

January 25, 2018

## Polish Weekly Review

### Authors:

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)

### Follow us on Twitter:

[@mbank\\_research](https://twitter.com/mbank_research)

### Business contacts:

#### Department of Financial Markets

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

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

page 2

#### Economics

page 3

■ Neither industry nor the economy lost any momentum at the turn of the year.

#### Fixed income

page 5

■ The day before auction

#### Money market

page 6

■ Dual nature of Polish yield curve

#### FX market

page 7

■ Spot – PLN stronger

■ Options – slightly steeper curve in EUR/PLN

### Comment on the upcoming data and forecasts

On Tuesday CSO will publish its first estimate of GDP growth in 2017. We expect it to accelerate significantly, from 2.9% in 2016 to 4.5% y/y (which translates into Q4 growth of around 5%). When it comes to the structure of growth, we expect the highest contribution of household consumption since 2008 (2.9 percentage points, annual growth of 4.9%), investment growing at 3.2% y/y and a positive contribution from net exports. Manufacturing PMI will be published on Thursday. We expect another increase after the strong German and Eurozone data, as well as the stellar CSO business sentiment indices. New order assessment in CSO surveys jumped to all time high in January. CSO does not publish flash CPI for January because of the upcoming change in the inflation basket weights.

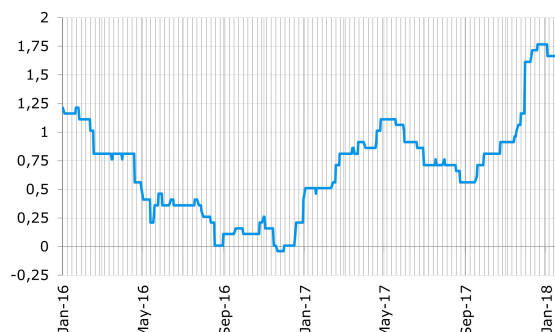
### Polish data to watch: January 26th to February 2nd

Publication	Date	Period	mBank	Consensus	Prior
Annual GDP y/y (%)	30.01	2017	4.5	4.5	2.9
Manufacturing PMI (pts.)	01.02	Jan			55.0

### 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	1/26/2018	860	1.863	1/4/2018
5Y T-bond PS0422	1/26/2018	1800	2.561	1/4/2018
10Y T-bond DS0727	1/26/2018	800	3.338	11/23/2017
30Y T-bond WS0447	-	125	3.720	10/25/2017

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



### Comment

Polish surprise index is in a free-fall after data from real sphere (retail sales, PPI) and labour market (unemployment rate) surprised to the downside. Next week brings two opportunities for a rebound: preliminary GDP for 2017 and manufacturing PMI for January.

\* 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

- In 2018 Polish GDP is set to grow by 4.6% (we are upping our forecast by 0.1 percentage point due to higher starting point). Poland is entering the upcoming election cycle (local elections in 2018, parliamentary elections in 2019 and presidential elections in 2020) with very tight labor market, favorable external environment and stimulation on all fronts.
- Inflation reached a local top in November 2017. Base effects suggest that inflation will drop at the turn of the year and reaccelerate briskly from Q2 on. One should look through short-term fluctuations and look at underlying momentum. The case for accelerating core inflation is strengthening. Polish labor market is operating normally and fits regional trends: wage inflation is coming.
- MPC stays calm and waves away any signs of intensifying wage pressure. In our view, as long as inflation stays within the target band and 5% remains a ceiling for GDP growth, the MPC will keep its rhetoric in place. Our current forecast reflects this reality – no change in interest rates in 2018.
- Fiscal situation continues to be very comfortable and GG deficit will fall close to 1% of GDP this year. We judge that the increase in VAT revenues is 70% consumption growth and 30% crackdown on tax avoidance. The latter has not ended and the prospects for increases in tax collectibility are very good.

