Monthly Pulse Check
Economy. FI. FX

December 11th 2020

mBank Research

For contact details and classification of the report see the last page.

Our view in a nutshell (≥1Y horizon) & major forecasts

Macro

- Second wave of infections came in an abrupt manner. Lockdowns returned but in lesser intensity and the picture is mixed now. This recession carries substantial structural change for some sectors. Scaring effects will be visible but prospects of vaccination and herd immunity in 2021/2022 give hope for a strong economic rebound.
- Polish economy behaves better than expected. We expect 3.4% recession in 2020, followed by 3.8% recovery in 2021. Consumers, supported by government programmes, fared relatively well. Due to the second lockdown introduced in November, there will be double dip growth path in 2020. 2021 brings rebound as lost demand is made up. Overall, however, we see the recovery as somehow back-loaded and visible more in 2022 due to only slow improvement in labor market (mostly wages) after full reopening of the economy.

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.
- 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. On hold in either way in 2021. Next meeting: 13th January.

FX Market

- The worst for PLN is over. Low rates suggest that the swings in PLN triggered e.g. by risk aversion may be more pronounced but after economies stabilized, the risk of such developments is lower. 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.

		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
GDP y/y	%	1,9	-8,4	-1,5	-5,1	-3,2	8,4	2,5	6,9	-3,4	3,8
Individual consumption y/y	%	1,2	-10,8	-0,4	-5,5	-0,9	13,0	0,3	6,7	-3,9	4,8
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	-9,0	-10,0	-9,8	3,4	1,5	7,0	-7,2	0,5
Inflation rate (average)	%	4,5	3,2	3,0	2,8	2,0	2,5	2,7	3,1	3,4	2,6
Unemployment rate (eop)	%	5,3	6,1	6,1	6,5	6,8	6,7	6,5	6,5	6,5	6,5
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	3,75	3,69	3,52	3,44	3,40	3,75	3,40

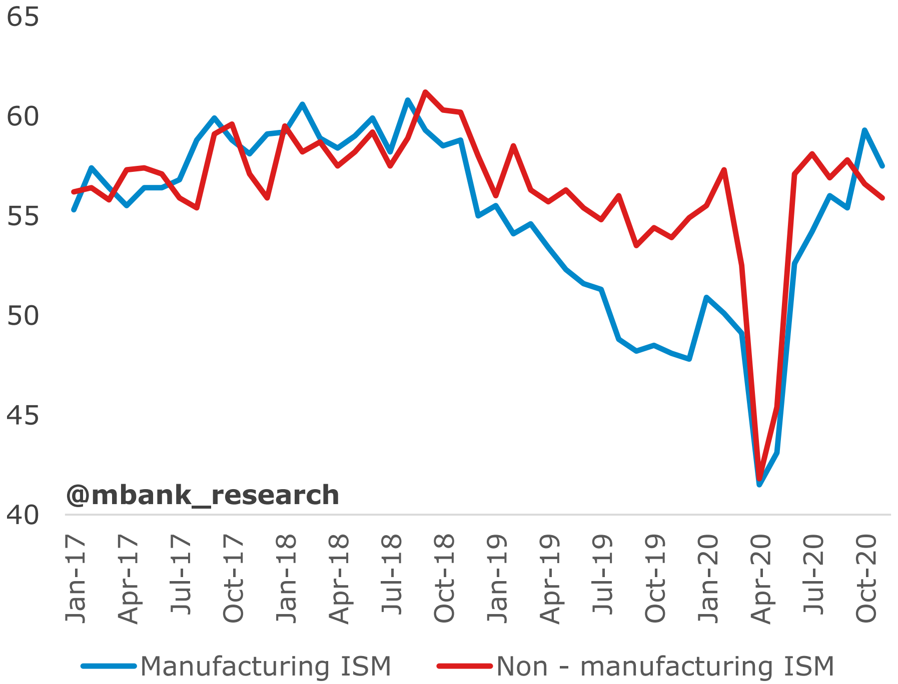
F - forecast

Highlights

- COVID-19 hit severely in the Autumn. Lockdowns returned. Picture is mixed as the „cycle" of infections is not synchronized now. Upcoming vaccinations speak in favor of a return to normality in 2021 (see here).
- Second wave of lockdown carries much lower economic toll (see here and here). Markets are ready to bet on steeper yield curves as recovery kicks in. However, due to massive involvement of central banks (and story of fiscal dominance circulating wildly), the push for higher rate will be visible, albeit rather limited. (see here).
- In 2020 we will see double dip recession due to lockdown measures introduced in November that generated a dent in economic activity (see here, here and here for the take from high frequency data). Further prospects brighten as the number of COVID-19 cases drops and vaccine will be arriving shortly. Next months may be yet still marked by economic restrictions aimed at taming the spread of the virus. Economy will rebound in 2021 but the pace of recovery will accelerate mostly in late 2021 and in 2022 (see here). Hopefully, the fears around the new EU funds subsided. There will be no Polish veto and Poland will enjoy hefty allocation of funds, brightening prospects for 2022+ (see here).
- Inflation is coming off elevated levels. It gives up only marginally in core measures. We see this trend to continue and await the trough to happen in 2021 (see more here). We can, however, abandon assumptions that inflation in 2021 will be substantially lower than in 2020 (see more here).
- Market rates are low and short end is going to be anchored by dovish MPC. Longer rates may follow global developments. However, we do not think there is a burst in rates lurking on the horizon. We would bet rather on a slow drift (see here for recent developments).
- NBP purchases are at low levels for now (see here and here). We think NBP will keep this option until the economy will be out of the woods (2021).
- The worst is over for PLN. We still expect further gradual depreciation. See here.

