

August 2, 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

#### Economics

- CPI inflation steady at 2.0% y/y
- A surprising decline in Polish manufacturing PMI

#### Fixed income

- In the middle of holiday season

#### Money market

- Rising temperatures but stable rates

#### FX market

- Spot – EUR/PLN at support
- Options – no change

page 2  
page 3

page 4

page 5

page 6

### Comment on the upcoming data and forecasts

Upcoming week does not bring any interesting publications from Polish economy.

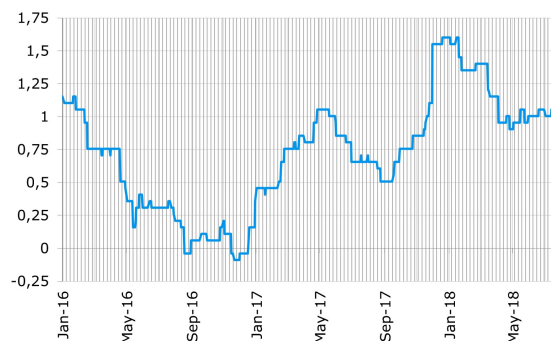
### Polish data to watch: August 3rd to August 10th

Publication	Date	Period	mBank	Consensus	Prior
NO RELEVANT DATA					

### 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	8/23/2018	1000	1.592	7/27/2018
5Y T-bond PS1023	8/23/2018	2300	2.335	7/27/2018
10Y T-bond WS0428	8/23/2018	1300	3.144	7/27/2018
30Y T-bond WS0447	8/23/2018	180	3.495	7/27/2018

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



### Comment

Polish surprise index moved a tad lower after manufacturing PMI did not live up to analysts' expectations. There are no publications to move the index in the upcoming week.

\* 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 at least 5%. 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, rather benign external environment and stimulation on all fronts.
- Inflation turned around and is set to reach 2% in the summer, before dropping back towards 1.5% towards year end. The key driver are fuel and food prices. The former ceased to grow and base effects are considerable, the latter are set to decelerate further this year. Those looking for a durable rise in inflation should take a look at core consumer goods (where there is a multi-year upward trend) and services. The pass-through from higher wages has thus far been limited, by we continue to put faith in this time-tested relationship.
- MPC stays calm and waves away any signs of intensifying wage pressure. In our view, as long as inflation stays within the target band, the MPC will keep its rhetoric in place. Weaker PLN has likely no impact on the MPC's discussions, since pass-through effect are seen as negligible. Our current forecast reflects this reality – no change in interest rates until Q4 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 (other than loose monetary policy) on the currency has been relatively small.
- The relief rally in the PLN is likely over. Either risk off mood returns to the market, or optimism (and - along with it - interest rates) rises considerably. In either case the PLN will be impacted negatively. With the MPC dead-set on keeping rates low, the only path to stronger PLN runs through lower interest rate / easier monetary policy expectations globally.
- Thus, we believe that stronger PLN can only be expected over the medium term. In the coming months PLN is set to depreciate further. In addition, weaker PLN will act as a pressure valve on exporters' margins squeezed by rapidly rising labor and commodity costs.

### mBank forecasts

	2014	2015	2016	2017	2018 F	2019 F
GDP y/y (%)	3.3	3.8	3.0	4.6	5.0	4.1
CPI Inflation y/y (average %)	-0.1	-0.9	-0.6	2.0	1.8	2.1
Current account (%GDP)	-2.1	-0.6	-0.3	0.2	-0.4	-0.8
Unemployment rate (end of period %)	11.4	9.8	8.2	6.6	5.6	5.0
Repo rate (end of period %)	2.00	1.50	1.50	1.50	1.50	1.75

