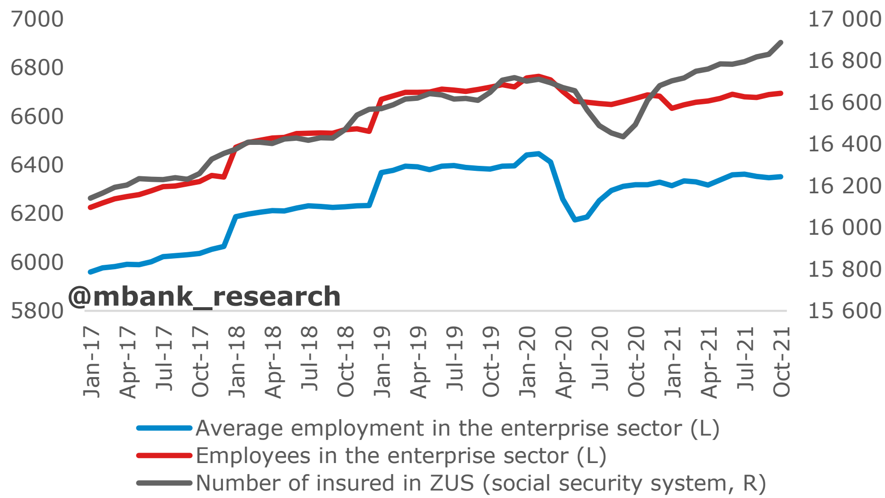


Source: Own elaboration on NBP's NECMOD model

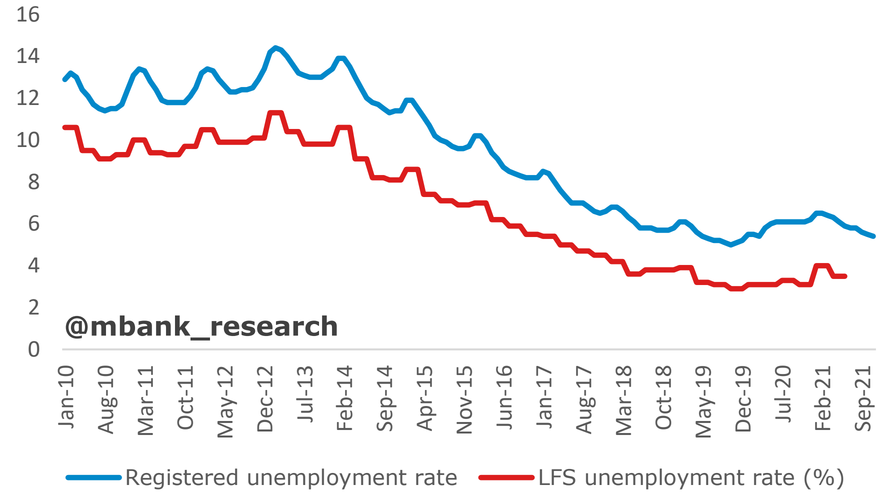
- Recent NBP projection was made with assumption of repo rate at 0.5%.
- It is highly likely (even taking into account hampered transmission mechanism) that after rate hikes to 2.5% (our preferred terminal rate) inflation will be between 2.5-3.5% in 2023. Most likely „on average" and most likely also in the end of forecast period.
- Recent NBP communication suggest rate hikes will proceed but the final rate will be adjusted to strike a balance between proper inflation and economic growth. We think the NBP will not be overly hawkish in order to bring inflation exactly to 2.5%. The more so since next years will be marked by series of electricity price increases that constitute a series of negative supply shocks. We are quite convinced that in such circumstances an increase in unemployment rate just to accommodate this additional price shock is in nobody's interest.

