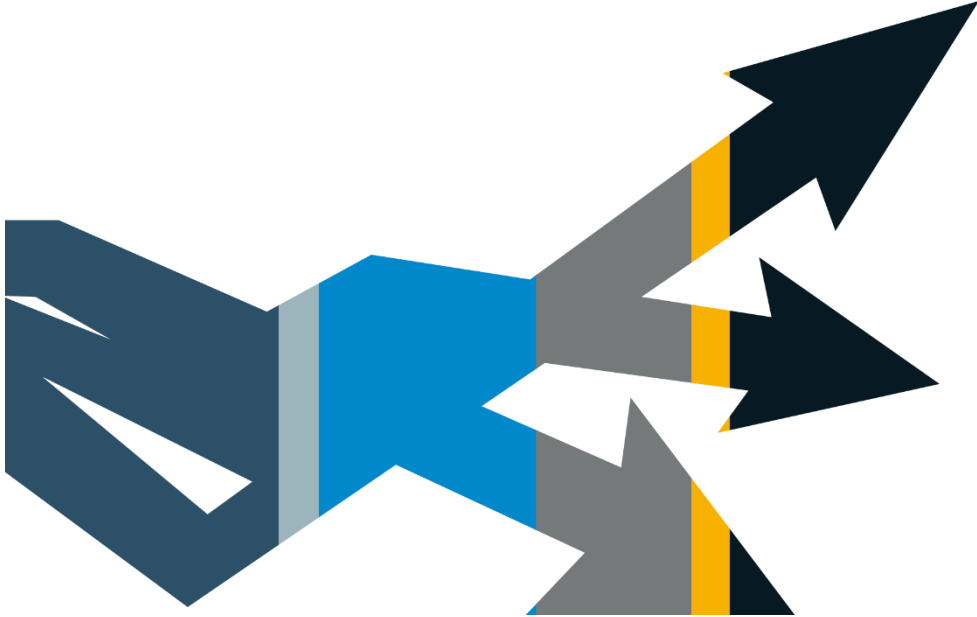


# Monthly Pulse Check

## Economy. FI. FX

August 6th 2020



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

- Economies creep up from bottoms ignited by quarantines. Some countries report second waves of infections as they open up, though. Economies are unlikely to close as much as during the first phase. This recession carries substantial structural change. Therefore the return to normality will be slow even though we are about to temporarily see strong GDP numbers as economies jump start. The scale of monetary and fiscal support is unprecedented, though. It may be a game changer.
- Polish economy is not an exception. We expect 4.2% recession in 2020 and falling inflation. The upcoming quarters are lost for economic activity. Consumers, supported by government programmes, fared relatively well. However, second wave challenges lie ahead. The New EU programme may be important boost for growth 2021/22 and beyond.

### Monetary policy: Fed. ECB. NBP

- Fed: ZIRP + QE + direct loans to firms. Not done with easing.
- ECB: NIRP (already there) + QE Expansion (maximum flexibility) + new LTRO. Not done with easing.
- NBP: Rates cuts (total 140bp). QE already in place (govvies + bonds with state guarantees). Over to fiscal policy now. Not out of ammo. FX channel, QE expansion, forward guidance stay on the table if need be. Negative rates unlikely. Easing bias but on hold for now (next meeting September 9th).

### FX Market

- Rates have been brought near zero by the MPC. It may not entail a direct blow to PLN as it is mostly driven by global sentiment. Lower rates mean higher volatility and the swings in EURPLN rate will be now more pronounced as sentiment changes. especially towards weakness. 4.30-4.60 is our favored range now.

		2019	2019	2019	2019	2020	2020	2020	2020	2021
		Q1	Q2	Q3	Q4	Q1 F	Q2 F	Q3 F	Q4 F	
GDP y/y	%	4,8	4,6	4,0	3,2	2,0	-9,0	-5,1	-4,7	4,6
Individual consumption y/y	%	3,9	4,4	3,9	3,3	1,2	-11,0	-1,0	-2,0	4,4
Public Consumption y/y	%	7,4	4,3	5,4	3,2	4,3	9,0	7,0	5,0	3,5
Investment y/y	%	11,6	8,8	4,6	6,1	0,9	-13,0	-15,0	-13,0	5,3
Inflation rate (average)	%	1,2	2,4	2,8	2,8	4,5	3,2	2,8	2,6	1,4
Unemployment rate (eop)	%	5,9	5,2	5,1	5,2	5,3	6,1	7,1	8,0	8,4
NBP repo rate (eop)	%	1,50	1,50	1,50	1,50	1,00	0,10	0,10	0,10	0,10
EUR/PLN (eop)	%	4,30	4,24	4,37	4,25	4,56	4,45	4,45	4,40	4,30
USD/PLN (eop)	%	3,84	3,73	4,01	3,79	4,13	3,96	3,90	3,79	3,71

F - forecast

## Upcoming macro releases: August 2020

Publication	Date	Period	mBank	Consensus	Actual	Prior
CPI y/y (%)	~31.07[1]	Jul	2,9%	3,1%	3,1%	3,3%
	14.08[2]					
PMI (pts.)	03.08	Jul	50,3	50,3	52,8	47,2
Unemployment rate (%)	~07.08[3] 25.08[4]	Jul	6,2%	6,2%		6,1%
Current account (m EUR)	13.08	Jun	2074	1599		2455
GDP y/y (%)	14.08[1] 31.08[2]	2Q				
Employment y/y (%)	19.08	Jul	-3,0%	-3,1%		-3,3%
Wages y/y (%)	19.08	Jul	3,8%	2,7%		3,6%
Industrial output y/y (%)	20.08	Jul	0,0%	-2,1%		0,5%
PPI y/y (%)	20.08	Jul	0,2%	-0,7%		-0,8%
Retail sales y/y (%)	21.08	Jul	-5,0%	-0,6%		-1,3%
Construction output y/y (%)	21.08	Jul	-0,3%	-4,2%		-2,4%
M3 y/y (%)	24.08	Jul	18,0%	18,5%		18,1%

[1] Flash estimate

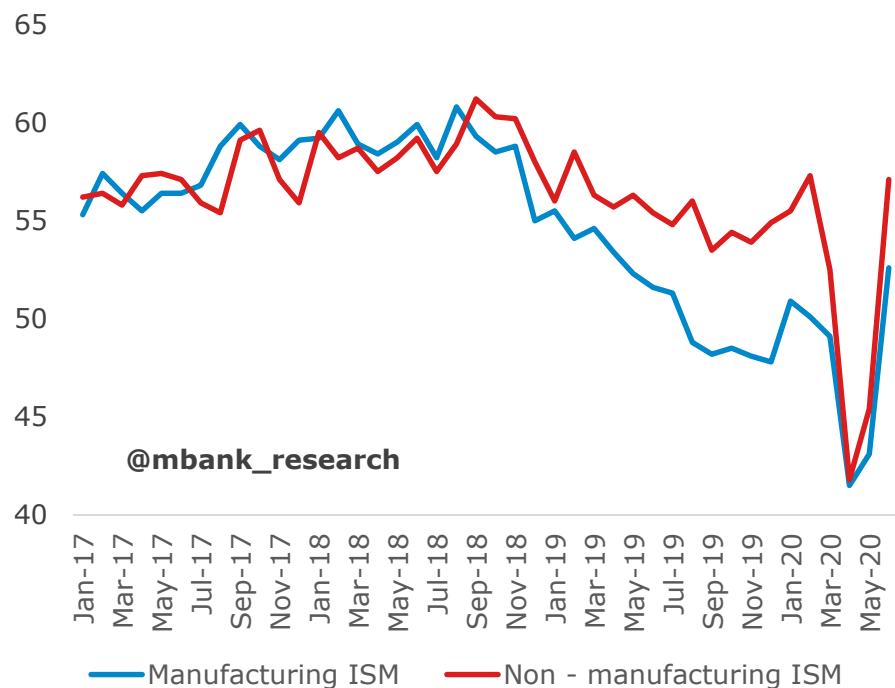
[3] Ministry of Family, Labour and Social Policy estimate

