Monthly Pulse Check

Economy. FI. FX

April 19th 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 pace of vaccinations controls the third wave outcomes. Europe is lagging behind the U.S. and the UK. However, it is highly likely that we observe the last wave of economic restrictions and economic growth is set to restart in H2 2021 for good.
- Polish economy behaves better than expected. We expect 3.8% recovery in 2021. Current epidemic restrictions may linger also in Q2. However, once the 60+ population is inoculated, GDP growth is set to resume. 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 as a whole. It may also be more inflationary since labor market survived 2020 very well.

Monetary policy: Fed. ECB. NBP

- Fed: ZIRP + QE + direct loans to firms. Rather done with easing.
- ECB: NIRP (already there) + QE Expansion (maximum flexibility) + new LTRO. Using flexibility of the programs.
- NBP: Rates cuts (total 140bp). QE already in place (govvies + bonds with state guarantees). Over to fiscal policy now. Not out of ammo, though. FX channel (interventions), QE expansion (flexibility), forward guidance stay on the table if need be. Negative rates unlikely. On hold in either way in 2021.

FX Market

- Weak zloty in H1 2021 (negative real rates, strong dolar). The return to modest appreciation is likely in H2 2021 as euro zone recovers, the drive for stronger dolar wanes and (cyclical) recovery trades kick in, helped by current account surplus (flows).

		2020 Q1 F	2020 Q2 F	2020 Q3 F	2020 Q4 F	2021 Q1 F	2021 Q2 F	2021 Q3 F	2021 Q4 F	2020 Q1-Q4	2021 Q1-Q4	2022 Q1-Q4
GDP y/y	%	1,9	-8,4	-1,5	-2,8	-2,2	9,0	2,5	5,3	-2,8	3,8	5,1
Individual consumption y/y	%	1,2	-10,8	-0,4	-3,2	-1,2	11,5	0,5	5,4	-3,0	4,1	4,6
Investment y/y	%	0,9	-10,7	-9,0	-10,9	-8,0	3,1	1,8	7,7	-8,4	1,2	7,8
Inflation rate (eop)	%	4,6	3,3	3,2	2,4	3,2	3,9	4,1	4,4	2,4	4,4	4,0
Unemployment rate (eop)	%	5,3	6,1	6,1	6,2	6,5	6,0	5,9	5,9	6,2	5,9	5,1
NBP repo rate (eop)	%	1,00	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,25
EUR/PLN (eop)	%	4,56	4,45	4,53	4,56	4,60	4,60	4,55	4,55	4,56	4,55	4,30
USD/PLN (eop)	%	4,13	3,96	3,87	3,73	3,87	3,90	3,86	3,82	3,73	3,82	3,50

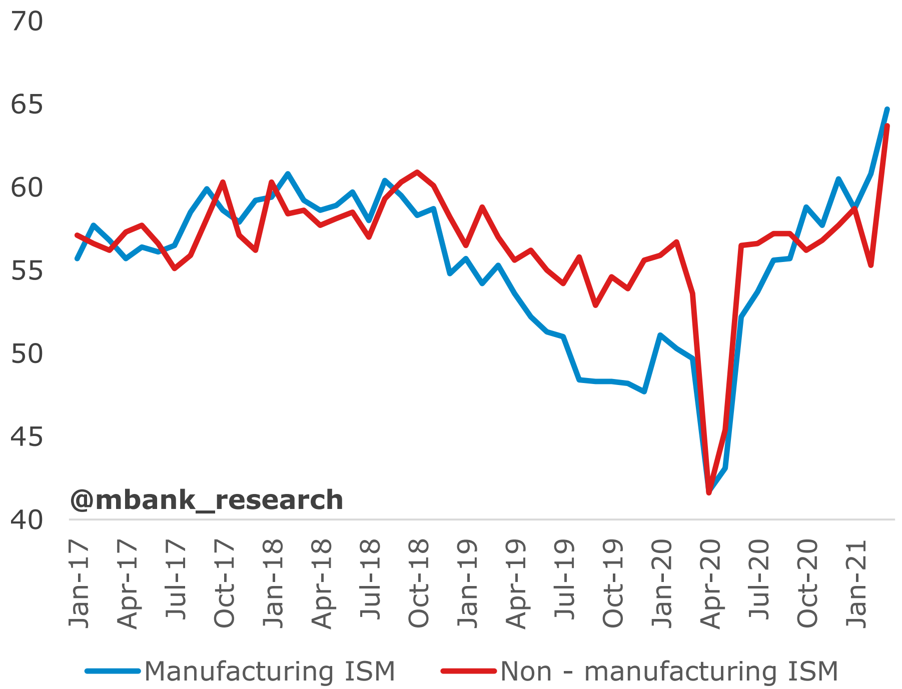
F - forecast

Highlights

- Third wave of COVID-19 infections is slowing. We are close to the top with respect to hospitalizations and deaths but health system will be under stress for weeks to come. The process of partial lifting of restrictions is beginning next week (kindergartens). Other types of activity to follow but full unfreeze is unlikely before late May or even June. See the monitor here.
- The U.S. is faring much better than the euro zone (see here and here). The U.S. was also the source of reflationary story that is roiling through the markets worldwide (see here). Surprisingly, the push for higher rates (including real rates) stopped after the recent bout of stellar data. A lot have been priced in. However, the global move in rates in unlikely to be reversed unless there is a major disappointment (not our baseline).
- The consensus for Poland is moving, especially with respect to inflation (see here). We may see more adjustment after the publication of the complete set of numbers for the first quarter, i.e. in April/May. Next week's upcoming releases (see here) are mostly for March data and will allow for more precise estimate of Q1 GDP.
- We still expect 3.8% GDP growth in 2021. Labor market survived 2020 in quite decent shape (see here) making a good foundation for further GDP acceleration (more than 5% in 2022). So far the economy is balancing between restrictions-driven consumption (see here for more detailed tracking) and mostly immune (and powering ahead) manufacturing (see here). Mobility indicators dived due to epidemic restrictions (see here) but appear to be less affected than in the previous waves of closures.
- Just to have a better understanding what we are about to see in consumption data (and deposits), we build a simple model just to track different possible consumption and deposit paths under different assumptions (see here). We confront the synthetic paths of consumption with the data from the U.S. and New Zealand (here) just to see that real-life experience may resemble the model one. In the absence of lofty fiscal package (as in the U.S.) and with possible scarring effects due to fairly long closures of the economy we sustain our view of moderate consumption growth in Poland (+4.1% in 2021).
- Inflation is back. We can abandon assumption that inflation in 2021 will be substantially lower than in 2020. Actually it will be higher (see here). We are also skeptical that inflation will substantially decelerate in 2022.
- Short end market rates are anchored by dovish MPC. Longer rates follow global developments. Reflation story increased longer-term-rates. It is unlikely to be reversed soon and the most likely outcome (mid-term) is still up, albeit in a more orderly manner (see here for recent developments).
- NBP purchases accelerate (see here and here). Precisely at time when NBP announced it is going to be more flexible in purchases (March 11), the spread between Polish and US 10y bonds turned negative and still stays negative. On average the spread turned 20pb lower after March 11 (compared to the period February 1 – March 10). We estimate that ~12bp reflect bond factors (including NBP purchases) and ~8bp can be attributed to changes in expectations with regard to monetary policy.
- We expect weak PLN in H1. Some appreciation may happen in H2. See here.

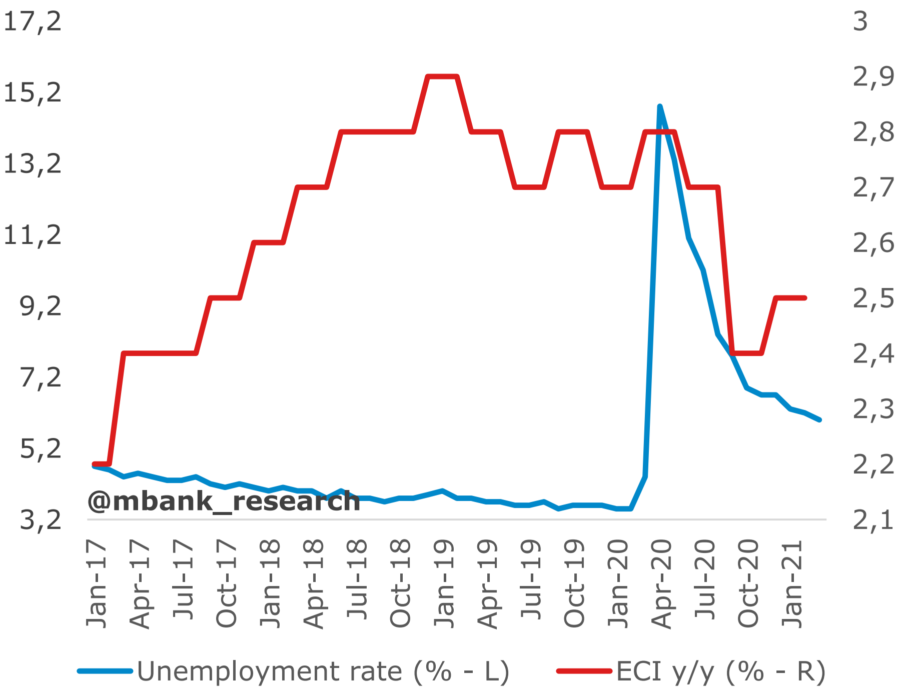
U.S. economy health check

ISM PMI: manufacturing & non-manufacturing



Source: ISM

Labor market: wages & unemployment rate

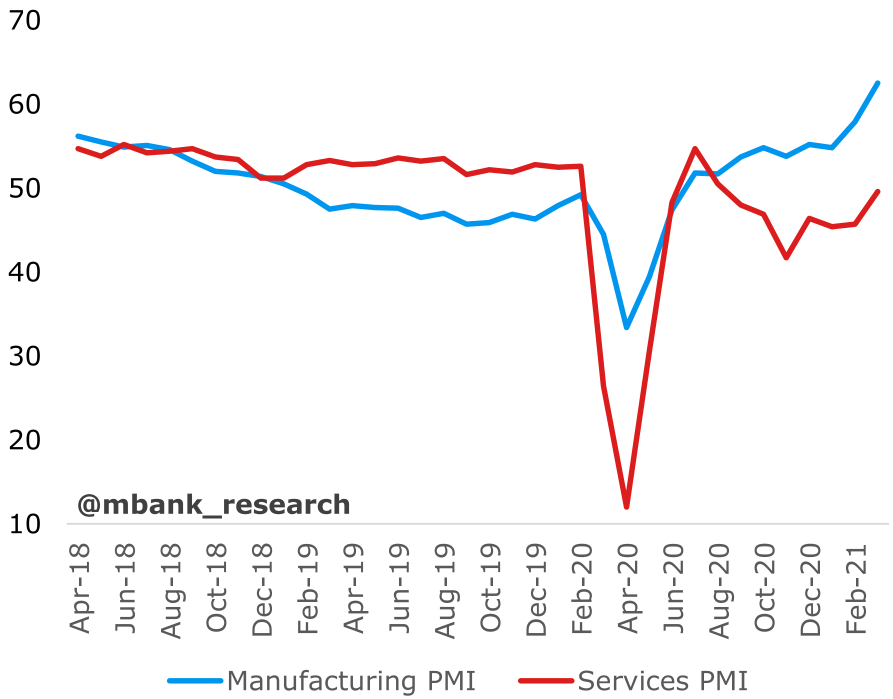


Source: FRED

- Almost full range of US data surprised to the upside. Both hard data (industrial production, retail sales) and sentiment indicators (ISMs climbed to record highs) suggest optimistic view on the economy is unfolding. The main driving forces of are stimulus package and reopening the economy (with decreasing COVID-19 cases and improving number of people vaccinated).
- Labor market accelerates but is still far from the pre-pandemic levels. Next months will bring further improvement (driven mostly by services – recreation, restaurants, hotels) but the gap in employment statistics will still be one of the Fed arguments against any sudden moves. As economy reopened, inflation accelerated (seen especially in prices in transportation and hotels).
- The Fed is expected to stick to its communication story that inflation and GDP increase is going to be temporary. Fed attitude is going to be outcome based (not forecast based) focusing on the labor market and inflation data. No change in rates until 2023.