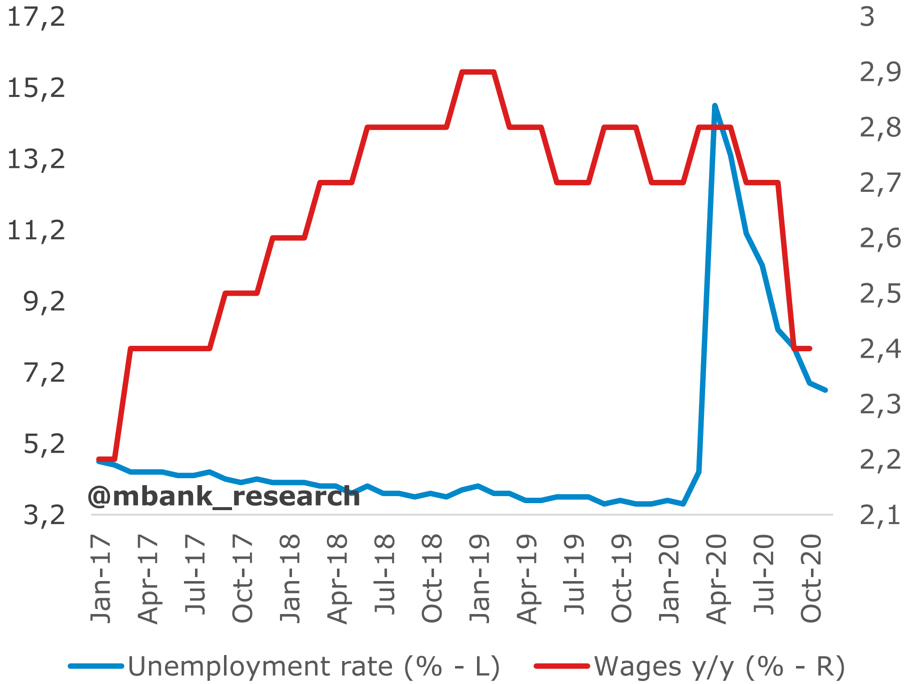
U.S. economy health check

ISM PMI: manufacturing & non-manufacturing



Source: ISM

Labor market: wages & unemployment rate

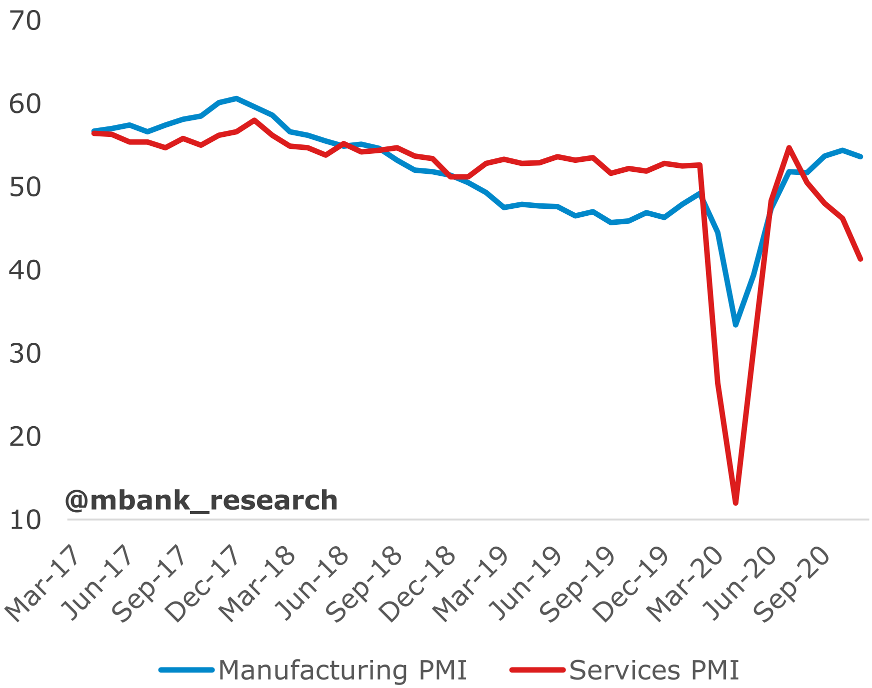


Source: FRED

- Slight declines in both services and industry. But ISMs and PMIs are still quite high – activity increases but at a lower pace compared to previous months. The scale of the decline is nothing compared to the April one. Increasing number of new COVID-19 cases will increase the uncertainty in the economy. There are some negative signals from the labor market, especially weekly jobless claims. It is probably the effect of pandemic restrictions and consumer self-limitations.
- Elephant in the room: If Congress fails to boost fiscal transfers before January, around 20 mn people will loose access to additional transfers As they are enrolled in various government support programmes, they are also credit constrained and as such – unable to make up for the loss of transfers. It is a risk to consumption. The new fiscal package is still in the game, but there is no clear signal that it will be implemented fast.
- Fed will probably decide to act net week. It is unclear whether it will decide to stimulate more or just provide another forward guidance concerning asset purchases (we bet on the second option).

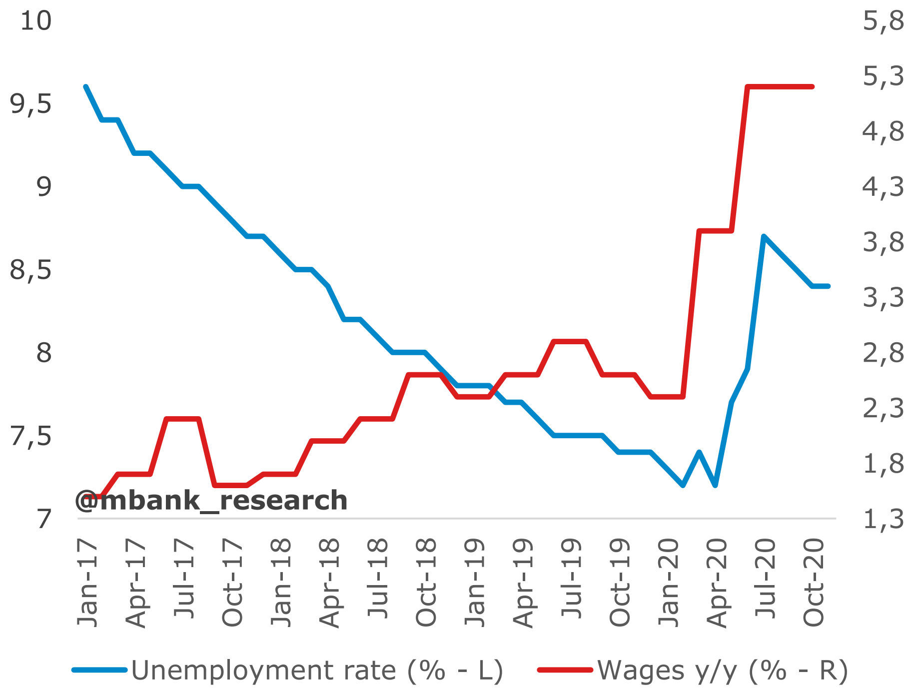
Euro area economy health check

Markit PMI: manufacturing & services



Source: Markit

Labor market: wages & unemployment rate

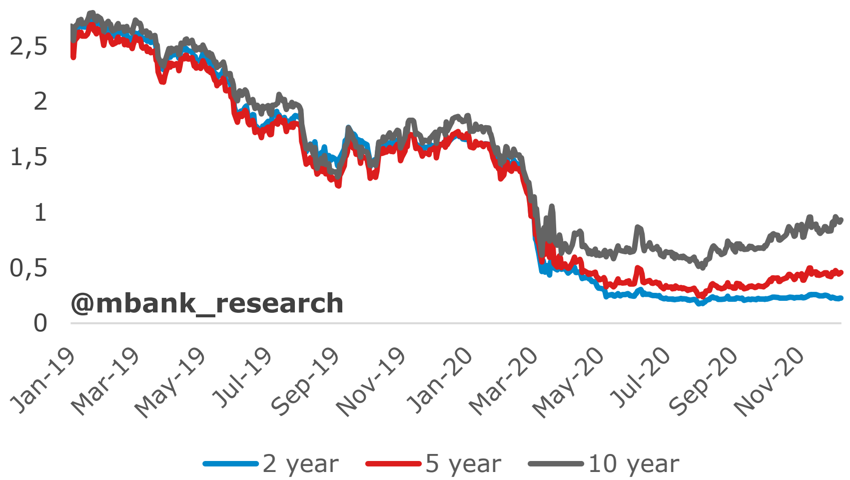


Source: Eurostat

- Europe is more affected than the U.S. However, the dip in economic activity is not comparable to the one in the Spring. Restrictions hit mostly services, manufacturing is much less affected - this difference is directly reflected in the firms sentiment.
- ECB recalibrated its instruments (as announced). Governing Council decided to increase the PEPP envelope (by €500 bn to €1,850 bn) and extend the horizon for purchases (to at least the end of March 2022). TRTRO III favorable terms will be extended to June 2022. There will be also 4 more PELTROs. Interest rates and APP programme remains unchanged. In our view it is not enough to move the inflation expectations. They will linger on on a low level.
- Hungary and Poland reached the compromise with the other EU countries during the current summit. Therefore new MFF for 2021-2027 and Next Generation EU programme can be proceeded. Together with vaccination news (some already started in the UK) it should support the optimism and help the recovery in the 2021.

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

US swap rates (%)

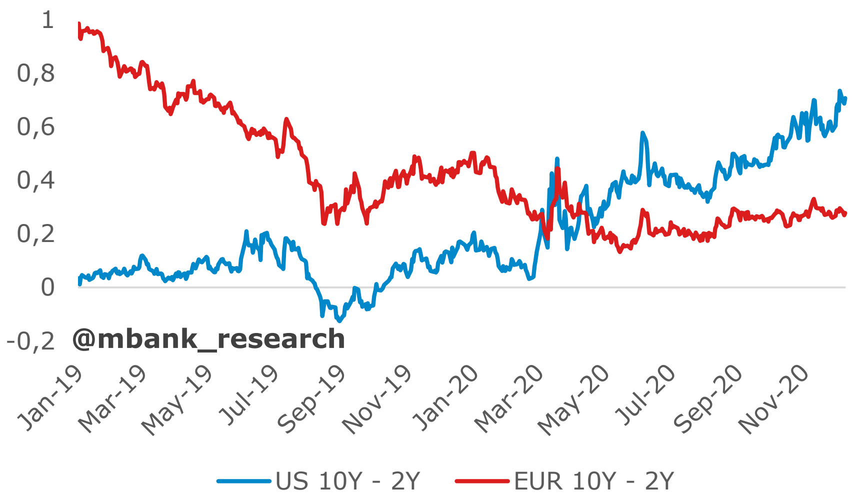


Source: Bloomberg

EU swap rates (%)

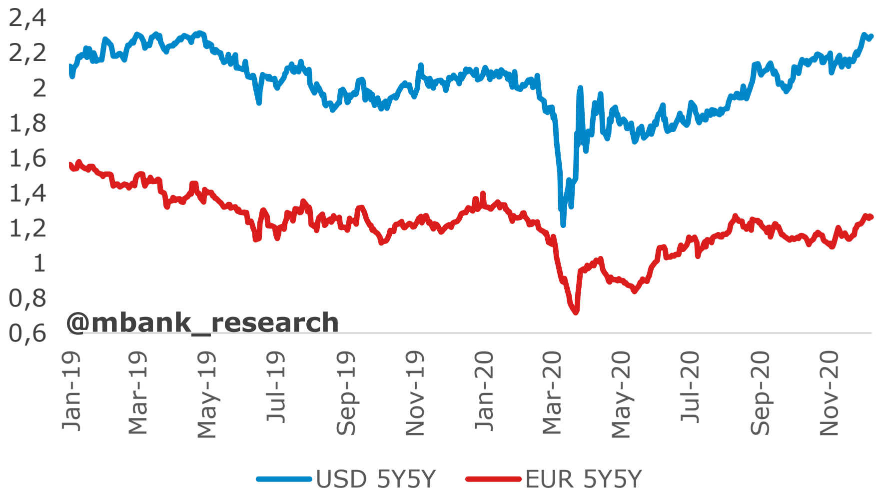
Source: Bloomberg

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



Source: Bloomberg

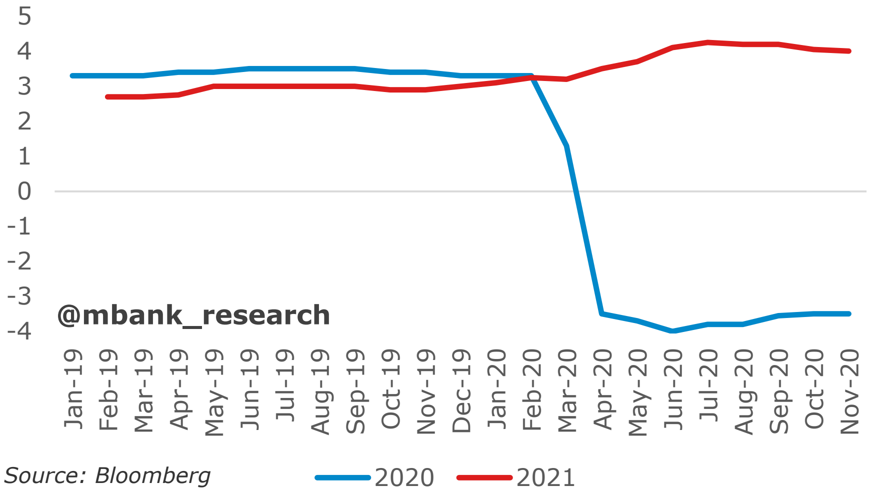
US and EZ inflation expectations (%)



