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## Polish Weekly Review

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### Comment on the upcoming data and forecasts

On Monday the CSO will publish the preliminary GDP data for the third quarter. Apart from the probable upward revision of the flash reading of 3.4% y/y, the structure of growth should be of interest to all Poland watchers. We expect a slight slowdown in consumption (in line with what retail sales showed) and stable investment growth. The flash CPI reading for November, due to be published on the same day, will show a 0.3 pp. rebound in inflation due to low statistical base in energy prices. On Tuesday, the Manufacturing PMI for November will be published. Strong German data and stable sentiment in CSO's industrial surveys are pointing to another month of solid gains in the PMI. Finally, there is also a MPC meeting next week. We expect it to be uneventful and bring no changes to NBP policy parameters. The MPC will, however, point to possible easing next year.

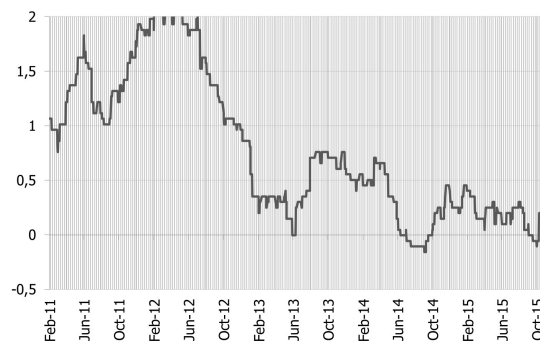
### Polish data to watch: November 30th to December 2nd

Publication	Date	Period	mBank	Consensus	Prior
GDP y/y (%) <i>preliminary</i>	30.11	Q3	3.4	3.4	3.4
Inflation expectations y/y (%)	30.11	Nov	0.2	0.2	0.2
CPI y/y (%) <i>flash</i>	30.11	Nov	-0.4	-0.4	-0.7
Manufacturing PMI (pt.)	1.12	Nov	53.4	52.5	52.2
MPC decision (%)	2.12	Dec	1.50	1.50	1.50

### Treasury bonds and bills auctions

Paper	Next auction	Last Offer	Yield on the prev auction (%)	Prev auction
52 Week T-bills	-	3000	3.485	3/4/2013
2Y T-bond OK0717	11/19/2015	1000	1.770	10/29/2015
5Y T-bond PS0720	11/19/2015	3000	2.317	10/29/2015
10Y T-bond DS0726	11/19/2015	2000	3.076	10/29/2015
15Y T-bond WS0428	-	20	2.092	3/12/2015

### Reality vs analysts' expectations (surprise index\* for Poland)



#### Comment

This week's sole publication came in line with market consensus, so surprise index remained unchanged. Next week bring plenty opportunities to move it. On Monday preliminary GDP and CPI flash and Tuesday manufacturing PMI will be released.

\* Surprise index presents in a synthetic way how the market was surprised by macroeconomic releases (it is constructed on daily basis as weighted average of differences between selected releases and Bloomberg forecast consensus).

## Our view in a nutshell

### Fundamentals

- GDP growth is set to stay close to 3% per annum.
- Downside risks prevail near term. However, until only selected business tendency indicators are decreasing, Poland is expected to escape a deeper slowdown. Exports is going to be weaker due to international developments, investment activity may be negatively affected by the unanticipated fall of future demand. At the same time consumption is to maintain 3% growth (labor market is tight, households have resources to smooth consumption over time). The schedule for infrastructure spending suggests a steep path of outlays from the turn of 2015/2016 onwards. At this stage it is more likely that outlays will be postponed for later part of 2016.
- Given the schedule of infrastructure spending and stable consumption growth, many years of economic expansion are still our baseline scenario for the Polish economy. The upswing can be flatter than we historically got used to but longer. Such an outcome almost guarantees that the likelihood of bottlenecks in the economy is small.
- 3% growth is sufficient to keep inflation and credit risk in check. Global headwinds and low commodity prices are set to further underpin deflationary environment. Headline inflation is going to slowly rise only on the back of statistical base.
- We expect lower rates in 2016 as the new MPC is set to be more responsive for weaker environment amid global trends for monetary stimulation. Moreover, the new parliament is set to have inclination towards selecting more dovish MPC members.