### Financial markets

- Political issues moved into the background and the markets are clearly unconcerned with local risks, making the PLN a star performer in the region.
- The key reason for the recent PLN strength is the Goldilocks economy, both in Poland and abroad. Strong growth amid low inflation and range-bound global risk free rates is a recipe for inflows and appreciation of EM assets across the board. In such an environment, PLN remains strong.
- Such an equilibrium is unlikely to persist for long, though. Something has to give in and in either scenario (strong growth and inflation, leading to higher rates globally, or lower growth, higher risk aversion and outflows from EMs) negative real interest rates and dovish MPC will become a liability. Thus, before Zloty strengthens again due to cyclical factors, we might see some weakening in the meantime (to 4.20-ish).

### mBank forecasts

	2013	2014	2015	2016	2017 F	2018 F
GDP y/y (%)	1.4	3.3	3.8	2.9	4.5	4.6
CPI Inflation y/y (average %)	0.9	-0.1	-0.9	-0.6	1.9	2.4
Current account (%GDP)	-1.2	-2.1	-0.5	-0.3	0.2	-0.2
Unemployment rate (end of period %)	13.4	11.4	9.8	8.2	6.6	6.0
Repo rate (end of period %)	2.50	2.00	1.50	1.50	1.50	1.50

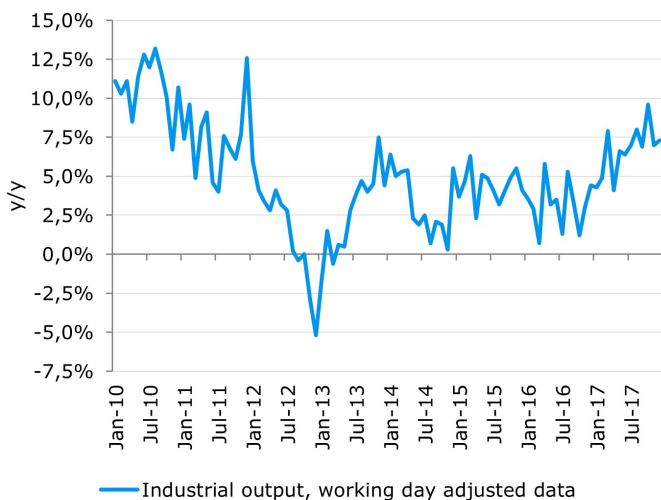
	2017	2017	2017	2017	2018	2018	2018	2018
	Q1	Q2	Q3	Q4 F	Q1 F	Q2 F	Q3 F	Q4 F
GDP y/y (%)	4.1	4.0	4.9	5.0	4.8	4.6	4.5	4.5
Individual consumption y/y (%)	4.7	4.9	4.8	4.8	4.6	4.3	4.0	4.0
Public Consumption y/y (%)	0.5	2.1	1.9	3.0	4.0	3.0	3.0	3.0
Investment y/y (%)	-0.5	0.9	3.3	6.0	10.0	10.0	9.0	8.0
Inflation rate (% average)	2.0	1.8	1.9	2.0	2.0	2.6	2.6	2.2
Unemployment rate (% eop)	8.0	7.0	6.8	6.6	6.8	6.0	5.7	6.0
NBP repo rate (% eop)	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Wibor 3M (% eop)	1.73	1.73	1.73	1.72	1.72	1.72	1.73	1.73
2Y Polish bond yields (% eop)	2.01	1.90	1.75	1.72	1.73	1.73	1.79	1.97
10Y Polish bond yields (% eop)	3.49	3.32	3.37	3.30	3.20	3.35	3.50	3.60
EUR/PLN (eop)	4.23	4.23	4.31	4.18	4.15	4.20	4.15	4.10
USD/PLN (eop)	3.97	3.70	3.65	3.48	3.52	3.50	3.40	3.33