Source: Bloomberg

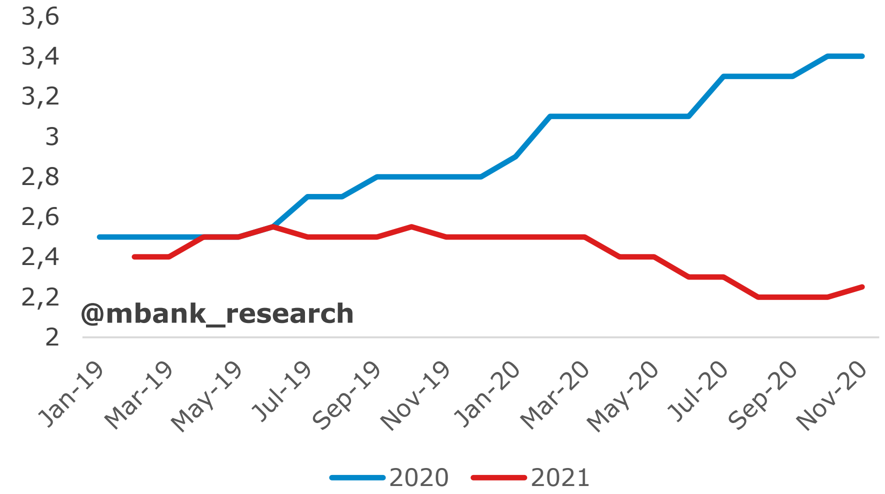
Consensus: what is expected in Poland?

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



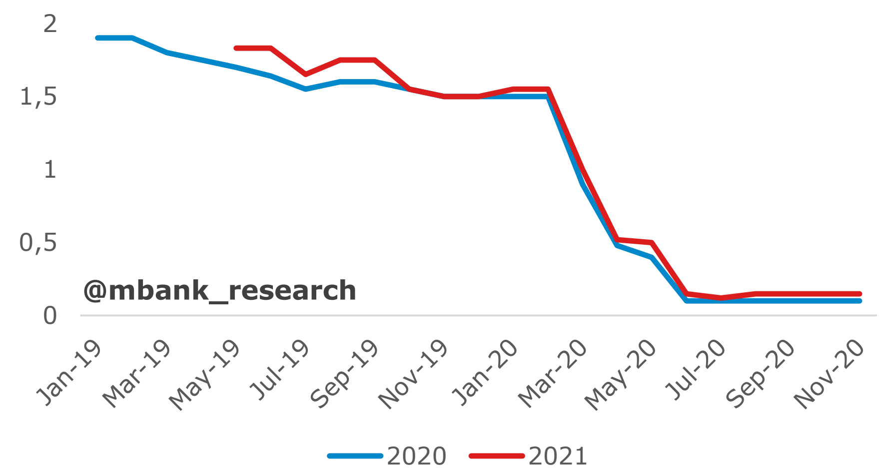
Source: Bloomberg

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



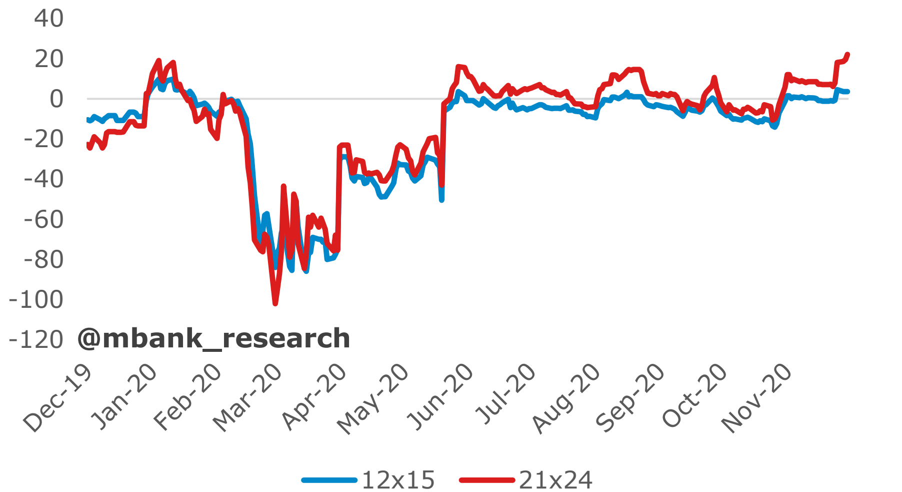
Source: Bloomberg

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



Source: Bloomberg

Rate changes priced in by FRA (bps)



Source: Bloomberg

Upcoming Polish macro releases: December 2020

Publication	Date	Period	mBank	Consensus	Actual	Prior
CPI y/y (%)	1.12[1] 15.11[2]	Nov	3,0%	3,0%	3,0% 	3,1%
PMI (pts.)	01.12	Nov	48,5	49,8	50,8	50,8
Unemployment rate (%)	07.12[3] 23.12[4]	Nov	6,3%	6,2%	6,1% 	6,1%
Current account (m EUR)	14.12	Oct	1335	1155		1072
Employment y/y (%)	17.12	Nov	-1,6%	-1,4%		-1,0%
Wages y/y (%)	17.12	Nov	3,0%	4,5%		4,7%
Industrial output y/y (%)	18.12	Nov	1,1%	3,3%		1,0%
PPI y/y (%)	18.12	Nov	-0,1%	-0,2%		-0,4%
Retail sales y/y (%)	21.12	Nov	-12,8%	-7,4%		-2,3%
Construction output y/y (%)	21.12	Nov	-3,9%	-5,2%		-5,9%
M3 y/y (%)	22.12	Nov	17,7%	16,7%		17,0%