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

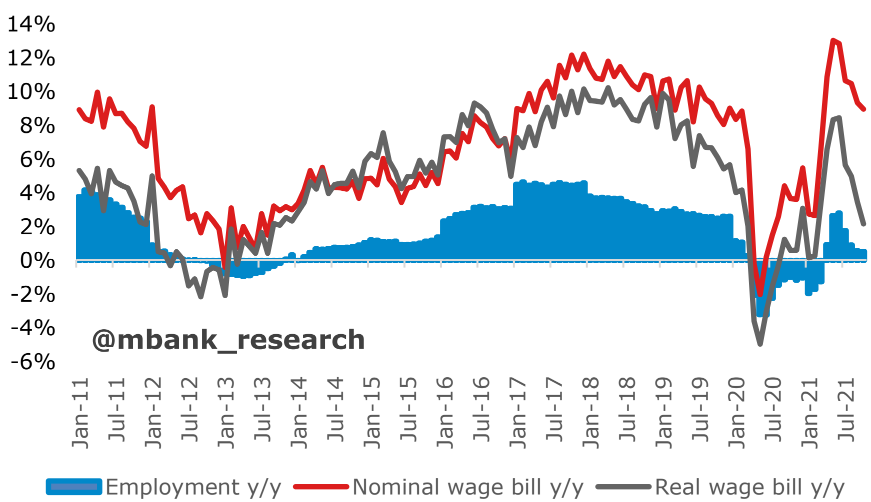
Employment



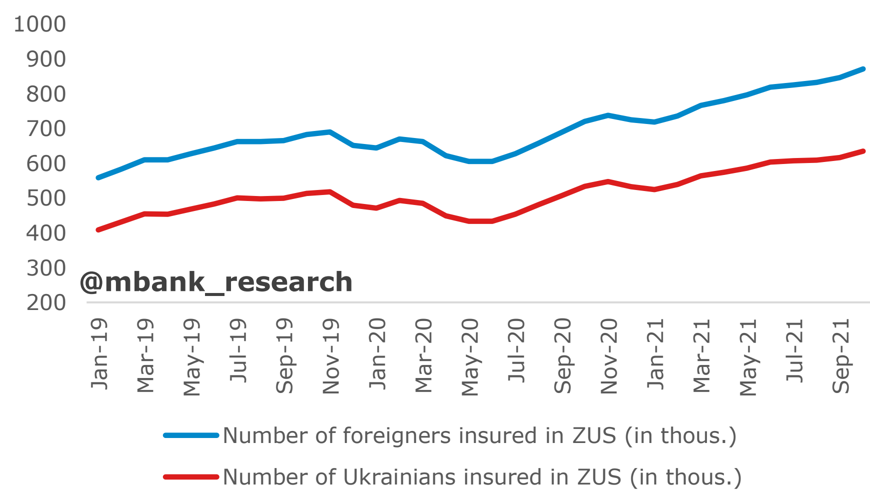
Unemployment rate



Wage bill



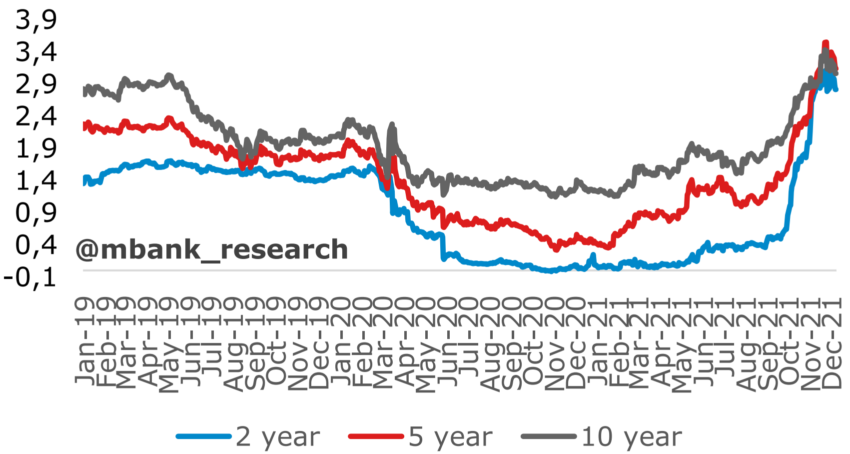
Immigration in the labor force



Source: Statistics Poland, ZUS Statistical Portal, own elaboration

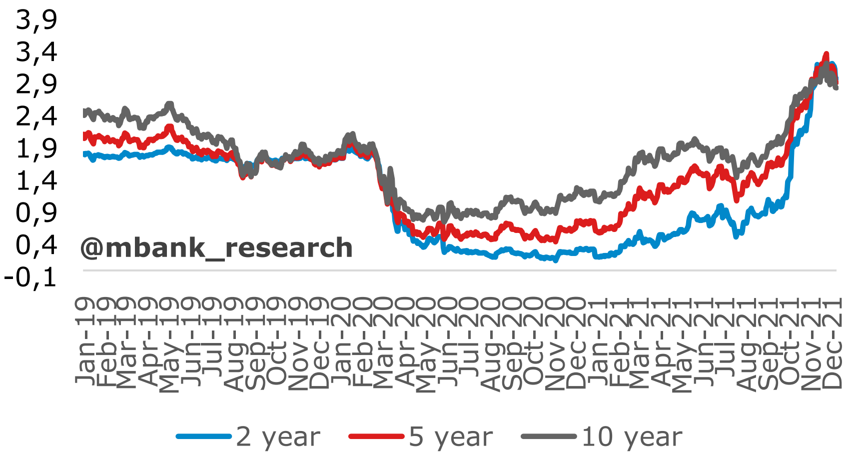
Polish rates, yields and spreads

POLGBs



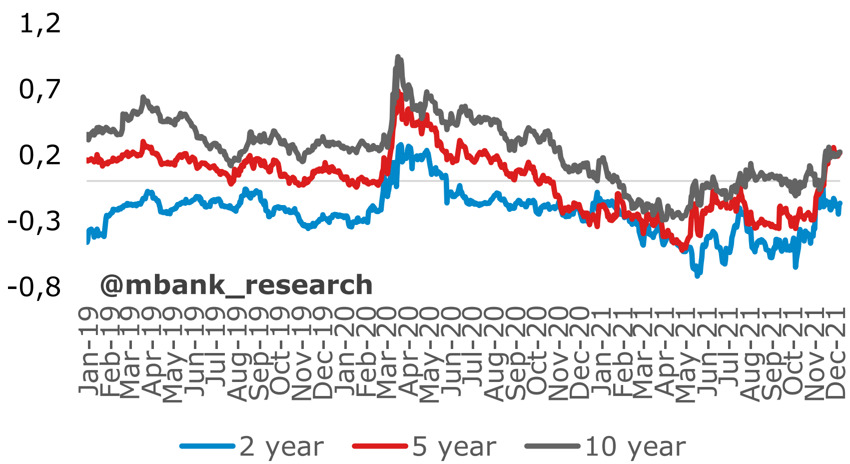