F - forecast

## Economics

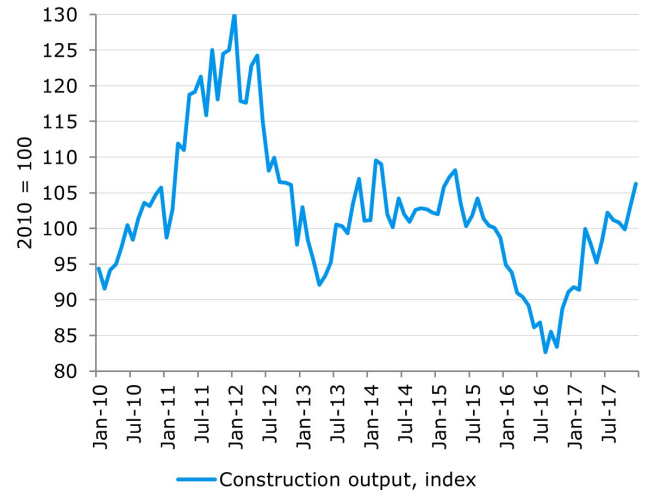
### Neither industry nor the economy lost any momentum at the turn of the year.

**Sold industrial output** rose by 2.7% y/y in December, slightly below market consensus (3.5%), but above our far too pessimistic forecast of -1% y/y. We were betting on two negative factors, calendar (working day count dropped from +1 to -2 y/y) and high statistical base (up to 2 percentage points in manufacturing alone). However, neither materialized in full and industry maintained strong momentum at the end of the year, having grown by 1.8% m/m.

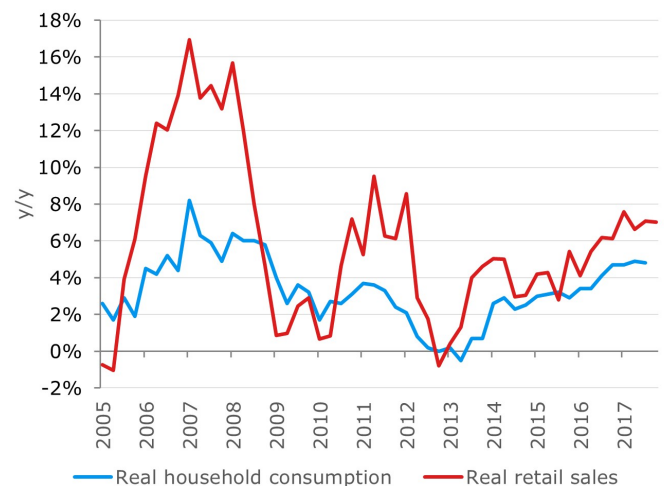


Looking back, Q4 has been the best quarter for Polish industry (in y/y terms) since early 2011. From the fundamental perspective, it should be obvious that it is benefitting from the upswing in the global economy and from the rebound in investment. We expect both factors to remain in play throughout 2018. Thus, industrial output will probably rise by ca. 8% this year on average.

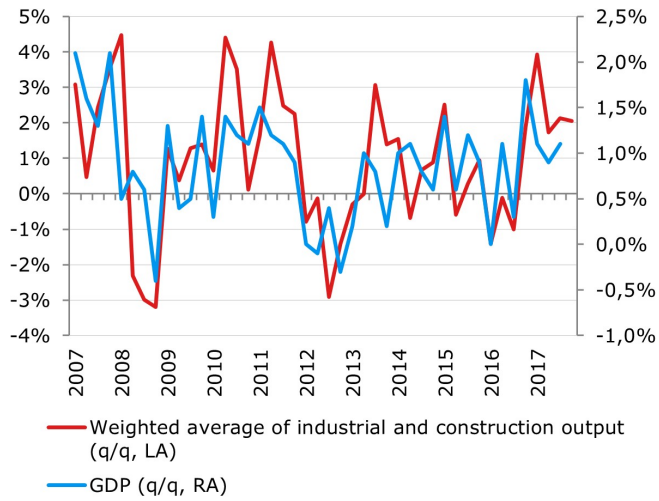
**Construction output** grew in December by 12.7% on a yearly basis, in line with market consensus but lower than our forecast. After adjusting by seasonal factors, monthly growth rate matched November's release (3%). This confirms that rebound in this category is persistent, but not as significant as we had expected. The reason for this surprise could be the change of seasonal pattern in last months of the year or another (third in a row) warm December. We need to wait for the details until publication of quarterly data. However, we suspect that catching up with public investment was not as strong as we expected it at the beginning.



