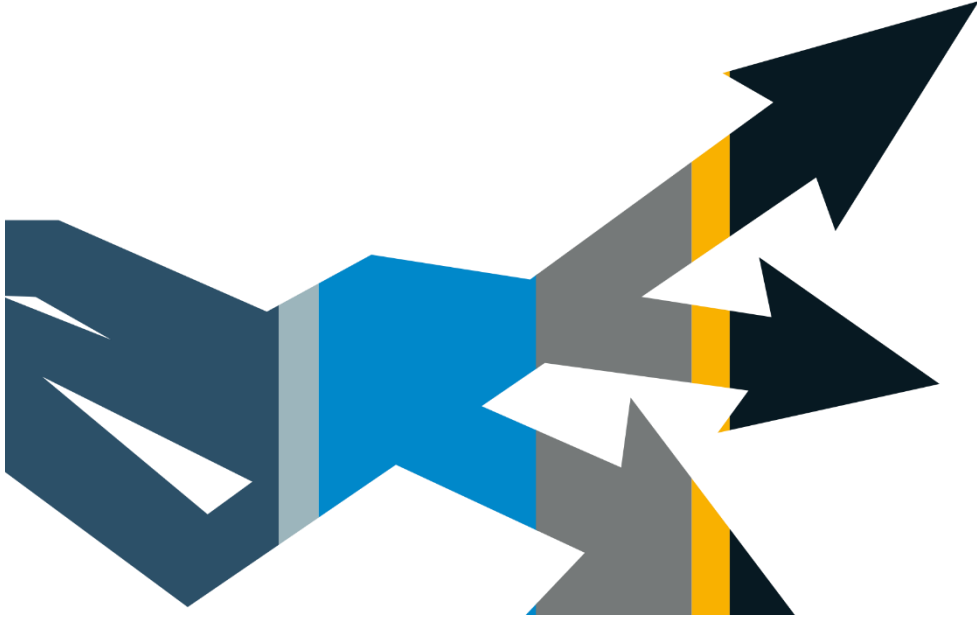


Monthly Pulse Check

Economy. FI. FX

November 13th 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

- ❖ Second waves of infections came. Track&trace strategy supplemented by surgical closures of some forms of mass social activity had to be replaced by national lockdowns. Vaccine development wipes out severe risks for 2021, though. The scale of monetary and fiscal support is unprecedented guaranteeing still quite smooth transition towards 2021. Due to the virus resurgence, we are about to see more support in the next months.
- ❖ In Poland, we expect 3.4% recession in 2020. Turn of the year is going to be weak after strong rebound in Q3 due to high wave of new infections and possible negative reaction of consumers and firms. Fiscal policy still has firepower to build safety net under most exposed sectors. 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, though. FX channel, QE expansion, forward guidance stay on the table if need be. Negative rates unlikely. Next meeting: 2nd December.

FX Market

- ❖ Low rates suggest that the swings in PLN triggered e.g. by risk aversion may be more pronounced. Return to growth path supports PLN, along with C/A surplus that Poland is currently running. We expect gradual, although possibly very volatile appreciation path. Near-term spikes possible due to virus resurgence and ensuing higher market volatility.

		2020	2020	2020	2020	2021	2021	2021	2021	2020	2021
		Q1 F	Q2 F	Q3 F	Q4 F	Q1 F	Q2 F	Q3 F	Q4 F	Q1-Q4	Q1-Q4
GDP y/y	%	1,9	-8,4	-1,6	-4,9	-3,6	7,6	1,1	6,2	-3,4	3,0
Individual consumption y/y	%	1,2	-10,8	-0,4	-3,8	-1,4	11,7	-0,3	3,8	-3,5	3,5
Public Consumption y/y	%	2,6	3,4	3,4	3,6	3,0	3,0	2,6	2,3	3,3	2,7
Investment y/y	%	0,9	-10,7	-7,0	-10,5	-9,8	3,4	1,5	7,0	-6,8	0,5
Inflation rate (average)	%	4,5	3,2	3,0	2,8	1,9	2,4	2,6	3,0	3,4	2,5
Unemployment rate (eop)	%	5,3	6,1	6,1	7,0	7,3	7,0	7,0	6,9	7,0	6,9
NBP repo rate (eop)	%	1,00	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10
EUR/PLN (eop)	%	4,56	4,45	4,53	4,50	4,50	4,40	4,30	4,25	4,50	4,25
USD/PLN (eop)	%	4,13	3,96	3,87	3,85	3,85	3,70	3,52	3,40	3,85	3,40

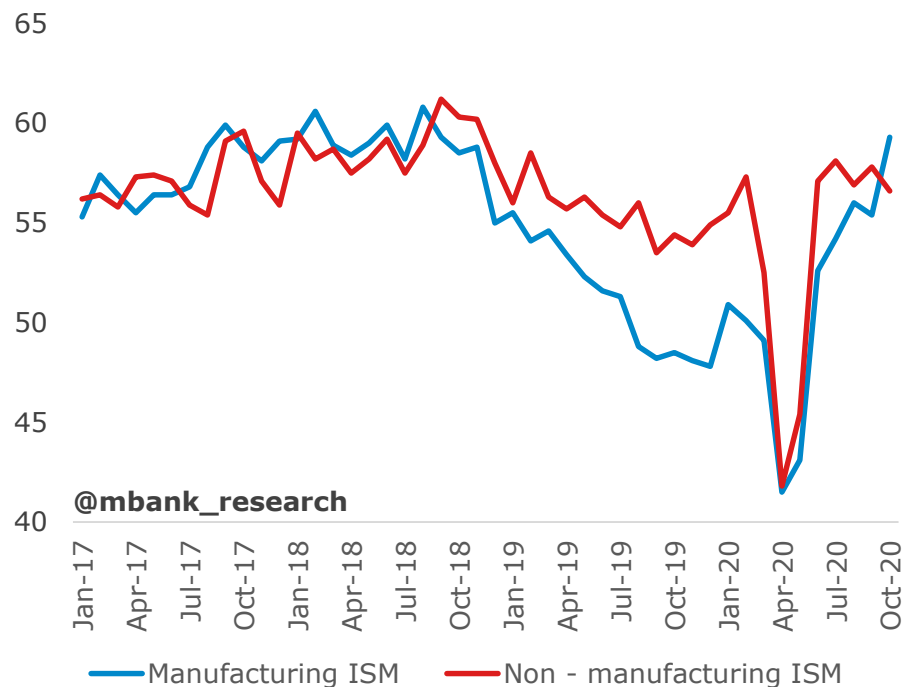
F - forecast

Highlights

- ❖ No „blue wave“ in US election makes fast introduction of new fiscal package difficult (see [here](#)). Increasing number of new COVID-19 cases will increase the uncertainty in the economy. The pace of the recovery will slow down. Fed can therefore provide more monetary easing in December.
- ❖ Increasing number of COVID-19 cases in Europe resulted in return of restrictions (see [here](#)). Services suffer the most. EBC announced that it will recalibrate its tools during the December meeting. We expect extension of the PEPP (maybe also APP) and easier TLTRO conditions.
- ❖ Vaccine prospects lift tail risks for 2021. We expect global rates to embark on a steady upward drift no sooner than infection numbers are squashed to palatable (for health service) levels and central banks put on more stimulation on the table. It is still possible before year end.
- ❖ Polish GDP in Q3 came at -1.6% y/y. As infection numbers stay elevated and the margin for lockdown is thin (and related mostly to the number of tests, which came at close to 40-50% positive rate) we downgraded Q4 and – consequently – 2021 growth rates. The drop of activity is nowhere near the one in the Spring (see [here](#)). We expect turnaround to start in Q1 and to slowly gather pace as businesses feel the new wave of prosperity coming (vaccine+restart of a well hibernated economy).
- ❖ Inflation came off elevated levels but core measures are still quite sticky. Our inflation forecast did not change – we expect that it will be close to the NBP target in the next year (see more [here](#)).
- ❖ NBP published new macroeconomic projections - they are more optimistic than the July ones (higher inflation and GDP path, see [here](#)). They do not indicate any further move from the MPC. Inflation will be close to the NBP target. Projections takes into account pandemic restrictions introduced in November - only a hard and long lockdown would surprise the MPC.
- ❖ Also last MPC statement did not suggest any further moves. MPC noticed possible risks concerned with restrictions, but did not signal more easing. Our baseline is still for stable rates but all facilities introduced by MPC will stay in place, allowing for more fiscal leeway. Zloty depreciation will be also a welcome development.
- ❖ NBP purchases are at low levels for now (see [here](#) and [here](#)). But new restrictions, and therefore new fiscal package (worth about 10 bn zlotys), may result in more NBP purchases. We think NBP will keep this option until the economy will be out of the woods (2021).
- ❖ In the long-term we expect gradual appreciation of PLN due to strong fundamentals. But in the short-term, because to the pandemic (and high risk of the national lockdown), more volatility is expected and we may see some spikes in EURPLN. NBP is unlikely to defend exchange rate in any direction for now. (see [here](#)).