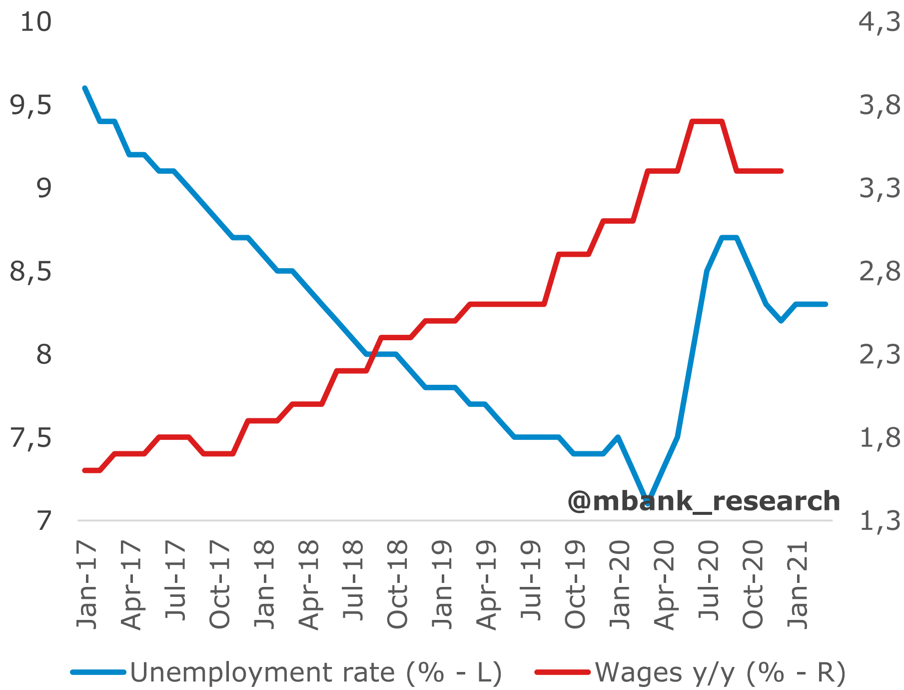
Euro area economy health check

Markit PMI: manufacturing & services



Source: Markit

Labor market: wages & unemployment rate

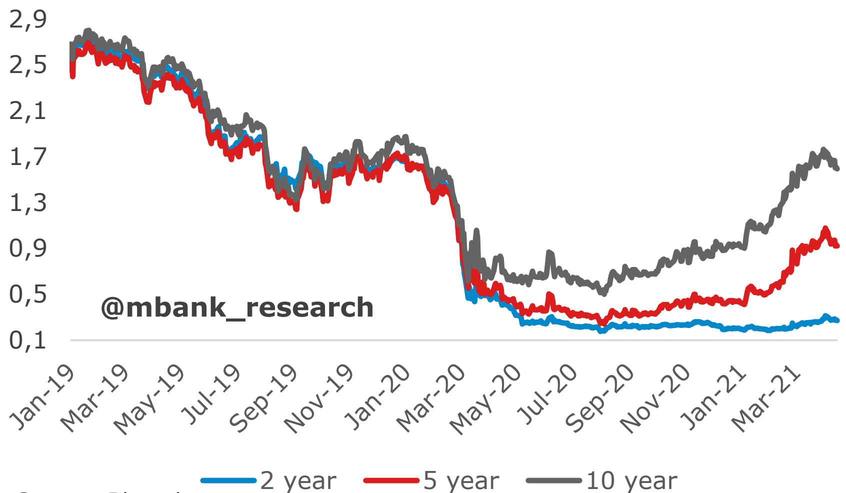


Source: Eurostat

- Positive picture arises also from eurozone data (high PMIs, positive surprise in the retail sales) but the overall view is less optimistic than in the U.S. mostly because of the epidemic progres (or lack thereof). The share of people who received at least one dose of the vaccine is still much lower than in the US, new cases are higher. Therefore restrictions are more severe. However, economy is weathering them better than before.
- In terms of fiscal package eurozone is also lagging behind (compared to the U.S.). There were signals of possible problems with the EC approval of submitted projects, but we do not think that the package itself is in danger. Any significant impact from the package will be seen rather since the 2022.
- EBC attitude will still be very dovish. We do not expect any interest rate hikes for many, many years. As C. Lagarde said: *You don't want to remove either crutch, the fiscal or the monetary, until the patient can actually walk fine and to do that means support well into the recovery.* We agree. Low rates almost forever are baseline scenario.

Global rates: move higher unlikely to be reversed in longer tenors; short end much better anchored by easy central bank's policy.

US swap rates (%)

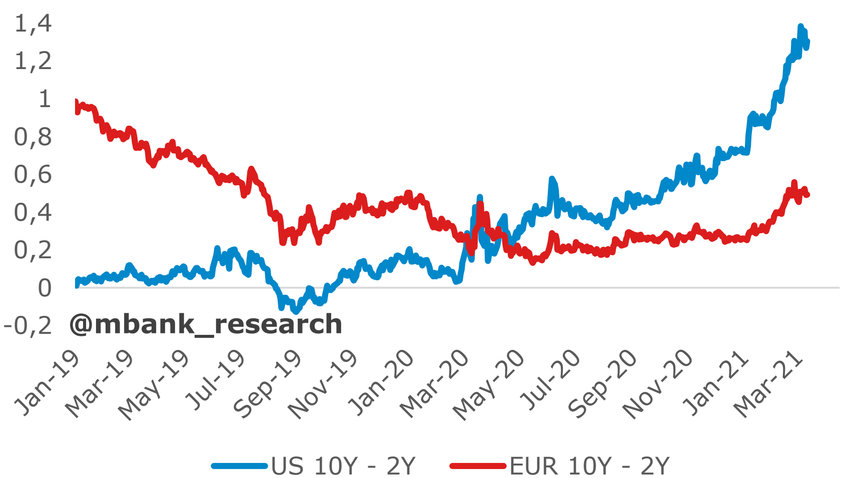


Source: Bloomberg

EU swap rates (%)

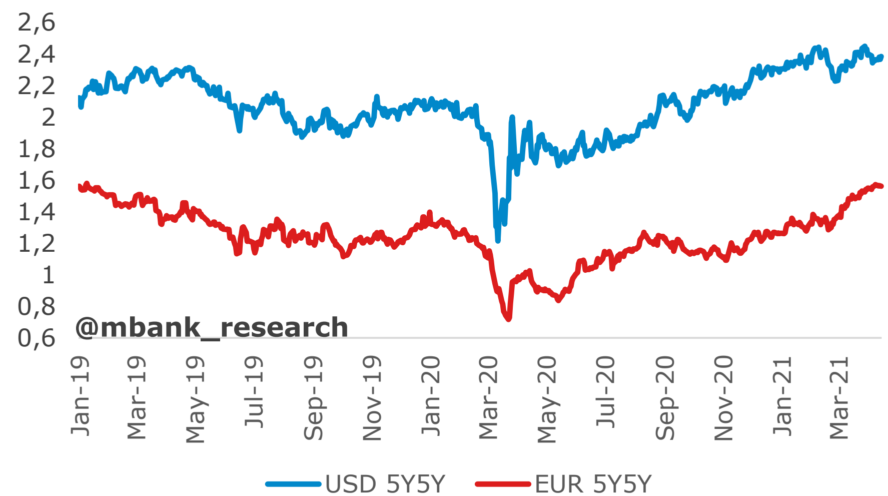
Source: Bloomberg

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



Source: Bloomberg

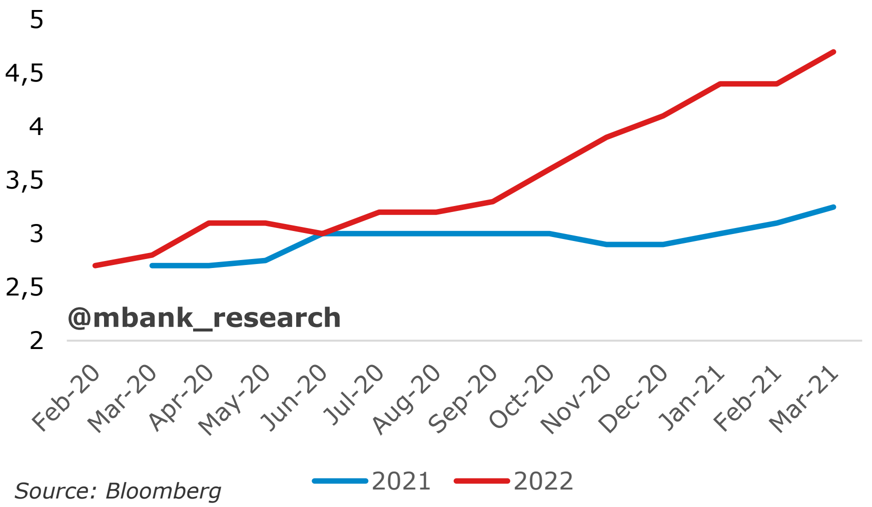
US and EZ inflation expectations (%)



Source: Bloomberg

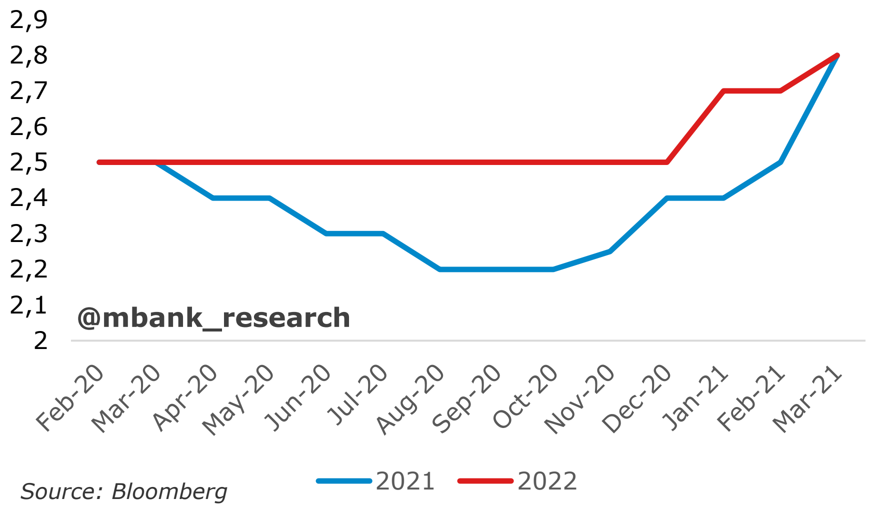
Consensus: what is expected in Poland?