**Retail sales** slowed down considerably in December – from 10.2% to 5.2% y/y (in real terms from 8.8 to 5.2% y/y). A quick scan of the details of the release indicates that the decline had three distinct causes. First, the abovementioned calendar strongly affected car sales (the category most sensitive to working day count), which cratered from 10.6 to -3.1% y/y. Second, price and volume effects both dampened fuel sales – it slowed down from 10.3 to 4.1% y/y. Last but not least, annual growth rates of most durable good sales declined modestly in December. As a result, core sales also slowed down – retail sales excluding food, fuel and cars rose by 7.7% y/y compared to 11.1% in November. Given these circumstances, we remain bullish on household consumption in Poland. All available data (retail sales, real income growth and consumer sentiment – the latter rose to a new all-time high in January) point to stable, sub-5% growth in household consumption, certainly not to a slowdown.



The big upward surprise in industry more than offset the slight disappointment in construction. As a result, our Q4 nowcast must be revised upwards again. Incomplete set of Q4 data now points to growth in the 4.9-5.1% range. There is considerable uncertainty, in our view, regarding Q4'17 inventory contribution (the biggest source of statistical base in Q4'16 GDP). Nevertheless, the pattern of surprises has in 2017 has been clear and ultimately we decided to bet on the upper side of the range.



From the MPC's point of view the data remains neutral. Current equilibrium, with falling inflation (the PPI is a clear indication of just that) and fast economic growth supports its optimistic and dovish message.

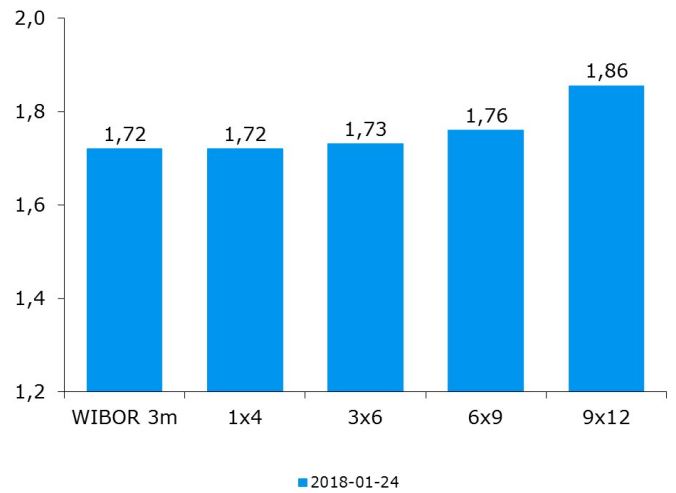
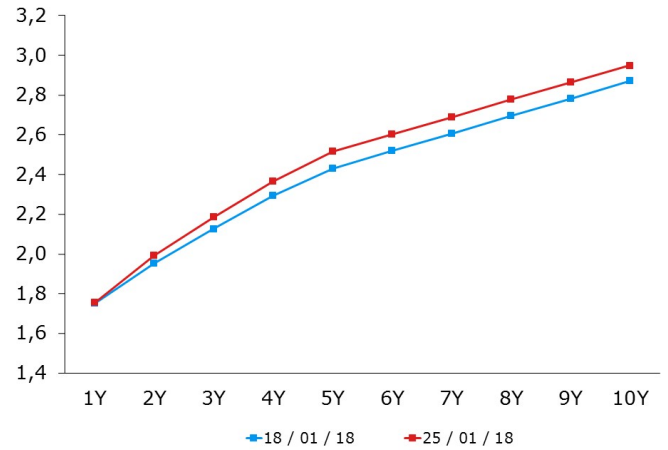
## Fixed income

