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## Polish Weekly Review

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### Comment on the upcoming data and forecasts

Tuesday and Thursday are public holidays in Poland. On Wednesday manufacturing PMI for April will be published. Our initial forecast suggests a moderate drop after stabilization in March. This is due to worsening economic sentiment in the Eurozone, downward correction in other indicators (CSO) and further intensifying of factors limiting business activity (especially covering employment). Also on Wednesday CSO will publish flash CPI release. We expect a rebound after very low readings in February and March.

Due to holiday period opened up for the next week, next issue of the report will be released on 10th May.

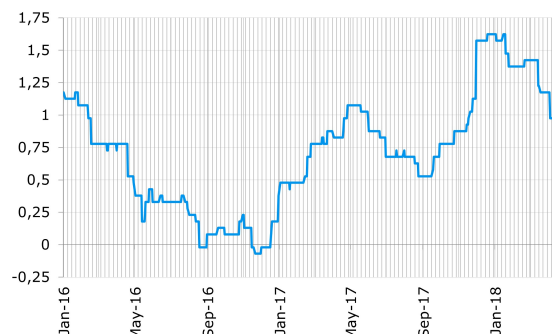
### Polish data to watch: April 27th to May 4th

Publication	Date	Period	mBank	Consensus	Prior
Manufacturing PMI (pts.)	02.05	Apr	52.9		53.7
CPI flash y/y (%)	02.05	Apr	1.7		1.3

### 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 OK0720	4/27/2018	150	1.494	3/27/2018
5Y T-bond PS1023	4/27/2018	800	2.358	3/27/2018
10Y T-bond WS0428	4/27/2018	1400	3.196	3/27/2018
30Y T-bond WS0447	4/27/2018	50	3.764	2/22/2018

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



### Comment

Polish surprise index continues to fall after higher than expected unemployment rate in March. Next week brings two opportunities to move the index with flash CPI and manufacturing PMI.

\* 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%. 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 surprised to the downside in February and March. Base effects suggest that inflation will accelerate in the coming months (until July) and then drop again. The expected path shifted downwards, though. Right now, services prices are the best hope for inflation bulls. The long-run relationship between wages and prices is clear there and we should be seeing a strong signal there in the second half of the year.
- 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 and early 2019.
- Fiscal situation continues to be very comfortable. 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. The impact of PLN-specific factors on the currency has been relatively small.
- Our scenario of an upward correction in EURPLN has finally materialized. Hawkish Fed concerns and (especially) very dovish MPC both contributed to a modest depreciation in the PLN (less than 5%). It seems that the PLN, negatively impacted by easy monetary policy, can only catch a reprieve if global rates move sharply lower and investors readjust their expectations regarding the global economy and global monetary policy in a wholesale fashion.
- Over the medium term, strong GDP growth, low credit risk and purely mechanical (as the expected date of first hike should move closer with each day) drift in interest rate expectations will increase the PLN's relative appeal. Thus, in the second half of the year its cyclical nature should reassert itself.

### mBank forecasts

	2014	2015	2016	2017	2018 F	2019 F
GDP y/y (%)	3.3	3.8	3.0	4.6	4.6	3.6
CPI Inflation y/y (average %)	-0.1	-0.9	-0.6	2.0	1.8	2.7
Current account (%GDP)	-2.1	-0.6	-0.3	0.3	-0.2	-0.6
Unemployment rate (end of period %)	11.4	9.8	8.2	6.6	5.5	5.0
Repo rate (end of period %)	2.00	1.50	1.50	1.50	1.50	2.00

	2017	2017	2017	2017	2018	2018	2018	2018
	Q1	Q2	Q3	Q4	Q1 F	Q2 F	Q3 F	Q4 F
GDP y/y (%)	4.4	4.0	5.2	4.9	4.8	4.6	4.5	4.5
Individual consumption y/y (%)	4.5	4.9	4.7	5.0	4.6	4.3	4.0	4.0
Public Consumption y/y (%)	2.1	2.9	3.3	4.8	4.0	3.0	3.0	3.0
Investment y/y (%)	1.4	1.3	3.6	5.4	10.0	10.0	9.0	8.0
Inflation rate (% average)	2.0	1.8	1.9	2.3	1.9	1.8	2.0	1.6
Unemployment rate (% eop)	8.0	7.0	6.8	6.6	6.6	5.7	5.5	5.5
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	1.70	1.70	1.71	1.72
2Y Polish bond yields (% eop)	2.01	1.90	1.75	1.72	1.49	1.55	1.60	1.70
10Y Polish bond yields (% eop)	3.49	3.32	3.37	3.30	3.18	3.30	3.40	3.50
EUR/PLN (eop)	4.23	4.23	4.31	4.18	4.21	4.20	4.20	4.20
USD/PLN (eop)	3.97	3.70	3.65	3.48	3.42	3.41	3.39	3.39