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



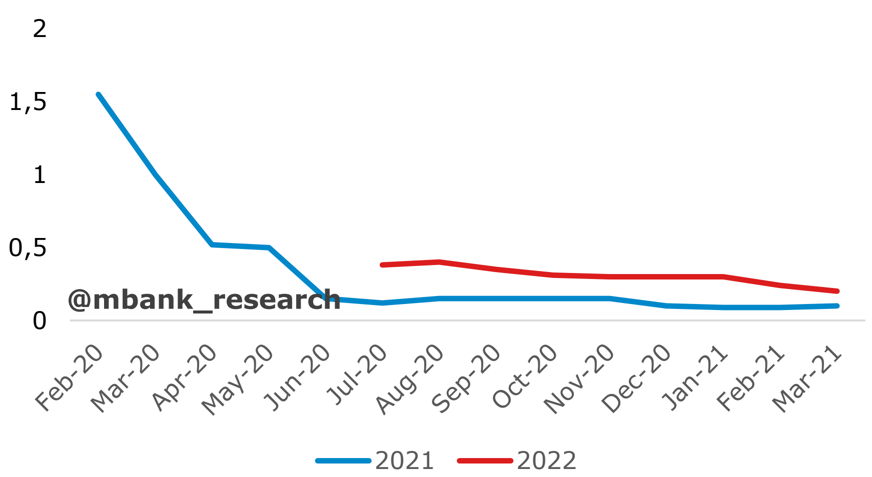
Source: Bloomberg

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



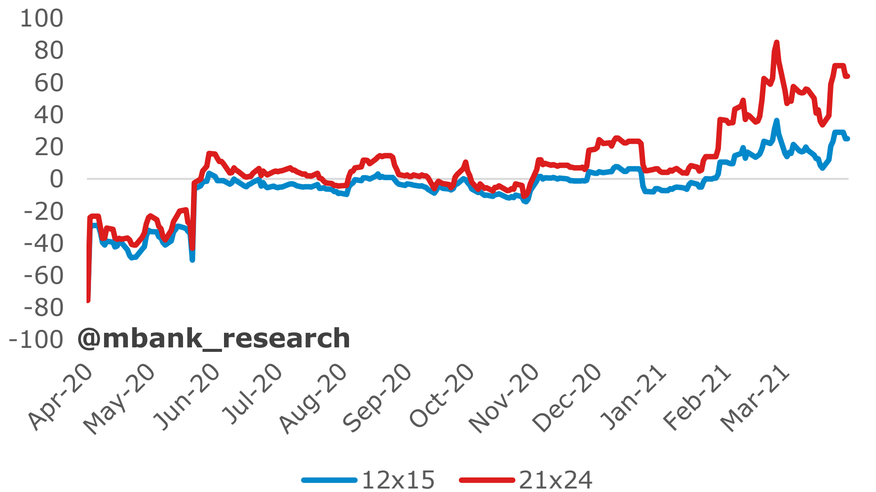
Source: Bloomberg

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



Source: Bloomberg

Rate changes priced in by FRA (bps)



Source: Bloomberg

Upcoming Polish macro releases: April 2020

Publication	Date	Period	mBank	Consensus	Actual	Prior
PMI (pts.)	01.04	Mar	55,8	55,4	54,3	53,4
CPI y/y (%)	31.03[1] 15.04[2]	Mar	3,1%	2,8%	3,2% 3,2%	2,4%
Unemployment rate (%)	07.04[3] 26.04[4]	Mar	6,3%	6,4%	6,4%	6,5%
Current account (m EUR)	13.04	Feb	2179	1429	1619	3341
Employment y/y (%)	21.04	Mar	-1,2%	-1,2%		-1,7%
Wages y/y (%)	21.04	Mar	5,8%	5,3%		4,5%
Industrial output y/y (%)	21.04	Mar	12,5%	11,6%		2,7%
PPI y/y (%)	21.04	Mar	4,0%	3,4%		2,0%
Retail sales y/y (%)	22.04	Mar	6,1%	8,6%		-3,1%
Construction output y/y (%)	22.04	Mar	-7,5%	-9,4%		-16,9%
M3 y/y (%)	23.04	Mar	13,8%	14,1%		16,3%

[1] Flash estimate

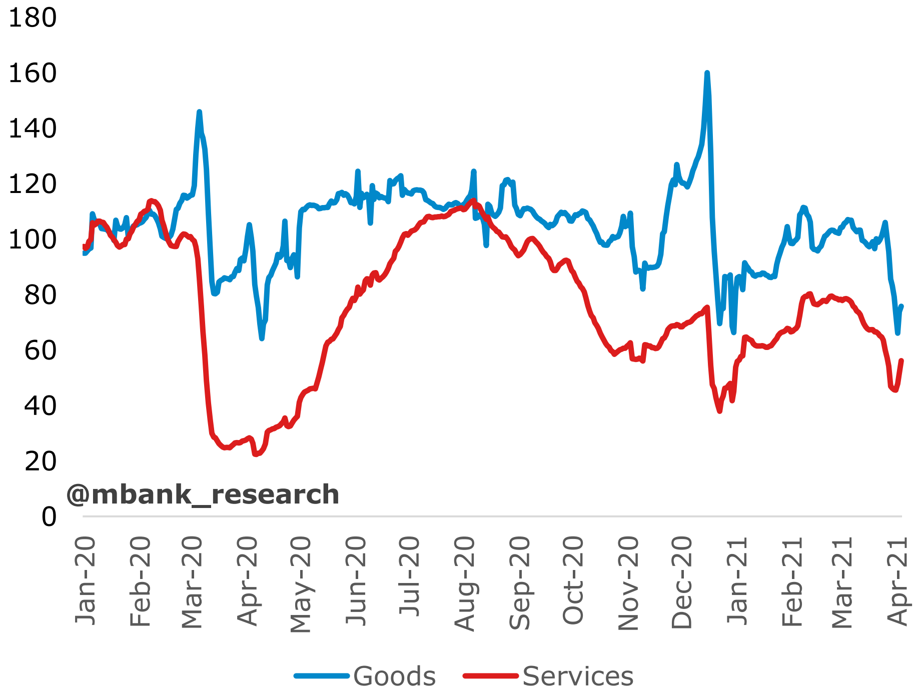
[2] Final reading

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

[4] Statistics Poland final reading

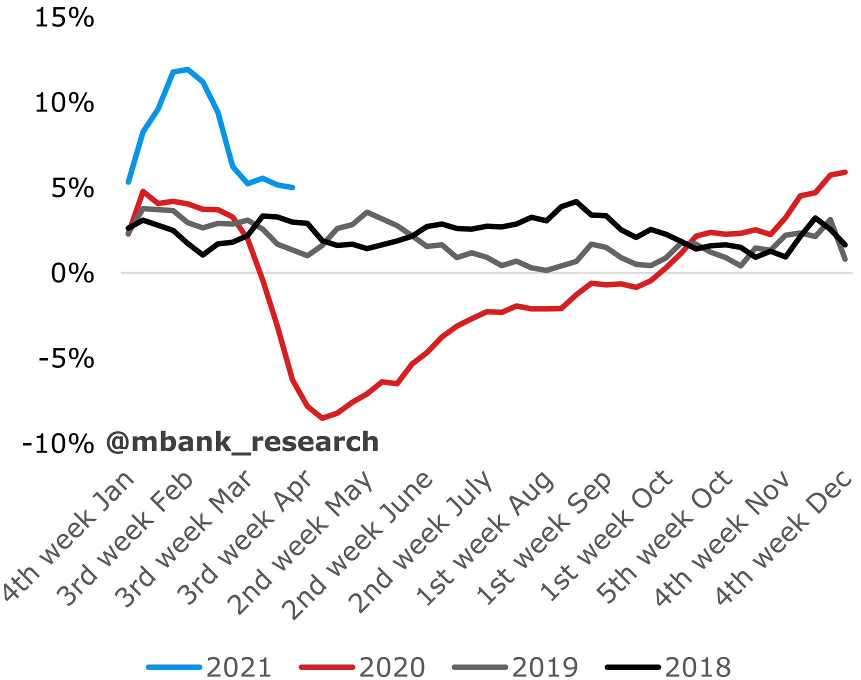
Consumption following restrictions, industrial output proceeding forward

Card expenditures weekly, Jan20 = 100



Source: mBank transaction data. Own elaboration.