[1] Flash estimate

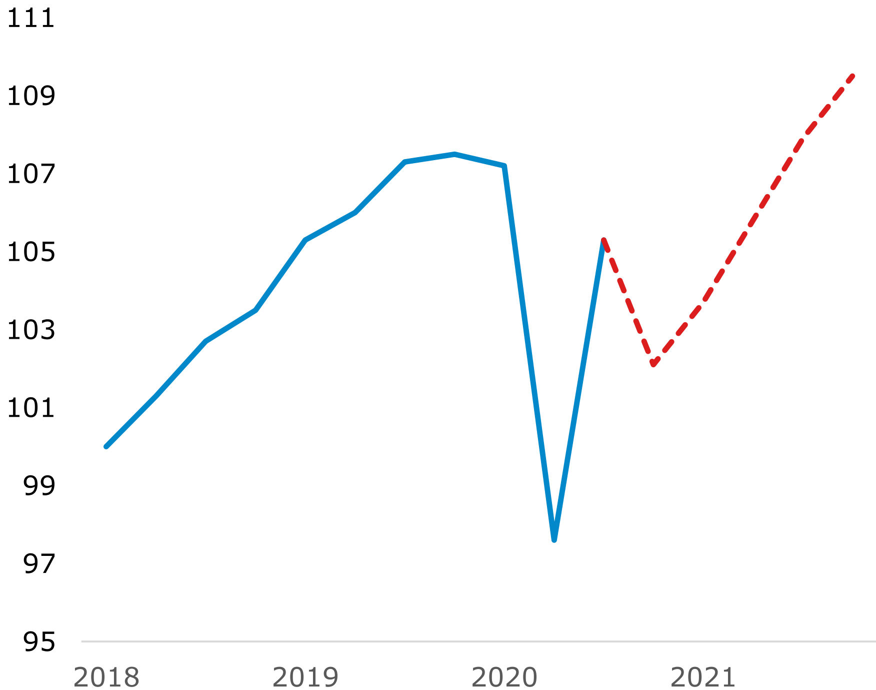
[2] Final reading

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

[4] Statistics Poland final reading

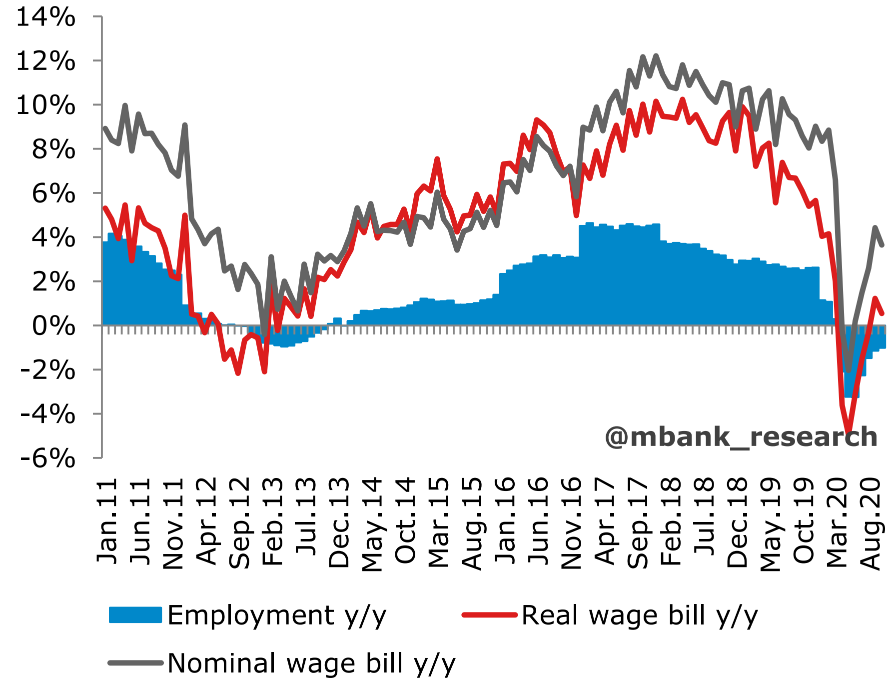
GDP in Q3 rebounded to -1.5% y/y. The shape of expected rebound: double dip.

GDP. Q1 2018 = 100.



Source: Statistics Poland. own elaboration

Foundations for „after-reopening" consumption growth: so far weak

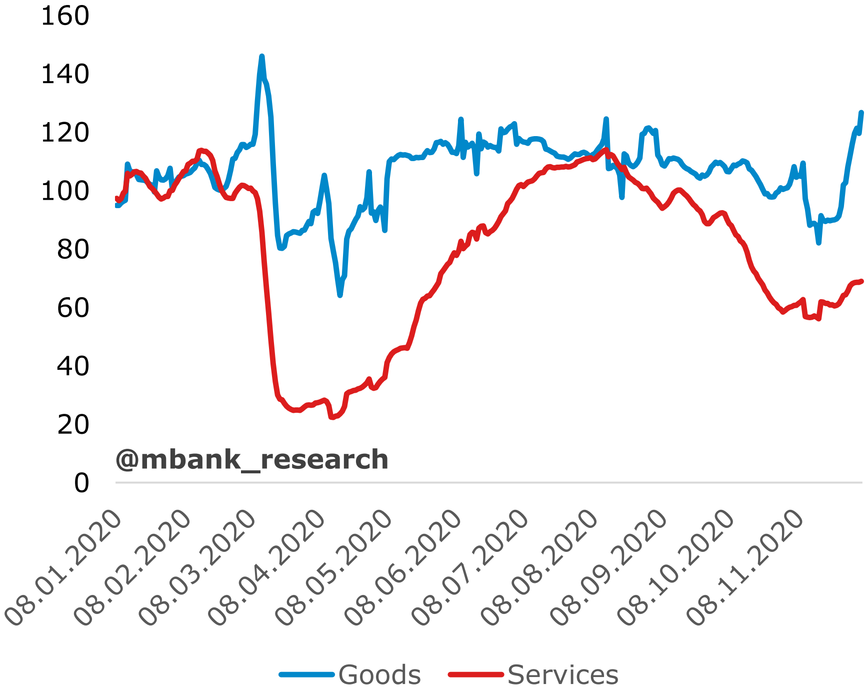


Source: Statistics Poland. own elaboration

- Consumption. No brainer effect assumes that consumers (after the restrictions are lifted) jump start to consume with more or less the same *intensity* as before pandemics. Additional transfers and well hibernated labor market enable such phenomenon. In 2021 service sector will be fully opened (but was it really hit bad in terms of consumer expenditures?). The main question is whether consumers will be, after closing the gap connected with reopening, able to immediately consume as fast as in the most consumption intensive phases of economic growth (2018). Rather not given the state of their incomes (see the RHS graph). Big if: households have strong savings. Are they going to draw them down or just enjoy higher buffer? So far we opt mostly for the latter.
- Investment. Slowly waking up but lagging the cycle. New cycle of EU-sponsored investment to kick in soon.
- Game changer from EU funds will come in late 2021 and work in full throttle in 2022.
- We stick to conservative growth forecast in 2021 (3.8%) and assume somehow back-loaded recovery with culmination in 2022 when economy will be firing on all cylinders and dynamic multiplier effects kick in.

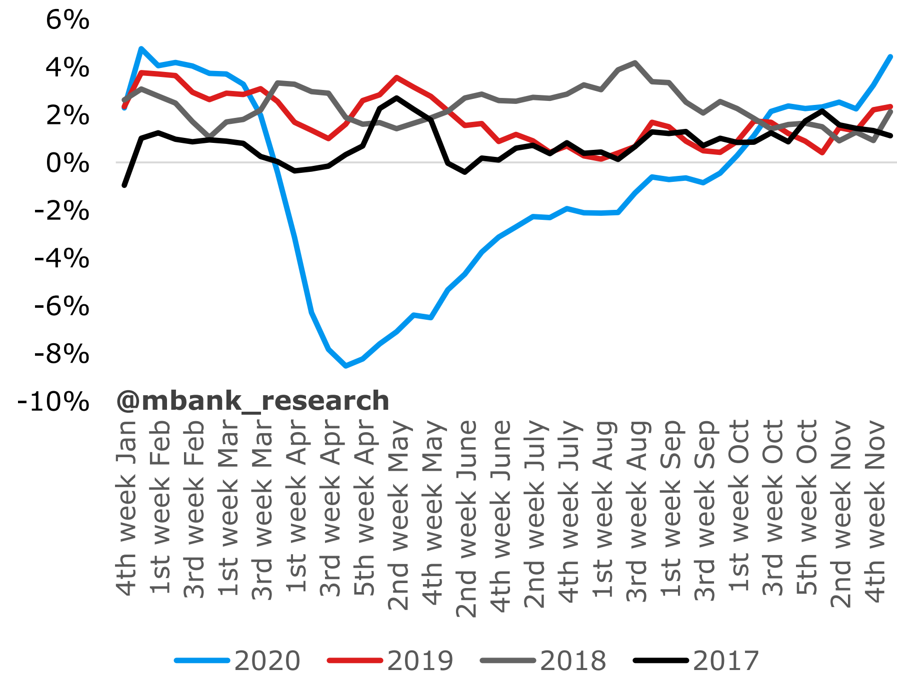
Lifting restrictions supports retail sales

Card expenditures weekly, Jan20 = 100



Source: mBank transaction data. Own elaboration.