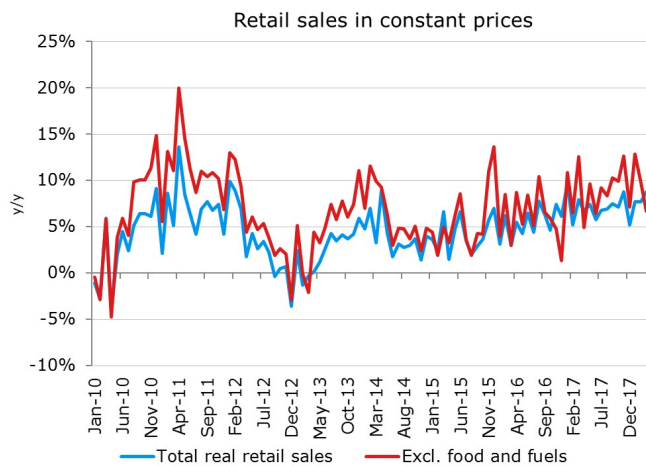
F - forecast

## Economics

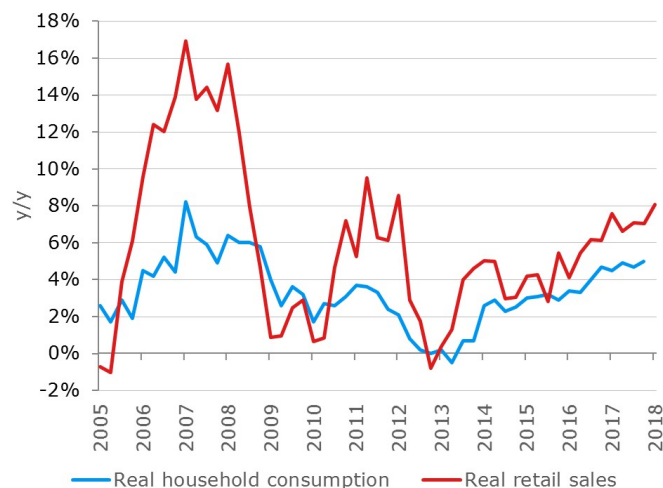
### Early Easter boosted retail sales, no sign of partial Sunday trading ban

Retail sales rose by 9.2% y/y in nominal terms and by 8.8% in constant prices in March, beating estimates (market consensus 8.0%, our forecast 8.4%, both in real terms).

On average, retail sales rose at the fastest rate in 7 years in the first quarter. Assuming that the current relationship between retail sales and consumption growth holds and keeping record-high consumer sentiment in mind, we can be reasonably sure that household consumption will grow by 5% in the first half of the year. From the MPC's point of view the data is neutral, since it confirms the status quo in the economy (also, retail sales deflators remain subdued).



Details of the releases show only a few surprises. First, car sales appears to have reacted to negative working day difference much more strongly than anticipated (down from +3.1 to -4.3% y/y). Second, unfavorable weather conditions lowered clothing and footwear sales (down from +16 to +9.1% y/y) – most likely Spring collections were out of sync with cold weather. Third, food sales surged (up from 5.6 to 17.3% y/y), just as non-specialized stores did. Both categories are indicative of early Easter, in our view. This year, all of pre-Easter purchases happened in March as opposed to the previous year (Easter in mid-April). The partial Sunday trading ban introduced in March this year seems to have no effect on aggregate sales. If anything, it might have even boosted sales, because households overshot with their purchases and accumulated excess inventories in anticipation of two non-trading Sundays. If we are right, this effect is set to disappear in the coming months as consumers learn by doing and adjust their habits to the new laws. Other categories did not surprise at all.