[2] Final reading

[4] Statistics Poland final reading

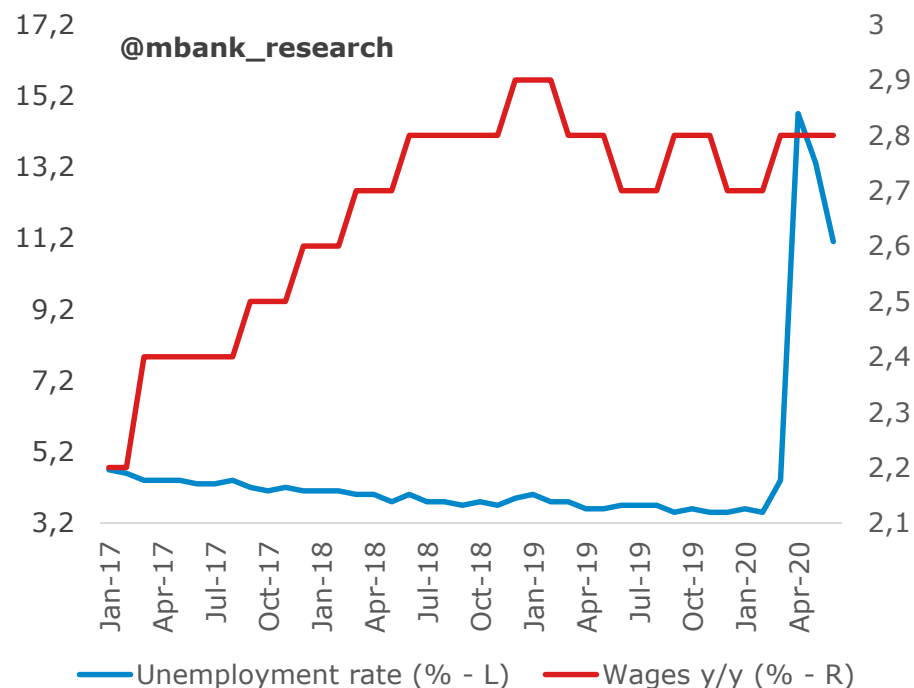
# U.S. economy health check

## ISM PMI: manufacturing & non-manufacturing



Source: ISM

## Labor market: wages & unemployment rate

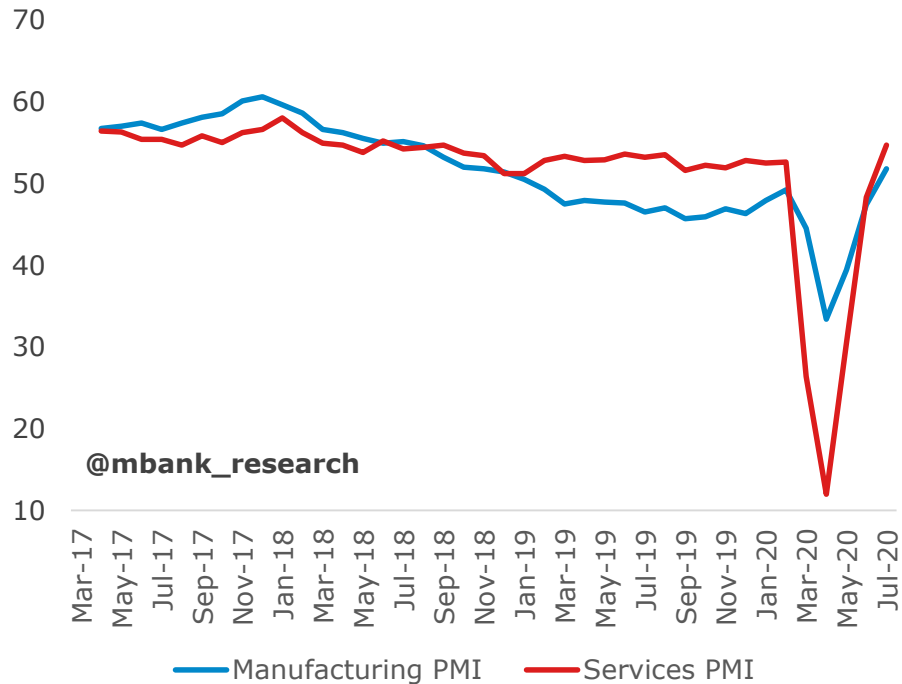


Source: FRED

- ❖ After first weak months, we now see a V-shape recovery in both manufacturing and services sentiment. Labor market data may not be so optimistic - pandemic is not over yet, it will reduce the scale of rebound in employment. GDP did not surprise. Decrease of 32,9% (SAAR) was broadly expected.
- ❖ Fed did not change anything in its policy. Now it focuses on the review of monetary tools. Its outcome should be presented at next meetings. We expect introduction of asymmetric inflation target and outcome-based forward guidance (dependent on unemployment rate close to NAIRU and inflation at 2% or higher). But it is a story for September.
- ❖ There are still negative signals for the US economy. One thing is high number of confirmed COVID-19 cases which will weigh on future readings. The other problem is stimulus package – congress can not reach an agreement concerning unemployment benefits (extra benefit expired in the end of July).