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

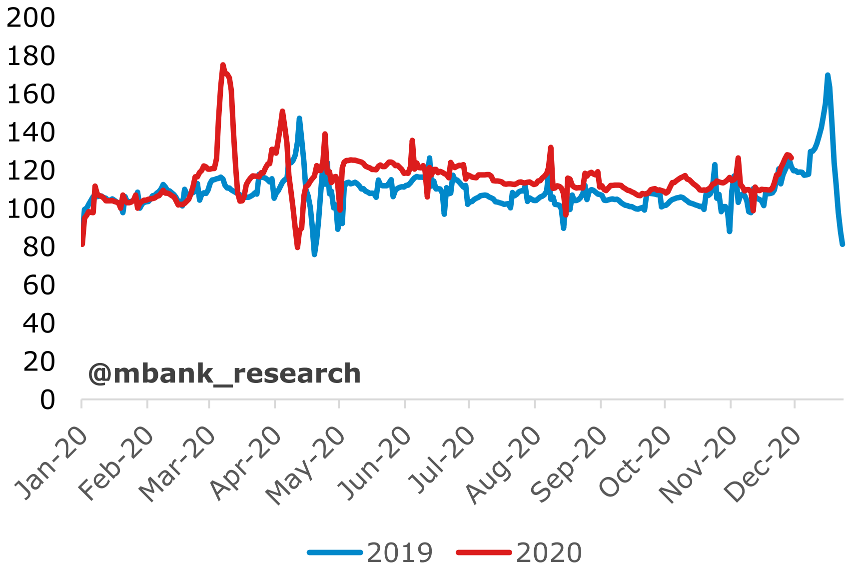


Source: electricity grid data & own elaboration

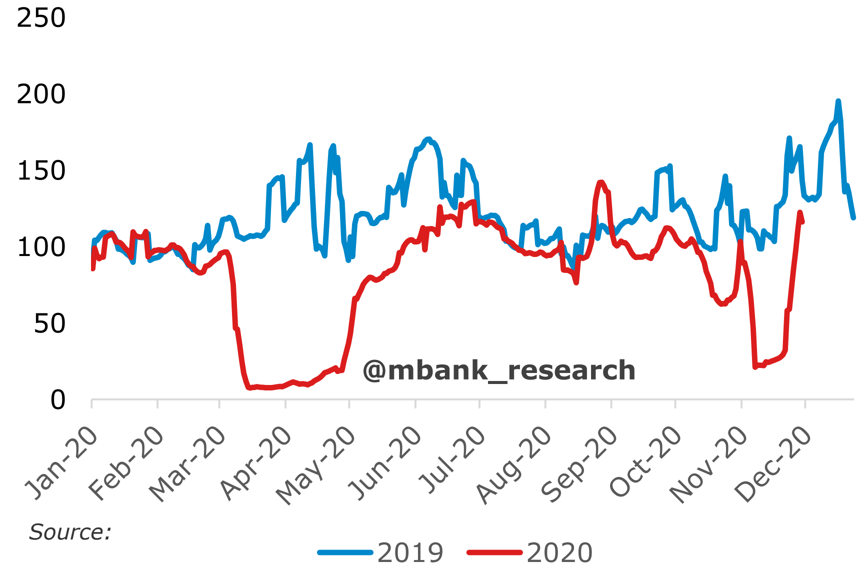
- Card expenditures follows the schedule of introducing (decline of expenditures) and lifting (peak) COVID restrictions. Opening the shopping centers together with the Black Friday (restrictions were lifted day later) resulted in significant increases in clothing, furniture and electronics sales. One more shopping Sunday was introduced – it should help retail sales in December.
- There is only little improvement in services. Gastronomy still does not work (only take offs and deliveries), consumers decided to stay at home. But the scale of the decline in both services and retail sales is less than observed during the first wave.
- There are no signals of any COVID impact in energy consumption (in contrast to Spring). Industrial production is in our view much less affected. Sentiment indicators (PMI) are still quite optimistic, but problems with lower production and new orders was noted in some industries.

Card expenditures, 7-day average

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

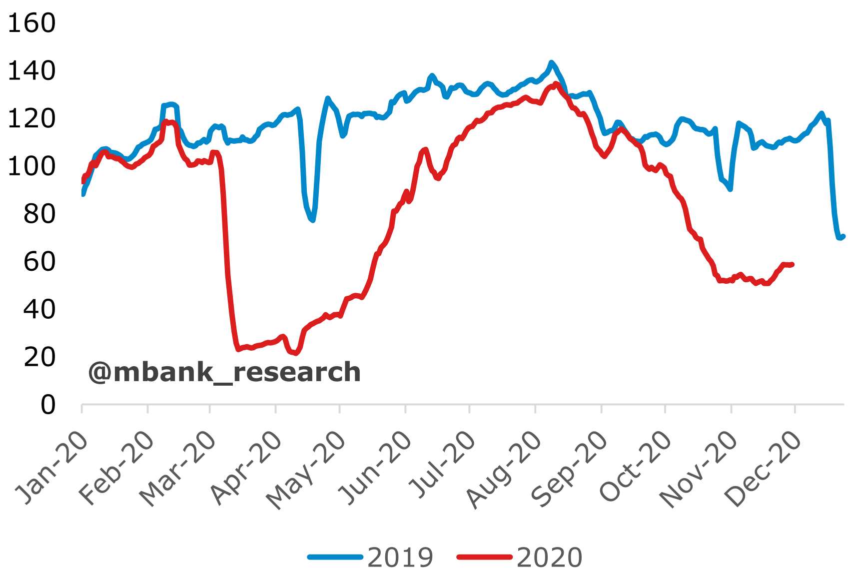


Clothing, footwear, Jan20 = 100

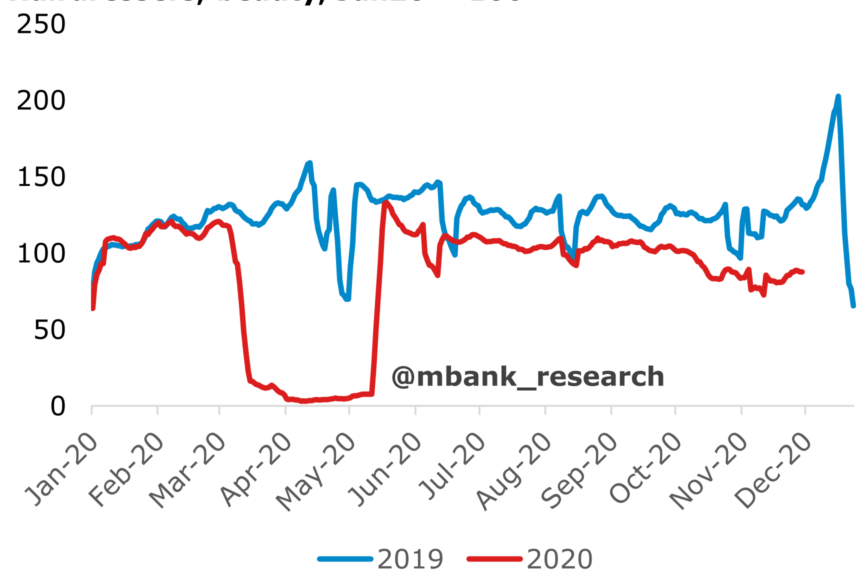


Source:

Gastronomy, Jan20 = 100



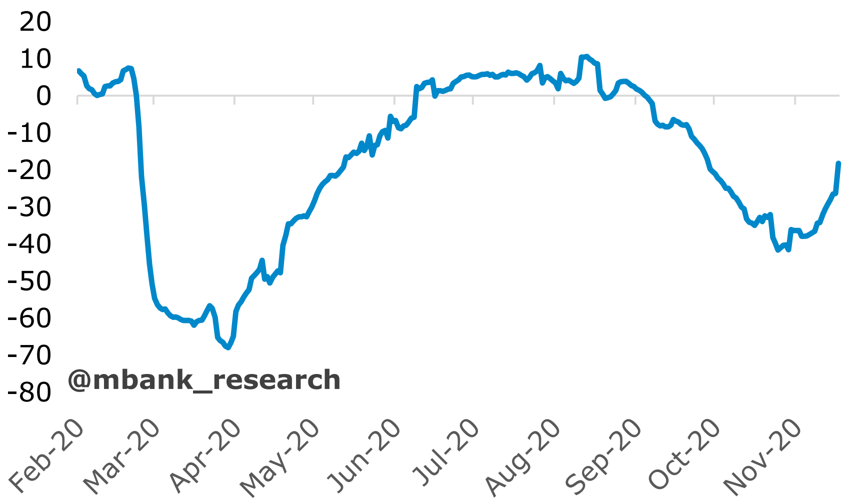
Hairdressers, beauty, Jan20 = 100



Source: mBank transaction data. Own elaboration.

Google mobility, 7-day average (stay at home worked)

Retail & recreation (% change from Jan20)



Grocery & pharmacy (% change from Jan20)

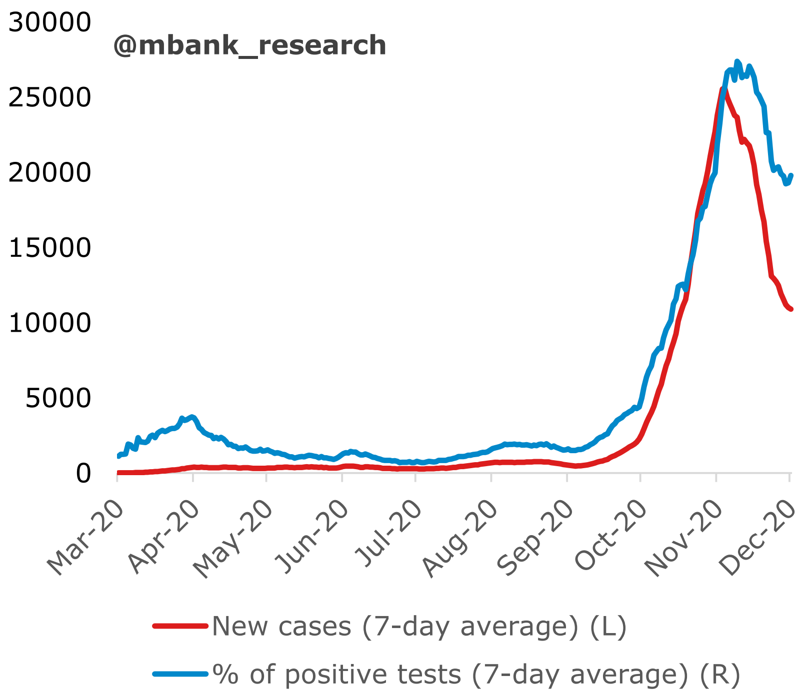
Workplaces (% change from Jan20)