## Fixed income

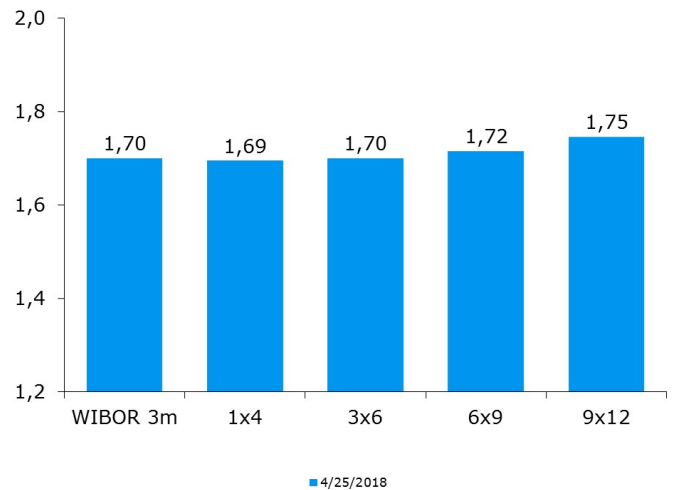
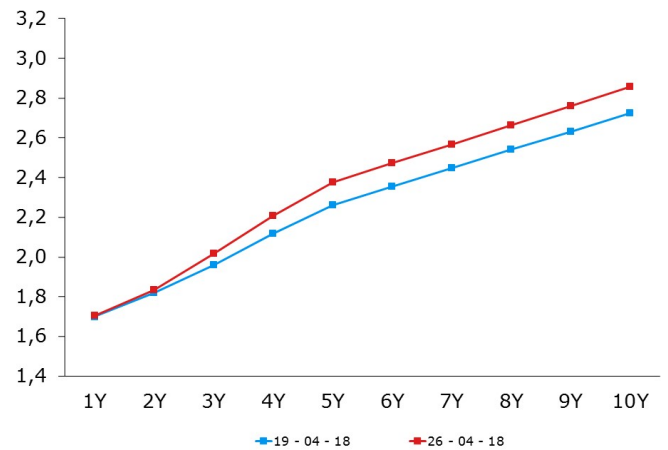
### Stuck between core markets and auction

Core markets affected recent moves on POLGBs. Spread between US10Y and PL10Y reached multi-year low. Tomorrow we have a small auction in Poland, only 4 bio is on the offer. Moreover, Ministry wants to sell WS0447, so there will be even less supply of regular bonds. Only a big surprise at today's ECB meeting could impact the market.

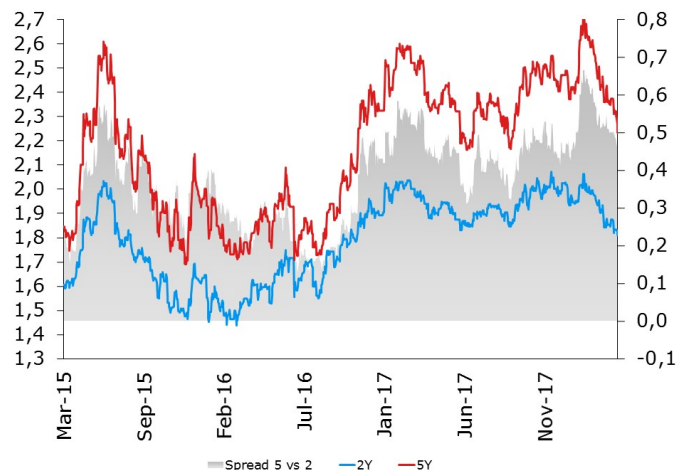
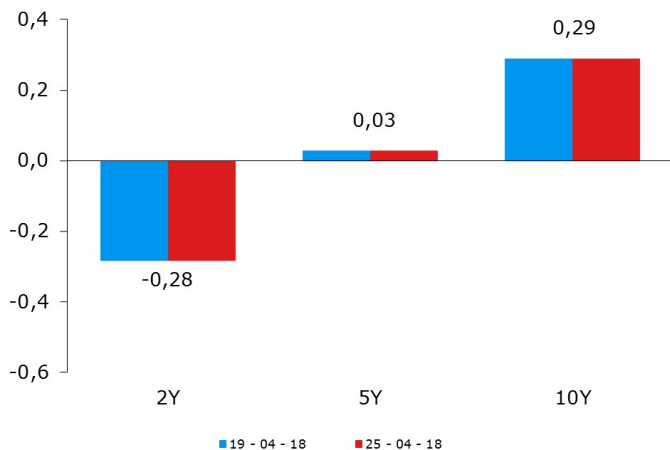
Curve has flattened PS0123/WS0428 is 69bps PS0123/5y is -4bps, WS0428/10y is 19bps. WS0428/Bund is 245bps.

