

September 14, 2017

## Polish Weekly Review

**mBank Research**  
(macro/FI/FX analysis)

[@mbank\\_research](#)

Ernest Pytlarczyk, PhD, CFA  
chief economist  
tel. +48 22 829 01 66  
[ernest.pytlarczyk@mbank.pl](mailto:ernest.pytlarczyk@mbank.pl)

Marcin Mazurek, PhD  
senior analyst  
tel. +48 22 829 01 83  
[marcin.mazurek@mbank.pl](mailto:marcin.mazurek@mbank.pl)

Piotr Bartkiewicz  
senior analyst  
tel. +48 22 526 70 34  
[piotr.bartkiewicz@mbank.pl](mailto:piotr.bartkiewicz@mbank.pl)

Karol Klimas  
analyst  
tel. +48 22 829 02 56  
[karol.klimas@mbank.pl](mailto:karol.klimas@mbank.pl)

**Department of Financial Markets**  
(business contacts)

Wojciech Dunaj  
head of interest rates trading  
tel. +48 22 829 07 51  
[wojciech.dunaj@mbank.pl](mailto:wojciech.dunaj@mbank.pl)

Marcin Turkiewicz  
head of fx trading  
tel. +48 22 829 01 67  
[marcin.turkiewicz@mbank.pl](mailto:marcin.turkiewicz@mbank.pl)

**Department of Financial Markets  
Sales**  
(business contacts)

Inga Gaszkowska-Gebska  
institutional sales  
tel. +48 22 829 01 67  
[inga.gaszkowska-gebska@mbank.pl](mailto:inga.gaszkowska-gebska@mbank.pl)

Jacek Jurczyński  
head of treasury sales  
tel. +48 22 829 15 16  
[jacek.jurczynski@mbank.pl](mailto:jacek.jurczynski@mbank.pl)

**mBank S.A.**  
18 Senatorska St.  
00-950 Warszawa  
P. O. BOX 728  
tel. +48 22 829 00 00  
fax. +48 22 829 00 33  
<http://www.mbank.pl>

### Table of contents

#### Our view in a nutshell

#### Economics

- Inflation rose in August due to higher fuel prices

#### Fixed income

- Only one auction in September

#### Money market

- Fasten your seatbelts

#### FX market

- Spot – PLN – in the higher part of the range
- Options – EUR/PLN vols – higher

page 2

page 3

page 4

page 5

page 6

### Comment on the upcoming data and forecasts

On Monday CSO will publish monthly labor market data. We expect wages to accelerate markedly in August (to 6.4% y/y) as mining wage growth (which swung by 40 percentage points last month) normalizes and one-off effects in certain other sectors fade. Employment growth, despite high statistical base from last year, is set to remain at 4.6%. In addition to strong momentum in most sectors, we feel that construction employment finally turned and will contribute more decisively to aggregate employment. On Tuesday, the CSO will release industry and retail sales data. The former likely slowed down due to a sizable base effect in car production, the latter will be boosted by higher fuel prices, but dragged by car sales (one of the biggest increases on record happened in August 2016). Also of note is construction output data, likely to accelerate beyond 25% y/y (August 2016 marked the multi-year bottom in construction). The accompanying PPI data likely showed higher inflation due to an increase in PLN-denominated commodity prices. On Thursday, the NBP will publish the Minutes of September's MPC meeting. Finally, M3 data due next Friday will show faster money supply growth due to stronger inflow of household deposits.

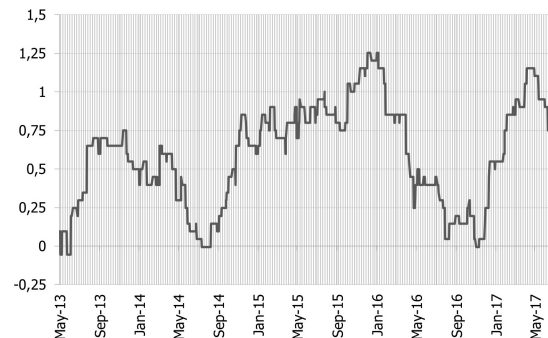
### Polish data to watch: September 15th to September 22nd