Energy consumption. Deviation from „normal", 4-week mean

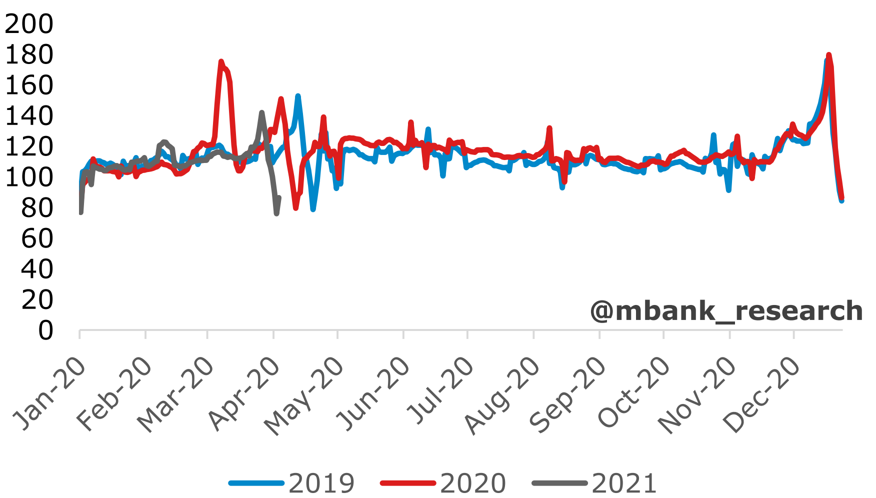


Source: electricity grid data & own elaboration

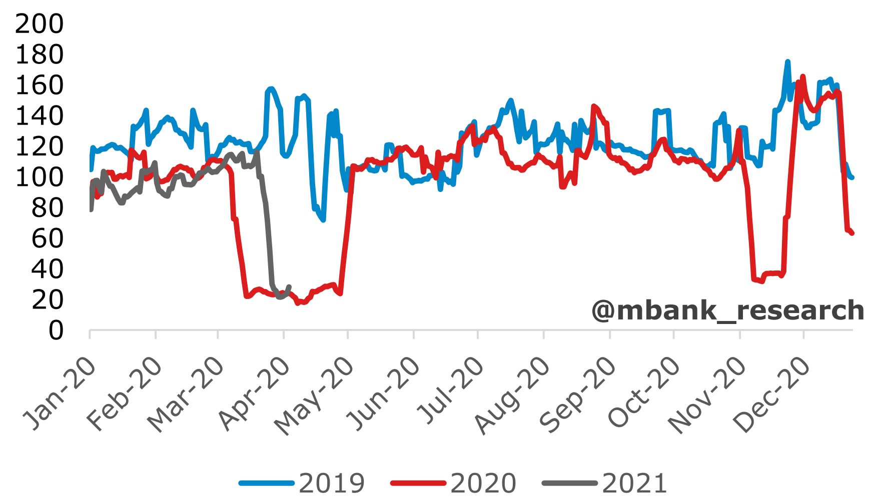
- Consumption still follows the restrictions. As they were tightened for the last few weeks (shopping centres are closed since March, but some services, e.g. hairdressers were included) drop in expenditures is visible. But the scale is lower than in the proceeding periods. Upcoming releases for March and April (which will show how consumers reacted) will be a test for our consumption forecast for the beginning of this year. Perspectives for the second half of the year (or how to look at pent-up demand) are described in the research note (see here). In the absence of fiscal stimulation, with quite longe period of closures (some scarring included) we do not bet on spectacular rebound but pre-pandemic levels are within reach yet in Q3.
- Recent industrial production data disappointed a bit, but they are still „on" the pre-pandemic trend. Sentiment indicators suggests global problems with the deliveries and high material costs. In the short-run lockdowns in Europe will have the negative impact. But in the longer term in our view there are still no major threats for industrial production.

Card expenditures, 7-day average

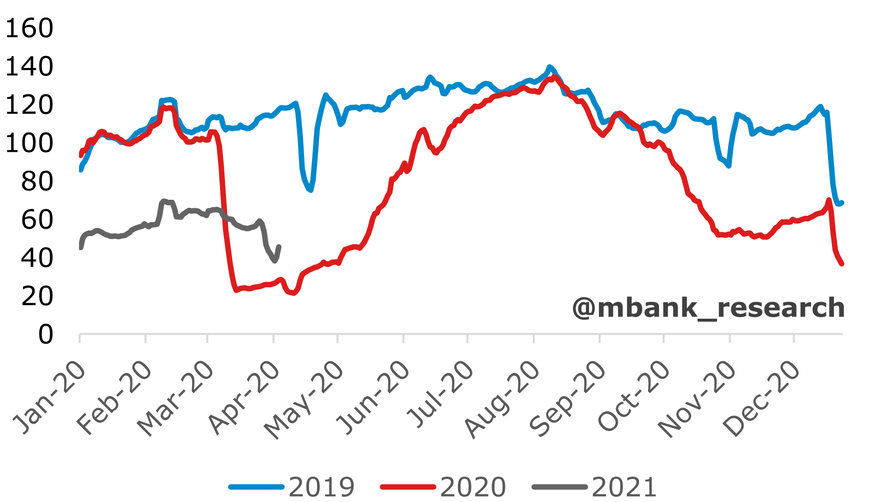
Food, beverages and non-specialized stores, Jan20 = 100



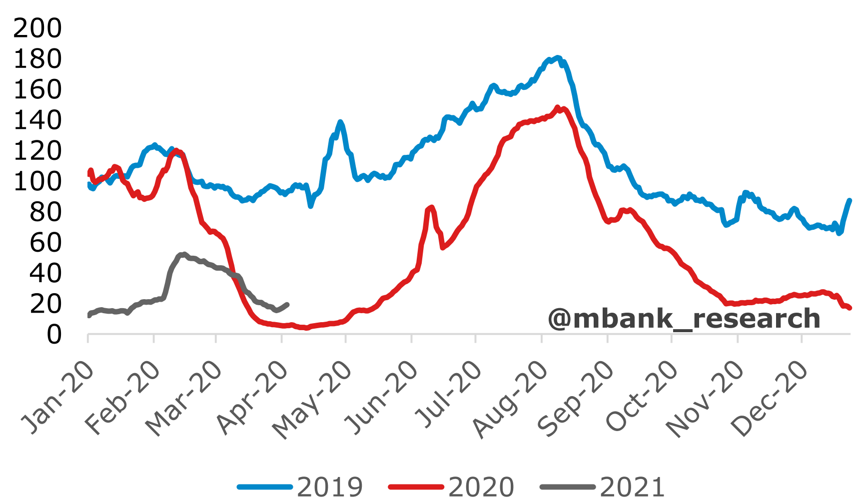
Clothing, footwear, Jan20 = 100



Restaurants etc., Jan20 = 100



Tourism, Jan20 = 100

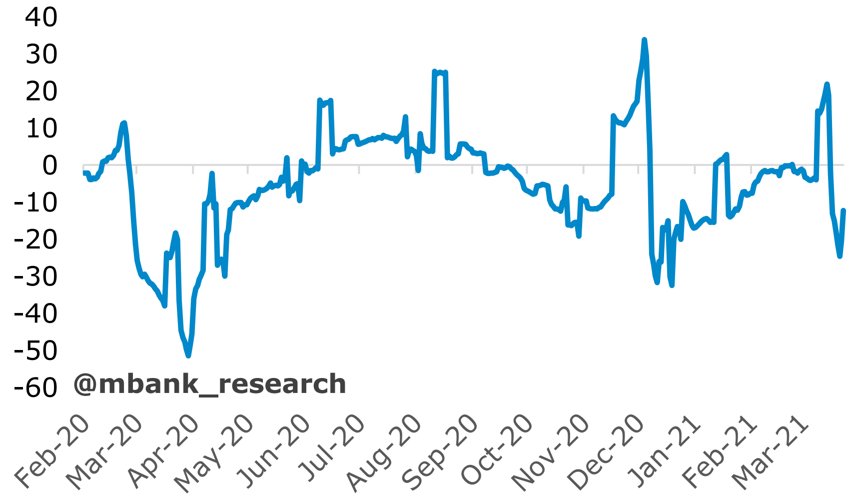


Source: mBank transaction data. Own elaboration.

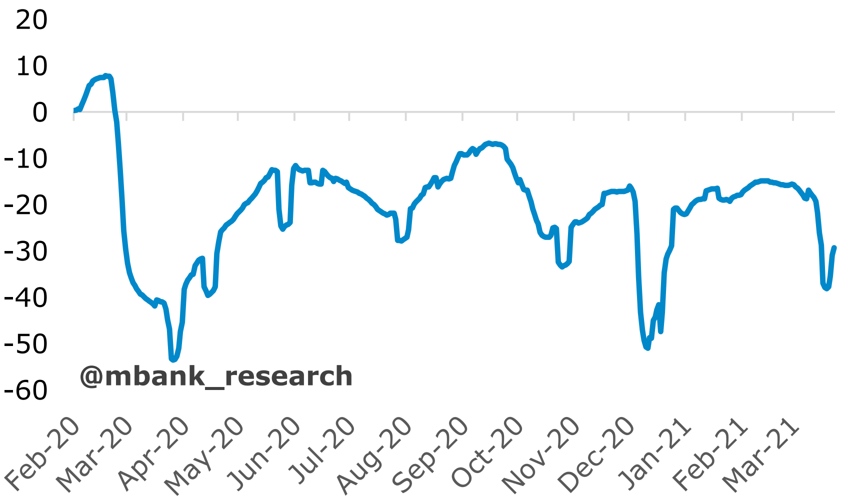
Google mobility, 7-day average

Retail & recreation (% change from Jan20)

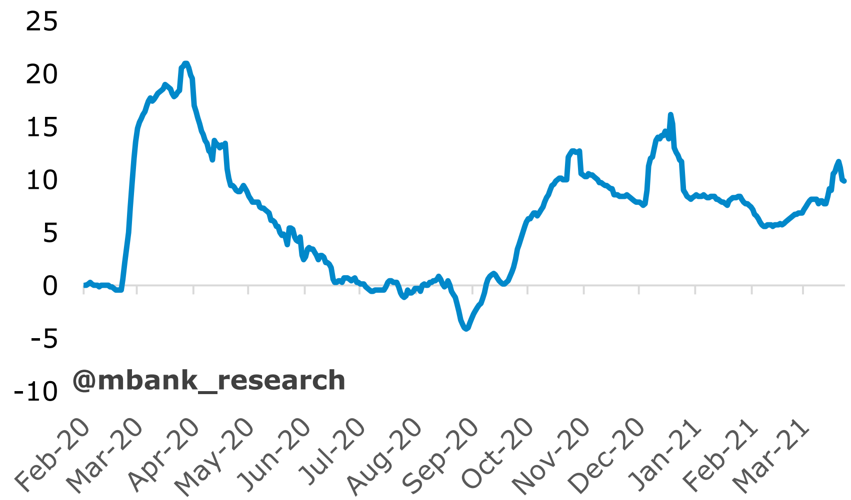
Grocery & pharmacy (% change from Jan20)



Workplaces (% change from Jan20)



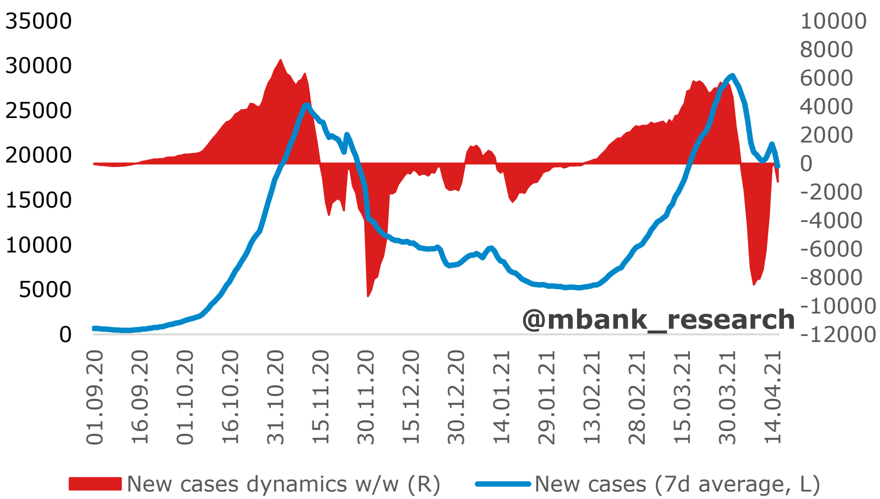
Residential (% change from Jan20)