# Euro area economy health check

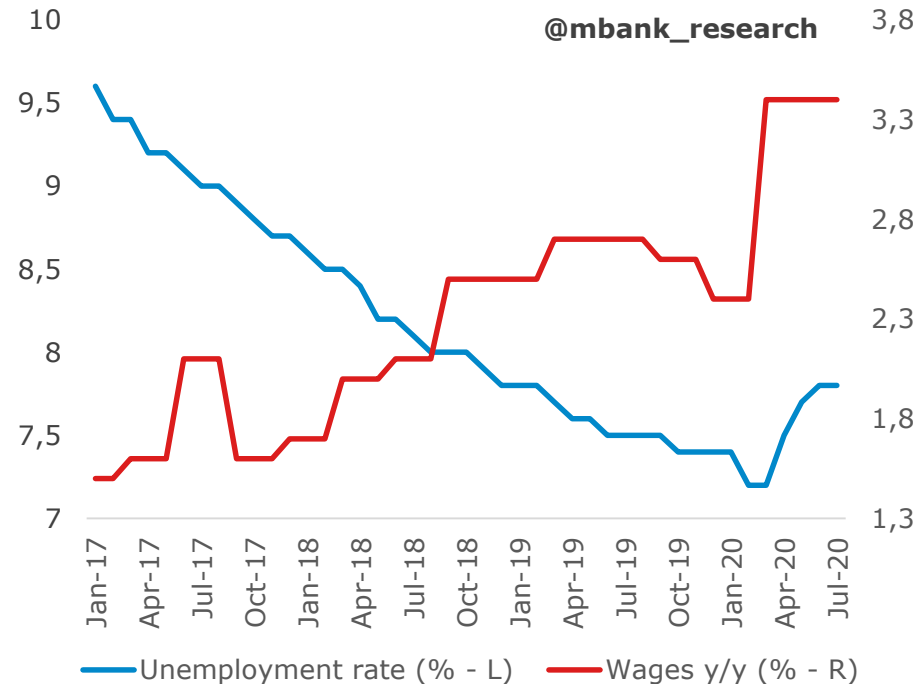
## Markit PMI: manufacturing & services



Source: Markit

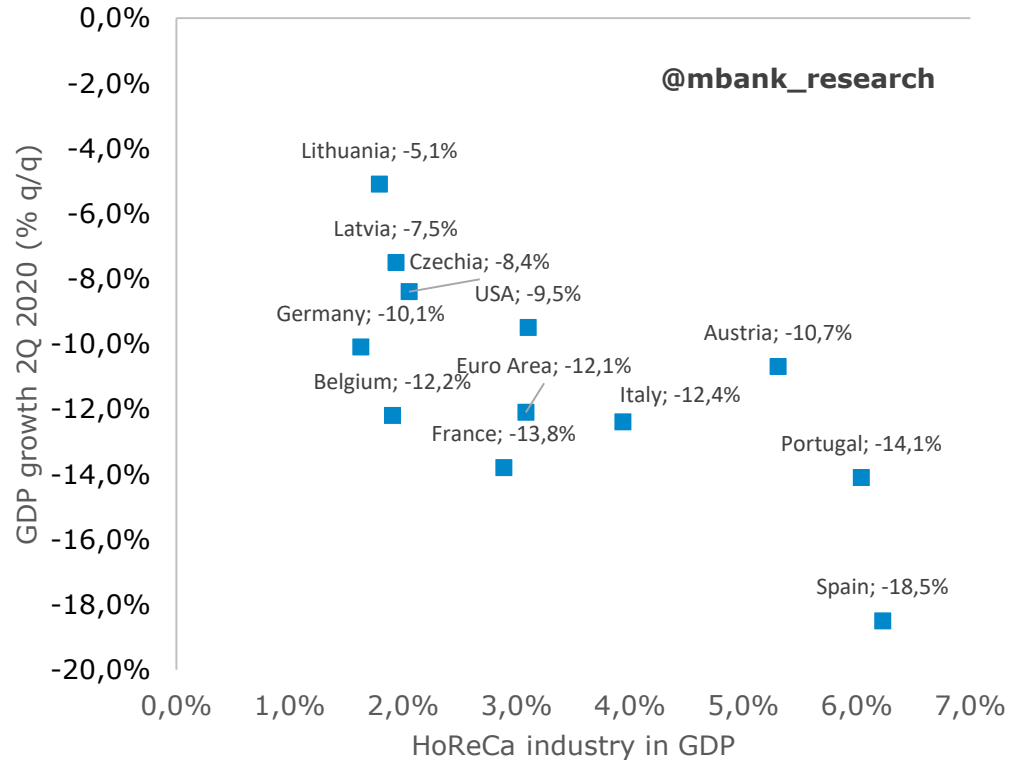
- ❖ PMI readings surprised to the upside mostly due to sentiment in services. For the first time since February, activity in both services and industry increased. Indexes suggest improvement in demand, new orders and expectations regarding future activity. But PMI employment indicators still show reduction of labor force. Surveys suggests the worst is behind. Yet, GDP numbers for Q2 reveal the hole economies will be creeping out from.
- ❖ July meeting of EBC did not bring any changes to the monetary policy. ECB confirmed its will to use the whole size of the PEPP program. After increasing PEPP in June, now it is time for ECB to wait and observe upcoming data.
- ❖ European Commission aid package (Next Generation EU) is a big deal. Its structure changed, compared to what we knew last month (higher share of loans, lower of grants) but its role remains unchanged - it will support the EU economy to recover from coronavirus crisis.

## Labor market: wages & unemployment rate



Source: Eurostat

## Pandemic impact on GDP in Q2

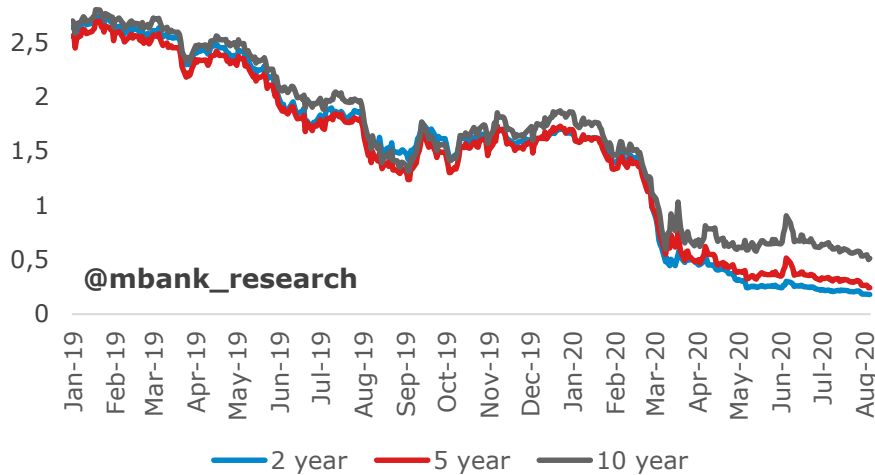


Source: Eurostat

- ❖ GDP flash readings were not far from consensus estimates, but there were slight differences which can result in adjustments of projected GDP paths for the rest of the year. On the one hand GDP for Q2 in Germany and Spain was lower than expected, but France and Italy surprised to the upside. In effect result for the Eurozone was in line with market expectations.
- ❖ The most significant drop was observed in countries with the highest share of industries with strict restrictions (hotels, restaurants and cafes). It is an obvious and intuitive conclusion but can help in estimating the COVID-19 impact on other countries (share of HoReCa sector in Polish GDP is about 1,3%)