### Financial markets

- Polgbs – near term still neutral (cash). Rate cuts are already priced in, uncertainty surrounding fiscal policy is still an issue, bonds are sensitive to potential monetary tightening in the US.
- We think that POLGBs may still have potential mid-term as monetary stimulus (ECB) is waiting in the wings and the new government is likely to push for easier monetary policy that ultimately will be delivered. Ultimately, we think fiscal worries will prove overdone.
- Pro-active ECB stance should be enough to shield the zloty from sharp depreciation in case of higher risk aversion. We see zloty stronger mid-term on solid growth story and differentiation flows. Political risk and potential for easier monetary policy may linger for some days. However, as much of it has already been consumed, we neutralize our outlook and opt for more balanced trading around 4.20.

### mBank forecasts

	2011	2012	2013	2014	2015F	2016 F
GDP y/y (%)	5.0	1.6	1.3	3.3	3.3	3.1
CPI Inflation y/y (average %)	4.3	3.7	0.9	-0.1	-0.8	1.5
Current account (%GDP)	-4.9	-3.5	-1.3	-1.2	-0.6	-1.0
Unemployment rate (end of period %)	12.5	13.4	13.4	11.5	10.0	8.9
Repo rate (end of period %)	4.50	4.25	2.50	2.00	1.50	1.00

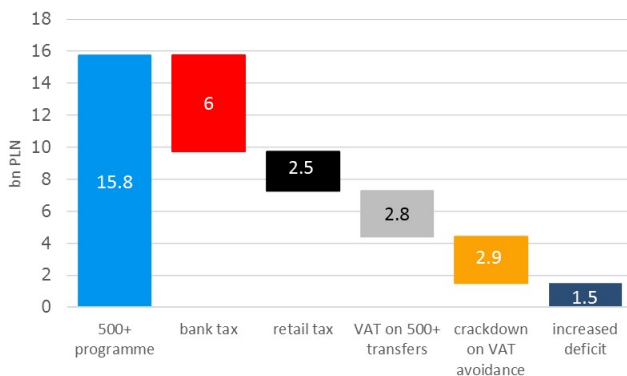
	2015	2015	2015	2015	2016	2016	2016	2016
	Q1	Q2	Q3 F	Q4 F	Q1 F	Q2 F	Q3 F	Q4 F
GDP y/y (%)	3.6	3.3	3.4	3.1	3.0	3.0	3.1	3.2
Individual consumption y/y (%)	3.1	3.0	2.8	3.2	3.2	3.3	3.2	3.0
Public Consumption y/y (%)	3.3	2.4	2.5	1.5	1.5	1.5	1.5	1.5
Investment y/y (%)	11.4	6.4	7.0	5.5	4.5	6.5	7.0	7.0
Inflation rate (% average)	-1.4	-0.9	-0.7	-0.3	0.5	0.6	0.5	0.9
Unemployment rate (% eop)	11.5	10.2	9.7	10.0	10.6	9.4	8.9	9.0
NBP repo rate (% eop)	1.50	1.50	1.50	1.50	1.25	1.00	1.00	1.00
Wibor 3M (% eop)	1.65	1.72	1.73	1.70	1.44	1.20	1.20	1.20
2Y Polish bond yields (% eop)	1.61	1.99	1.76	1.45	1.35	1.35	1.35	1.35
10Y Polish bond yields (% eop)	2.31	3.31	2.84	2.70	2.50	2.50	2.50	2.50
EUR/PLN (eop)	4.07	4.19	4.25	4.20	4.20	4.15	4.15	4.15
USD/PLN (eop)	3.80	3.76	3.80	4.12	4.20	4.15	4.15	4.03