Source: Bloomberg

PL IRS



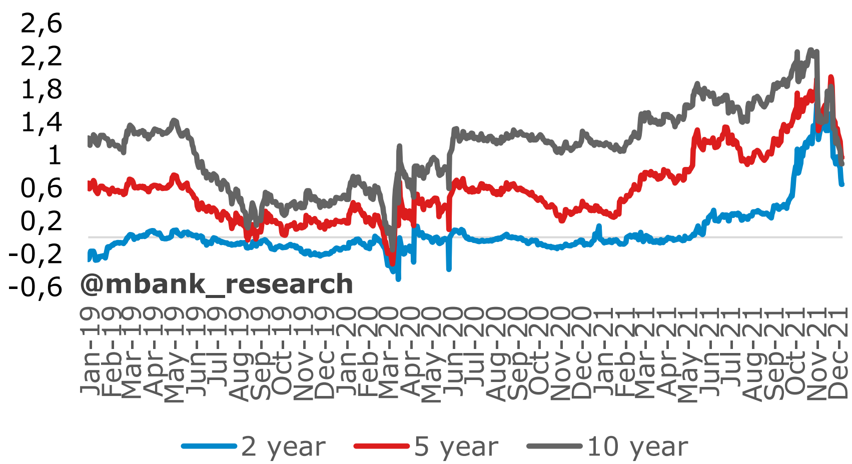
Source: Bloomberg

ASW spread



Source: Bloomberg

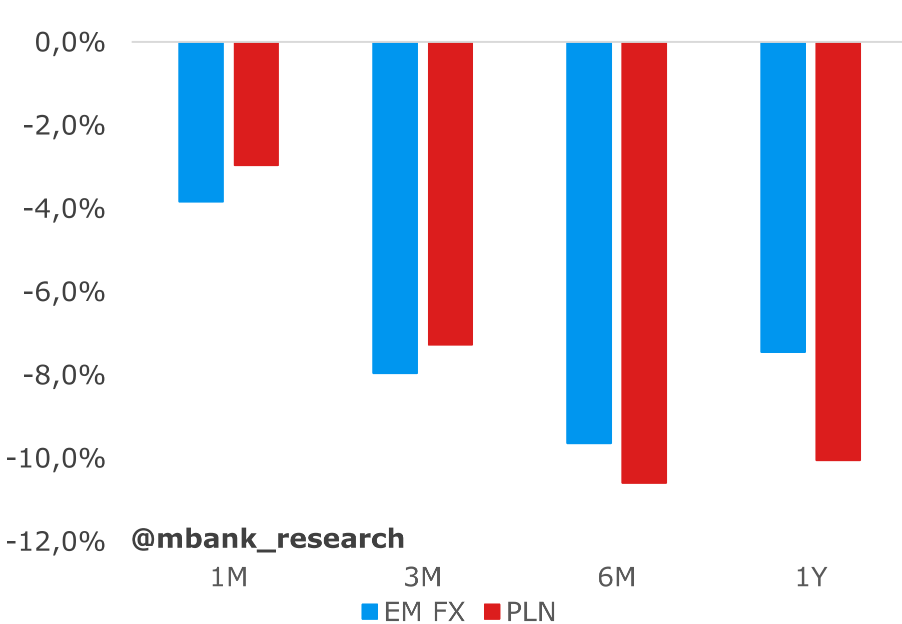
POLGB yield minus 3m WIBOR



Source: Bloomberg

EURPLN – tough times for zloty

Still weak zloty



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

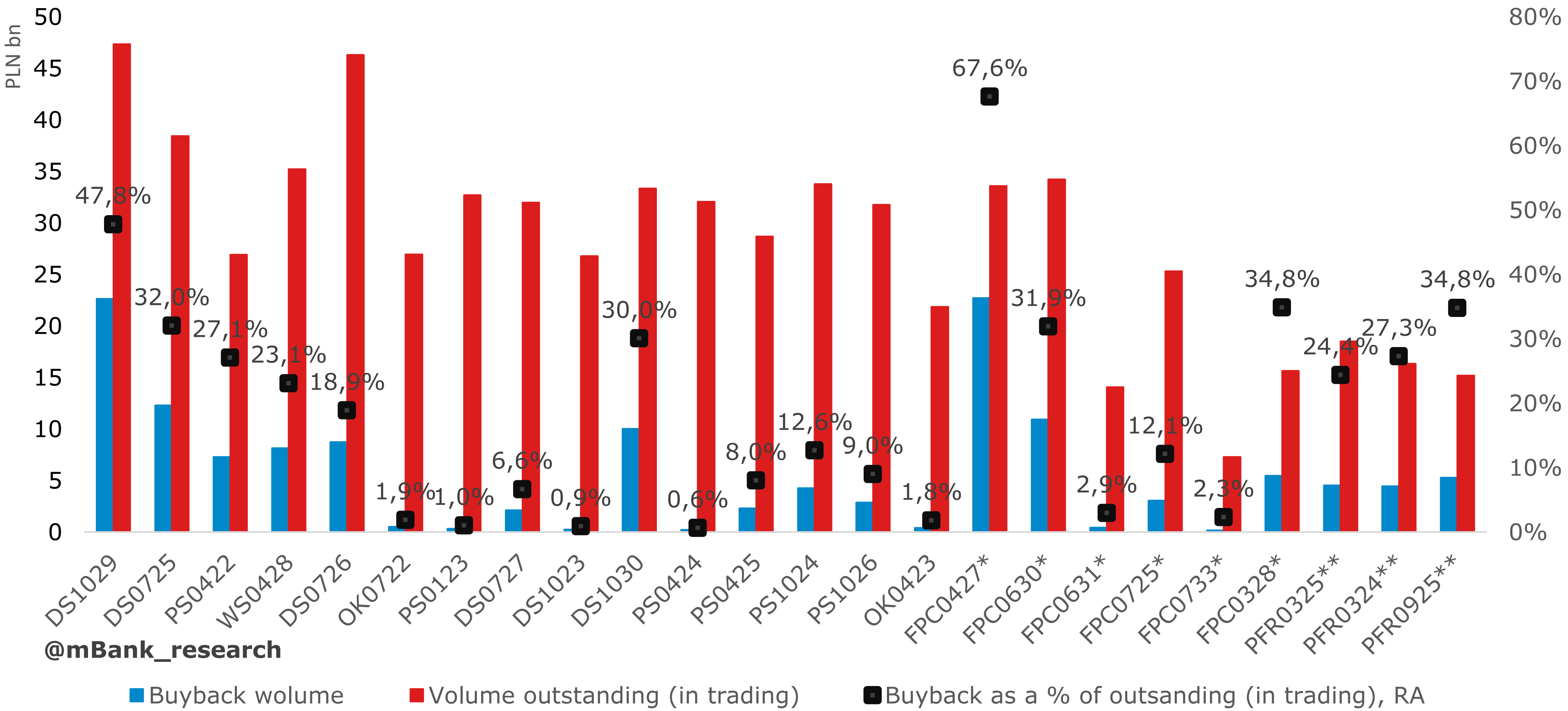
Source: Bloomberg

Real effective exchange rate

Source: BIS