### The day before auction

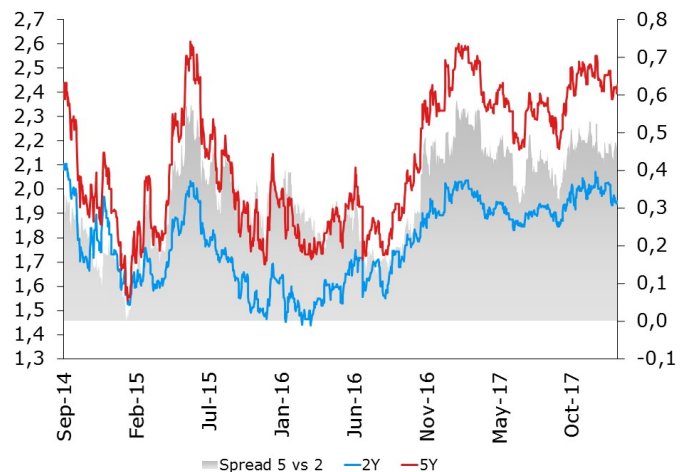
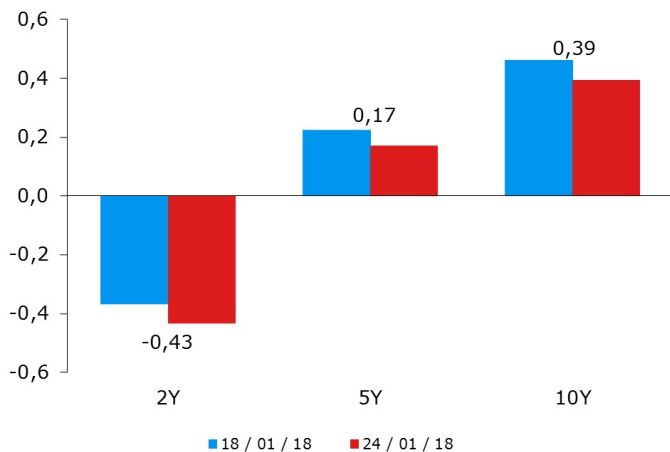
We have an auction tomorrow, the Ministry of Finance is selling a bundle of OK0720/PS0123/WS0428/WZ1122/WZ0528-series bonds, 5-7 bn in total. This is not a small sum, but demand won't be a problem. The end of month is coming, everyone is buying.

ASW spreads are very tight, PS0123/5y is 11 bps and DS0727/10y is 34 bps. DS0727/Bund is 277 bps. PLN curve is steep, PS0123/DS0727 is 67 bps. DS1019 is trading at 1.53% (4 bps down), PS0123 is trading at 2.67% (3 bps up) and DS0727 is trading at 3.34% (3 bps up).