PS0420 is trading at 1.48% (1 bp down), PS0123 is trading at 2.37% (10 bps up) and WS0428 is trading at 3.06% (8 bps up).

IRS curve



Asset swaps



## Money market

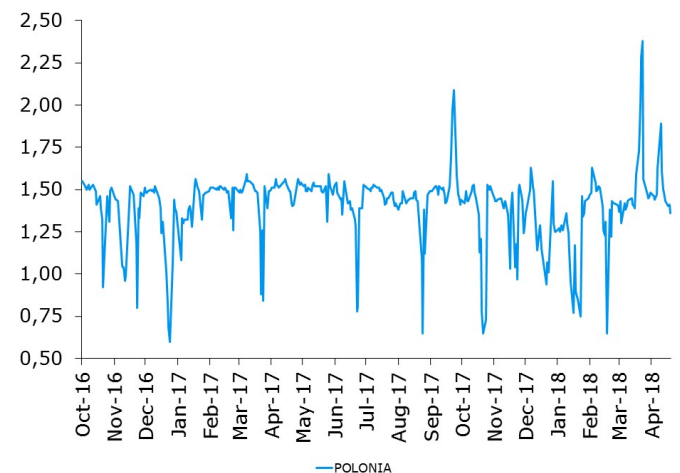
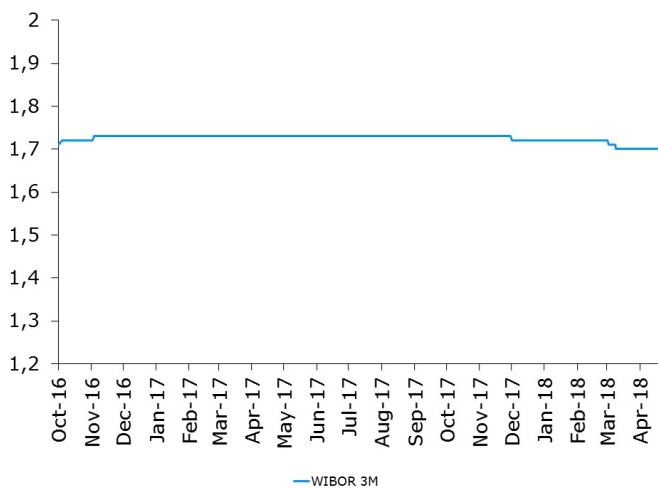
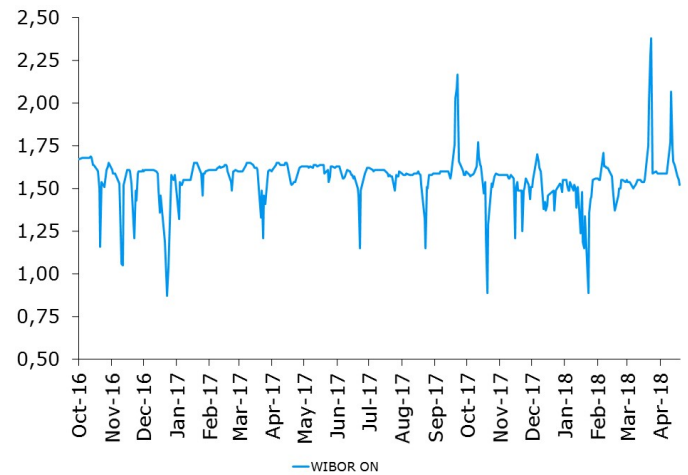
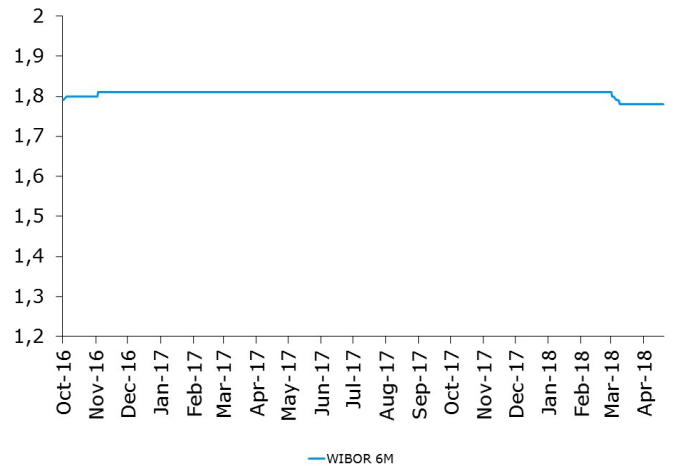
### Waiting for CPI