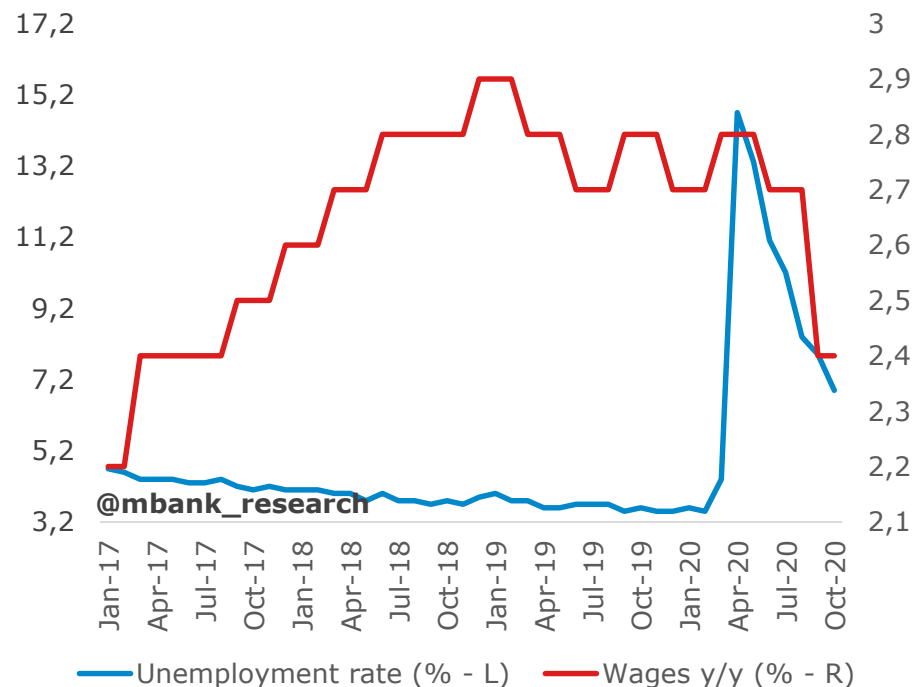
U.S. economy health check

ISM PMI: manufacturing & non-manufacturing



Source: ISM

Labor market: wages & unemployment rate

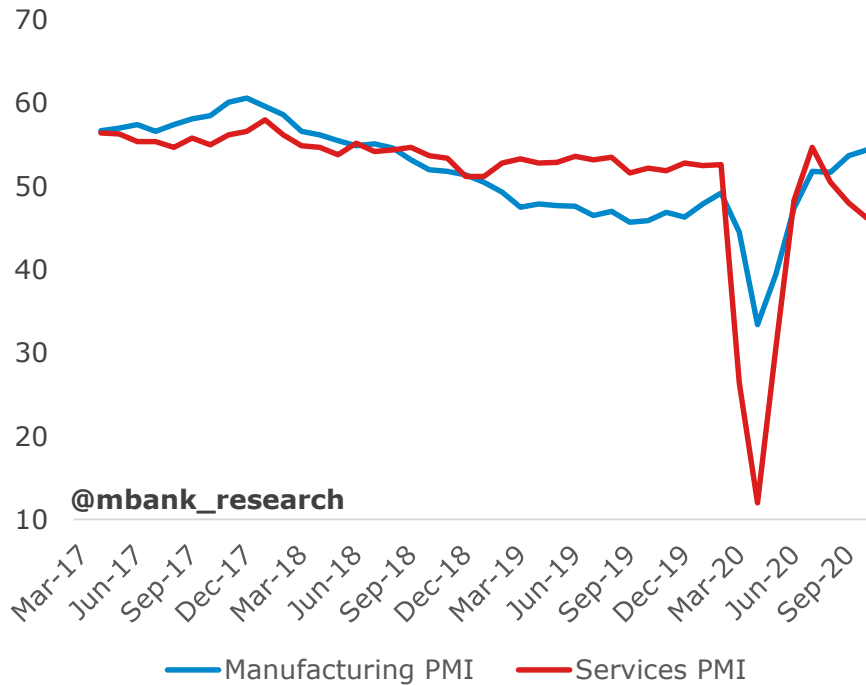


Source: FRED

- ❖ The second wave of the pandemic is not as severe as it is in Europe (but number of new cases is rising, see page 10). There were no new restrictions imposed. Manufacturing is still in fast-track recovery mode, and the sentiment index notes 10-year highs. Sentiment in services is not so spectacular but still optimistic. Some pullback due to virus development is expected.
- ❖ The momentum in the employment is slowing down, but unemployment rate, once again surprised positively with a decline of 1pp to 6.9%. There are still 10 mn employed less than before the crisis.
- ❖ There is no „blue wave“ after the US elections - Biden won the presidential election, but Democrats will probably not have the majority in the senate. Therefore we do not expect quick introduction of extensive fiscal package. The door for fiscal stimulation are not closed, though. It would require exigent circumstances (surge in the virus) or prolonged negotiations.
- ❖ In such circumstances, the Fed will probably decide to act. The most likely tool is extending the QE programme. During the last meeting FOMC members discussed the programme and noted that it can be changed if necessary.

Euro area economy health check

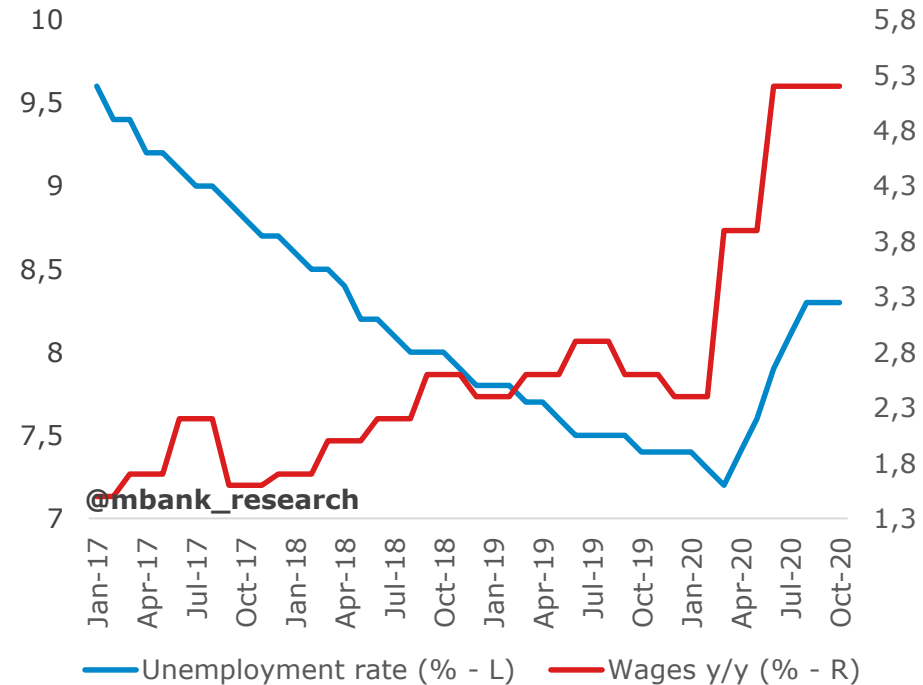
Markit PMI: manufacturing & services



Source: Markit

- ❖ New restrictions hit mostly services. Bars and restaurants are closed, there are limits in public gatherings (or they are completely prohibited), some countries decided to introduce the curfew. Compared to the first set of restrictions (from March-April) manufacturing is much less affected. This difference is directly reflected in the firms sentiment – manufacturing PMIs are holding up well, but sentiment in services declined.
- ❖ ECB pre-committed to more monetary easing in December. Based on the new macroeconomic forecasts, ECB will recalibrate its instruments. C. Lagarde suggested that recalibration can touch all instruments, ECB wants to find the best interaction between them (not just changing single one). The most probable tools are extending PEPP and APP together with easing the TLTRO conditions.
- ❖ The NGEU package deal moved forward. European Parliament announced that it reached an agreement with the EU countries over the rule-of-law principle. But some countries (Hungary, Poland) still do not agree. So it is not the end of negotiations.