IRS curve



Asset swaps



## Money market

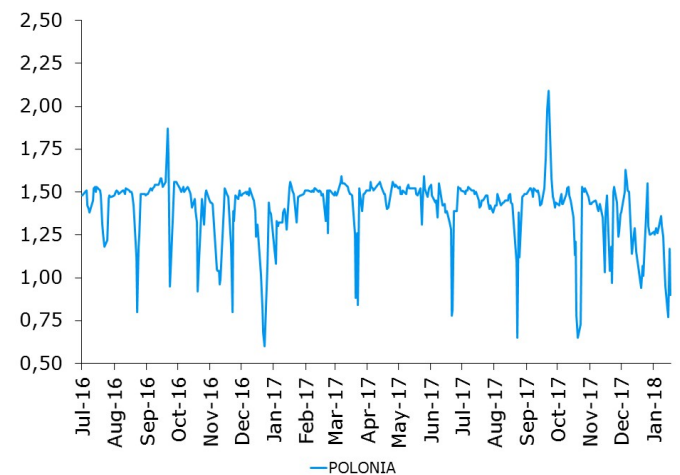
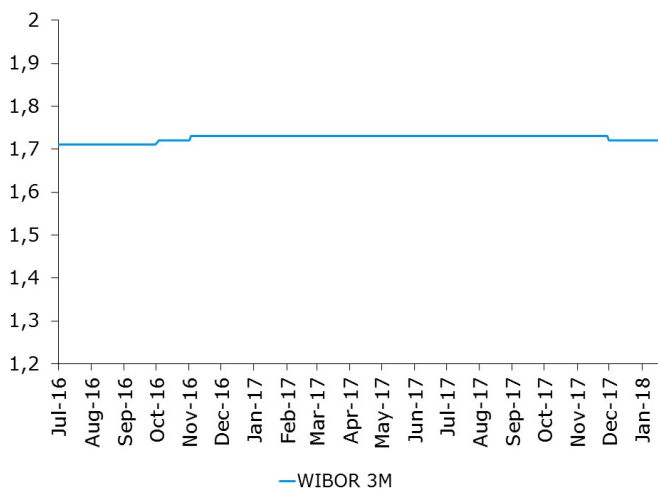
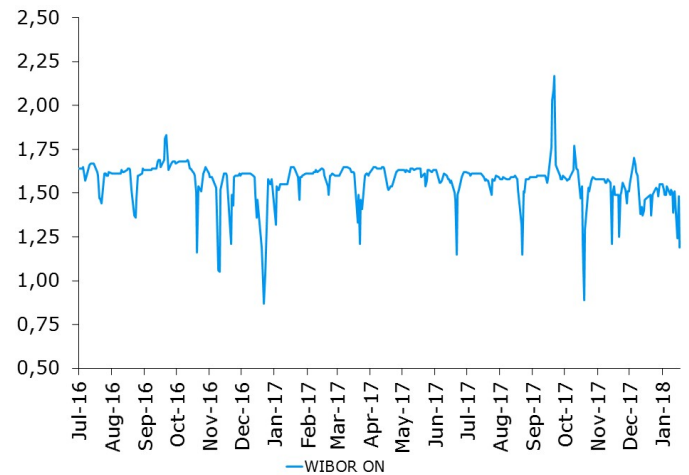
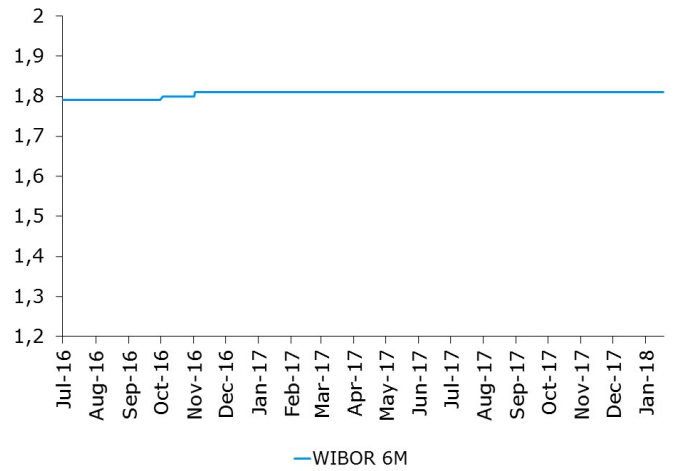
### Dual nature of Polish yield curve

Despite the recent sell-off in the core markets, Polish bonds held quite well. Governor Glapinski is reiterating in Davos that rates should stay flat through 2018. On the back of January redemptions bonds maturing in 2 years' time are in demand. It's not going so well in the back of the curve, as longest Polish bonds are suffering from rises in core yields.

Overnight rate still lies on the ground. Additional OMO on Tuesday wasn't able to raise rates.