F - forecast

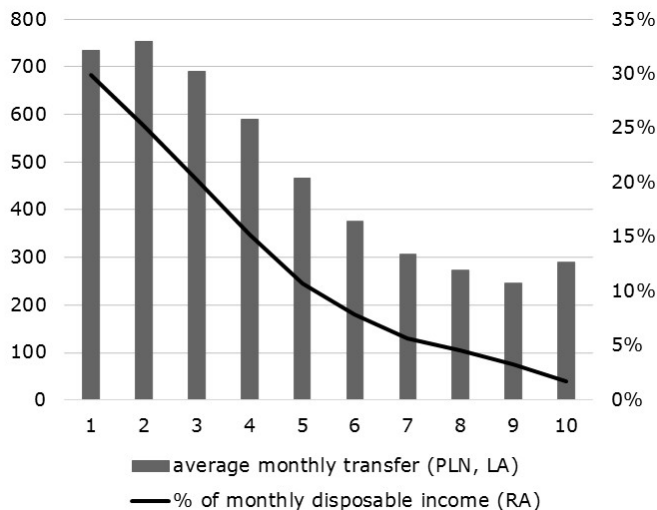
## Economics

### Fiscal stimulation in the pipeline. However, fiscal worries unfounded.

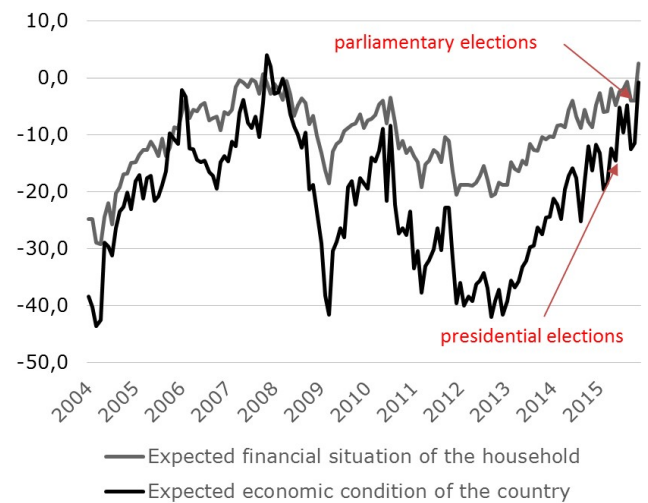
It is now likely that the new government will amend the 2016 budget in order to launch the new family support programme known as „500+ scheme”. The programme assumes that every second and subsequent children will receive a monthly grant of 500 PLN, regardless of parents’ income. In addition, first children in poorer households will also be eligible for the grant. The total annual cost of the new benefits exceeds 20 bn PLN. However, the impact on 2016 deficit will be negligible and the amendment will see a marginal increase in budget deficit (ca. 1.5 bn PLN).



First, benefits will be disbursed starting from April, with no refunds for the first quarter – this will reduce the expenditures to ca. 15.8 bn PLN. On the revenue side, one has to include the new tax on bank assets (6 bn PLN in revenue), the retail tax (ca. 2.5 bn PLN) and indirect taxes from the increased consumer spending generated by the programme (2.8 bn PLN). Finally, crackdown on tax avoidance and higher dividends from state-own companies is expected to bring the remaining 3 bn PLN. Should revenues fall short of the plan (one shouldn’t take higher VAT revenue for granted), NBP profit for 2015 will likely fill the hole. Because of currency depreciation and solid returns on short-term EUR-denominated debt, the central bank will probably post a massive profit for the year.



Finally, one has to look through fiscal issues and consider the macroeconomic impact of the 500+ programme. While it is unlikely that fertility will be increased much thanks to the scheme (in terms of efficiency, monthly transfers are generally ranked very low among demographic policy tools) and female participation rate might drop as a result, the scheme is set to boost consumption substantially. Because of fertility patterns and income threshold the per capita benefit will be highest among the lowest deciles. For the poorest 10% of households the monthly benefit might reach as much as 30% of disposable income – calculations from GenEA think tank (see the graph above) show. Given the positive relation between saving rates and income levels, it is likely that the overwhelming majority of new support will be spent right away or serve as debt-reducing tool (therefore affecting positively the future capacity to incur credit and consume). The prospect of an income boost is already impacting consumer sentiment.