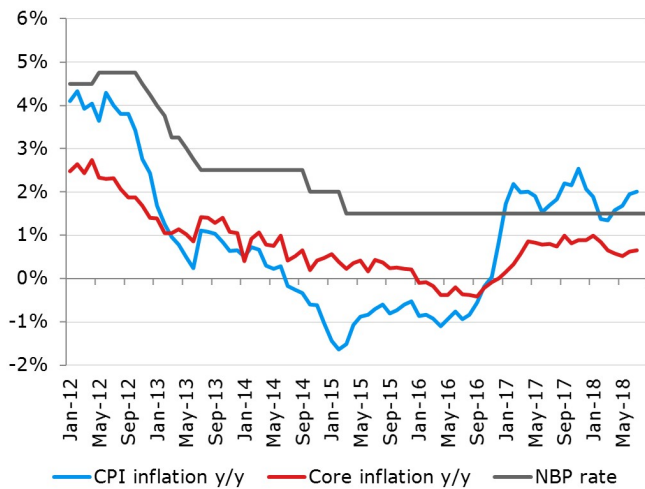
	2018 Q1	2018 Q2 F	2018 Q3 F	2018 Q4 F	2019 Q1 F	2019 Q2 F	2019 Q3 F	2019 Q4 F
GDP y/y (%)	5.2	5.4	4.8	4.7	4.4	4.2	4.0	3.7
Individual consumption y/y (%)	4.8	4.8	4.6	4.2	4.0	3.8	3.8	3.8
Public Consumption y/y (%)	3.6	3.0	4.0	4.0	2.0	2.0	2.0	2.0
Investment y/y (%)	8.1	8.9	8.5	7.0	7.0	6.0	5.0	4.0
Inflation rate (% average)	1.5	1.7	2.1	1.7	2.0	2.3	2.0	2.2
Unemployment rate (% eop)	6.6	5.9	5.7	5.6	5.5	5.0	4.9	5.0
NBP repo rate (% eop)	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.75
Wibor 3M (% eop)	1.70	1.70	1.70	1.70	1.70	1.71	1.72	1.98
2Y Polish bond yields (% eop)	1.49	1.63	1.55	1.60	1.65	1.85	2.00	2.20
10Y Polish bond yields (% eop)	3.18	3.22	3.35	3.40	3.50	3.59	3.71	3.88
EUR/PLN (eop)	4.21	4.37	4.42	4.40	4.35	4.30	4.25	4.20
USD/PLN (eop)	3.42	3.74	3.78	3.73	3.64	3.55	3.47	3.39

F - forecast

## Economics

### CPI inflation steady at 2.0% y/y

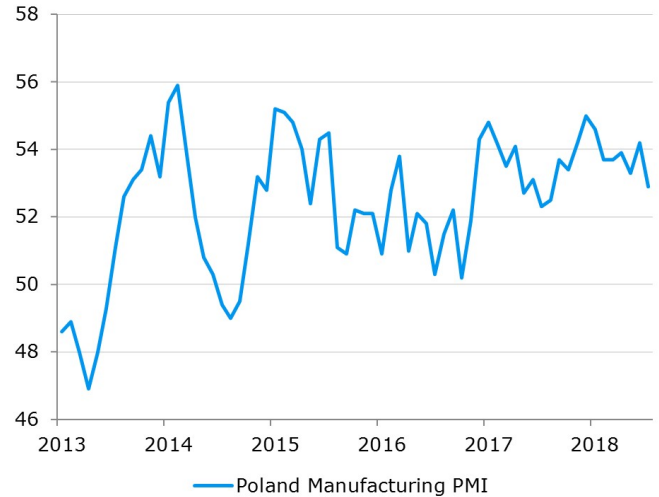
Flash CPI reading suggests that inflation had stabilized in July at 2.0% y/y – in line with our forecast. Fragmentary details suggest that food prices fell somewhat more than a year ago (-0.7% m/m) and fuel prices posted an increase of 1.4% m/m – this way Central Statistical Office confirmed that fuel prices at gas stations and those calculated by the Office do not go in different directions and any deviations are corrected over time. We see core inflation at 0.6% y/y, but the biggest unknown is the Health category, where the new list of pharmaceuticals subject to state refund for the patient was published in July. Since there were patients' complaints that in recent list (published in May) some important drugs were omitted, we hope for downward revision of prices (which indeed occurs in comparison of the same elements of the two subsequent list of drugs).