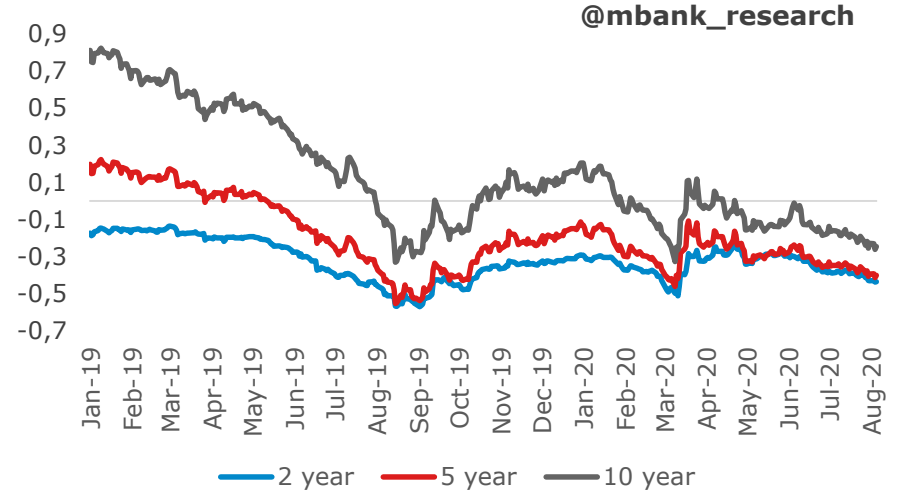
# Global rates: Low for long

## US swap rates (%)



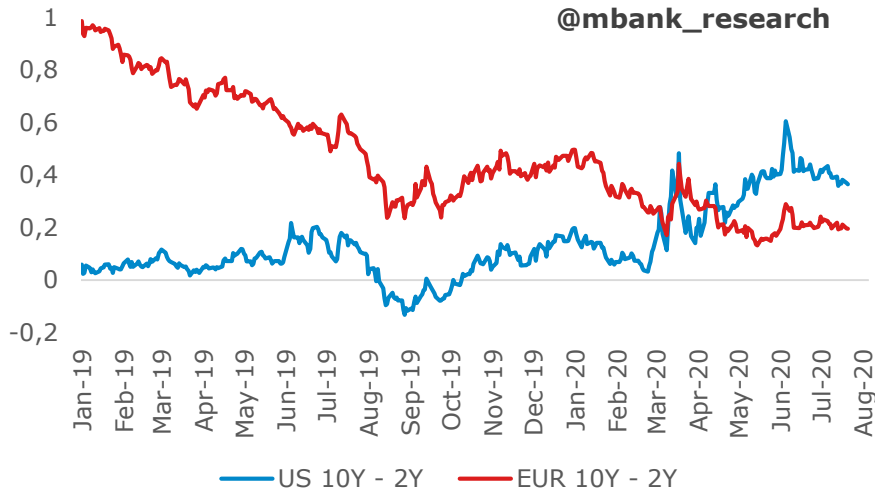
Source: Bloomberg

## EU swap rates (%)



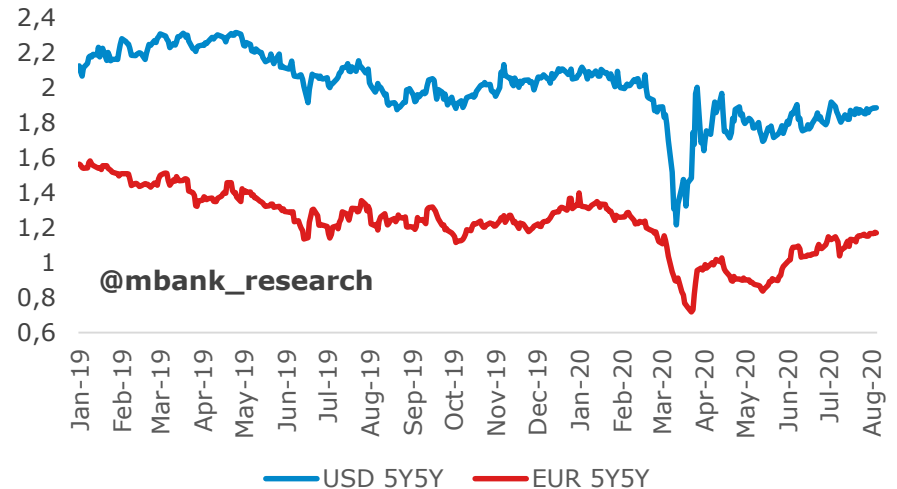
Source: Bloomberg

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



Source: Bloomberg

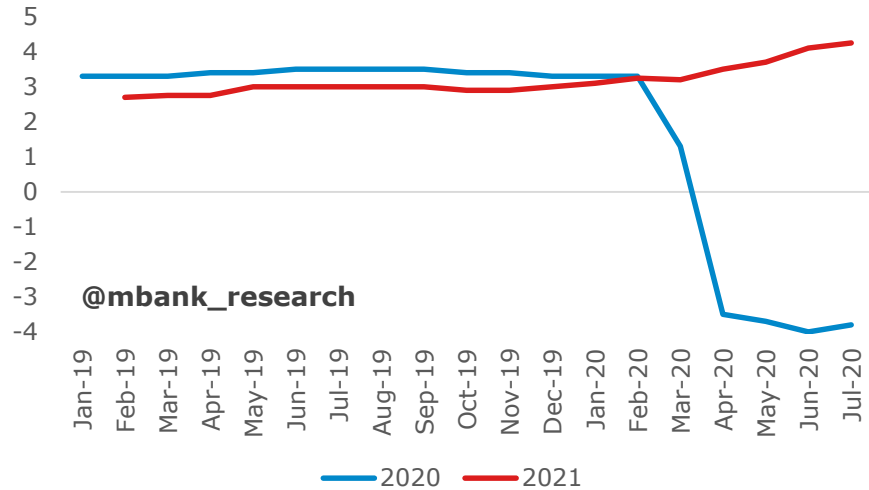
## US and EZ inflation expectations (%)



Source: Bloomberg

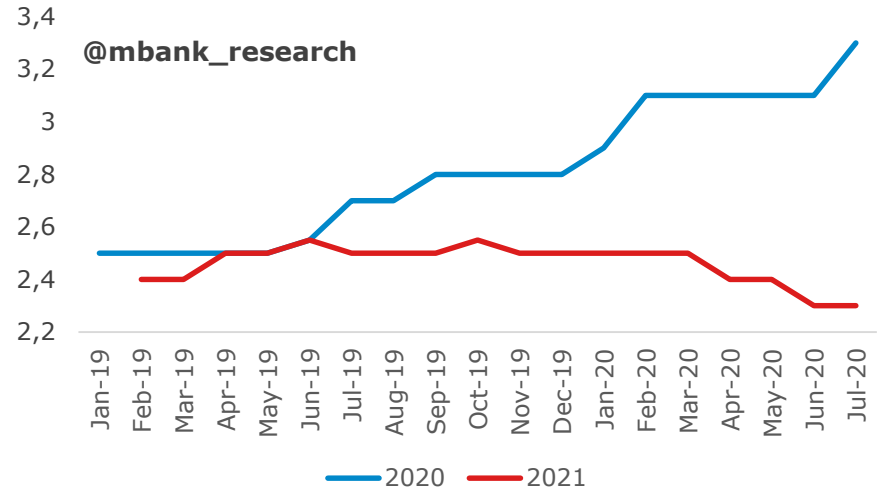
# Consensus: what is expected in Poland?