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

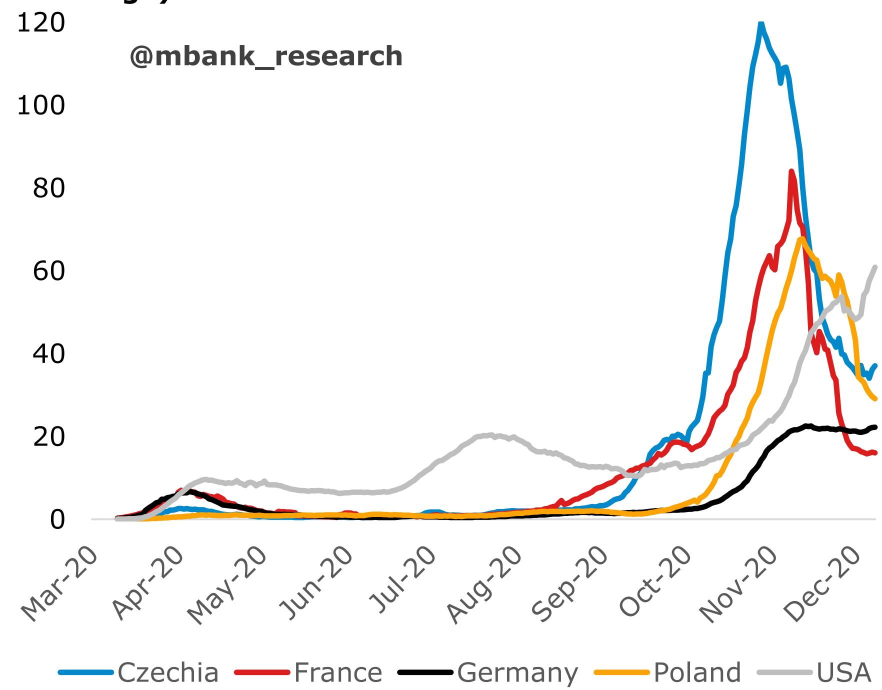
COVID-19 cases

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)

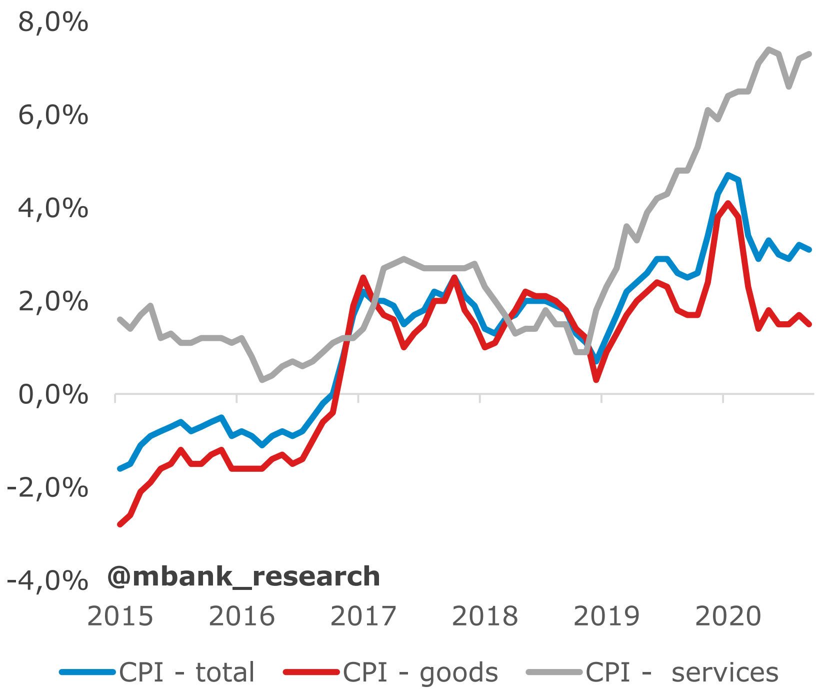


Source: Own elaboration based European Centre for Disease Prevention and Control data

- The number of COVID-19 cases in Poland declines so restrictions are gradually lifted. The first step was reopening shopping malls. Schools are still closed (online learning) and they will be closed for a next month. Other current preventive measures (e.g. closed hotels and gastronomy, fitness clubs, cinemas) are to last at least till the 27.12. Then restrictions will be gradually eased depending on the COVID cases.
- There is still high number of COVID-19 deaths but they seem to be lagging the previous new cases numbers.
- The government announced the vaccination programme. First vaccinations should begin in the first quarter of 2021. Plans of 180 thousand vaccinations per week seem to be insufficient to fully neutralize the pandemic, but it decreases the possibility of another lockdowns.
- Poland is no exception among other European countries. COVID-19 slows after burst of the second wave. Europe is in lockdown (some countries ease after lockdown), the U.S. is ahead of quarantine measures.

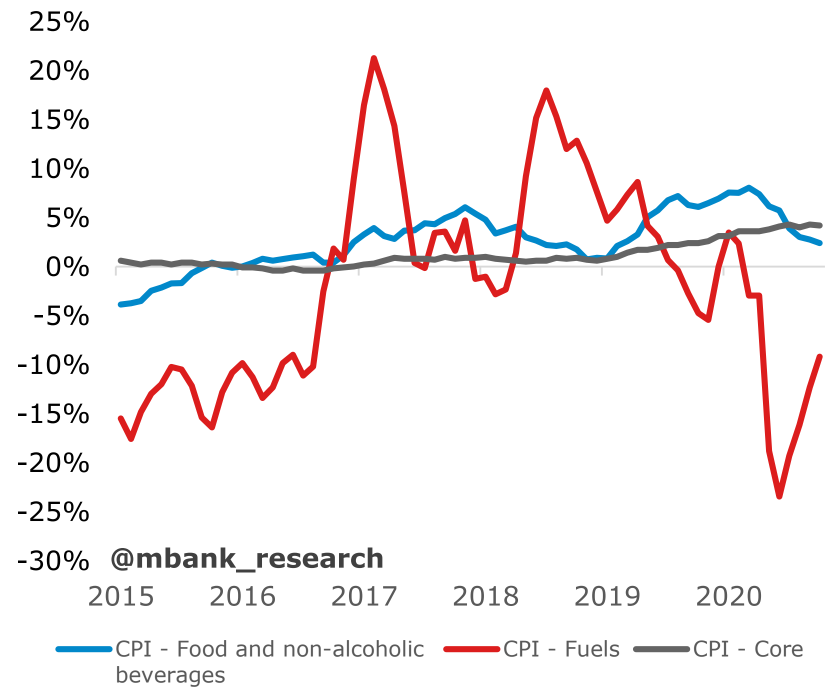
Short-term inflation tracker

Still little respite in services



Source: Statistics Poland. own elaboration

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

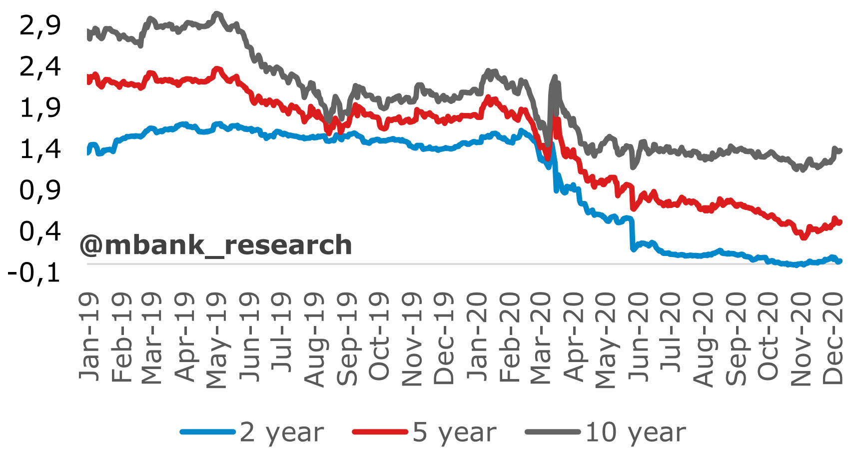


Source: Statistics Poland. own elaboration

- Consumer inflation is slowly falling mostly due to food and fuel prices. Core prices are very sticky, especially with respect to services.
- There will be new exogenous elements in 2021 inflation: electricity hikes similar to the ones in 2020, sugar tax, retail tax.
- The turnaround in inflation will happen from higher level in 2021. Of course it translates into prospects for higher inflation in 2022 and after.
- Consumption basket will be odd in 2021, based on severely distorted consumption structure from 2020. Since economy and demand structure will be more or less normal in 2021, it does not really make sense to pay much attention to inflation figures stemming from new basket in 2021. Luckily, we will be able to present inflation according to the „old" basket next to the prints from the new one. Such an approach will allow to present inflation path more consistent with the structure of consumption in 2022 when the play for monetary policy (and rate hikes) will be much more interesting.
- MPC signaled it is done with easing as inflation reached target. Boring monetary policy mode is on.