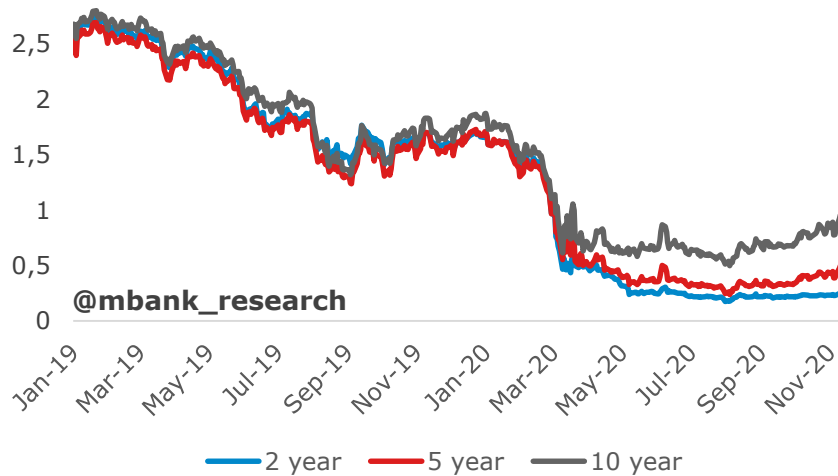
Labor market: wages & unemployment rate



Source: Eurostat

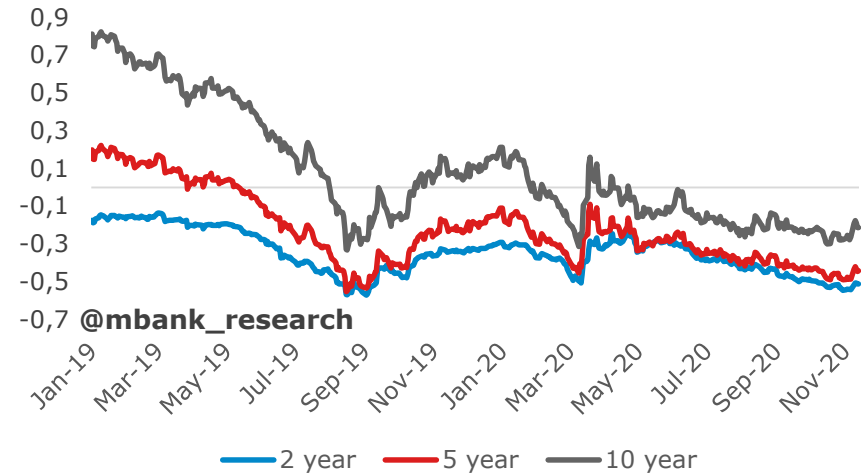
Global rates: Low for long but seeds for slow drift upwards have been sown

US swap rates (%)



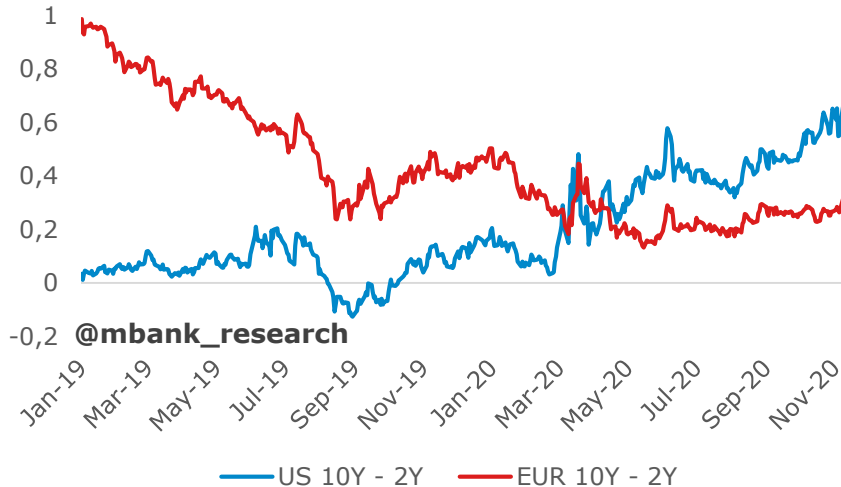
Source: Bloomberg

EU swap rates (%)



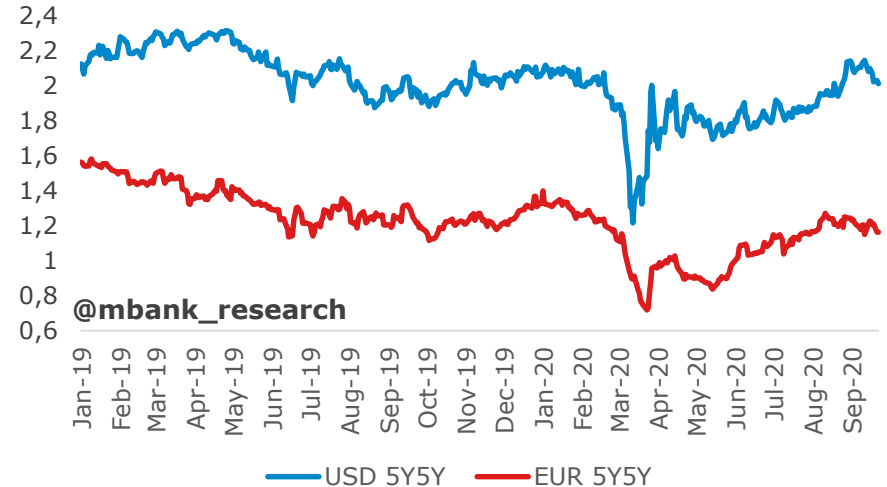
Source: Bloomberg

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



Source: Bloomberg

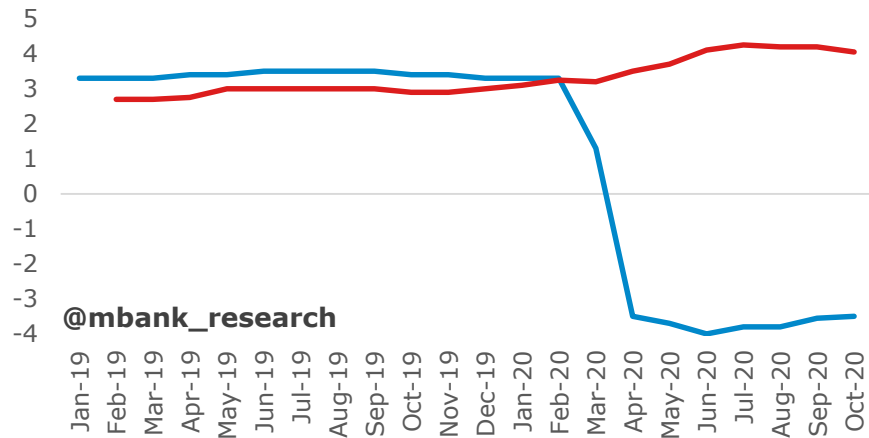
US and EZ inflation expectations (%)



Source: Bloomberg

Consensus: what is expected in Poland?