- November was mostly a month of zloty's depreciation. For a while EURPLN was above 4.70. But in the end of the month it came back close to 4.60. We are not sure if this was the result of higher implied yields in PLN in the aftermath of slightly lower over-liquidity (reaction was abrupt and exactly the same happened with forint) or it was just a common factor for PLN and HUF stemming from some warmer touch of investors with regard to the EU Recovery Fund money (although here the most positive news is that things are not going worse).
- We expect the zloty to gradually strengthen, especially after the year's end passes. Interest differential is at above pre-pandemic level and should be supportive for the zloty. We expect zloty appreciation to kick in with the start of the year. We would not expect much, though.

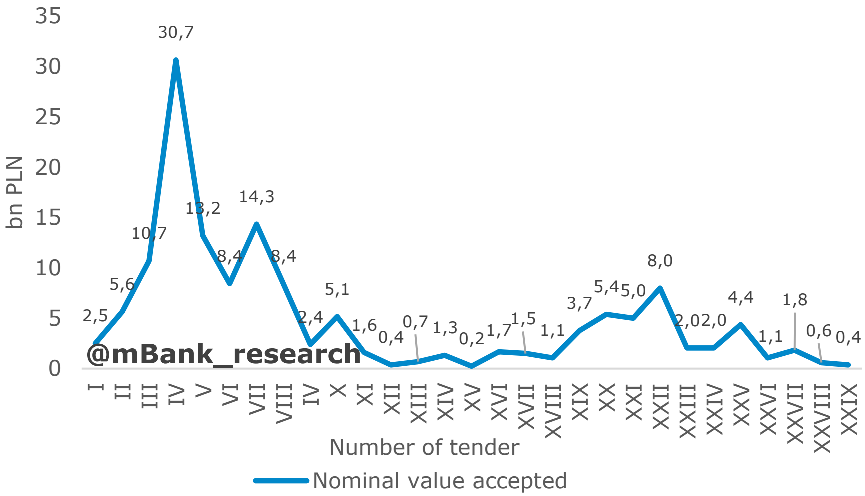
Appendix: NBP „structural" portfolio monitor