Ref rate vs Polonia averages:

30 day 27 bps  
90 day 22 bps



## Forex

**Spot – PLN stronger** The PLN keeps on winning, especially against USD, where we briefly touched 3.3090 – the level last seen back in 2014. The EUR/PLN slide was less impressive, but still managed to test the 4.1400 region (last seen in 2015). The reason is still the same – insatiable appetite from the foreign investors. While the USD/PLN is more a function of EUR/USD, we think that EUR/PLN should end up around 4.13/14 with 4.18/4.19 being the resistance zone. Range trading it is.

**Options – slightly steeper curve in EUR/PLN** We have seen a small Gamma buying before ECB meeting, but it was not enough to push the curve higher. In fact, the Vol curve in EUR/PLN is now just a little bit steeper. 1 month ATM mid is 4.2% today (0.1 pp lower), 3 month is at 4.70% (0.05 pp lower) and, finally, 1 year fixed at 5.7% (0.1 pp higher, trades reported at that level). The skew was at the same level as a week ago. The currency spread (difference between USD/PLN and EUR/PLN) shoot higher especially in the frontend due to the ECB meeting.

### Short-term forecasts

Main supports / resistances:

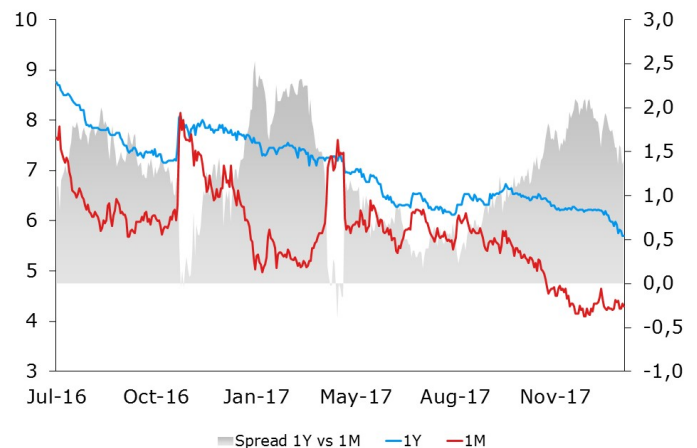
EUR/PLN: 4.13 / 4.23

USD/PLN: 3.35 / 3.60

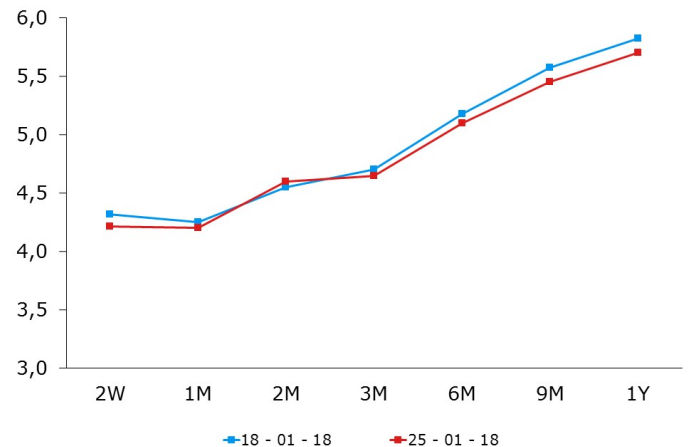
**Spot** Current position: None.

We are back to our favourite game – range playing. We see 4.14-4.19 as the current range, and we are trying to play that range with an open mind.