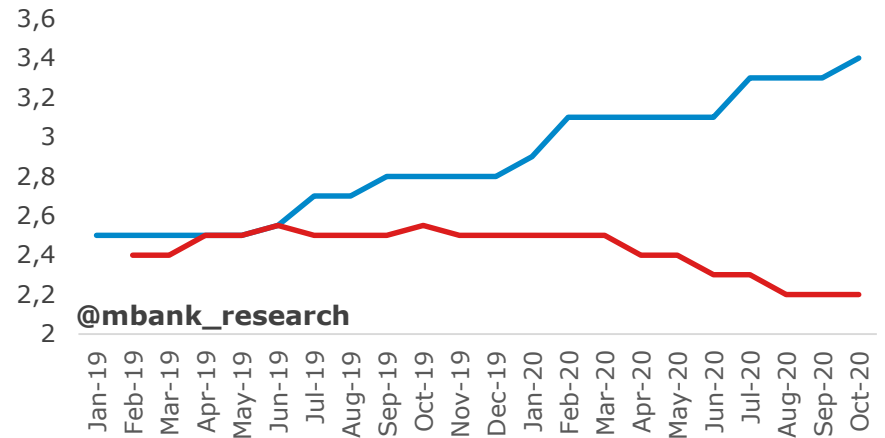
Consensus tracker: GDP growth (% y/y. annual avg)



Source: Bloomberg

— 2020 — 2021

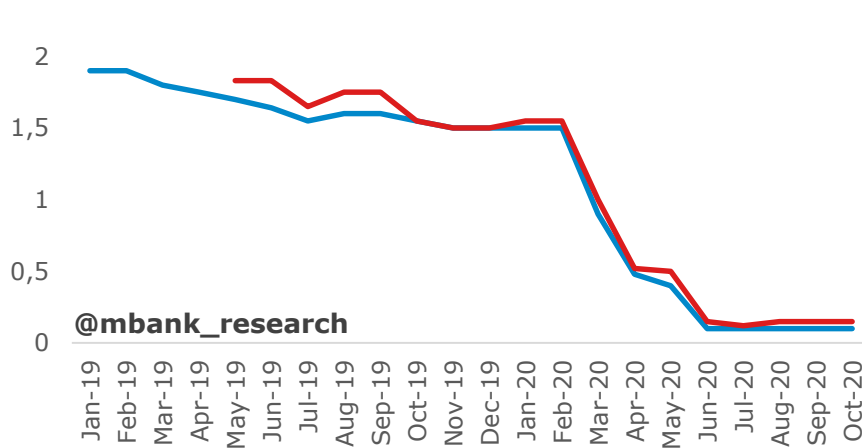
Consensus tracker: CPI inflation (% y/y. annual avg)



Source: Bloomberg

— 2020 — 2021

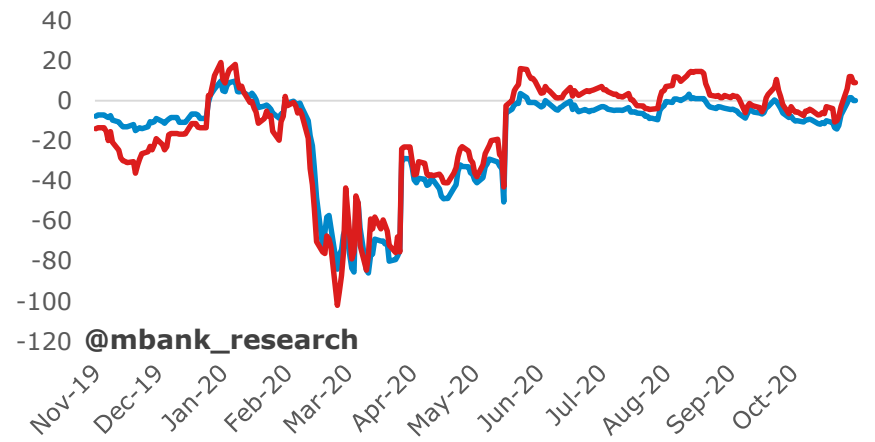
Consensus tracker: NBP ref. rate (%. end of period)



Source: Bloomberg

— 2020 — 2021

Rate changes priced in by FRA (bps)



Source: Bloomberg

— 12x15 — 21x24

Upcoming Polish macro releases: November 2020

Publication	Date	Period	mBank	Consensus	Actual	Prior
CPI y/y (%)	~30.10[1]	Oct	3.0%	3.1%	3.0%	3.2%
	13.11[2]				3,1%	
PMI (pts.)	02.11	Oct	50.4	50.9	50.8	50.8
Unemployment rate (%)	~06.11[3]	Oct	6.1%	6.1%	6.1%	6.1%
	23.11[4]					
GDP (%)	13.11[1]	3Q	-0.7%	-1.7%	-1.6%	-8.4%
	30.11[2]					
Current account (m EUR)	13.11	Sep	2315	1539		947
Employment y/y (%)	19.11	Oct	-1.1%	-1.1%		-1.2%
Wages y/y (%)	19.11	Oct	4.3%	4.7%		5.6%
Industrial output y/y (%)	20.11	Oct	0.5%	1.0%		5.6%
PPI y/y (%)	20.11	Oct	-0.8%	-0.9%		-1.6%
Retail sales y/y (%)	23.11	Oct	-4.5%	-0.7%		2.5%
Construction output y/y (%)	23.11	Oct	-8.1%	-6.5%		-9.8%
M3 y/y (%)	24.11	Oct	17.3%	16.9%		17.0%

[1] Flash estimate

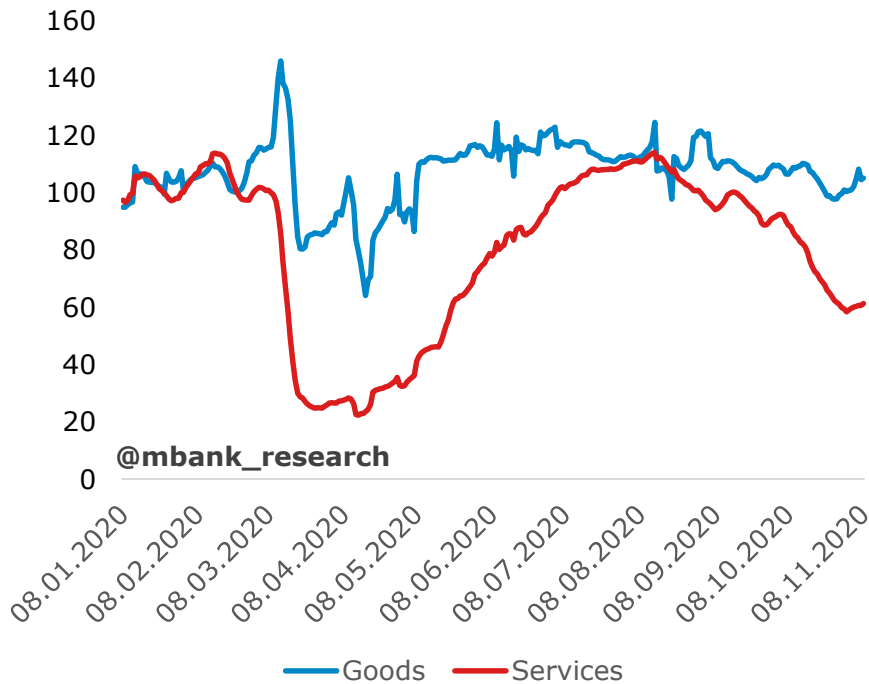
[3] Ministry of Economic Development, Labour and Technology estimate