Publication	Date	Period	mBank	Consensus	Prior
Average gross wage y/y (%)	18.09	Aug	6.4	5.7	4.9
Employment y/y (%)	18.09	Aug	4.6	4.6	4.5
Sold industrial output y/y (%)	19.09	Aug	5.7	5.9	6.2
PPI y/y (%)	19.09	Aug	3.1	2.9	2.2
Retail sales y/y (%)	19.09	Aug	6.4	7.1	7.1
MPC minutes	21.09	Sep			
M3 y/y (%)	22.09	Aug	5.7	5.3	5.0

### Treasury bonds and bills auctions

Paper	Next auction	Last Offer	Yield on the prev auction (%)	Prev auction
(29–37/52) Week T-bills	-	700	1.500	2/22/2017
2Y T-bond OK1019	10/5/2017	600	1.859	6/9/2017
5Y T-bond PS0422	10/5/2017	1000	2.587	6/9/2017
10Y T-bond DS0727	10/5/2017	600	3.128	6/9/2017
30Y T-bond WS0447	-	100	3.508	6/9/2017

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



#### Comment

Unchanged from the previous week as final CPI came in line with the flash estimate. Next days are abundant with macroeconomic data – the Polish surprise index can be moved by wages, industrial output, retail sales or the PPI.

\* 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

- H1 GDP figures (3.9-4.0% y/y) confirmed that the economy is operating on a high gear. Our first take on Q3 is also optimistic – it appears that public investment finally accelerated visibly (as seen in construction data) – 4.5% growth is definitely not out of the question in Q3. However, industry shows little upward momentum and base effects at the end of the year make us wary of pushing the 2017 forecast beyond 4-4.2% yet. Risks are tilted to the upside, though.
- Inflation is fluctuating within the lower half of the target band. Base effects and trends in core inflation suggest that inflation will drop at the turn of the year and reaccelerate briskly next year.
- The case for accelerating core inflation is strengthening. Stellar employment performance shows no respite but wage growth remains moderate. Such equilibrium is unsustainable. If 2007 and 2008 are taken as guide, wages are ready to take off this year as current demand for labor meets limited supply.
- MPC stays calm and waits rises in headline inflation out, while carrying steady message of stable rates. Such rhetoric can stay in place for some months. However, as trend in core inflation emerges as evident and labor market strengthen further, the case for rate hikes is set to strengthen as well. All we need is a small change in MPC's wording to make rate expectations wander somewhat more freely.
- Solid labor market performance and prospect for faster growing wages support PIT and VAT revenue from consumption. With much higher headline inflation already in place (deflationary 2016!), further improvements in tax income seem a safe bet for 2017 and 2018 even without any stringent assumptions on the efficiency of tax collection.

### Financial markets

- EURPLN returned to 4.30 on the back of rising local risks (political turbulence, new CHF loan bill and the on-going disputes with the European Commission) and the broader move in EM assets associated with rising risk-free rate globally. Worse still, PLN continues to react asymmetrically to global factors (more likely to weaken than strengthen).
- While PLN appears undervalued in real terms and cyclical factors should underpin its strength, uncertainties that prevent us from being bullish in the short term, are mounting. These are: geopolitics, the shape and the effects of the new CHF mortgage legislation, as well as Poland's troubles within the EU.

### mBank forecasts

	2013	2014	2015	2016	2017 F	2018 F
GDP y/y (%)	1.4	3.3	3.8	2.7	3.9	4.1
CPI Inflation y/y (average %)	0.9	-0.1	-0.9	-0.6	1.9	2.2
Current account (%GDP)	-1.2	-2.1	-0.6	-0.2	-0.9	-1.1
Unemployment rate (end of period %)	13.4	11.4	9.8	8.3	6.8	6.0
Repo rate (end of period %)	2.50	2.00	1.50	1.50	1.50	2.00