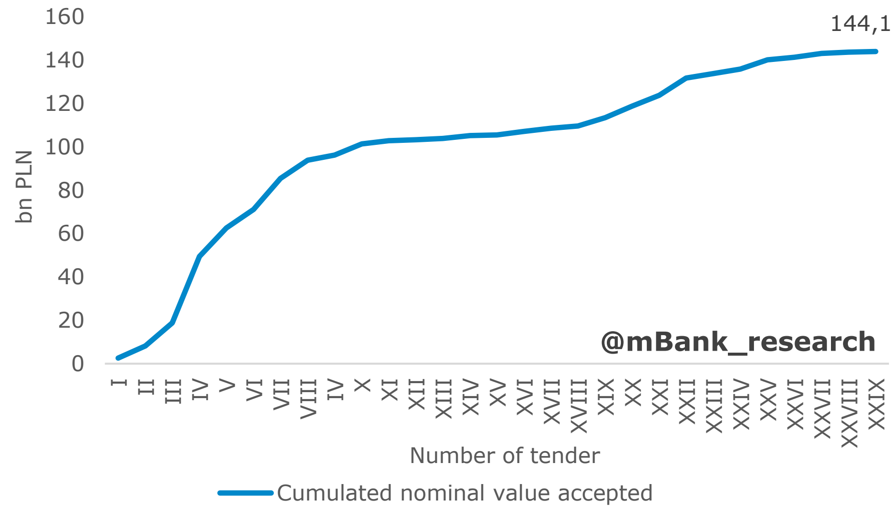


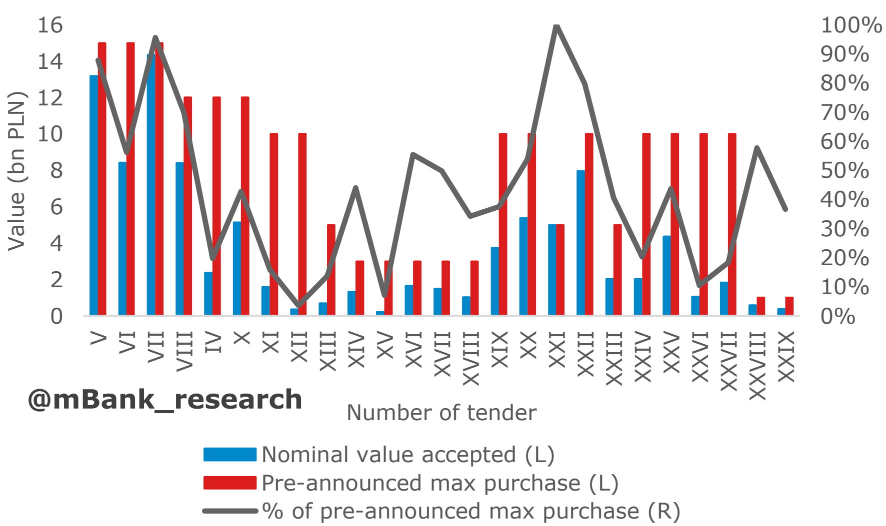
Source: Own elaboration on MF, NBP, NDS data.

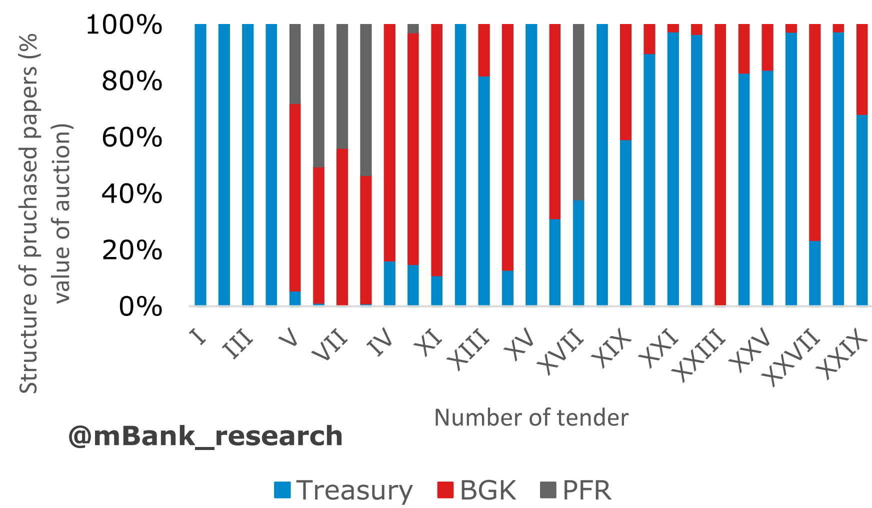
- The state for 10.12.2021. We present cumulative numbers.
- NBP launched structural open market operations in March 2020, and they constitute a purely new instrument introduced to fight the crisis.
- **Recent central bank's communication suggests that the regular program of purchases should be regarded as almost closed although NBP fails to admit that program actually ended. There is no scheduled operation for this month.**

Appendix: NBP purchases, the timeline









❖ The state for 10.12.2021.

Source: Own elaboration on NBP data.

Disclaimer and contact details

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