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



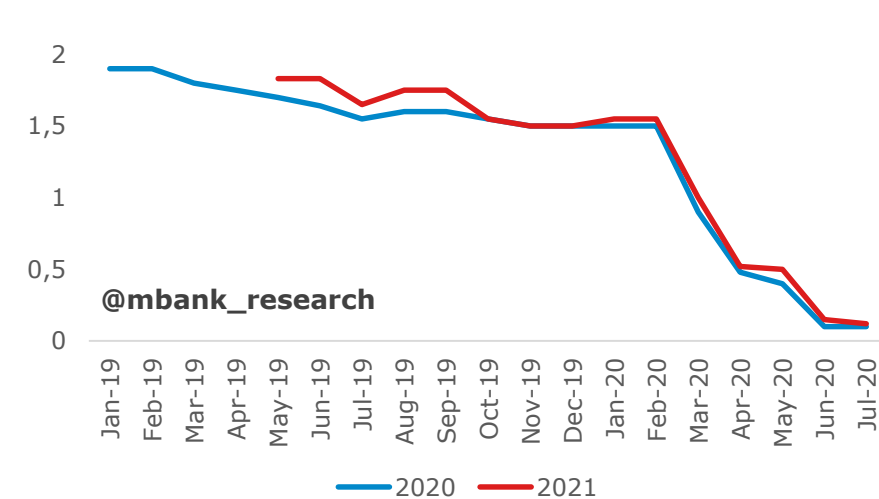
Source: Bloomberg

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



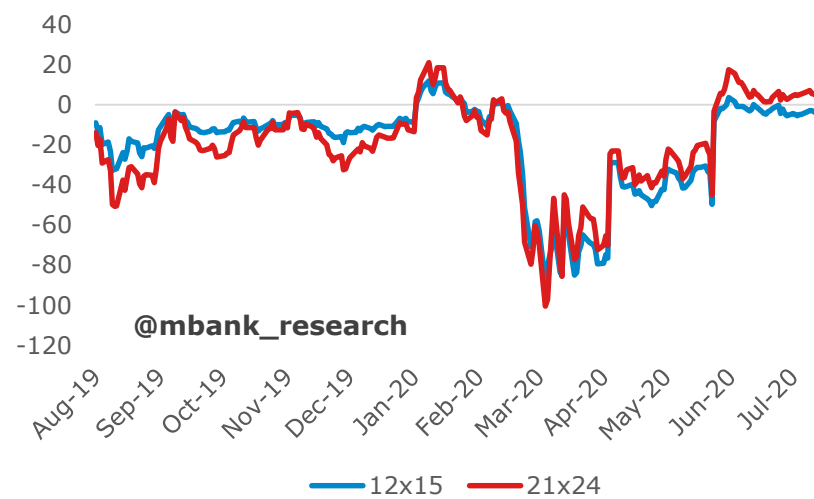
Source: Bloomberg

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



Source: Bloomberg

## Rate changes priced in by FRA (bps)

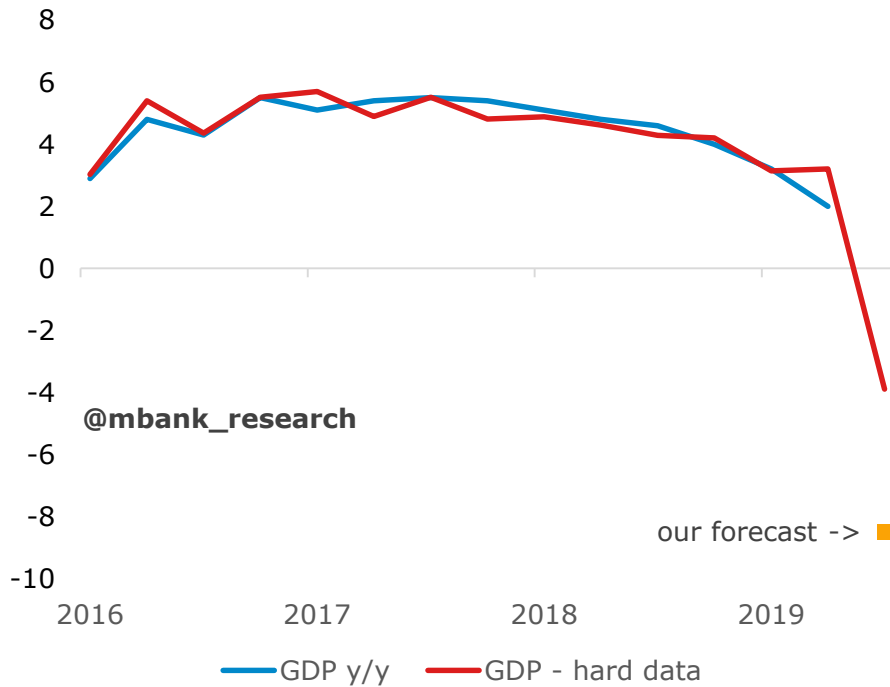


Source: Bloomberg



# Short-term GDP tracker

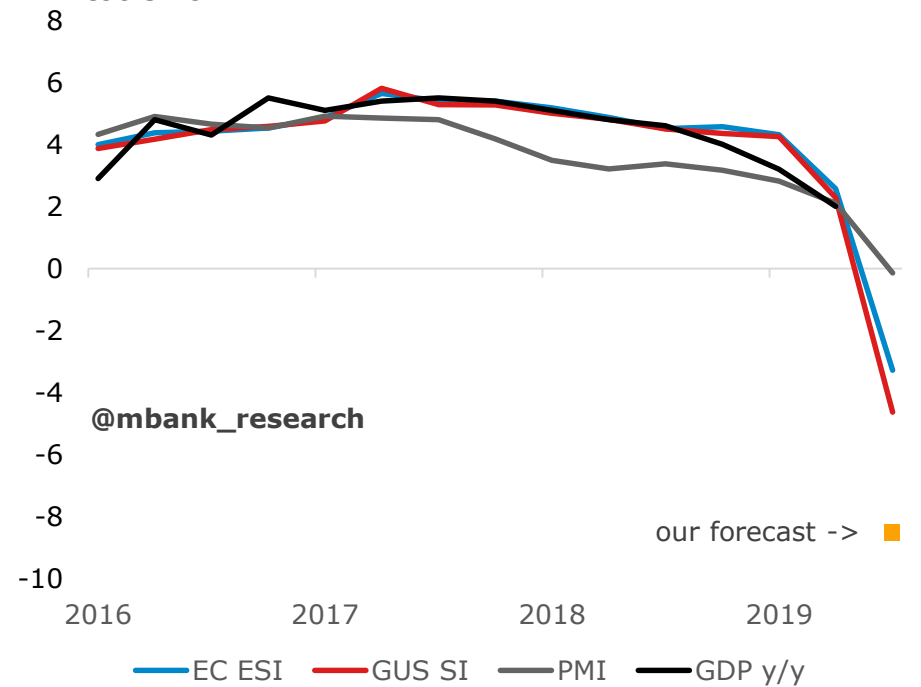
## GDP nowcasts possibly severely biased



Source: Statistics Poland. own elaboration

- ❖ As we mentioned in previous reports, the nowcast models for Q2 are biased and present overly optimistic picture. They are based on historical correlations (without recession in place) and include mostly industrial and construction output data. That is why we use also other data sources (e.g. card transactions) to assess the GDP growth for Q2.
- ❖ GDP readings for Q2 will be published this month. Our forecast is -9% y/y. This reading will impact the rest of the year, any surprise can result in updating the long-term forecasts. In the second quarter pandemic had its strongest economic impact - practically all April was subject to restrictions, they were gradually lifted in May. Therefore we expect consumption to decrease by 11% y/y in Q2 and investment do decrease by 13% y/y.
- ❖ Those who hoped for V-shape recovery will probably see something close to it in consumption (see card transactions in p. 13, there were also optimistic signals in retail sales data). But only there. Rebound in investment will be much slower due to high uncertainty.

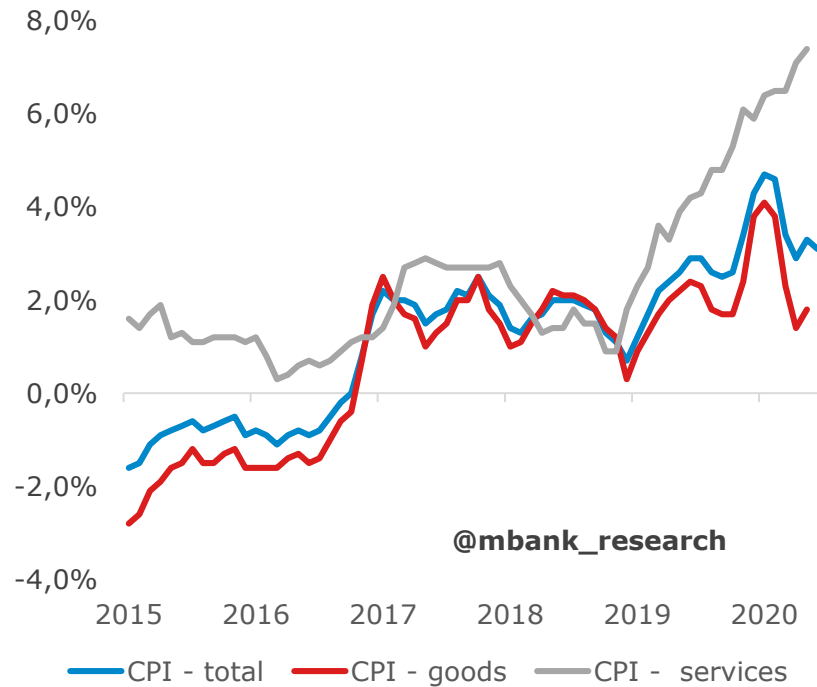
## Both sentiment and hard data nowcast are not the best tools now