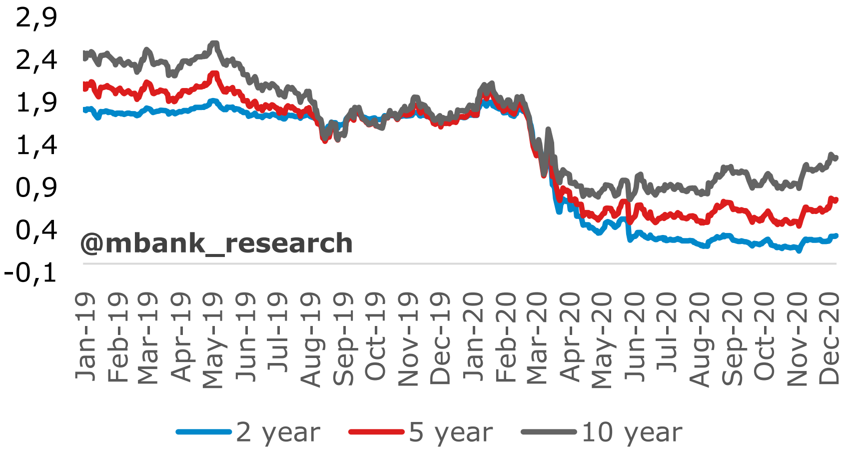
Polish rates, yields and spreads: still low, some steepening possible on better global growth prospects. Short-term rates anchored by 0.1% NBP rate.

POLGBs



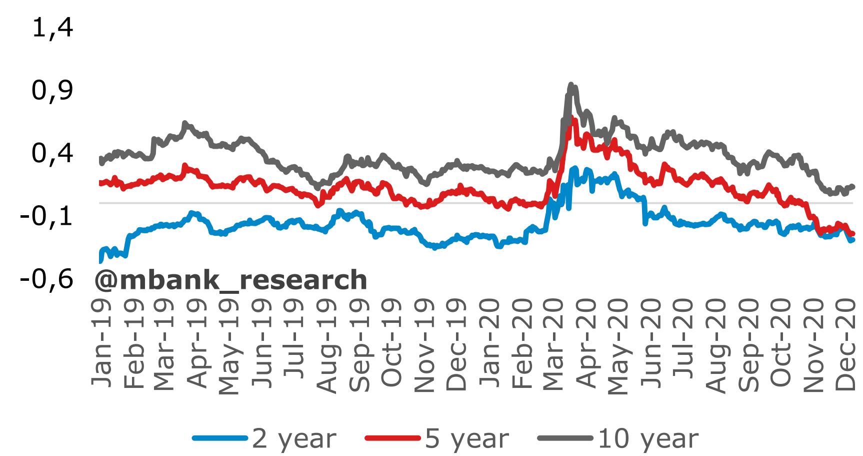
Source: Bloomberg

PL IRS



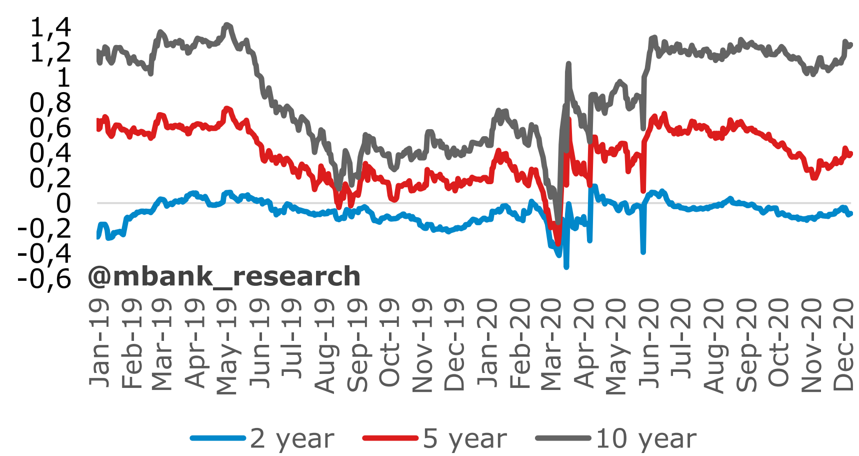
Source: Bloomberg

ASW spread



Source: Bloomberg

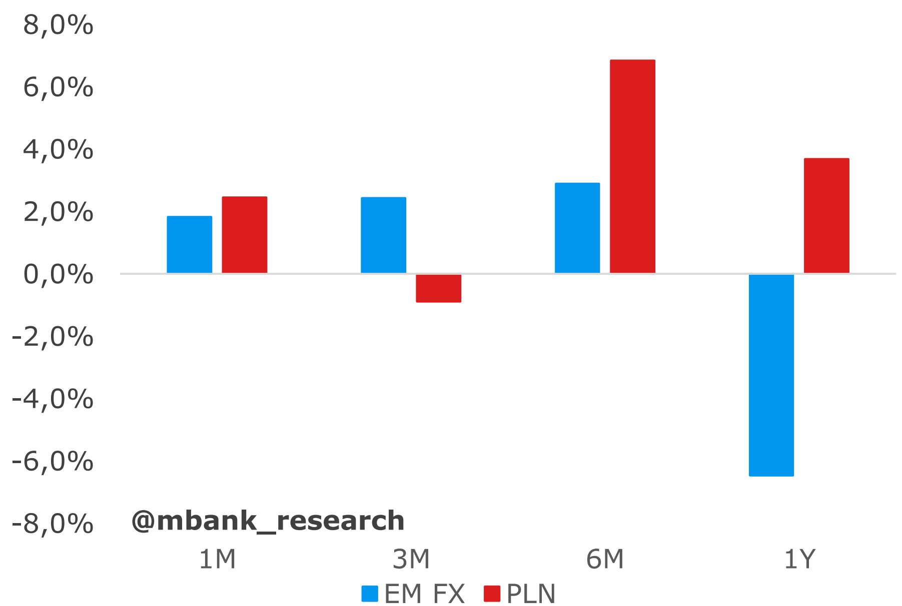
POLGB yield minus 3m WIBOR



Source: Bloomberg

PLN: the worst is over, apreciation ahead (absolutely no change in view)