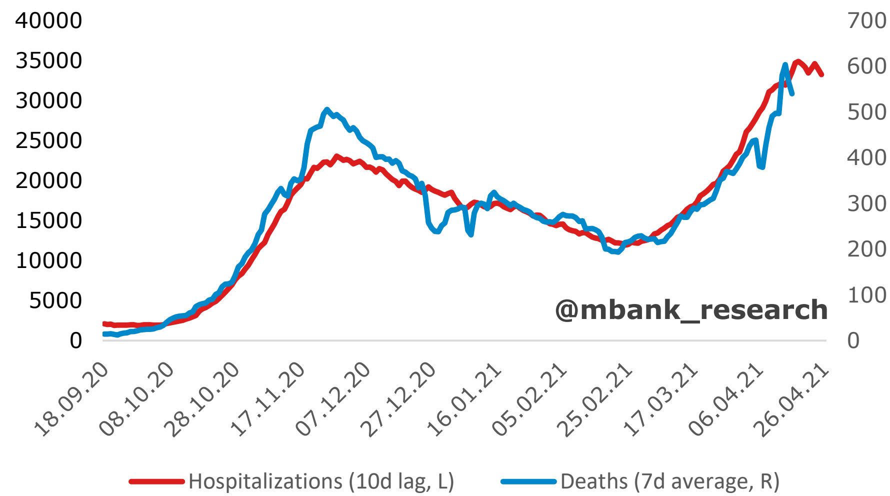
Source: Google mobility data. Insights in these reports are created with aggregated, anonymized sets of data from users who have turned on the Location History The baseline is the median value, for the corresponding day of the week, during the 5-week period Jan 3–Feb 6, 2020

COVID-19 situation in Poland

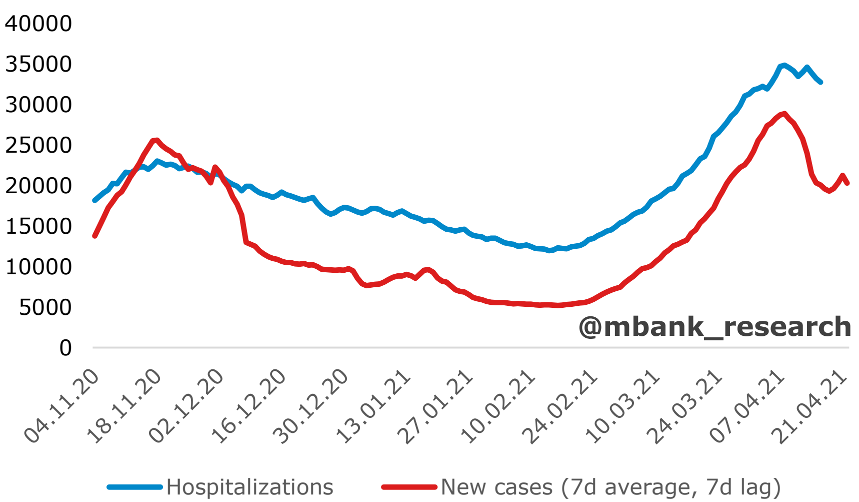
Daily new cases (7day average)



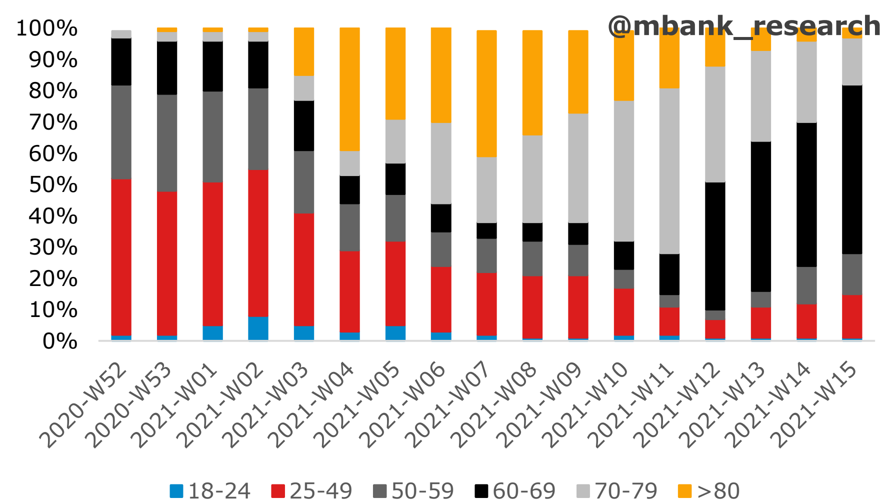
Hospitalizations vs deaths



New cases vs hospitalizations



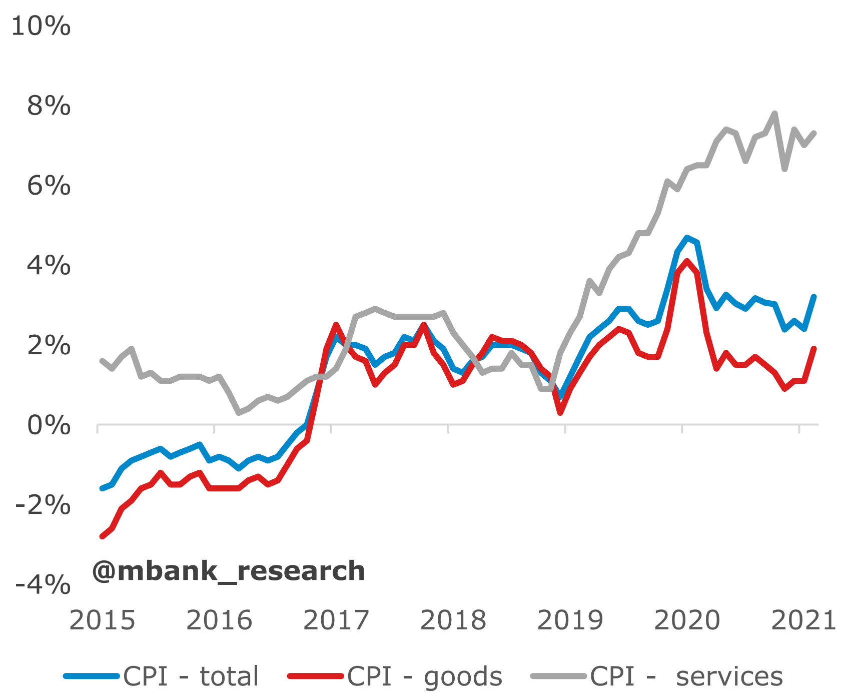
Age structure of the vaccinated



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

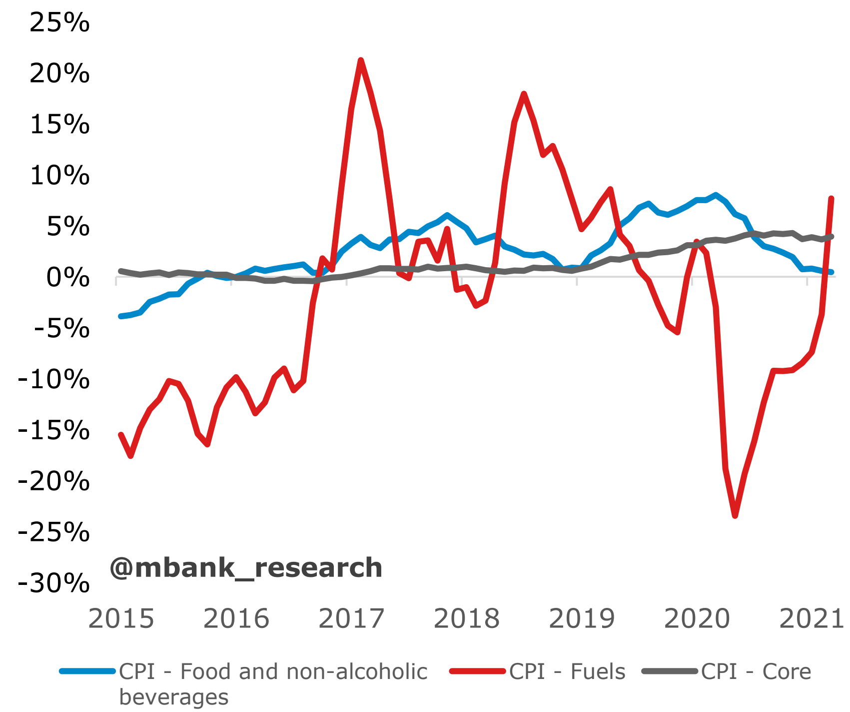
Short-term inflation tracker

Still little respite in services



Source: Statistics Poland. own elaboration

Food, fuel and core prices – all of them contribute to the inflation growth

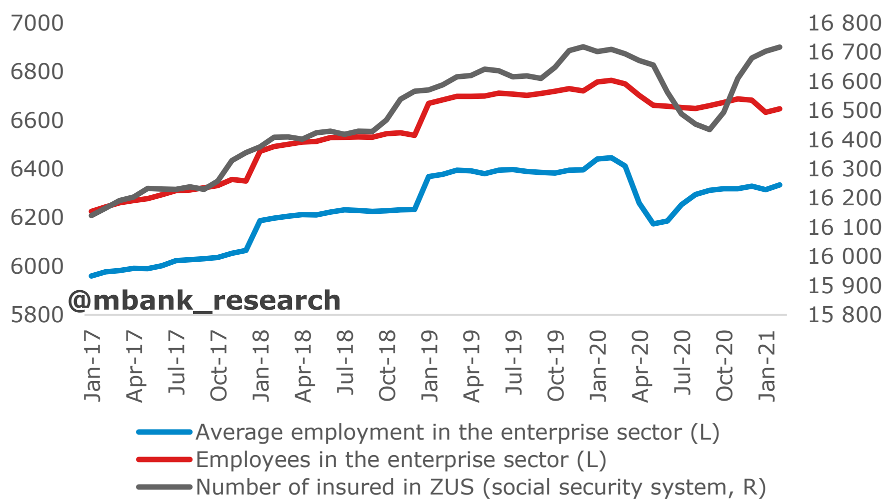


Source: Statistics Poland. own elaboration

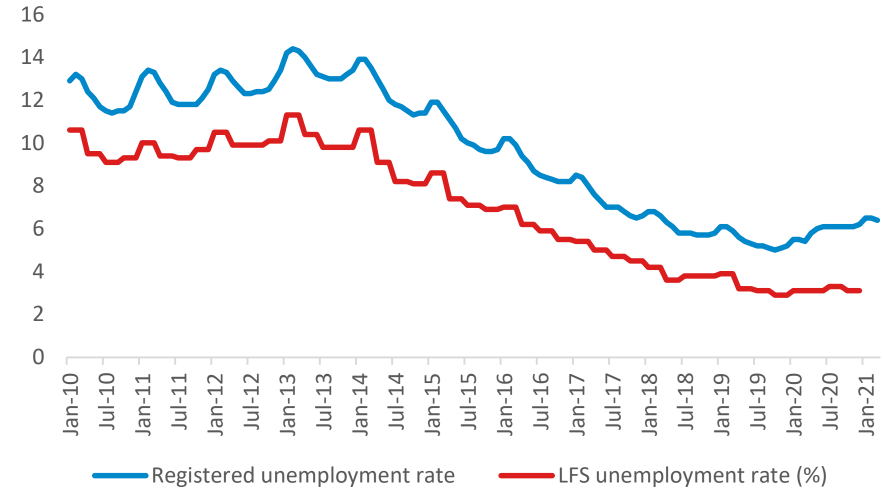
- Last inflation reading surprised (3.2% y/y) due to the core inflation. Food and fuel prices pushed the inflation rate to around 3% y/y. Core inflation gave the final touch (mostly communication, but also transport without fuel prices, clothing and footwear and recreation).
- There are no reasons to think that the inflationary pressure will decline or reverse in the coming months. In April we will probably see the numbers above the NBP target (3.5% y/y). In May we expect inflation to attack 4% y/y. Beginning of the summer may bring some respite but since August till the end of the year we forecast inflation to stay above 4% y/y. Most importantly: it is not straihgtforward that statistical base will bring inflation down in 2022, starting from energy price increases (gas and electricity) that will be close in magnitude (or even higher) than in 2021.
- Will it have implications for monetary policy? In our opinion, yes, but not in the short term. For now MPC will treat higher inflation as temporary. In 2022 (or maybe a bit earlier, if the trajectory of core inflation is sustained, which is inconsistent with the projection), a discussion on rate hikes will begin and in 2022 they will be delivered (but in the second half of the year).