[2] Final reading

[4] Statistics Poland final reading

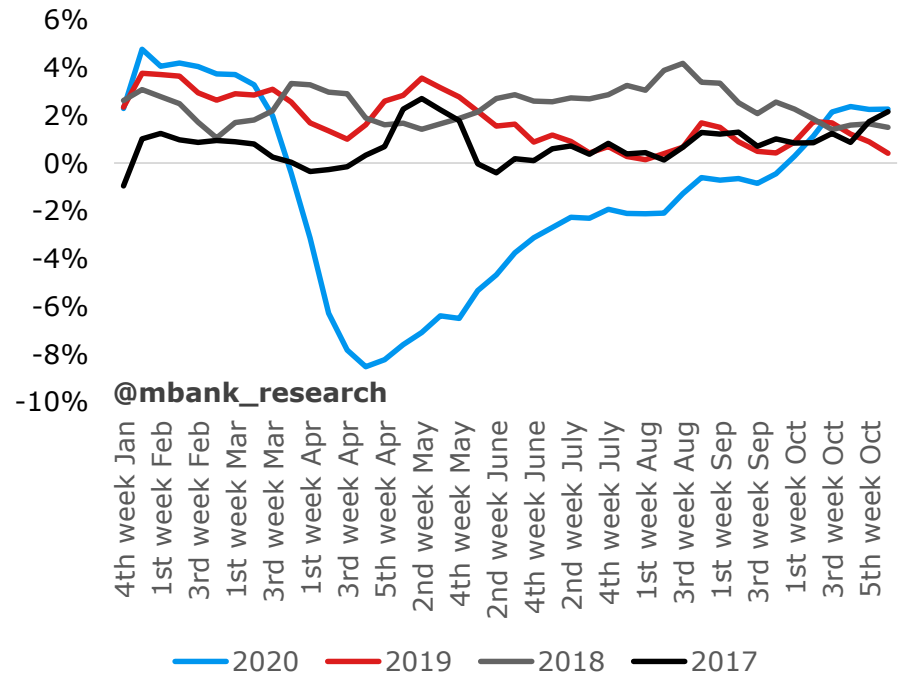
Recovery reverses with new COVID-19 restrictions

Card expenditures weekly, Jan20 = 100



Source: mBank transaction data. Own elaboration.

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

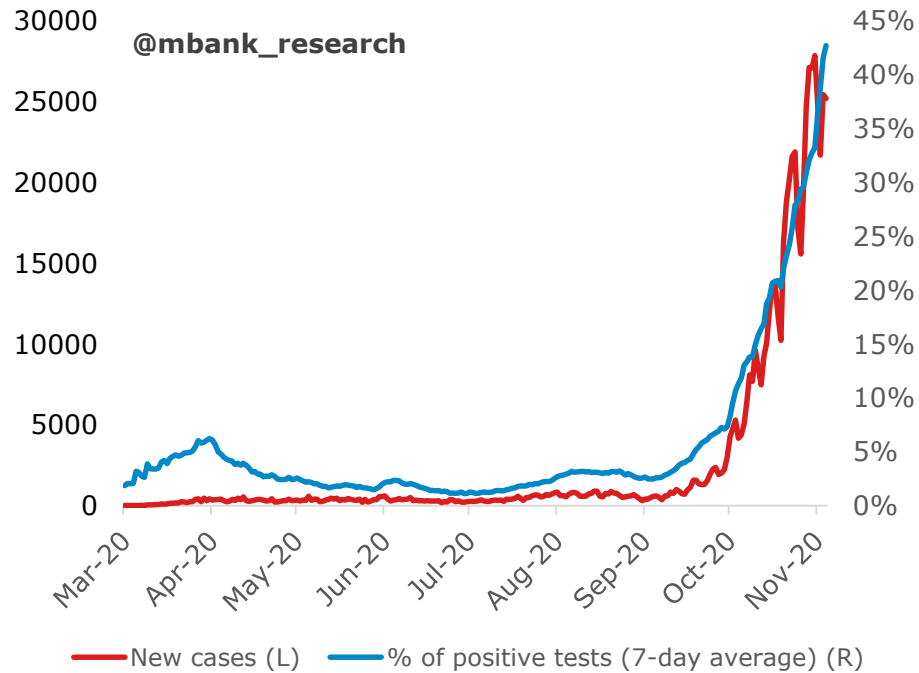


Source: electricity grid data & own elaboration

- ❖ Electricity consumption is still holding well, reflecting mostly better performance of manufacturing sector – as in other European countries current restrictions do not affect manufacturing so much. There are no problems with supply chains neither (as in March – April).
- ❖ Restrictions resulted in a significant decline in card expenditures on services. Impact on expenditures on goods is small (almost not visible) as new regulations on shopping centers began on November 7th (card transactions presented above include data till November 8th, but we observed higher consumers activity before shops closures: something like mid-March episode in the Spring). But imposing restrictions is not a starting point of decline in expenditures – consumers limited their activity before the second wave of infections.
- ❖ Declines in card expenditures suggest weak 4th quarter. Restrictions (and possible lockdown) will hit the consumption, which will cause a drop in GDP (-3.0% q/q is our current forecast).

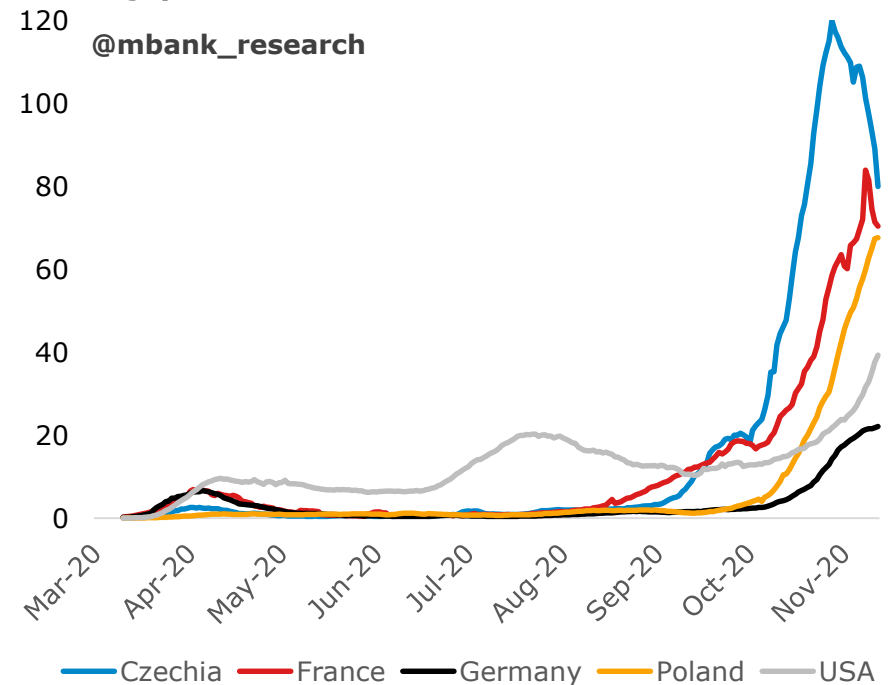
COVID-19 cases

Poland - COVID-19 cases (daily)



Source: Own elaboration based on Ministry of Health and medonet.pl data

COVID-19 new cases per 100 000 population (7-day average)

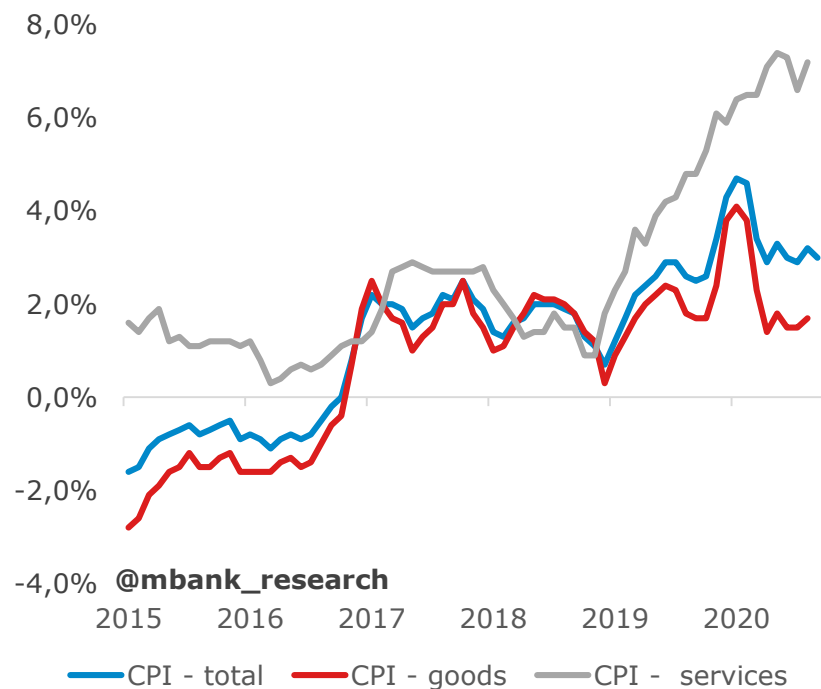


Source: Own elaboration based European Centre for Disease Prevention and Control data

- ❖ European countries imposed new restrictions in response to rising COVID-19 cases. They seem to work – average number of new cases in Czechia or France have declined. Flattening in Germany is observed.
- ❖ Poland was no exception here. Restrictions were imposed gradually – first, closure of gyms and fitness clubs (17th October), then bars and restaurants (only takeaways, 24th October), and shopping centers (except for food and pharmacies, 7th November). Schools are closed (online learning). Theatres and cinemas are closed too. Restrictions are expected to last until November 29th but they can be extended.
- ❖ Government announced that 70 new cases per 100 000 inhabitants (on average) may result in imposing the national lockdown. This trigger seems to be blurred owing to the small number of tests that actually controls the outcome.
- ❖ Because of the above-mentioned restrictions we decided to revise downwards our GDP forecast for 4th quarter. Consumption (especially in services) will suffer the most.