Source: Statistics Poland. Eurostat. own elaboration

## Short-term inflation tracker

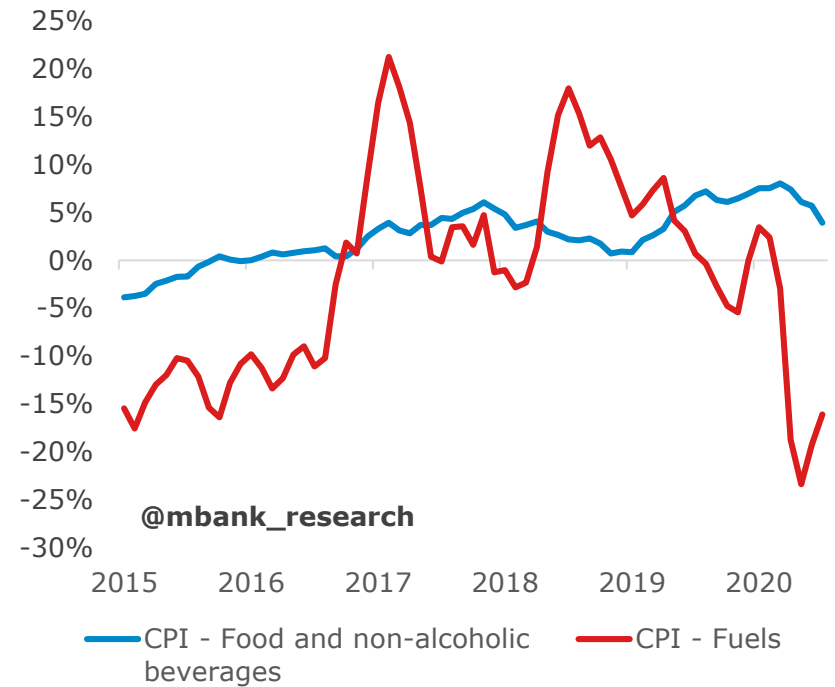
### Still little respite in services



Source: Statistics Poland. own elaboration

- ❖ According to the flash reading, headline inflation slightly slowed down but core inflation is still rising. We estimate that core rose to 4.3%.
- ❖ We do not know the exact reasons - final reading with more details will be published next week. Our forecast assumed hump-shaped increases in prices, maybe one of categories increased more significantly. In some categories we see firms passing COVID-19 costs on consumers which results in core prices rising. We think that opened-up output gap is going to bring core inflation finally lower. However, this development suggests it will not be so easy to enter deflation and we do not forecast such low growth of prices.
- ❖ Food prices worldwide are coming off the elevated levels (as seen in the FAO). Draught alert is off. Fuel prices are different story. Given the low levels of oil prices the medium-term scenario is rather of slowly rising prices.

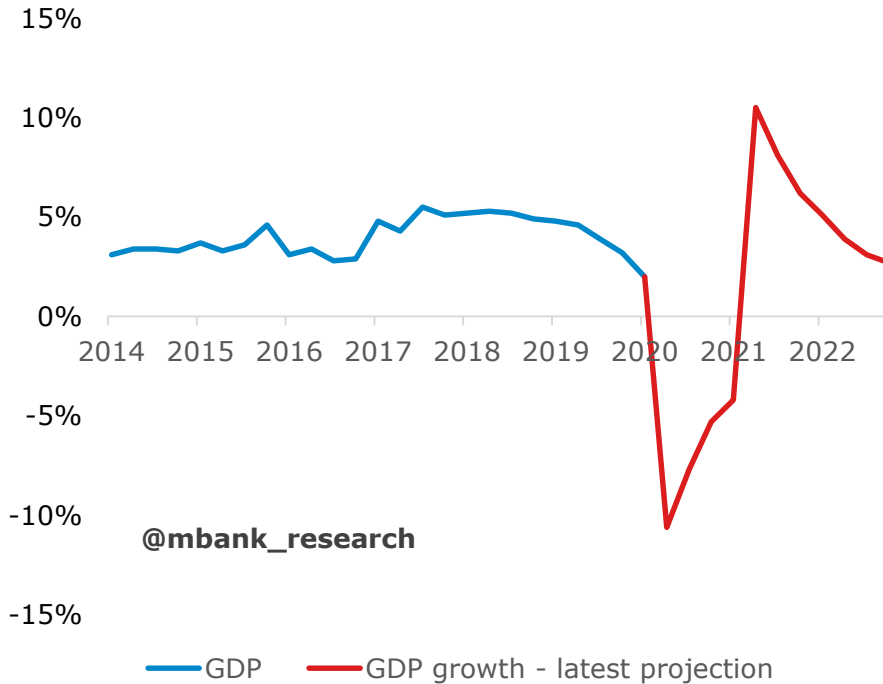
### Inflation falls are mostly driven now by fuels and food