Labor market trackers

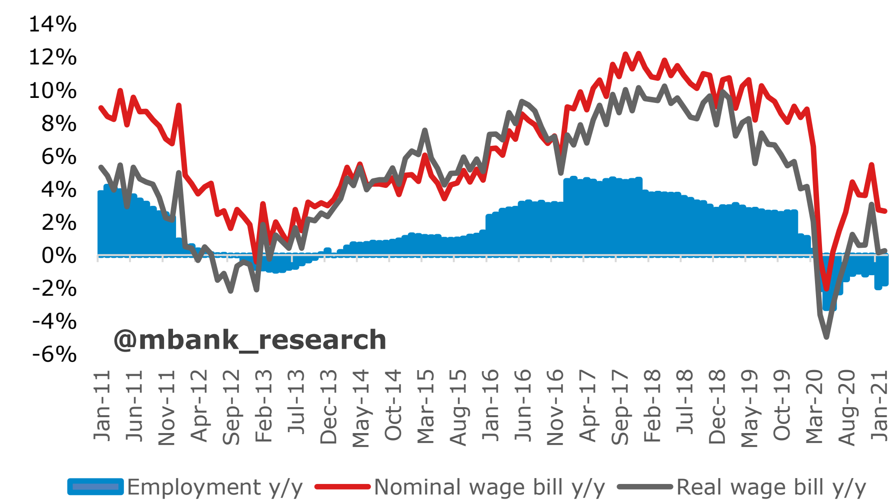
Employment



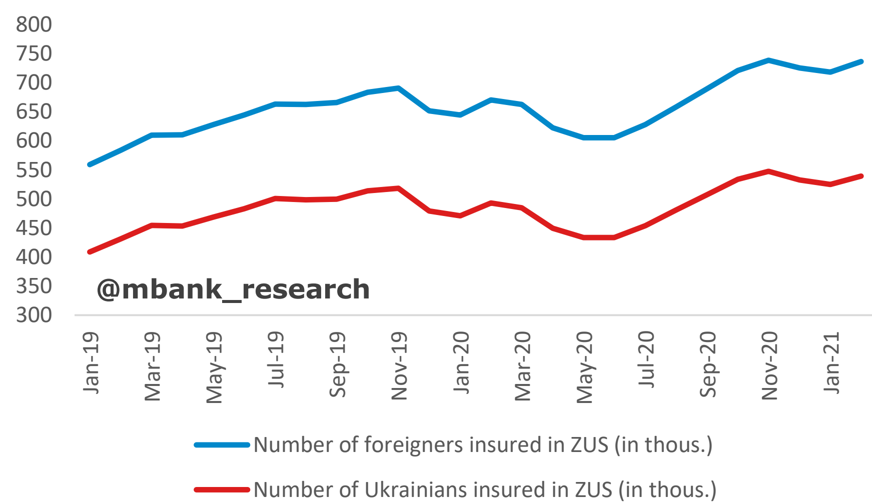
Unemployment rate



Wage bill



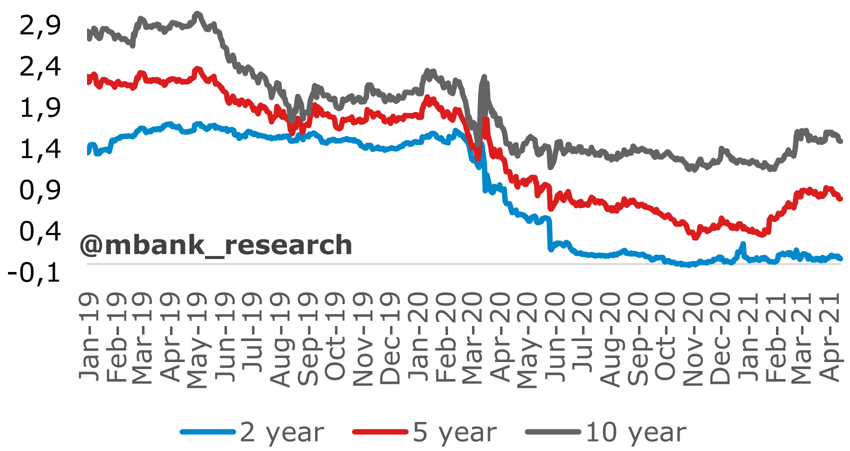
Immigration in the labor force



Source: Statistics Poland, ZUS Statistical Portal, own elaboration

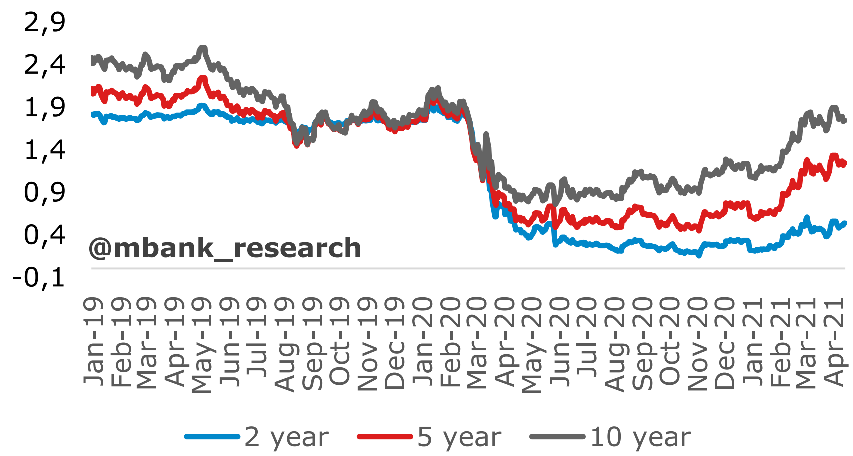
Polish rates, yields and spreads: decent monetary policy normalization already priced in