## Fixed income

### Waiting for the ECB

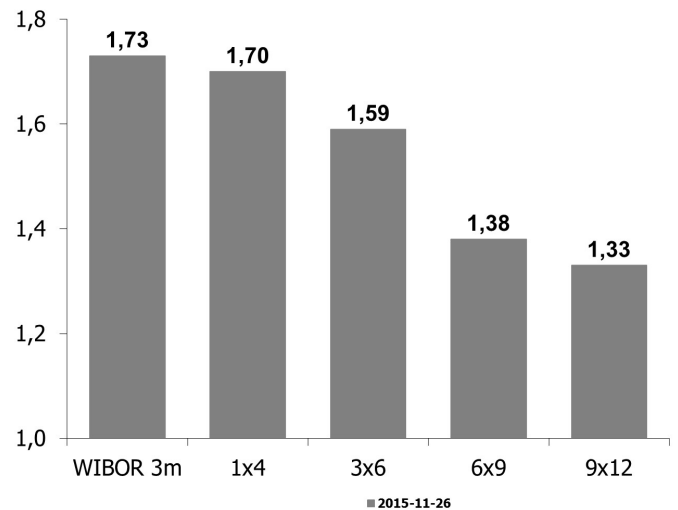
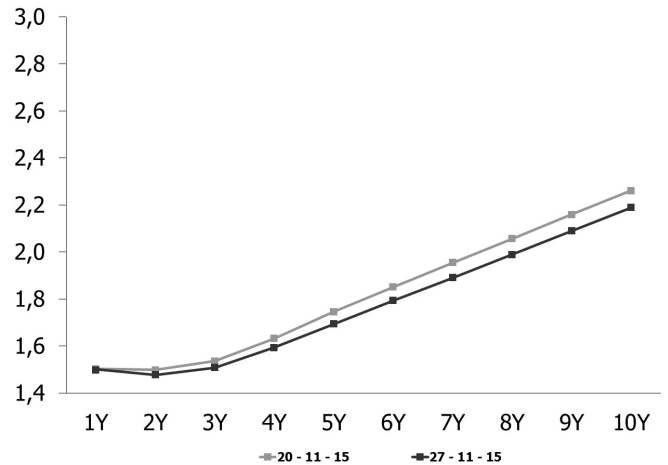
This week bonds were traded in bullish mode (PS0420 1,95% -10 bps; DS0725 2,60% -12 bps) with very poor liquidity. Main reason for stronger market is next Thursday's ECB meeting, as the atmosphere is being strongly warmed up by Mr Draghi and his colleagues. Lower deposit rate, increase of monthly amount of purchases and extension of QE beyond September 2016 are on the table and the open question is: are these pledges already priced in or not? It would be very difficult for Draghi to deliver more – but of course such situation can't be ruled out.

Watch payrolls data on Friday.

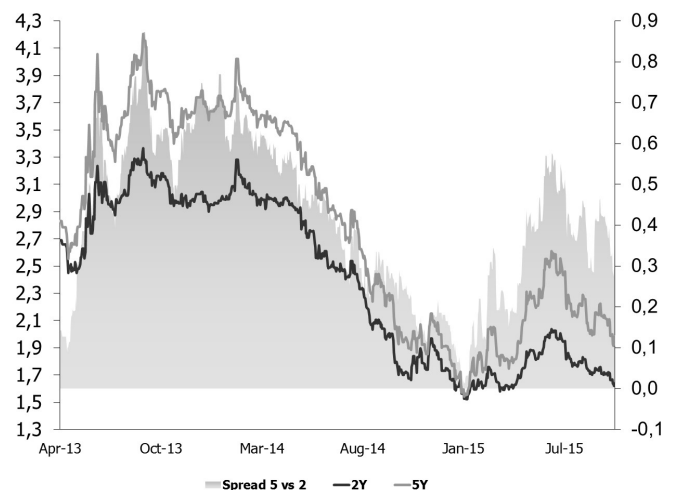
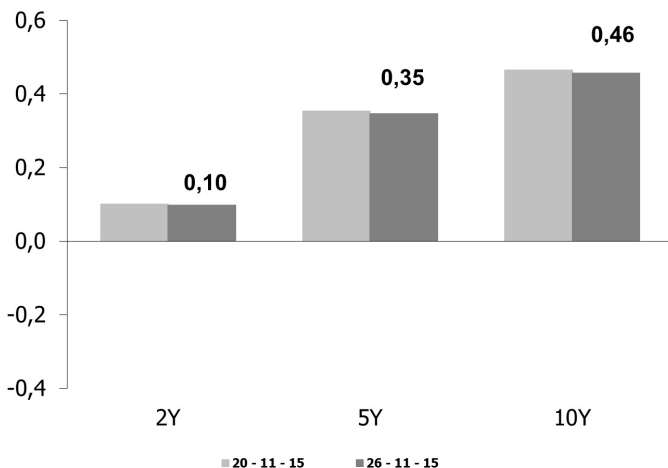
Local story currently seems not interesting for market participants.

All in all, we are still bearish on Polish fixed income assets.