Short-term inflation tracker

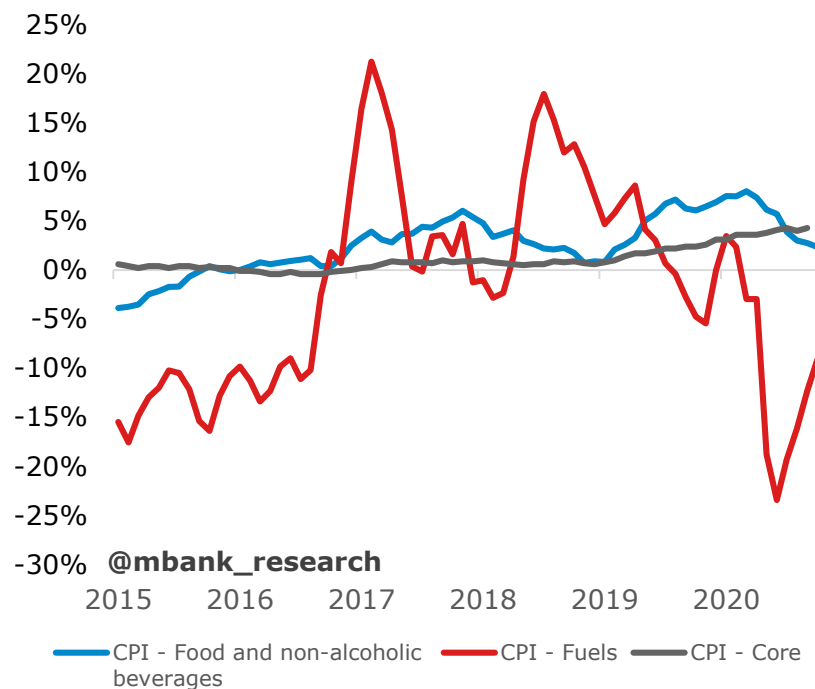
Still little respite in services



Source: Statistics Poland. own elaboration

- ❖ CPI in October slowed down to 3.1% y/y. Food prices declined (on monthly basis), as well as fuels. Based on this reading we estimate that the core inflations slowed down to 4.2% y/y (from 4.3% y/y month before, the exact reading is not yet published by NBP).
- ❖ Next months should bring lower fuel prices and possibly further drops in food prices. Therefore, according to our forecasts, inflation will reach the NBP target (2.5%) by the end of the year. It will continue to decline in the first months of 2021. We do not differ significantly with NBP analysts concerning the projected inflation path (page [14](#)) – its yearly average will be close to the target in 2021.
- ❖ MPC signaled it is done with easing as inflation reached target. This is our base case for now.

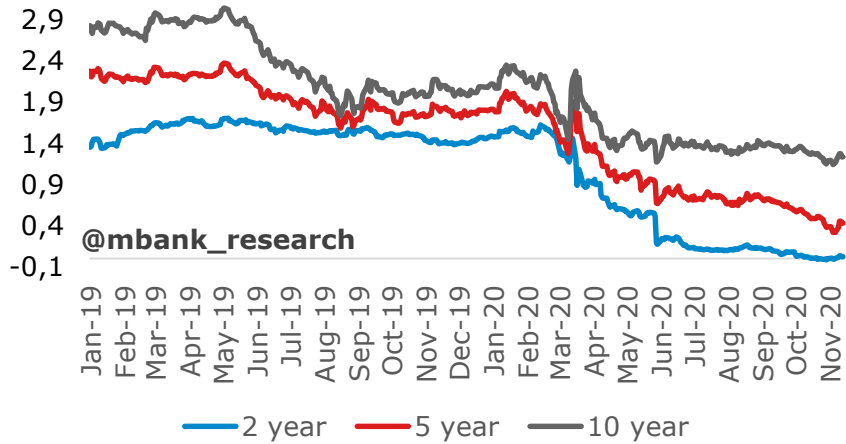
Inflation falls primarily driven by food and fuels, core inflation high and stable...