POLGBs



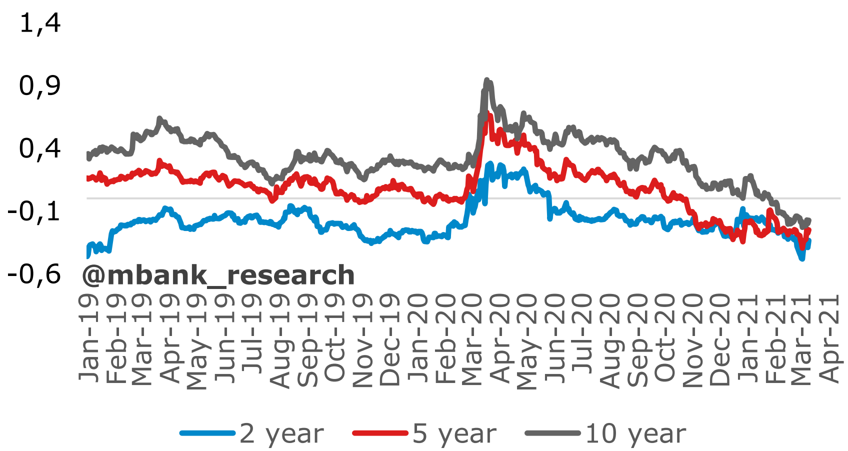
Source: Bloomberg

PL IRS



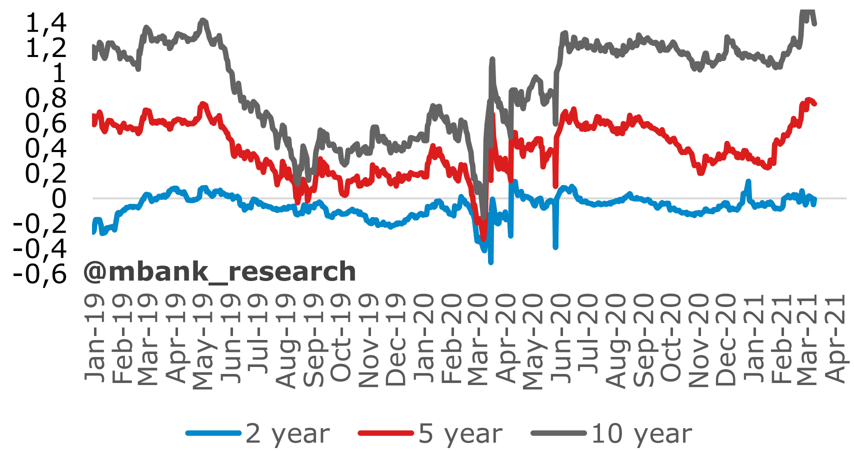
Source: Bloomberg

ASW spread



Source: Bloomberg

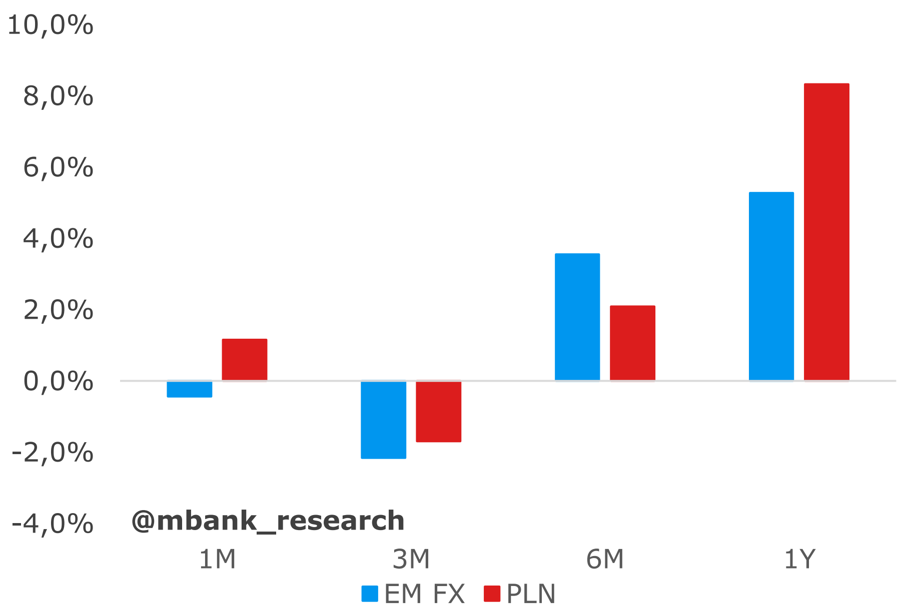
POLGB yield minus 3m WIBOR



Source: Bloomberg

PLN: zloty on (a bit) stronger footing

Recently moving in the same direction as region



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

Source: Bloomberg

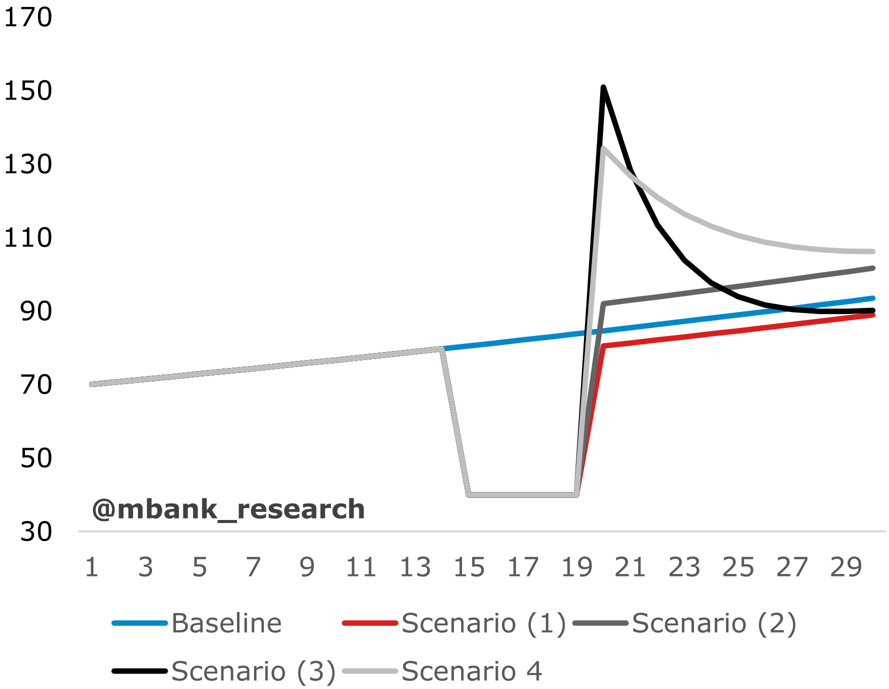
Real effective exchange rate

Source: BIS

- Zloty started to appreciate with the beginning of April (after quite weak March). The legal risk (concerning Supreme Court's meeting on CHF credits, there is also the CJEU judgement scheduled on the end of April) receded (for some time). MPC also helped softening it interest in the exchange rate (the sentence on the exchange rate in the MPC press release changed).
- But we would not say that it is definitely the end of depreciation. Legal risk has receded but not gone. The problem of low, real interest rates will not be solved by itself (and MPC is not interested now in solving it) and higher inflation readings are still ahead of us. March moves in EURPLN showed that the potential fluctuation range has been extended to 4.50 – 4.68.
- We keep forecasts for mild appreciation over the year but the abovementioned range is binding in the short-term.

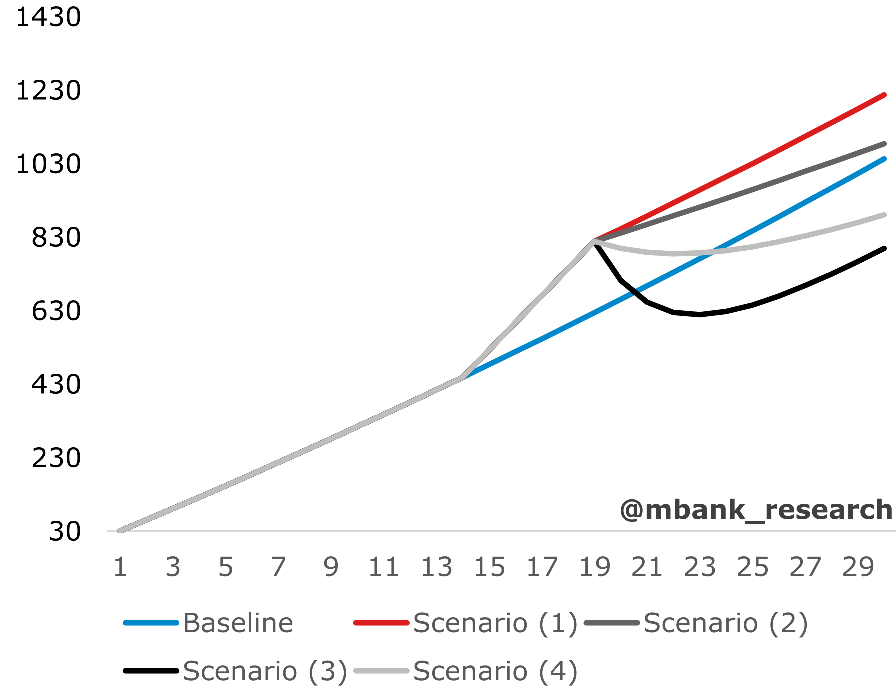
Small research note. Pent-up demand: what to look for? Some results from very simple modelling. #1

Consumption schedules in different scenarios



Source: own elaboration

Deposit schedules in different scenarios

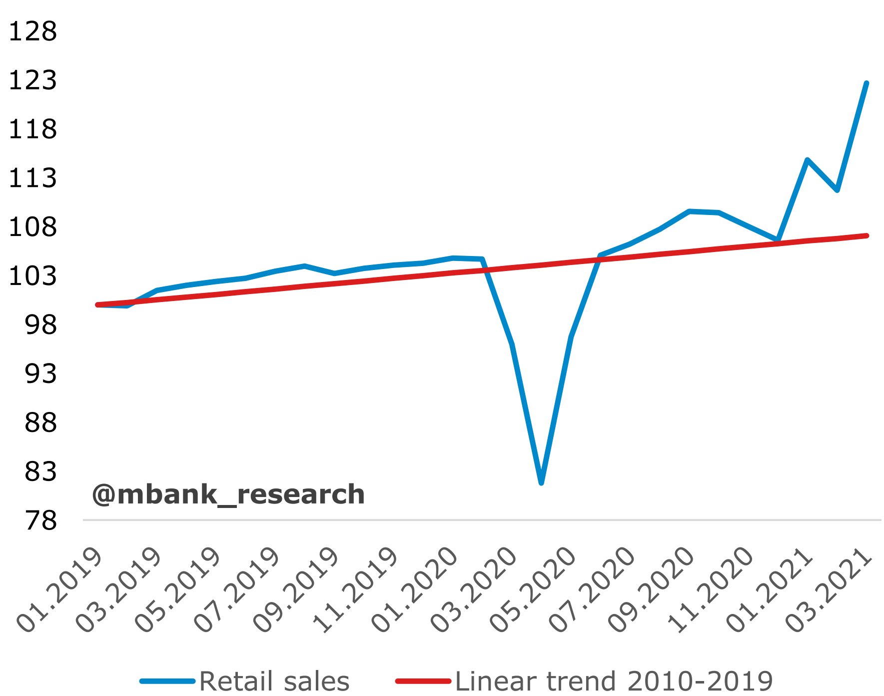


Source: own elaboration

- Modelling is very simple and was conceived just to build intuition for looking into the real data. Assumptions: income rises 1% per period, households have 0.7 MPC (70 cents out of every dollar of income is consumed). Deposit (out of savings) are built accordingly. This is baseline scenario. Alternative scenario imposes shock that lasts 5 periods (period of epidemic restrictions). The growth of income stops, consumption halves. After the shock is over, the growth of income resumes at 1% (it does not really matter here, we may put anything).
- The most important part of modeling are consumption schedules AFTER the shock. We assume three different scenarios (1) consumption resumes as before the shock (0.7 MPC), (2) consumption makes up for lost time with higher MPC (0.8), (3) consumption makes up for all the loss between the baseline and negative scenario via usage of savings (each period 1/2 of lost consumption is released what implies slowly fading boost to consumption) while keeping MPC intact, (4) merges (2) and (3) with a difference that 1/3 of lost consumption is used each period.

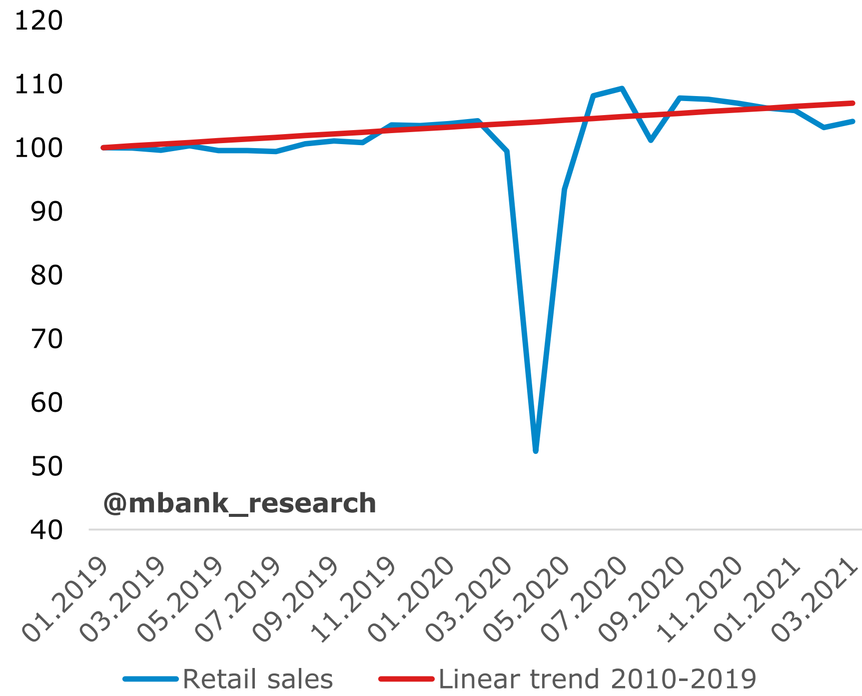
Small research note. Pent-up demand: what to look for? Some results from very simple modelling. #2 Two, different tales.