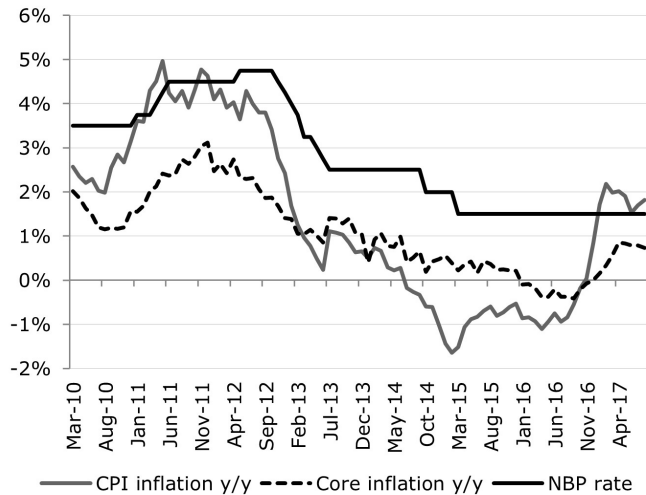
	2017	2017	2017	2017	2018	2018	2018	2018
	Q1	Q2	Q3 F	Q4 F	Q1 F	Q2 F	Q3 F	Q4 F
GDP y/y (%)	4.0	3.9	3.8	3.9	4.0	4.0	4.2	4.2
Individual consumption y/y (%)	4.7	4.9	4.2	4.0	4.0	3.8	3.8	3.8
Public Consumption y/y (%)	1.0	2.4	2.5	3.0	4.0	3.0	3.0	3.0
Investment y/y (%)	-0.4	0.8	7.0	10.0	10.0	10.0	10.0	9.0
Inflation rate (% average)	2.0	1.8	1.7	1.9	1.5	2.2	2.6	2.6
Unemployment rate (% eop)	8.2	7.1	6.6	6.8	6.8	6.0	5.7	6.0
NBP repo rate (% eop)	1.50	1.50	1.50	1.50	1.50	1.50	1.75	2.00
Wibor 3M (% eop)	1.73	1.73	1.73	1.73	1.73	1.73	1.98	2.23
2Y Polish bond yields (% eop)	2.01	1.90	1.93	2.04	2.12	2.31	2.66	2.84
10Y Polish bond yields (% eop)	3.49	3.32	3.38	3.53	3.63	3.85	4.23	4.45
EUR/PLN (eop)	4.23	4.23	4.25	4.25	4.20	4.15	4.08	4.05
USD/PLN (eop)	3.97	3.70	3.66	3.63	3.59	3.49	3.40	3.35

F - forecast

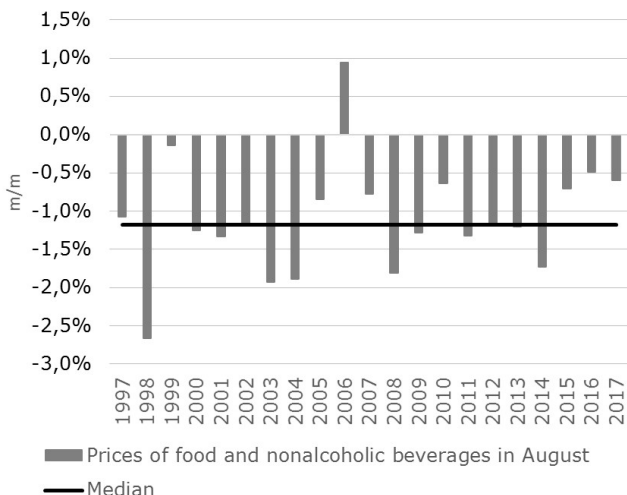
## Economics

### Inflation rose in August due to higher fuel prices.

Inflation rose from 1.7 to 1.8% y/y in August, matching the flash release and market consensus, but falling short of our original forecast of 1.9% y/y. In our comment two weeks ago we noted that there are two possible explanations for the surprise: lower than expected food prices or lack of acceleration in core categories. The details of the release are putting that debate to rest.