Source: Statistics Poland. own elaboration

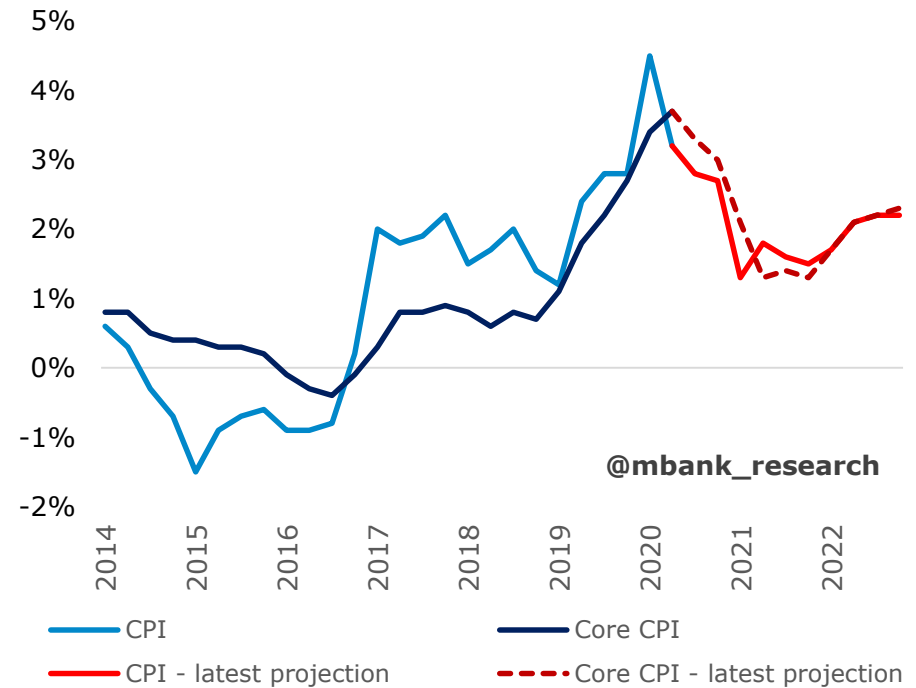
# New NBP projections

## NBP's latest projection: GDP growth



Source: Statistics Poland. own elaboration

## NBP's latest projection: inflation

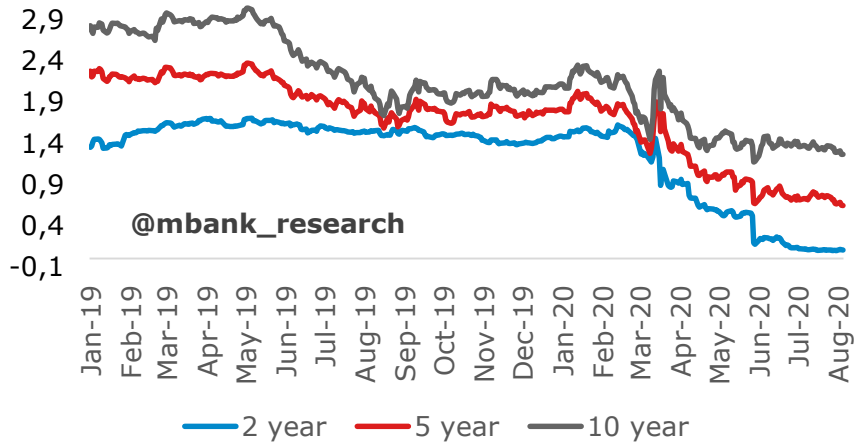


Source: Statistics Poland. own elaboration

- ❖ NBP analysts provided more pessimistic (than market consensus forecast) projected path of GDP. According to the projection, GDP is expected to decline by 5.4% y/y in 2020, and increase by 4.9% y/y in 2021 and 3.7% y/y in 2022. The lower path of GDP is mostly due to lower investment, but also private consumption is below our forecast. Projection does not include the new EU funds (Next Generation EU).
- ❖ NBP assumes the average inflation of 3.3% y/y in 2020, next year it will slow down to 1.5%, and slightly rebound in 2,1% in 2022. After temporary increases, inflation will remain slightly below the 2.5% target until the projection horizon.
- ❖ Latest projection should not change the attitude of MPC. They will remain dovish, but if there is no new significant negative shock, MPC will not further ease the monetary policy.

# Polish rates, yields and spreads: low

## POLGBs



Source: Bloomberg

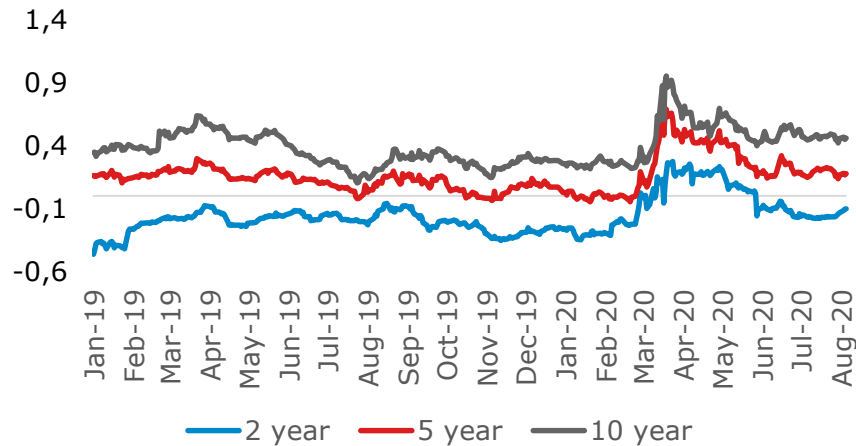
## PL IRS



Source: Bloomberg

## ASW spread

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Source: Bloomberg

## POLGB yield minus 3m WIBOR

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Source: Bloomberg

## New: Monitor of maturing bonds and bills

### Treasury bonds and bills (PLN) total maturing stock (total: retail + wholesale bonds)

Maturity Date	Retail bonds (PLN mn)	T-bonds & T-bills (PLN mn)	Total (PLN mn)
08.2020	720,7	4567,7	5288,4
09.2020	879,9	1321,0	2200,9
10.2020	660,9	9125,1	9786,1
11.2020	387,0		387,0
12.2020	364,0		364,0
01.2021	491,6	13203,6	13695,2
02.2021	508,4		508,4
03.2021	579,9	10920,3	11500,2
04.2021	619,5	21649,7	22269,2
05.2021	618,2	15840,4*	16458,57*
		63840,4**	64458,57**
06.2021	478,2		478,2
07.2021	550,0	30195,2	30745,2
08.2021	592,5		592,5
09.2021	491,1		491,1
10.2021	674,6	16181,6	16856,2
11.2021	607,9		607,9
12.2021	560,4		560,4

Source: \* According to data from the Ministry of Finance

\*\* According to data from the NDS"

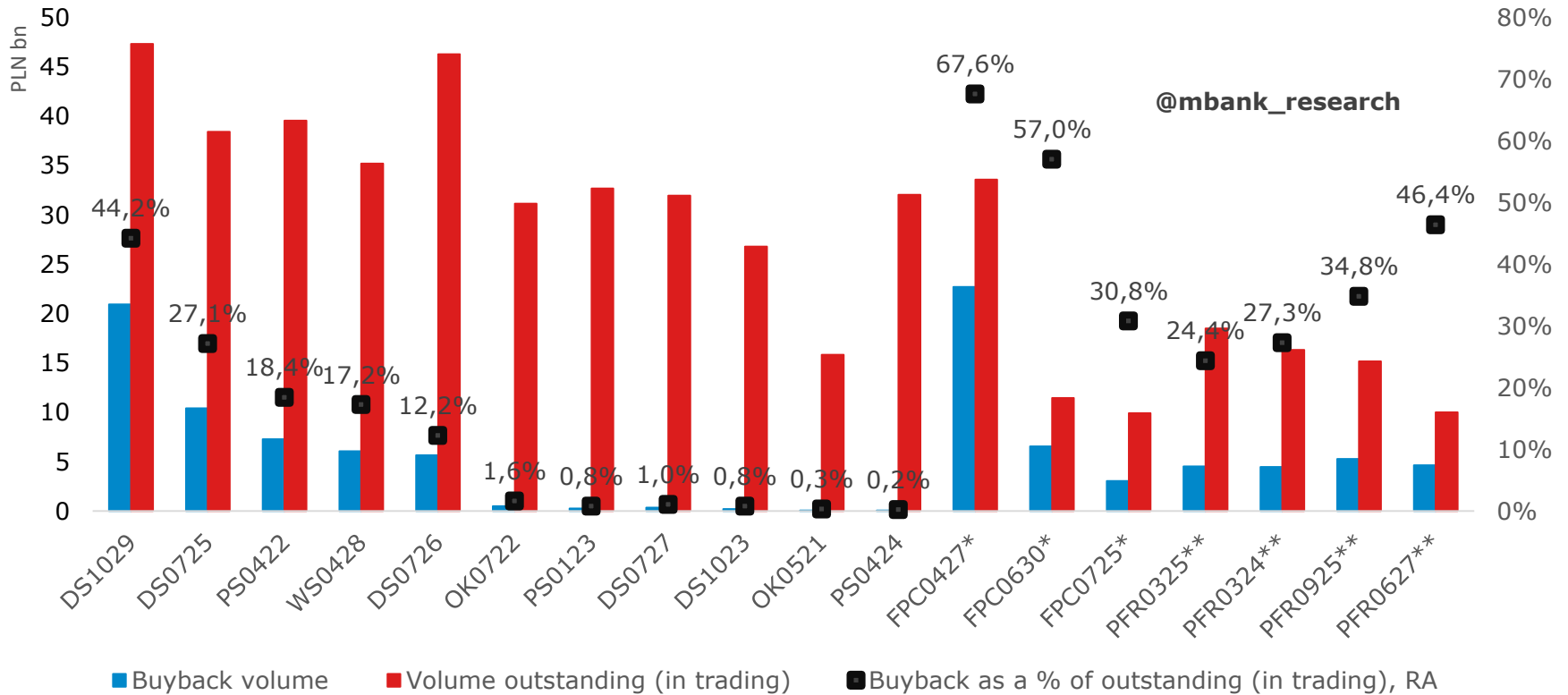
- ❖ The state for 06.08.2020.
- ❖ This month there will be one more NBP structural operation (19.08.2020).

### Eurobonds maturing stock

Maturity Date	EUR mn	USD mn	CHF mn	JPY mn
11.2020				10000
01.2021	200			
02.2021				50000
03.2021	2000			
04.2021		1721		
09.2021			500	
10.2021	1750			
12.2021	750			

Source: Ministry of Finance.