IRS curve



Asset swaps



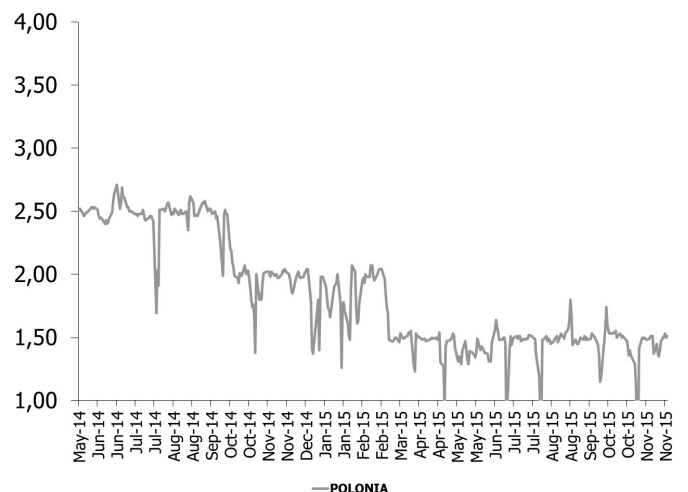
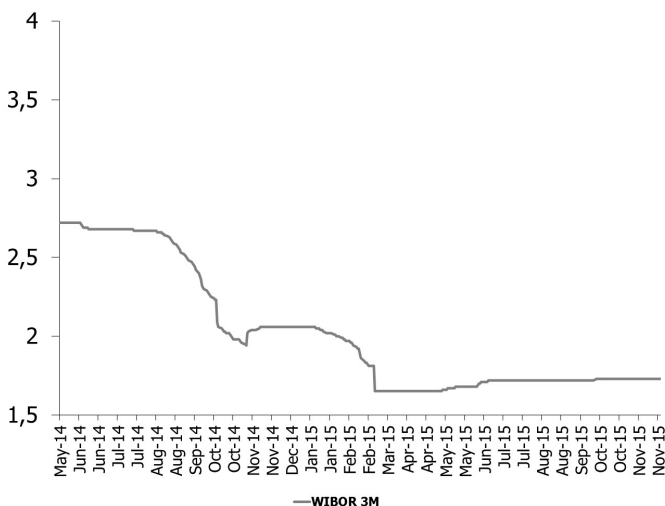
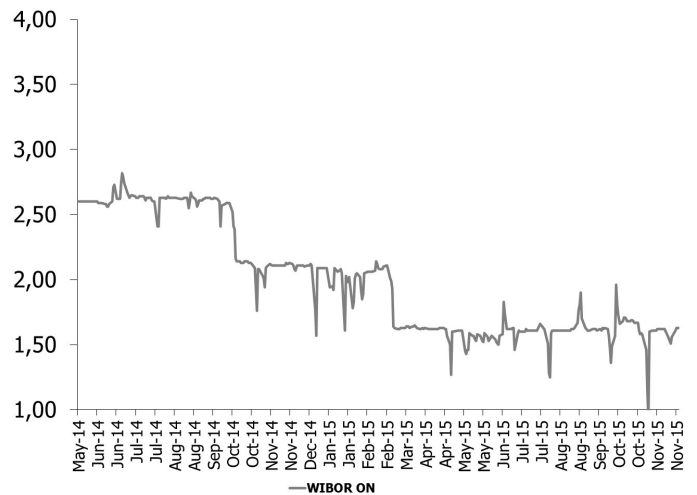
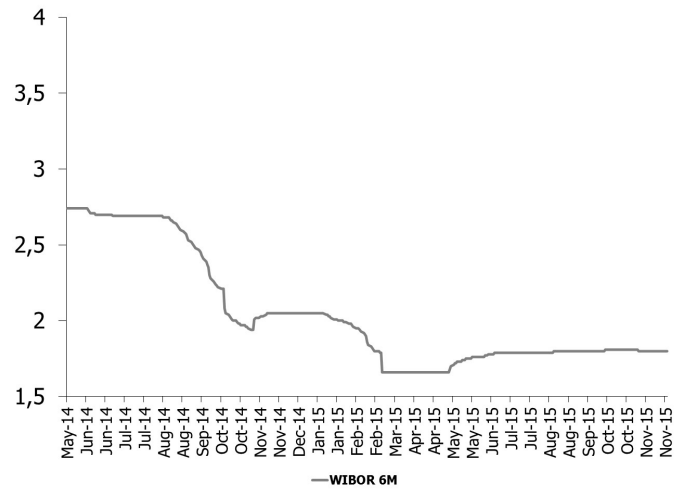