Source: Statistics Poland. own elaboration

Polish rates, yields and spreads: still low, some steepening

POLGBs



Source: Bloomberg

PL IRS



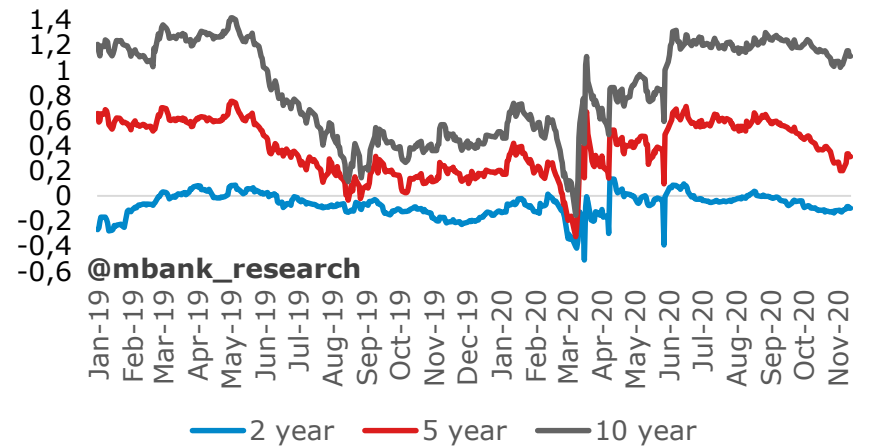
Source: Bloomberg

ASW spread



Source: Bloomberg

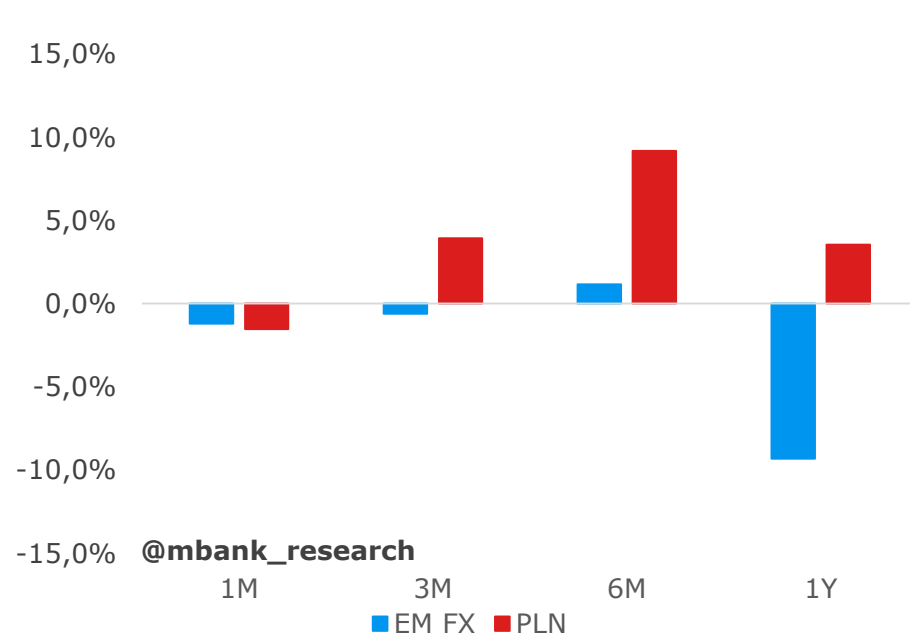
POLGB yield minus 3m WIBOR



Source: Bloomberg

PLN: Spikes still possible due to increased uncertainty

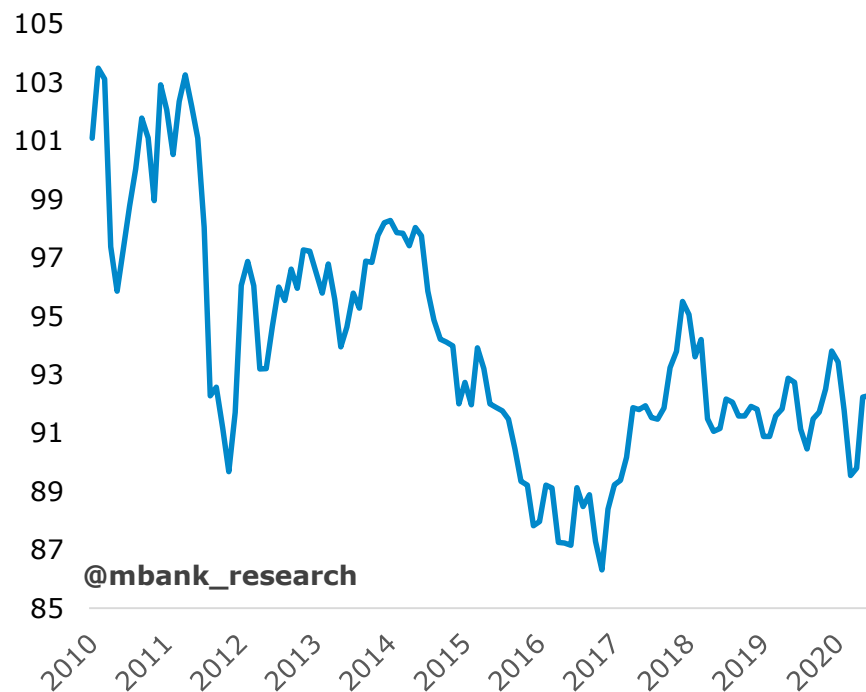
Depreciation



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

Source: Bloomberg

Real effective exchange rate

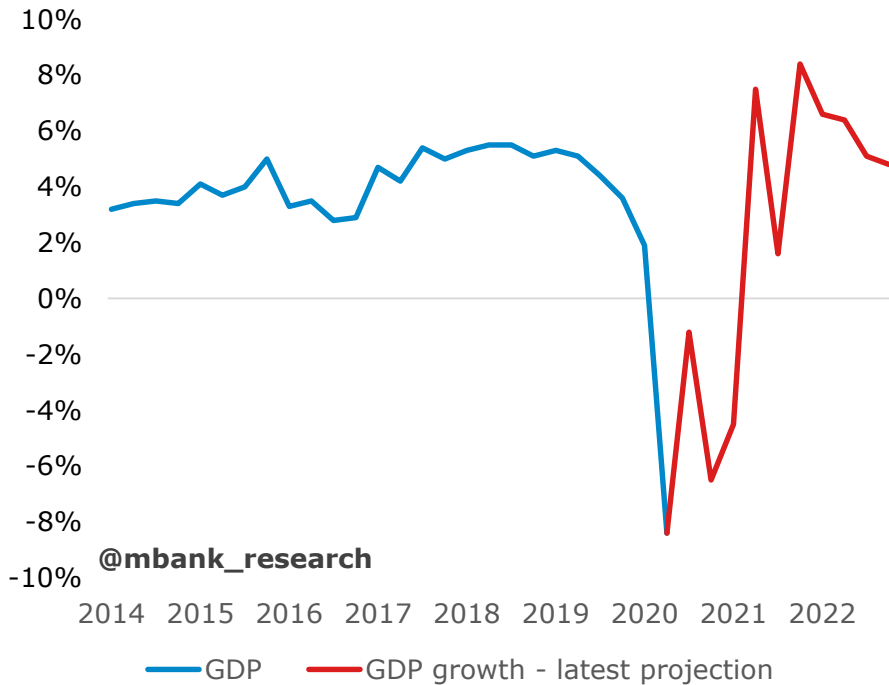


Source: BIS

- ❖ October was another month of weaker zloty. EURPLN crossed (for a while) the barrier of 4.60 - the level previously seen in 2009. The reason was global risk-off (second wave of pandemic). With more optimistic global sentiment (vaccine, more monetary stimulation) EURPLN moved back under 4.50.
- ❖ In the long-run we expect stronger zloty (our EURPLN forecast for the end of 2021 is 4.25), which will be supported by good situation on the current account, recovery in the Polish economy and higher EU transfers. But our forecast is not as optimistic as month before (EURPLN is slightly higher) because of the bumpy road through Autumn and Winter time that will prove hard for countries in northern hemisphere.
- ❖ MPC still claims that the pace of the current economic recovery could also be limited by the lack of visible and more durable zloty exchange rate adjustment. MPC would like zloty to depreciate more, but we do not expect that it is a signal of possible interventions.