Appreciation



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

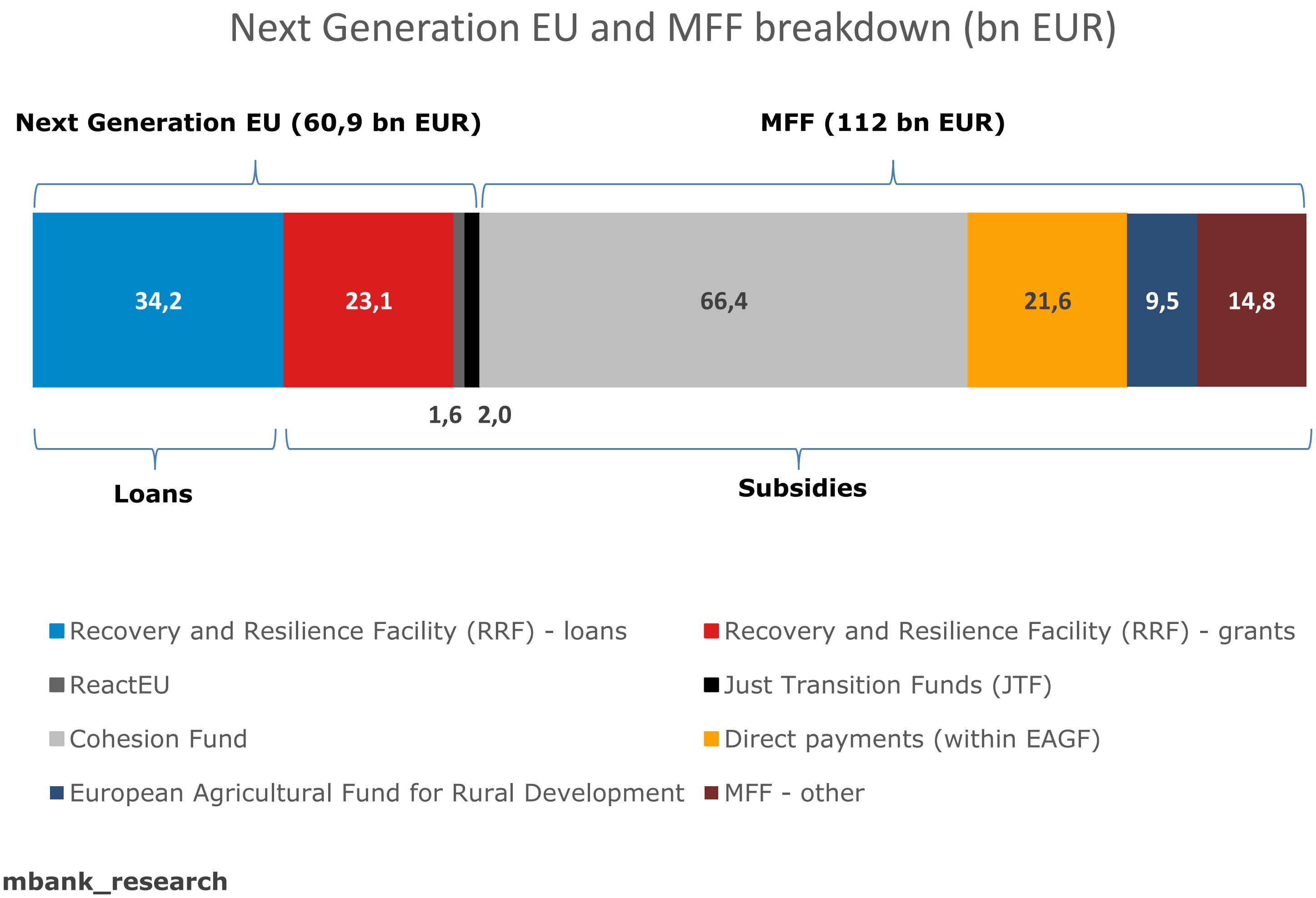
Source: Bloomberg

Real effective exchange rate

Source: BIS

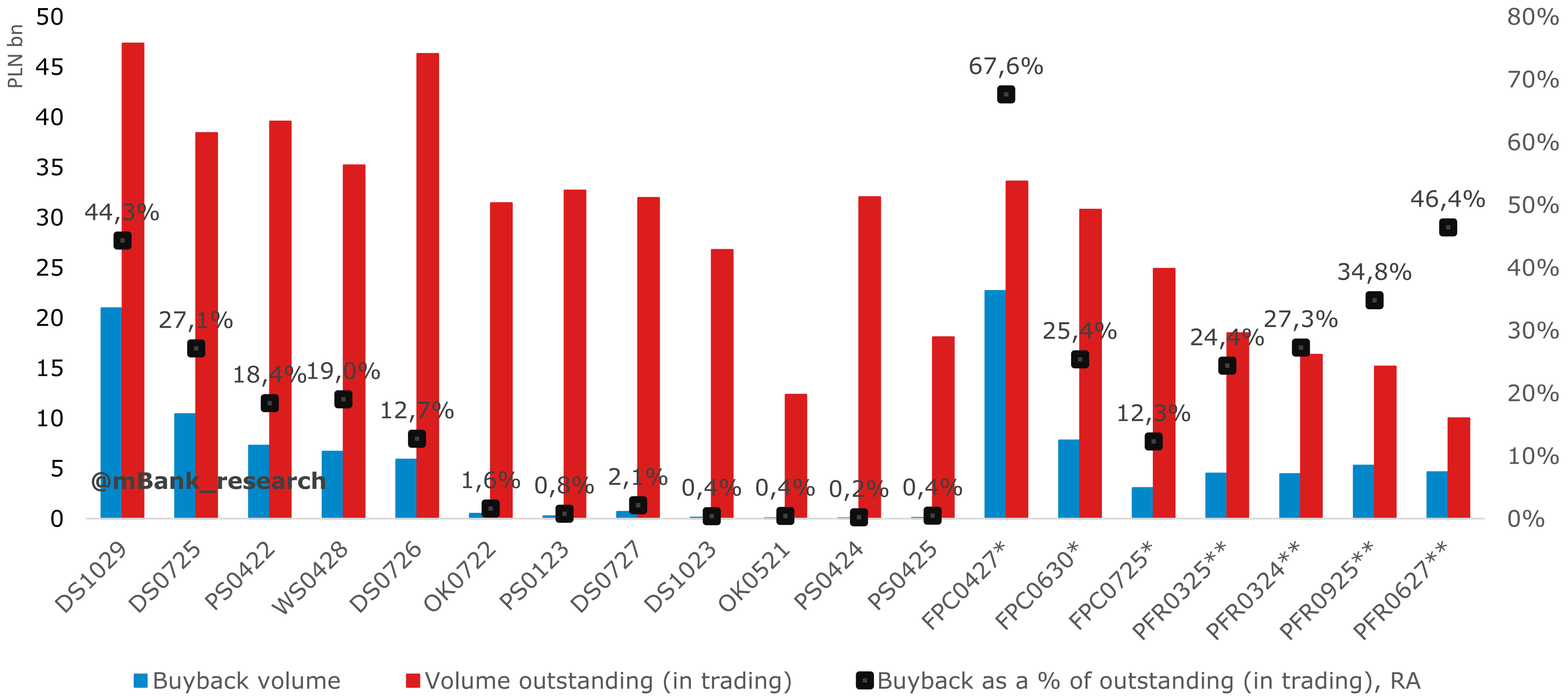
- Monetary easing announced by the ECB, positive news flow regarding the MFF and Next Generation EU negotiations and better perspectives for the next year (vaccines) resulted in stronger zloty.
- Recovery of the Polish economy in 2021, combined with the current account surplus, will lead to a further zloty strengthening. Our forecast of the EURPLN at 4.25 in the end of 2021 remains unchanged.
- 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.

Appendix: What was at stake? Allocation for Poland in the new EU perspective.



- Total allocation for the years 2021-27. Recovery and Resilience Facility funds are focused in the 2021 -22 (70% of total allocation) and 2023 (the rest).
- Value of the allocation for Poland from the MFF is estimated, based on the conclusions from the last summit.

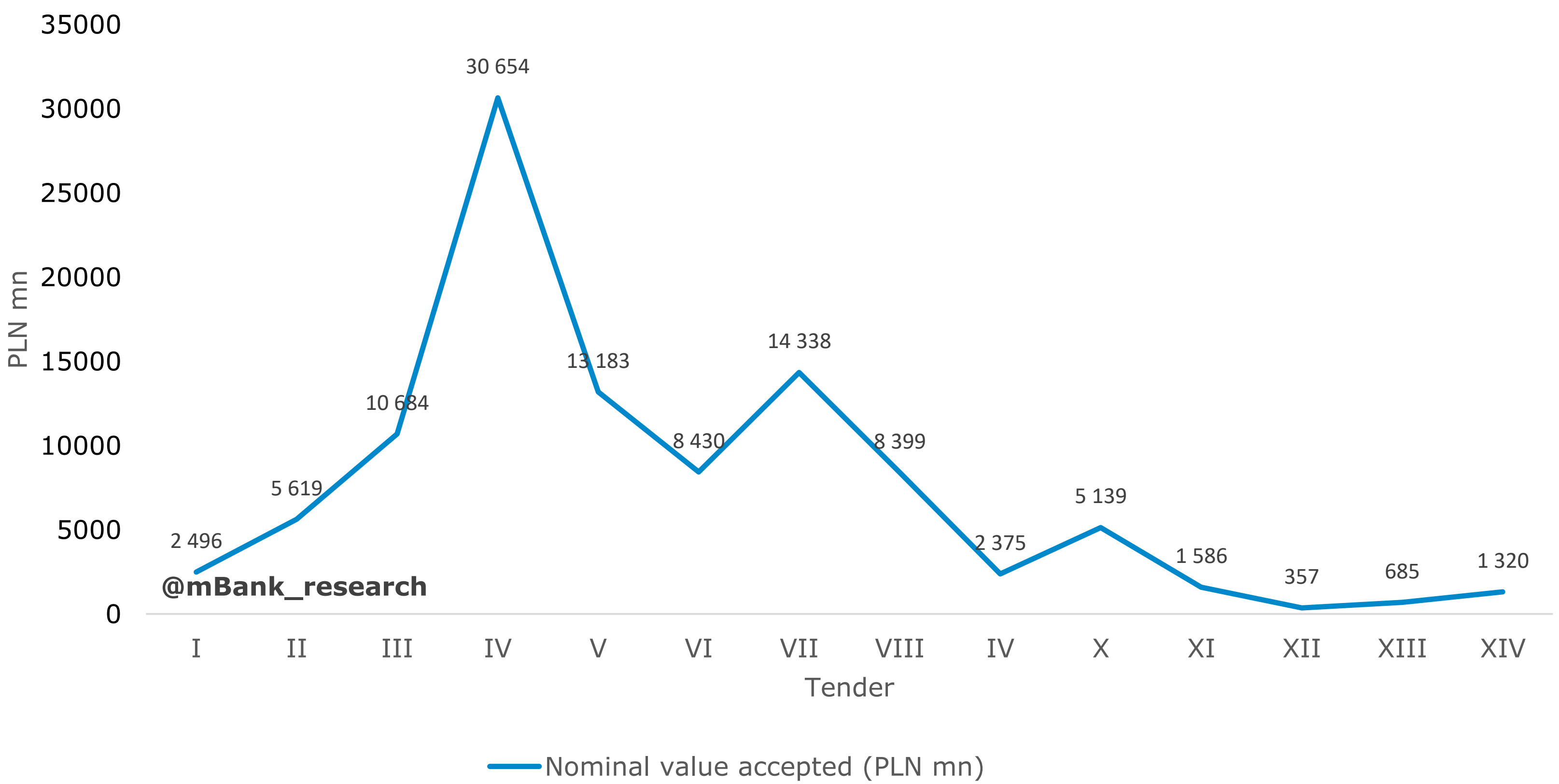
Appendix: NBP „structural" portfolio monitor



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

- The state for 10.12.2020. 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 10.12.2020.
- 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.

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mBank Research is:

Marcin Mazurek. Ph. D.
Chief Economist
Tel: +48 (22) 829 0183
Email: marcin.mazurek@mbank.pl

Maciej Zdrolik
Analyst
Tel: +48 (22) 829 0256
Email: maciej.zdrolik@mbank.pl