## Money market

### Stable week behind us

Stable end of November due to Friday's 3 day OMO. We are heading into year end which is characterized by big volatility and thin liquidity. Even though we expect a „safe” approach from liquidity desks, leaving additional cash pillow for this period, we advise to square positions and secure funding earlier. Market liquidity will get thinner every day and banks will stay sideways and reduce their activity to minimum. Many of them, if not all, will abstain to do anything on in the run-up to the year's end.

Market expectations on possible rate cuts strengthened recently. FRAs are hitting new lows mainly due to dovishness of ECB. European central bank holds meeting next week and there are huge expectations for rate cut and possible QE extension. We will keep an eye on Polish rates and would like to use possible overreaction on front rates to pay some 6x12 at 1.30 meaning a full 50 bp rate cut being priced in.



## Forex

**PLN – Weaker but still in the range** EUR/PLN breached the top of range, hitting 4.2794 on Friday. As EUR/USD traded much lower this week, USD/PLN jumped to 4.0350 - multi-year high. The depreciation of the zloty in some part was due to our political risk, flight of investors from Warsaw Stock Exchange and increased geopolitical tension. We anticipate the mammoth-like decision of ECB's QE extension and healthy Poland's fundamentals to result in zloty's appreciation.

**Options – Consolidation continues** It was again a very calm week on the options market. Most of the action was in short term gamma amid big events in December (ECB, FED decision) - 1W / 2W ATM were paid around 7.0%. The rest of the curve was relatively stable. 1 month EUR/PLN ATM mid is 6.5% (0.2% lower), 3 months are 6.1% (0.1 lower) and finally 1 year 7.1% (0.1% higher). The currency spread (the difference between USD/PLN vol and EUR/PLN vol) is roughly unchanged.

## Short-term forecasts

Main supports / resistances:

EUR/PLN: 4.20 / 4.32

USD/PLN: 3.90 / 4.15

**Position Spot – Short EUR/PLN.**

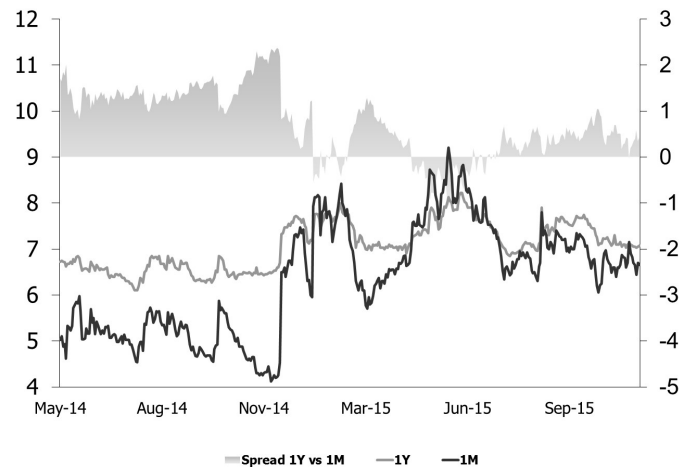
We closed our long position at 4.2750 with 450 pips profit. At the same level we opened a short as we believe in the rangy nature of EUR/PLN. Moreover, falling EUR/USD (dovish ECB, hawkish FOMC) should drag EURPLN lower over time. We are ready to add at 4.31 with S/L at 4.33 and hopes to revisit 4.24/4.22.

Next week Zloty can be supported by dovish ECB decision. Nevertheless, the political risks are clearly looming on the horizon, and that supports short PLN positions.