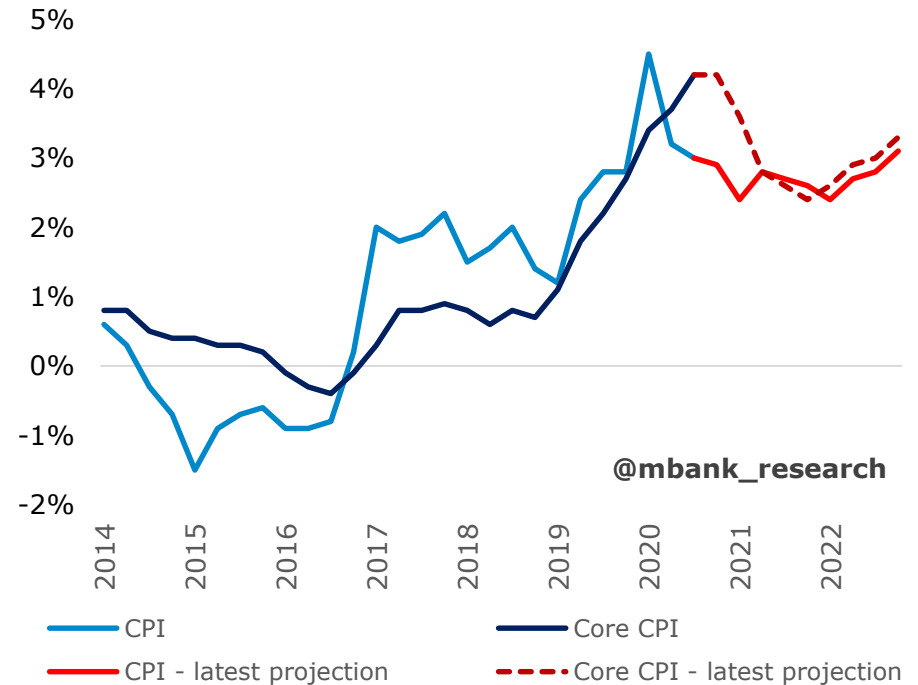
New NBP projections

NBP's latest projection: GDP growth



Source: Statistics Poland. own elaboration

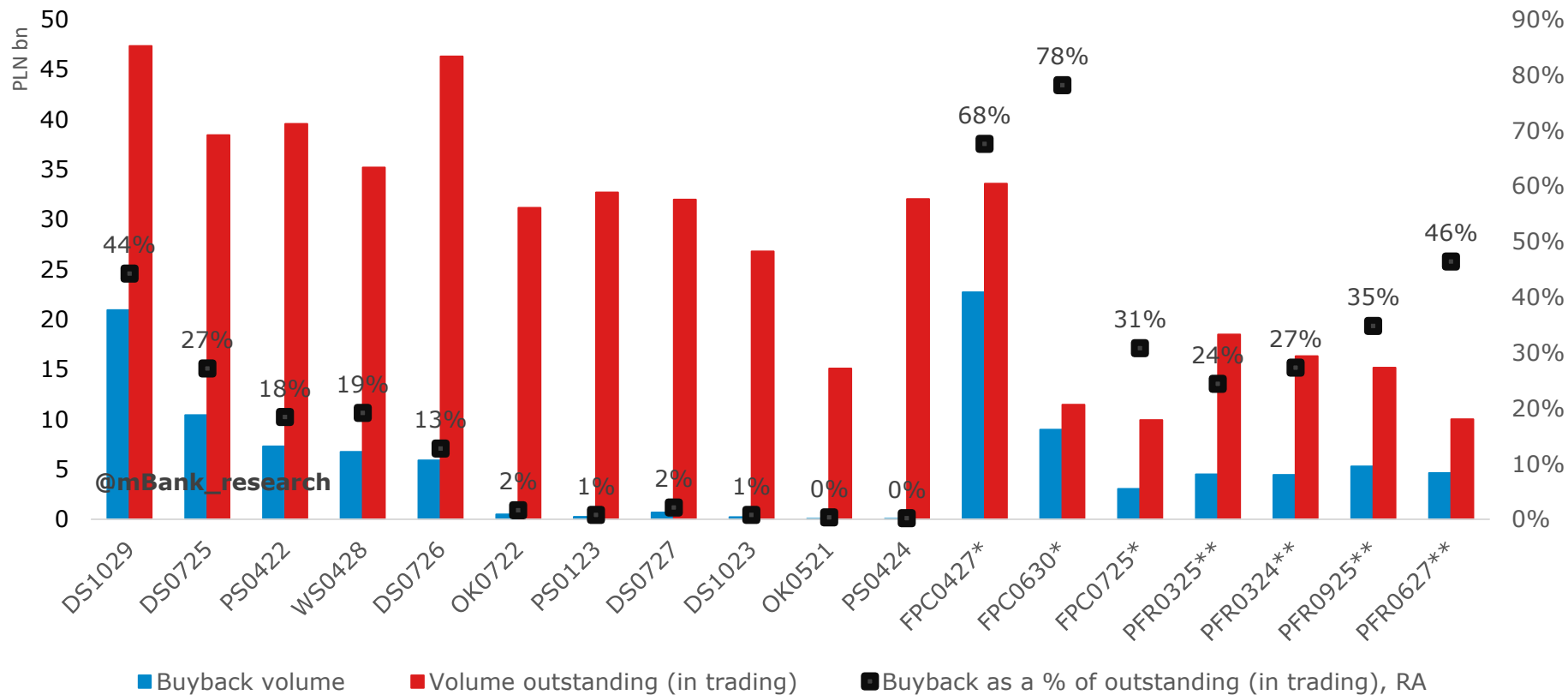
NBP's latest projection: inflation



Source: Statistics Poland. own elaboration

- ❖ New NBP forecasts are more optimistic than the July ones. NBP analysts revised GDP forecast for 2020 upwards (from -5.6% y/y to -3.5% y/y), due to better than expected 2nd and 3rd quarters. Forecasts for next few quarters are lower than previously expected because of the second COVID-19 wave (decline of consumption). In next 2 years there will be a slow rebound in economic activity, but the projected GDP path ends up higher than in the previous forecast (mostly due to higher impact of capital formation).
- ❖ Inflation path is also higher than in the previous forecast. Average yearly inflation will be close to the NBP target (2.6% y/y in 2021 and 2.7% y/y in 2022). CPI slowdown (from the expected 3.4% y/y this year) is mostly the result of projected lower core inflation (but not as low as expected in July).
- ❖ The new projections do not indicate any further rate cuts. MPC will probably focus on the asset purchases and exchange rate.

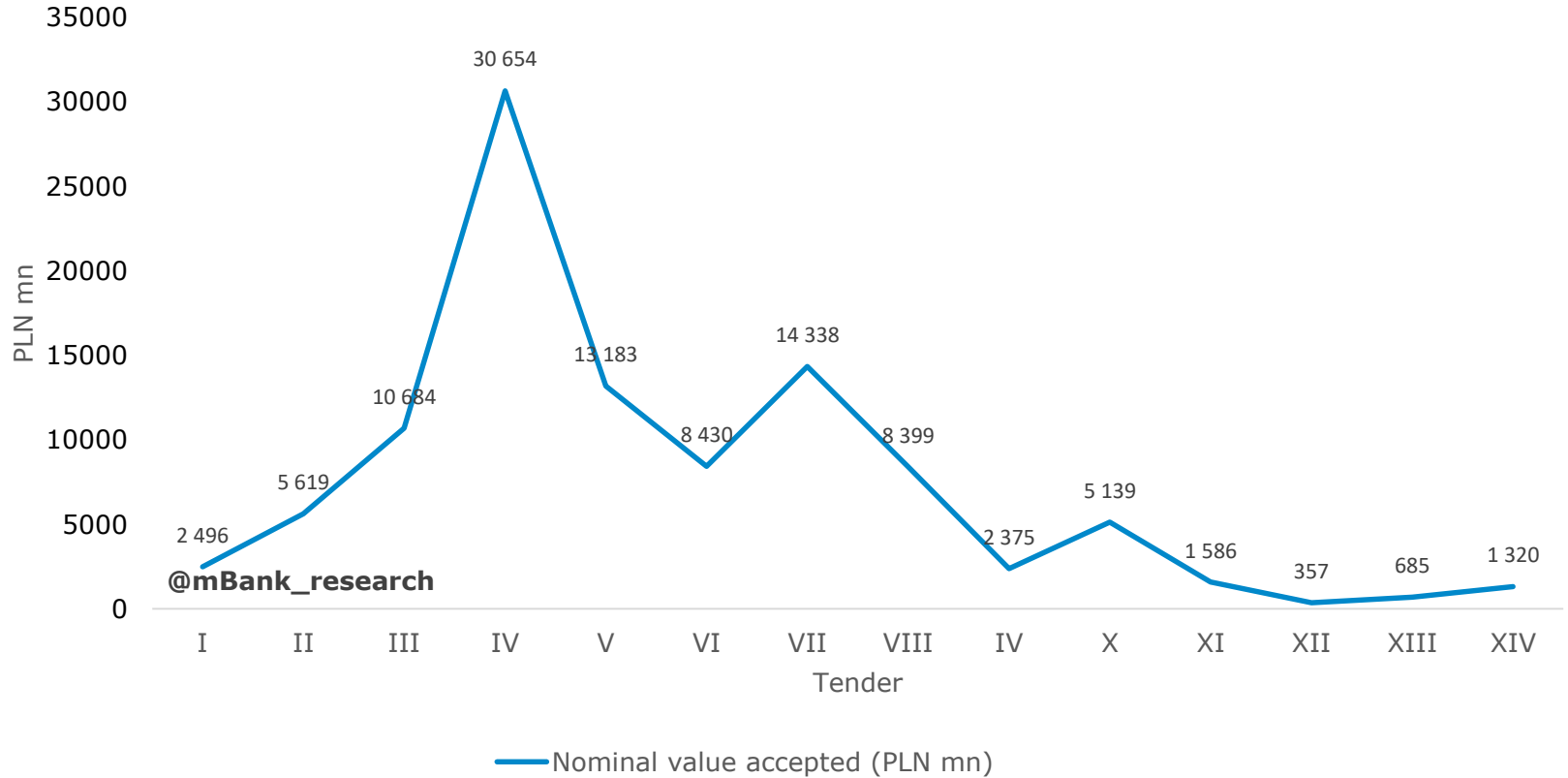
Appendix: NBP „structural“ portfolio monitor



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

- ❖ The state for 13.11.2020. We present cumulative numbers.
- ❖ NBP launched structural open market operations in March and they constitute a purely new instrument introduced to fight the crisis.

Appendix: NBP purchases, the timeline



Source: Own elaboration on NBP data.

- ❖ The state for 13.11.2020.
- ❖ Total nominal value exceeded 105.3 bn PLN. Including 34.7 bn PLN in BGK bonds aka „covid bonds” and 18.8 bn PLN in PFR bonds.

Disclaimer and contact details

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