## New: NBP „structural” portfolio monitor

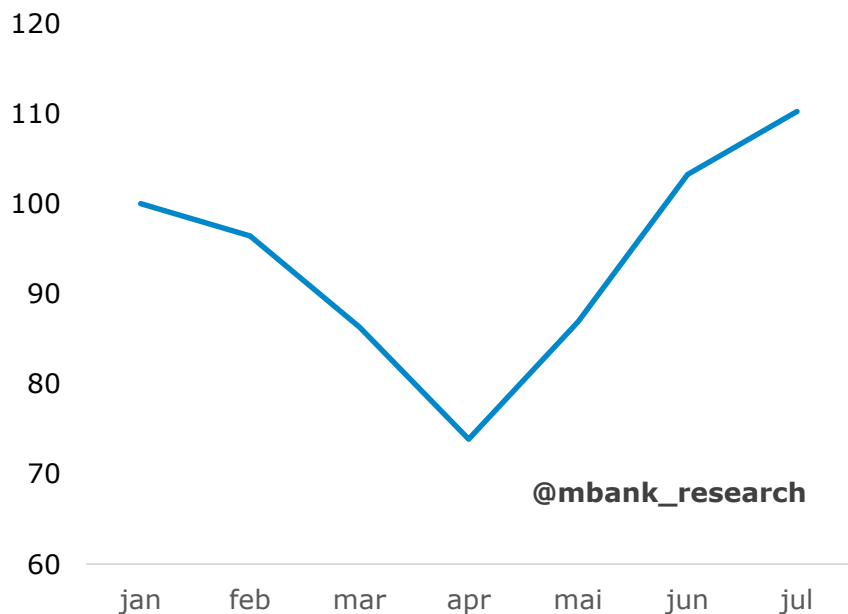


Source: Own elaboration on MF, NBP, NDS data.

- ❖ The state for 06.08.2020. We present cumulative numbers.
- ❖ NBP launched structural open market operations in March and they constitute a purely new instrument introduced to fight the crisis.
- ❖ So far NBP managed to achieve significant share in some series of government bonds (DS1029: 44.2%), BGK bonds aka „covid bonds” (up to 67.6%) and PFR bonds (up to 46.4%).

## High frequency indicators suggest modest recovery: V-like consumption but the whole economy still a swoosh.

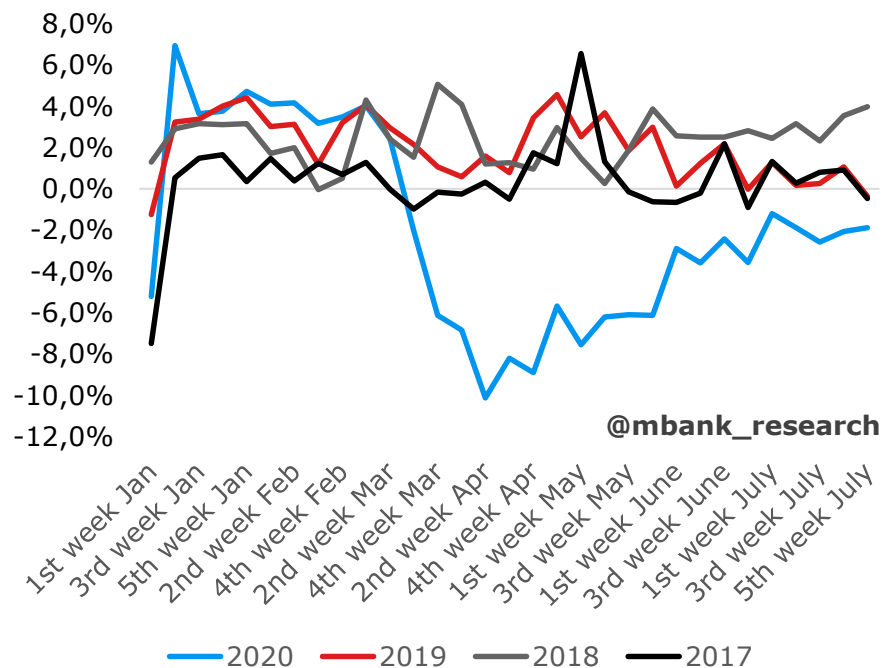
**Card expenditures (control group).  
V-like-shaped recovery. Jan 2020 = 100.**



Source: mBank transaction data. Own elaboration.

- ❖ Energy consumption comes back to „normality“ but there is a still long way to go – there is only a little progress compared to July. Last month we saw a V-like recovery in industrial output and upcoming reading should also show relatively optimistic result (we expect 0% y/y). However, the return to constant, normal growth of 5-6% per month is still far away
- ❖ After meeting the pent-up demand in June, July’s card transaction data slowed down, but still shows impressive V-like shaped recovery. But as for consumption we are more skeptical as some services are not going to return to normal ever. The worst is over, but the progress from here is set to be small an we also expect some temporary setbacks as autumn and winter may bring a risk of infections (no lockdown, just consumer behavior).

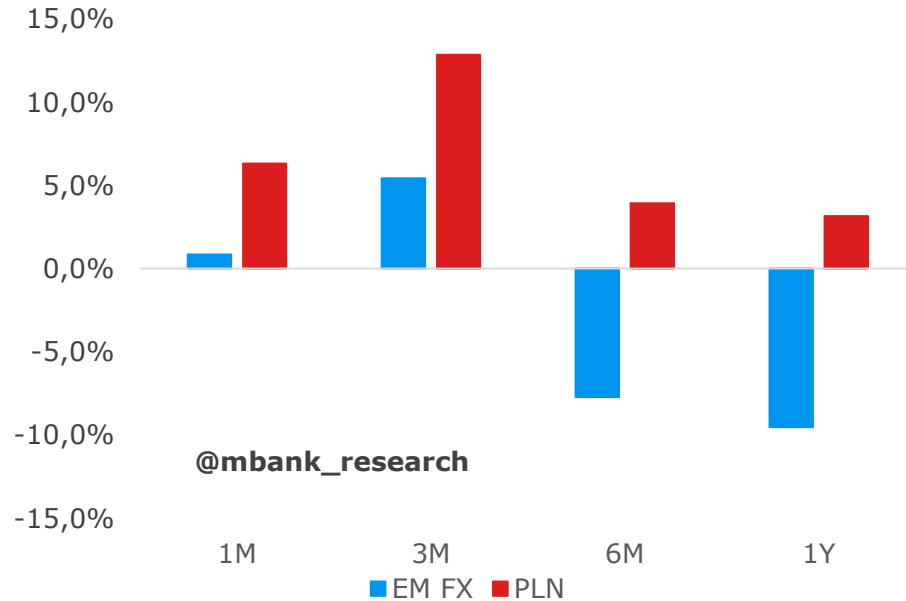
**Energy consumption. Deviation from „normal“.**



Source: electricity grid data & own elaboration

# PLN is holding still very well despite cuts

## PLN holding well



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

Source: Bloomberg

## Real effective exchange rate



Source: BIS

- ❖ EURPLN remains in the 4.40 – 4.50 range. Last month resulted in a slight appreciation of zloty, due to positive global sentiment and agreement at the EU summit. It did not only reduce the risk premium for the entire EU, but also positively affected the CEE region, which is the largest beneficiary (next to the south of the euro area) of the new form of transfers from the EU
- ❖ With significantly improved external position (C/A in balance + limited share of foreign investors in local debt) it would be hard to see much higher EURPLN exchange rate. We expect range 4.30-4.60 for now.
- ❖ Zloty is driven mostly by the global sentiment, which can be volatile. More permanent appreciation can be expected in a few quarters, for now we expect 4.30-4.60 range.



## Disclaimer and contact details

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