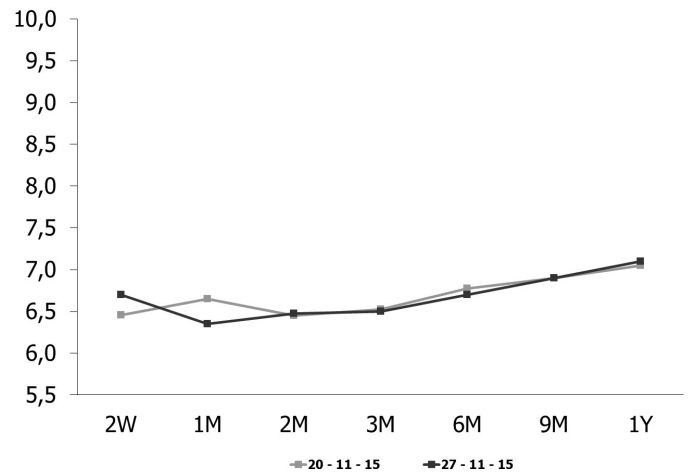
**Options – we are long 1 year Vega against 3 months (Vega neutral)**

We think that Party that had won the elections would act more prudent while they will be have full responsibility for the country. Hence, it will temper some of its promises and Poland generally healthy fundamentals will prevail. The loosening of fiscal conditions may influence us negatively in the future and that is the reason to be long 1 year ATM.

EURPLN volatility



EUR/PLN volatility curve



Bias from the old parity (%)



## Market prices update

Money market rates (mid close)							FRA rates (mid close)					
Date	FXSW 3M	WIBOR 3M	FXSW 6M	WIBOR 6M	FXSW 1Y	WIBOR 1Y	1x4	3x6	6x9	9x12	12x15	6x12
11/19/2015	1.84	1.73	1.80	1.70	1.72	1.72	1.70	1.61	1.41	1.37	1.38	1.41
11/23/2015	1.84	1.73	1.66	1.70	1.72	1.72	1.68	1.59	1.40	1.36	1.37	1.43
11/24/2015	1.73	1.73	1.76	1.70	1.70	1.72	1.70	1.60	1.41	1.36	1.37	1.43
11/25/2015	1.54	1.73	1.51	1.70	1.58	1.72	1.70	1.59	1.39	1.35	1.37	1.40
11/26/2015	1.73	1.73	1.81	1.70	1.70	1.72	1.70	1.59	1.38	1.33	1.34	1.39

Last primary market rates							
Paper	Au. date	Maturity	Avg. price	Avg. yield	Supply	Demand	Sold
52W TB	3/4/2013	8/28/2013	98.33	3.49	3000	7324	3084
OK0716	4/23/2014	7/25/2016	93.51	3.02	800	2136	836
PS0719	5/8/2014	7/25/2019	99.25	3.41	4000	5807	4075
DS1025	6/5/2014	7/25/2025	94.90	3.82	2000	2743	1693

Fixed income market rates (closing mid-market levels)								
Date	1Y WIBOR	1Y T-bill	2Y IRS	OK0715	5Y IRS	PS0718	10Y IRS	DS1023
11/19/2015	1.720	1.592	1.503	1.606	1.782	2.144	2.310	2.761
11/23/2015	1.720	1.632	1.508	1.596	1.796	2.134	2.309	2.758
11/24/2015	1.720	1.623	1.490	1.616	1.750	2.071	2.245	2.678
11/25/2015	1.720	1.614	1.480	1.612	1.730	2.053	2.215	2.666
11/26/2015	1.720	1.586	1.476	1.574	1.693	2.039	2.188	2.644

EUR/PLN 0-delta stradle					25-delta RR		25-delta FLY
Date	1M	3M	6M	1Y	1M	1Y	1Y
11/19/2015	6.70	6.63	6.78	7.05	7.05	1.85	0.55
11/23/2015	6.44	6.50	6.75	7.03	7.03	1.85	0.55
11/24/2015	6.70	6.60	6.80	7.05	7.05	1.73	0.55
11/25/2015	6.65	6.60	6.83	7.08	7.08	1.74	0.57
11/26/2015	6.35	6.50	6.70	7.10	7.10	1.81	0.60

PLN Spot performance						
Date	EURPLN	USDPLN	CHFPLN	JPYPLN	HUFPLN	CZKPLN
11/19/2015	4.2477	3.9754	3.9023	3.2257	1.3705	0.1572
11/23/2015	4.2395	3.9880	3.9151	3.2379	1.3651	0.1569
11/24/2015	4.2609	4.0021	3.9298	3.2653	1.3657	0.1576
11/25/2015	4.2680	4.0215	3.9431	3.2812	1.3676	0.1579
11/26/2015	4.2763	4.0298	3.9404	3.2876	1.3687	0.1582

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