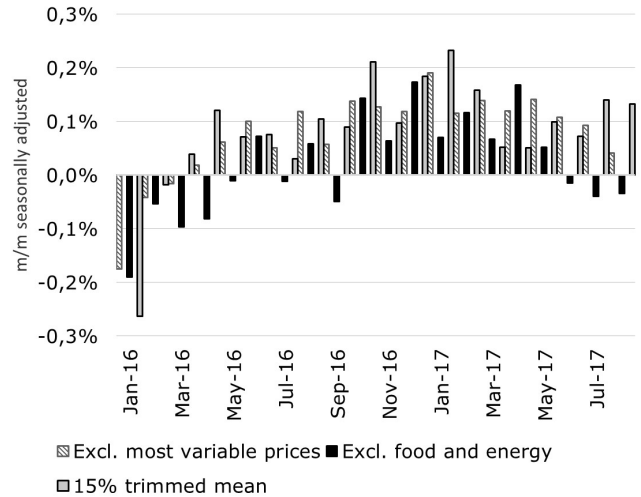


First, prices of food and nonalcoholic beverages fell by 0.6% in monthly terms – here we were right. The main reason for the relatively shallow decline in food prices (they typically fall by more than 1%) lies in unusually high vegetable prices due to delayed season – a result of cold weather in Spring. Second, fuel prices rose but 2.2% m/m, slightly below our estimates, but much above last year's August, thereby ensuring a sizeable jump in y/y terms.



Finally, lower core inflation is the key source of the surprise. Instead of rising from 0.8 to 0.9% y/y, it actually fell to 0.7% y/y. As we have already seen in the previous months, there is no clear pattern in the behavior of specific core categories: clothing and footwear prices did not react to high temperatures and dropped almost exactly like in the previous year; transport services rose due to an uptick in airline fares (by 7.1% m/m); prices in the labor-intensive category of hotels and restaurants disappointed

last month, having grown by a mere 0.1% m/m; finally, a decline in financial services prices and prices of books complements the picture of weak core. In fact, CPI excluding food and energy declined on a seasonally adjusted m/m basis for the third time in a row. We continue to find solace in the fact that, the more stable a core inflation measure is, the smaller its recent declines were. Therefore, it appears that recent weakness in core inflation is driven by a few items, while upward trends are intact.



The market did not react to the data. Inflation is unlikely to impact the MPC's thinking, since it fits the overarching narrative of perfectly balanced economy and confirms the overall scenario internalized by the MPC. Recent, very docish statements by Mr. Lon do not change this picture, as he has already been seen as one of the biggest doves in the Council.

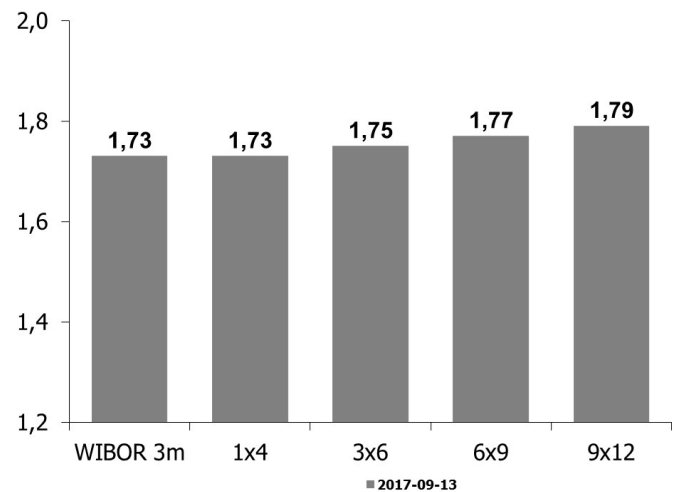
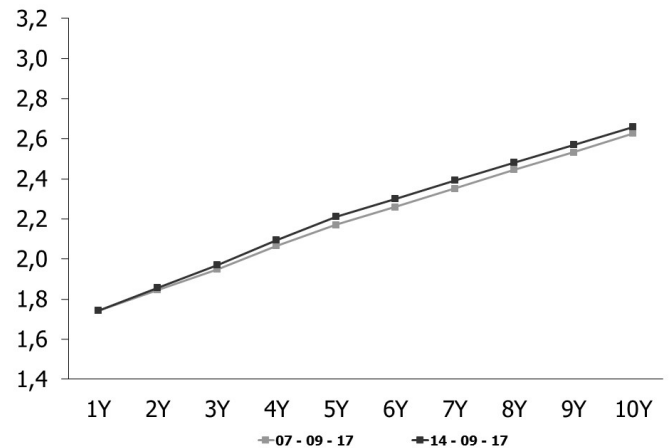
## Fixed income