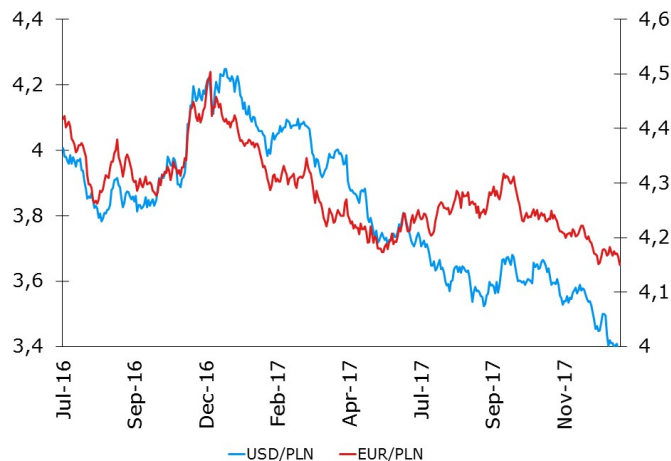
EURPLN volatility



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
1/18/2018	1.71	1.72	1.80	1.71	1.98	1.75	1.72	1.73	1.77	1.85	1.93	1.82
1/21/2018	1.79	1.72	1.88	1.71	2.07	1.75	1.72	1.73	1.75	1.85	1.92	1.83
1/22/2018	1.69	1.72	1.88	1.71	2.09	1.75	1.72	1.73	1.75	1.84	1.93	1.82
1/23/2018	1.57	1.72	1.69	1.71	1.88	1.75	1.72	1.73	1.75	1.85	1.94	1.83
1/24/2018	1.75	1.72	1.86	1.71	2.06	1.75	1.72	1.73	1.76	1.86	1.95	1.87

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
1/18/2018	1.750	1.474	1.635	1.578	1.960	2.232	2.405	2.949
1/21/2018	1.750	1.474	1.635	1.578	1.960	2.232	2.405	2.949
1/22/2018	1.750	1.474	1.635	1.578	1.960	2.232	2.405	2.949
1/23/2018	1.750	1.474	1.635	1.638	1.990	2.290	2.447	2.985
1/24/2018	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
1/18/2018	4.25	4.70	5.18	5.83	5.83	1.40	0.53	0.53
1/21/2018	4.25	4.70	5.18	5.80	5.80	1.40	0.53	0.53
1/22/2018	4.35	4.70	5.10	5.70	5.70	1.40	0.53	0.53
1/23/2018	4.30	4.60	5.08	5.70	5.70	1.35	0.54	0.54
1/24/2018	4.20	4.65	5.10	5.70	5.70	1.35	0.53	0.53

PLN Spot performance						
Date	EURPLN	USDPLN	CHFPLN	JPYPLN	HUFPLN	CZKPLN
1/18/2018	4.1663	3.4108	3.5471	3.0645	1.3512	0.1640
1/21/2018	4.1750	3.3994	3.5576	3.0725	1.3498	0.1642
1/22/2018	4.1696	3.4036	3.5472	3.0744	1.3473	0.1642
1/23/2018	4.1712	3.4084	3.5396	3.0800	1.3459	0.1642
1/24/2018	4.1637	3.3750	3.5460	3.0774	1.3472	0.1640

## Disclaimer

Note that [research@mbank.pl](mailto:research@mbank.pl) is an e-mail address used exclusively for the distribution of mBank's publications. We advise to reply and send feedback directly to their authors.

The document has been drafted at the Investor Relations, Group Strategy and Macro Research Department of mBank S.A. for the purpose of promotion and advertising in line with Article 9 (1) of the Regulation of the Minister of Finance dated 24 September 2012 on the Mode and Conditions of Conduct of Investment Firms, Banks referred to in Article 70 (2) of the Act on Trading in Financial Instruments, and Custodian Banks (Journal of Laws of 2015, item 878, as amended). The document does not constitute investment research or marketing communication within the meaning of Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive. The document does not constitute investment advice, nor is it an offer within the meaning of Article 66 (1) of the Polish Civil Code.

The document has been drafted based on the authors' best knowledge, supported by information from reliable market sources. All assessments herein reflect outlooks as at the date of issue of this material and may be subject to change at the discretion of the authors without prior notification. Quotations presented herein are average closing levels of the interbank market from the previous day, they are obtained from information services (Reuters, Bloomberg) and serve information purposes only. Distribution or reprint of the full text or a part of it is allowed only upon obtaining a prior written consent of its authors.

©mBank 2018. All rights reserved.