Polish govies remain strong comparing to „risk free” US government bonds. While US 10y yields reach multi-year highs, Polish bonds have just marginally pulled back from recent lows. Tomorrow we have a bond auction which should add some liquidity to the market. The offer is seen by market participants as relatively small (4 bio). We will see how market reacts when we cross month’s end. Next week we have CPI reading which could add some colour to the boring front end of the curve.

Cash is pretty stable as far as month end comes.

Ref rate vs Polonia averages:

30 day -10 bps  
90 day 6 bps



## Forex

**Spot – The wakeup call** EUR/PLN support zone 4.15/4.16 has provided a valid technical level (4.1610 is the low of last 5 trading sessions) and the upward march started. The most obvious trigger was of course the UST 10Y breaching the 3% psychological barrier, while long PLN positioning was also adding fuel to the move. As the consequence we had a steep move to 4.2410 (high of the last 5 trading days), in just 3 days! It is an impressive depreciation. In basket terms (equally weighted EUR/PLN and USD/PLN) – Zloty is weaker by 2% (applause). But what next? We are (as usual) sceptical and we expect volatility to fade in the 4.20-4.25 range. But we don't mind being wrong ...

**Options – Volatility exploded** Finally, Zloty volatility is back. As a consequence implied volatilities gapped higher with vengeance. 1 month EUR/PLN ATM mid is this Thursday at 4.45% (0.8% higher than a week ago), 3 months are 4.7% (0.6% higher) and 1 year is fixing 5.55% (0.35% higher). The currency spread (difference between USD/PLN and EUR/PLN) is higher by 0.75%. Skew is also better bid.

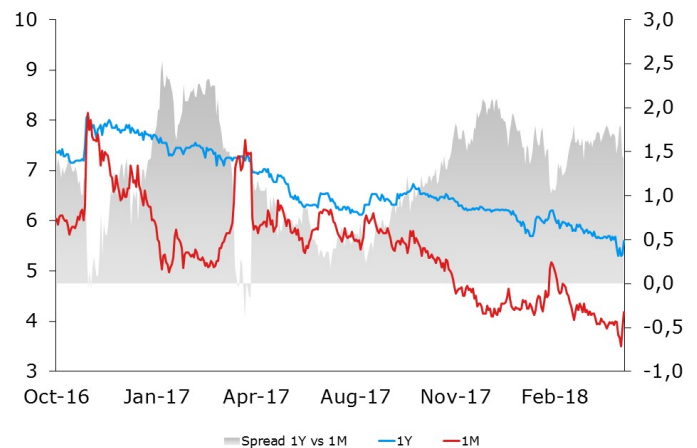
## Short-term forecasts

Main supports / resistances:  
 EUR/PLN: 4.1900 / 4.2700  
 USD/PLN: 3.3500 / 3.5500