### Only one auction in September.

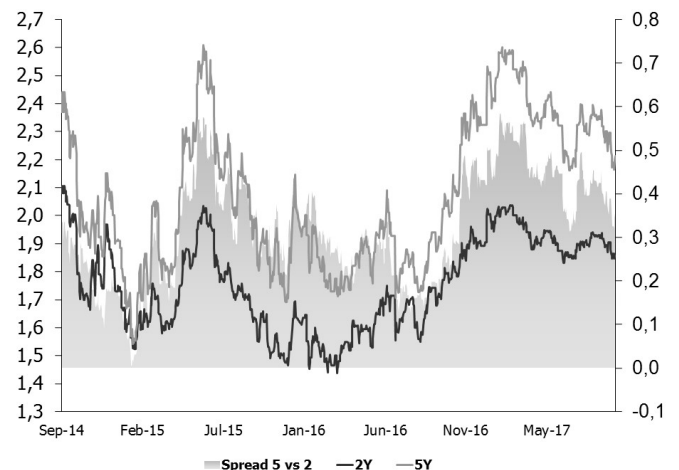
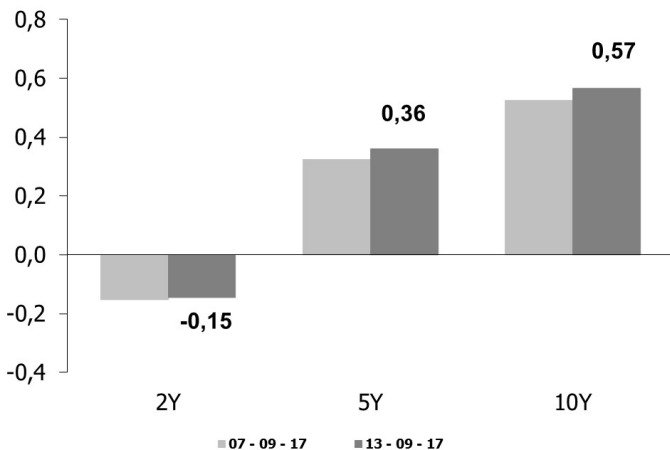
The Ministry of Finance sold 6.82 bio T-bonds on a switching auction today – 1.68 bio of 2y benchmark (OK0419) at 1.628%, 1.97 bio of 5y benchmark (PS0123) at 2.637% and 588 mio of 10y benchmark (DS0727) at 3.206%, and floaters WZ1122 and WZ0126 (1.36 and 1.22 bio, respectively).

We still see strong demand for short-term bonds and short floaters as a "tax shield". Yields have moved up by 8 bps, but still have room to go higher and the curve should steepen further. PS0422/DS0727 spread is trading at 72 bps, DS0727/Bund spread narrowed to 283 bps. ASW stays strong: PS0422/5y narrowed to 25 bps and DS0727/10y wend down to 50 bps. PS0719 is trading at 1.70%, PS0422 is trading at 2.50% and DS0727 is trading at 3.22% .