Grand re-opening in the U.S. retail sales



Source: own elaboration

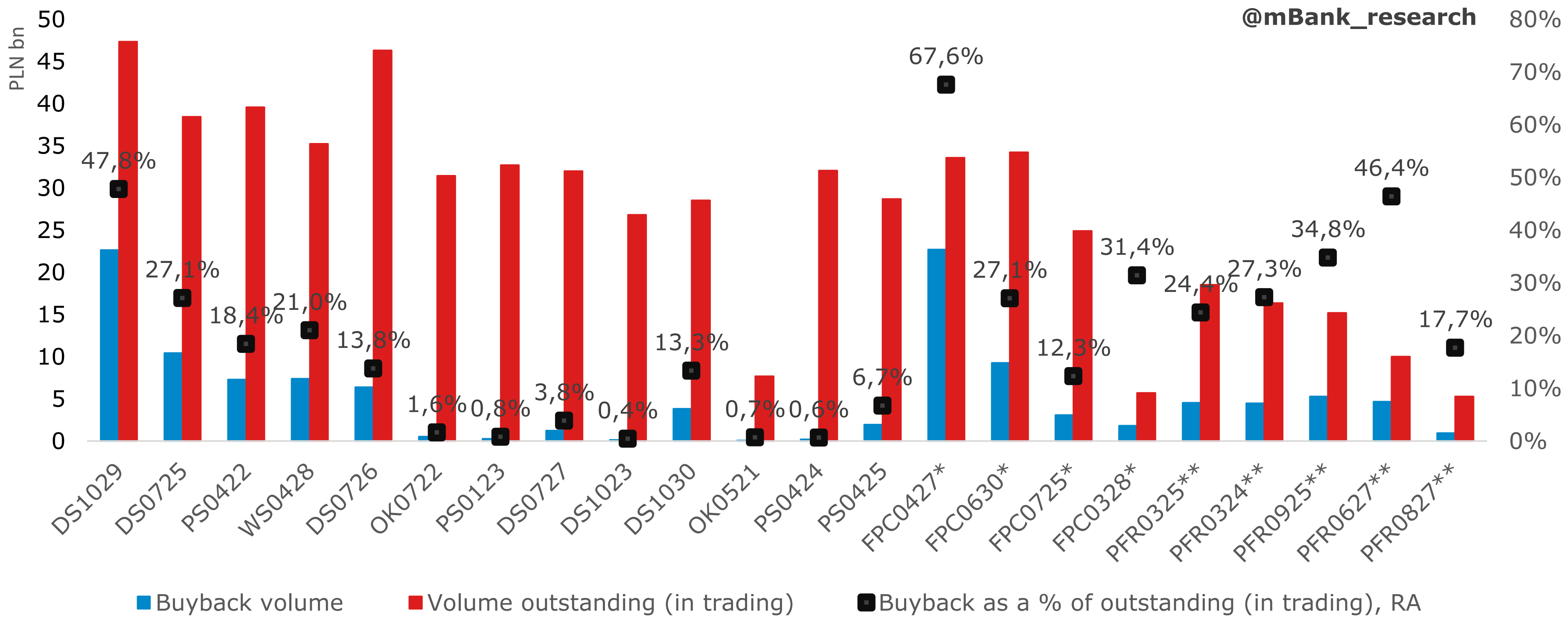
Grand re-opening in New Zealand retail sales



Source: own elaboration

- From the graphs on the previous slide you can see that scenarios implying large degree of pent-up demand require significant burst of consumption above trend (3) and (4). Everything closer to a sheer return to previous trend can be called a scenarios with low degree of pent-up demand (1) and (2). It should be clearly visible in the data, and it seems we have perfect two examples boiling on at the moment: New Zealand and the U.S.
- On the left side we see how fiscally-stimulated upswing in the U.S. progresses. It looks like the model example (3) and (4) but in fact it is rather closer to (2) due to fiscal stimulation (additional fiscal checks, additional income). We will see only in the next months if consumer are willing to draw down savings and boost consumption even more and realize (4) scenario.
- On the right side we see how grand-reopening looked in New Zealand. It is something between all the options but rather closer to (2). What is really striking is the fact that after the initial move towards the trend, softening kicked in (so maybe (3) then?). Is it a later stage of the U.S. move? We just do not know yet. However, what we do know is what to look for while analyzing the data (consumption, deposits) to draw conclusions which scenario is unfolding.

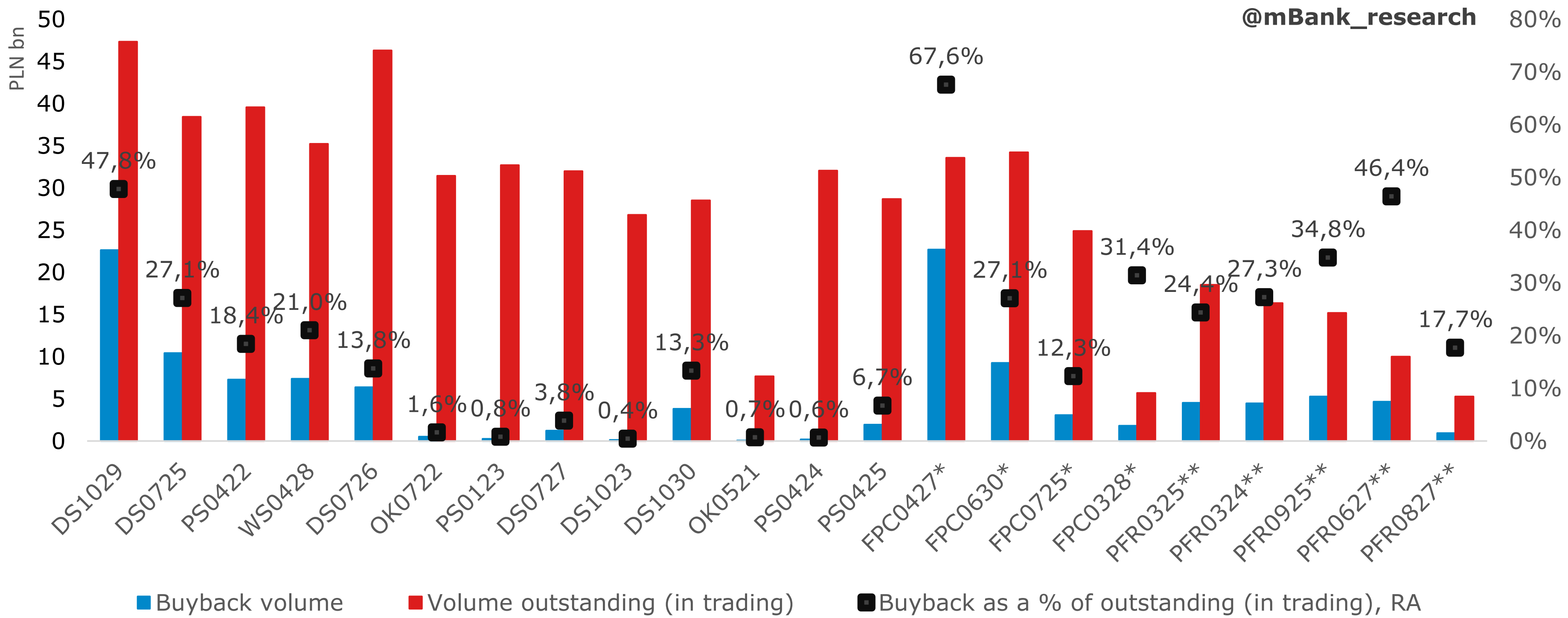
Appendix: NBP „structural" portfolio monitor



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

- The state for 16.04.2021. 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 enovironment.

Appendix: NBP „structural" portfolio monitor



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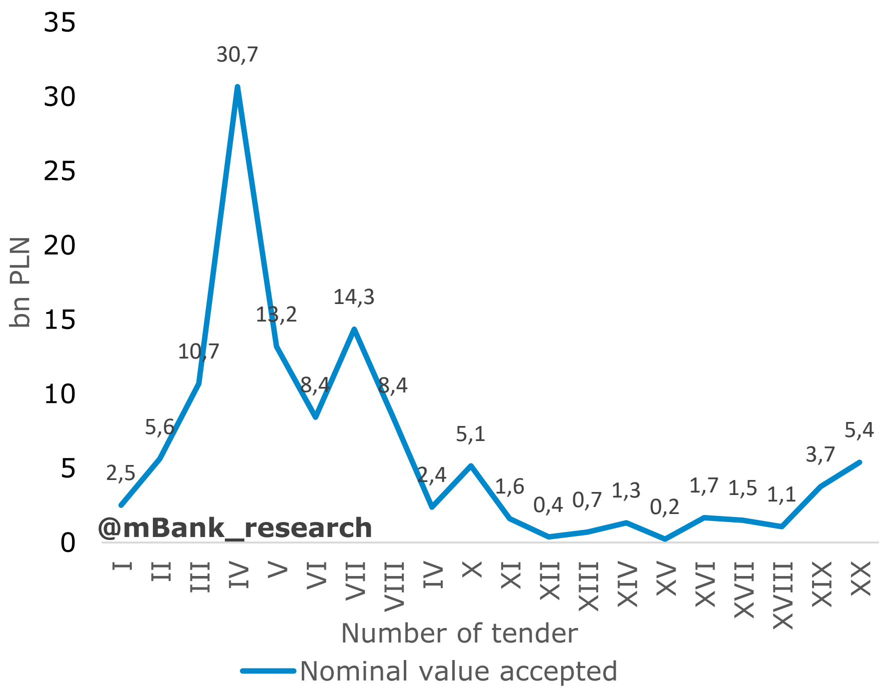
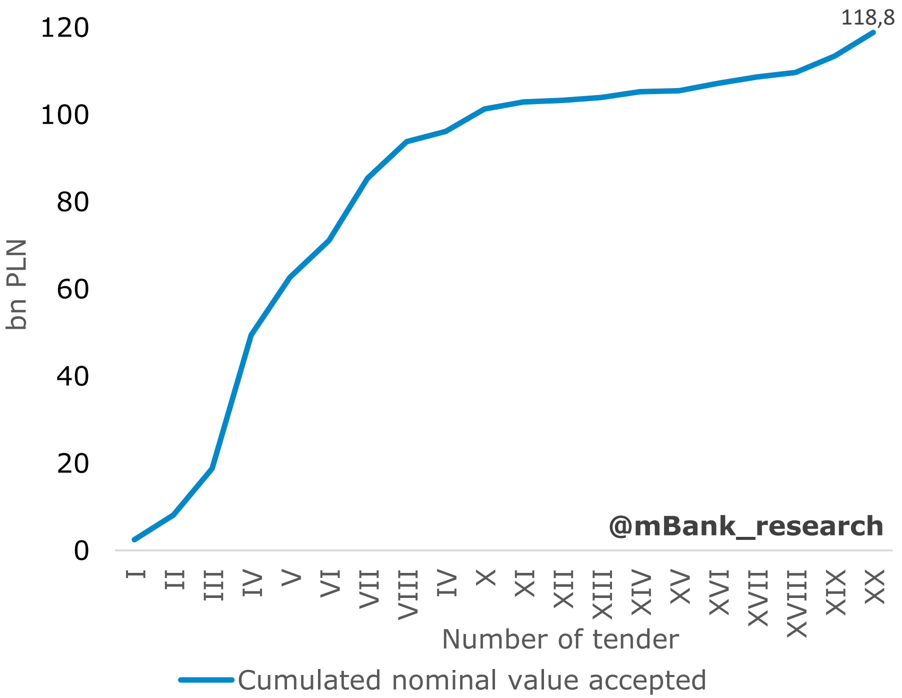
- NBP launched structural open market operations in March 2020 and they constitute a purely new instrument introduced to fight the crisis. On March 11th this year NBP communicated that the schedule and elasticity of the operations may be enhanced to better meet current more challenging (higher) yield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

Appendix: NBP purchases, the timeline





Source: Own elaboration on NBP data.

- The state for 16.04.2021.

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