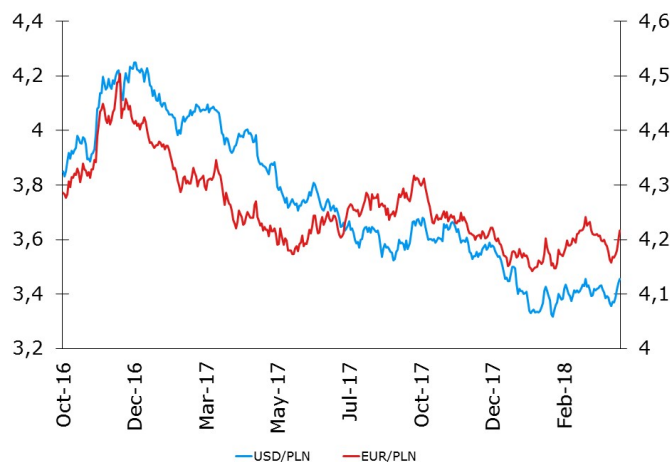
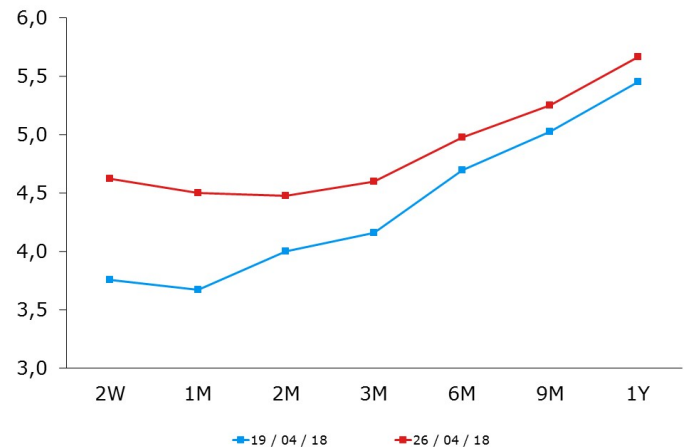
**Spot** Current position: None, buy on dips.

We are sidelined at this moment, but we are going to deep our toe again in the water. Global sentiment is changing, investors are worried that rising borrowing costs may slow the economy, yield differentials are set to deteriorate, which combined with dovish monetary stance of the MPC, is likely to result in Zloty depreciating. We are ready to buy EUR/PLN at 4.19 / 4.20 with a stop at 4.16 and hopes for 4.25+.

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
4/19/2018	1.80	1.70	1.91	1.68	2.04	1.72	1.70	1.71	1.71	1.74	1.78	1.79
4/22/2018	1.73	1.70	1.83	1.68	1.96	1.72	1.70	1.71	1.71	1.73	1.78	1.78
4/23/2018	1.79	1.70	1.91	1.68	2.04	1.72	1.70	1.71	1.72	1.74	1.79	1.79
4/24/2018	1.46	1.70	1.55	1.68	1.60	1.72	1.69	1.70	1.72	1.74	1.79	1.79
4/25/2018	1.77	1.70	1.92	1.68	2.04	1.72	1.69	1.70	1.72	1.75	1.79	1.79

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
OK0720	3/27/2018	7/25/2020	96.61	1.49	150	348	148
PS0123	3/27/2018	1/25/2023	100.63	2.36	800	2101	801
WS0428	3/27/2018	4/25/2028	0.00	3.20	1400	2474	1400

Fixed income market rates (closing mid-market levels)								
Date	1Y WIBOR	1Y T-bill	2Y IRS	OK0720	5Y IRS	PS0423	10Y IRS	WS0428
4/19/2018	1.720	1.339	1.818	1.535	2.260	2.287	2.725	3.013
4/22/2018	1.720	1.339	1.818	1.535	2.260	2.287	2.725	3.013
4/23/2018	1.720	1.339	1.818	1.535	2.260	2.287	2.725	3.013
4/24/2018	1.720	1.339	1.818	1.535	2.260	2.287	2.725	3.013
4/25/2018	1.720	1.339	1.818	1.535	2.260	2.287	2.725	3.013

EUR/PLN 0-delta stradle					25-delta RR		25-delta FLY	
Date	1M	3M	6M	1Y	1M	1Y	1Y	1Y
4/19/2018	3.68	4.16	4.70	5.45	5.45	1.04	0.51	0.51
4/22/2018	3.50	4.05	4.63	5.30	5.30	1.04	0.51	0.51
4/23/2018	3.88	4.23	4.70	5.33	5.33	0.99	0.51	0.51
4/24/2018	4.18	4.45	4.90	5.60	5.60	1.11	0.51	0.51
4/25/2018	4.50	4.60	4.98	5.67	5.67	1.17	0.54	0.54

PLN Spot performance						
Date	EURPLN	USDPLN	CHFPLN	JPYPLN	HUFPLN	CZKPLN
4/19/2018	4.1665	3.3693	3.4777	3.1381	1.3425	0.1645
4/22/2018	4.1724	3.3881	3.4827	3.1483	1.3438	0.1647
4/23/2018	4.1802	3.4156	3.4950	3.1621	1.3432	0.1647
4/24/2018	4.1980	3.4401	3.5158	3.1610	1.3432	0.1651
4/25/2018	4.2159	3.4548	3.5193	3.1669	1.3474	0.1656

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