IRS curve



Asset swaps



## Money market

### Fasten your seatbelts

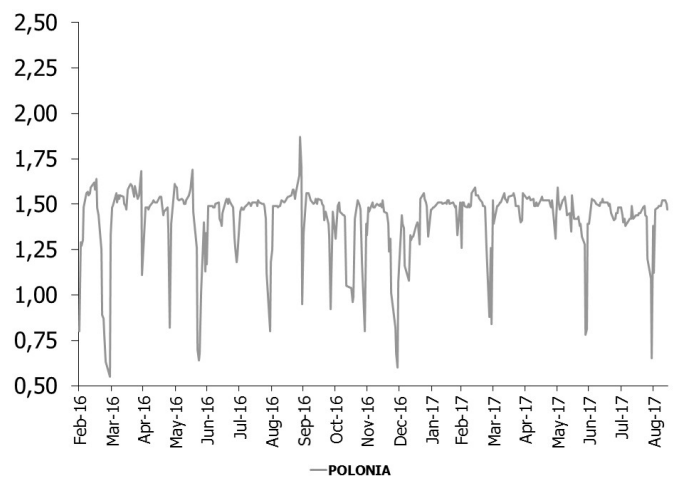
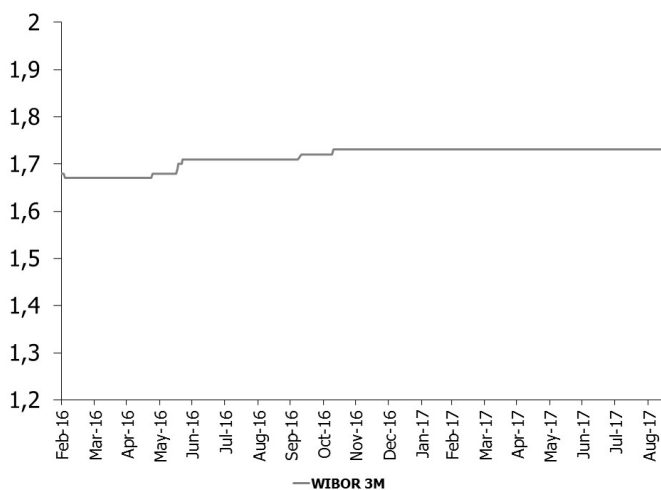
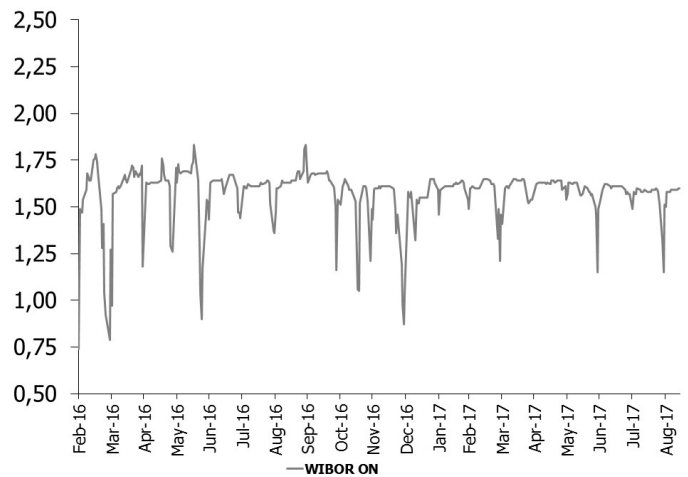
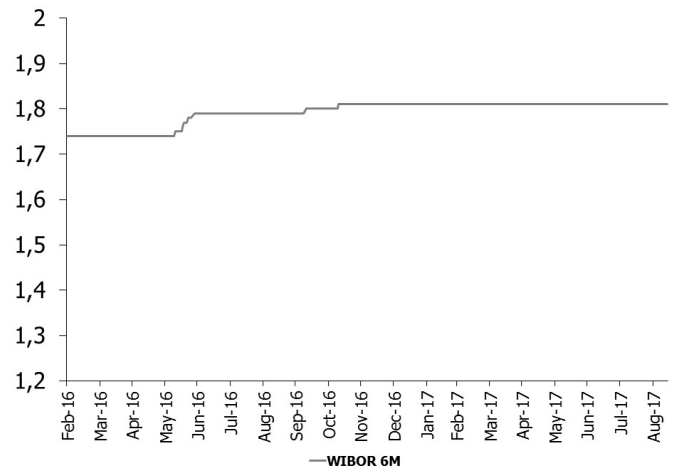
Polish yield curve lies close to multi-month lows. Market participants don't expect any moves on rates for many months from now, neither do MPC members. Given that there is really no interest in either direction, what we would suggest, is to pay rates on any significant dip as in current macroeconomic circumstances rates should go up someday. The Ministry of Finance returned to market with a switching auction today, finally providing some liquidity into 2 and 5 year bond sector. Next issuance should be on the beginning of October.

Cash rates stabilized close to the reference rate. We don't see any extra liquidity, as it has been for last few months.

Ref rate vs Polonia averages:

30 day 11 bp

90 day 9 bp



## Forex

### Spot: EUR/PLN – in the higher part of the range

Finally, we have lived to see some action on PLN. It started to weaken on the back of headlines that the European Commission moved to the second stage of the EU law infringement procedure against Poland. This week's weakness of emerging markets connected with rising yields and dollar's correction also fanned the flames. EURPLN is currently testing the 4.28-4.30 resistance zone, USDPLN bounced from this year's low of 3.5120 to 3.61-ish. EU's action against Poland should have limited impact on further depreciation of Zloty as Poland's economy is still looking very strong. Anyway, we are still skewed to play the market rather from short PLN side.

**EUR/PLN vols – higher** The vols were on the rise with weaker Zloty, even realized volatility had been picking up, but we are skeptical if it will last. Anyway, we noticed some demand on long term Vega: 6m and 1Y EURPLN were paid at 6.1% and at 6.4% respectively. EURPLN 1 month ATM mid is today at 5.75% (0.15% higher), 3 months are at 5.95% (unchanged) and, finally, 1 year fixed at 6.5% (0.2% higher). The skew was little higher and the currency spread (difference between USDPLN and EURPLN) frontend is also tic better bid.

### Short-term forecasts

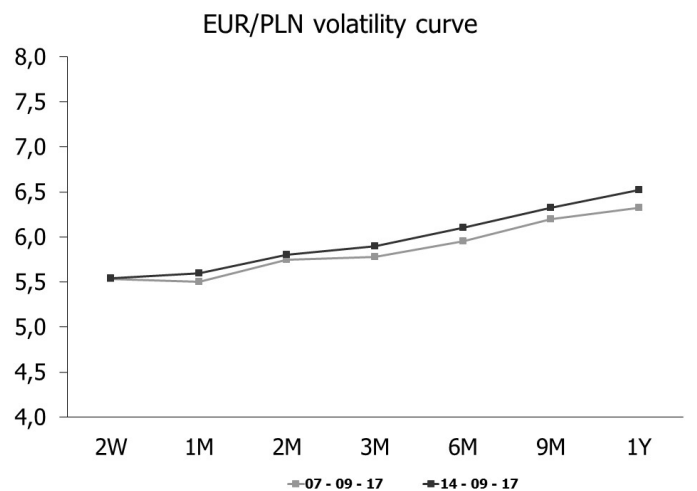
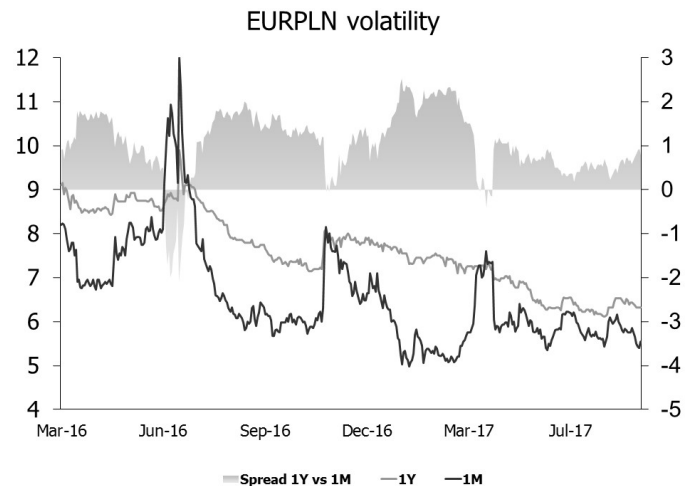
Main supports / resistances:  
 EUR/PLN: 4.20 / 4.30  
 USD/PLN: 3.50 / 3.80

**Spot** Current position: Still long EUR/PLN at 4.2550.

Still long EUR/PLN, 50% of the original position (after partial profit-taking). We are ready to add to the position at 4.2200 with a stop at 4.1900, and hope to see 4.3000, possibly on the way to 4.33+. We are of the opinion that political risk in Poland is not priced in at current PLN levels. Technically, we see a good chance of EUR/PLN coming back to the middle of the multi-month range, namely 4.35ish.

**Options** Vol – tactical long

We reduced some vega position but still have small tactical long in mid curve Vega. The market is not really moving, we are in very tight price ranges. In the bigger picture, we are much more keen to enter bigger long Vega trade, but timing is key. For now we are sticking to our small tactical long.



## 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
9/7/2017	1.45	1.73	1.60	1.71	1.87	1.75	1.73	1.74	1.76	1.78	1.83	1.83
9/10/2017	1.51	1.73	1.58	1.71	1.78	1.75	1.73	1.74	1.76	1.79	1.82	1.84
9/11/2017	1.61	1.73	1.66	1.71	1.79	1.75	1.73	1.74	1.76	1.79	1.82	1.83
9/12/2017	1.32	1.73	1.48	1.71	1.68	1.75	1.73	1.74	1.77	1.79	1.82	1.84
9/13/2017	1.45	1.73	1.61	1.71	1.75	1.75	1.73	1.75	1.77	1.79	1.83	1.84

Last primary market rates							
Paper	Au. date	Maturity	Avg. price	Avg. yield	Supply	Demand	Sold
32W TB	2/22/2017	8/30/2017	99.21	1.50	700	1832	726
OK0419	6/9/2017	4/25/2019	96.62	1.86	600	1505	500
PS0422	6/9/2017	4/25/2022	98.47	2.59	1000	1811	1085
DS0727	6/9/2017	7/25/2027	94.61	3.13	600	944	640

Fixed income market rates (closing mid-market levels)								
Date	1Y WIBOR	1Y T-bill	2Y IRS	OK0715	5Y IRS	PS0718	10Y IRS	DS1023
9/7/2017	1.750	1.474	1.635	1.578	1.960	2.232	2.405	2.949
9/10/2017	1.750	1.474	1.635	1.578	1.960	2.232	2.405	2.949
9/11/2017	1.750	1.474	1.635	1.578	1.960	2.232	2.405	2.949
9/12/2017	1.750	1.474	1.635	1.638	1.990	2.290	2.447	2.985
9/13/2017	1.750	1.474	1.635	1.525	2.000	2.269	2.460	2.964

EUR/PLN 0-delta stradle					25-delta RR		25-delta FLY	
Date	1M	3M	6M	1Y	1M	1Y	1Y	1Y
9/7/2017	5.50	5.78	5.95	6.33	6.33	1.84	0.59	0.59
9/10/2017	5.43	5.69	5.94	6.33	6.33	1.84	0.59	0.59
9/11/2017	5.40	5.68	5.90	6.33	6.33	1.77	0.58	0.58
9/12/2017	5.55	5.78	5.98	6.33	6.33	1.83	0.58	0.58
9/13/2017	5.60	5.90	6.10	6.53	6.53	1.77	0.58	0.58

PLN Spot performance						
Date	EURPLN	USDPLN	CHFPLN	JPYPLN	HUFPLN	CZKPLN
9/7/2017	4.2466	3.5511	3.7256	3.2593	1.3876	0.1627
9/10/2017	4.2511	3.5239	3.7194	3.2718	1.3893	0.1629
9/11/2017	4.2426	3.5293	3.7201	3.2549	1.3846	0.1628
9/12/2017	4.2511	3.5552	3.7152	3.2400	1.3858	0.1629
9/13/2017	4.2677	3.5627	3.7119	3.2373	1.3871	0.1635

## Disclaimer

Distribution and use of this publication The review note is based on the information available to the public. This review creates exclusively a marketing information as defined in Paragraph 9 Section 1 of the Decree of Minister of Finance dated November 20, 2009 on procedures and conditions to be followed by investment firms and banks mentioned in Article 70 Section 2 of Law on Trading in Financial Instruments dated July 29, 2005 as well as by custody banks. This review note is provided to you for information purposes only and is not intended as advice on any particular matter or as recommendation, offer or solicitation for purchase or sale of any financial instrument and should not be taken as such. mBank SA, its directors, officers, executives, managers, servants or agents expressly disclaim all liability to any person in respect of any-thing, and in respect of the consequences of anything, done or omitted to be done, wholly or partly, in reliance upon the whole or any part of the contents of this review note. The opinions and estimates contained herein reflect the current judgment of the author(s) on the date of this document and are subject to change without notice. The opinions pointed in review do not necessarily correspond to the opinions of mBank SA. The past performance of financial instruments is not indicative of future results. No assurance can be given that any financial instrument or issuer described herein would yield favourable investment results. mBank and/or its principals or employees may have a long or short position or may transact in the financial instrument(s) and/or securities referred to herein or may trade in such financial instruments with other customers on a principal basis. No client or other reader should act or refrain from acting on the basis on any matter contained in it without taking specific independent professional advice on the particular facts and circumstances in issue. Copyright protection exists in this publication and it may not be, even partially, reproduced of distributed without the prior written agreement with mBank SA.

©mBank 2016. All rights reserved.