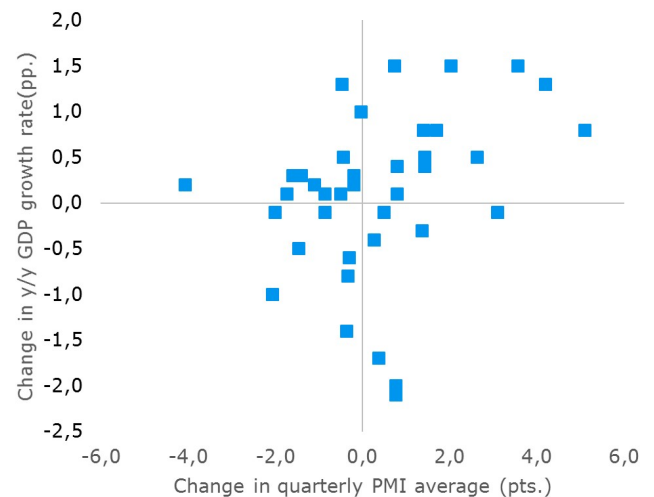
2.0-2.1% y/y marks the top of inflation in Poland this year. At the same time core inflation should be steadily growing. We do not think that the MPC is going to bother at all until rising core is accompanied by another round of headline CPI increases. This is going to happen next year as endogenous inflation pressure is going to be backed by higher energy prices stemming from more expensive energy commodities (coal) and CO2 emission allowances.

### A surprising decline in Polish manufacturing PMI

In July the PMI surprised to the downside, having fallen from 54.2 to 52.9. Market consensus and our forecast both indicated a stable reading of 54.2-54.3.



The deterioration in manufacturers' sentiment was driven by several factors: deceleration in new orders (from 54.6 to 53.9); weak output assessment (11-month low in July); a less pronounced increase in employment; significant shortening in delivery times; smaller purchases by enterprises. It has to be noted that price pressures remained elevated as input prices declined only marginally from its 7-year lows and output prices subindex reached an 80-month high.



The PMI does not always impact market prices, but when it does, it is worth commenting on: bond yields declined after the release and zloty weakened for a moment. We remind our Readers that the relationship between the PMI and economic growth is a weak one and, additionally, unstable over time. It is, for instance, impossible in our view to establish whether the PMI is a leading, concurrent or a lagging indicator. Its decline does not necessarily herald a deceleration in GDP. Historically speaking, quarterly declines in the PMI with similar magnitude has been associated with both higher and lower y/y GDP growth rates. Thus, it is not an indicator that would be useful for forecasting GDP. All market participants should stick to their preferred scenarios – the latest PMI reading does not alter them.

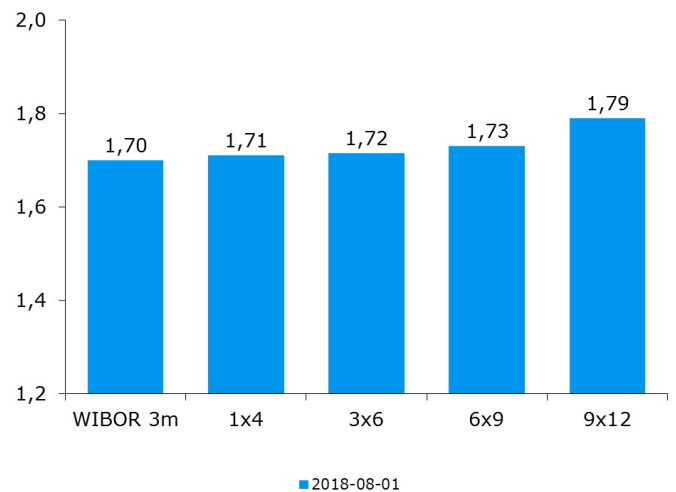
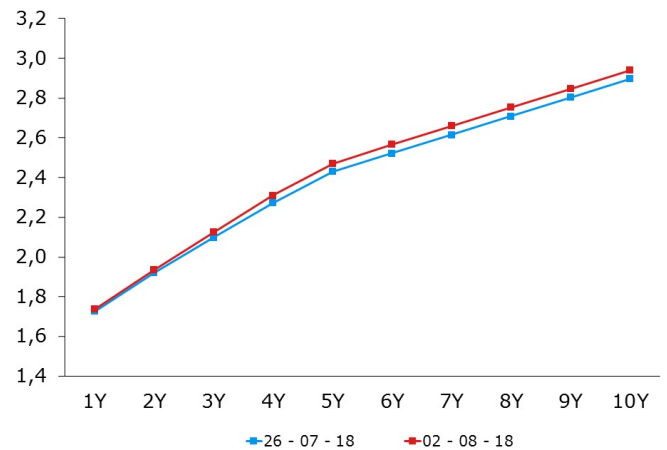
## Fixed income

### In the middle of holiday season

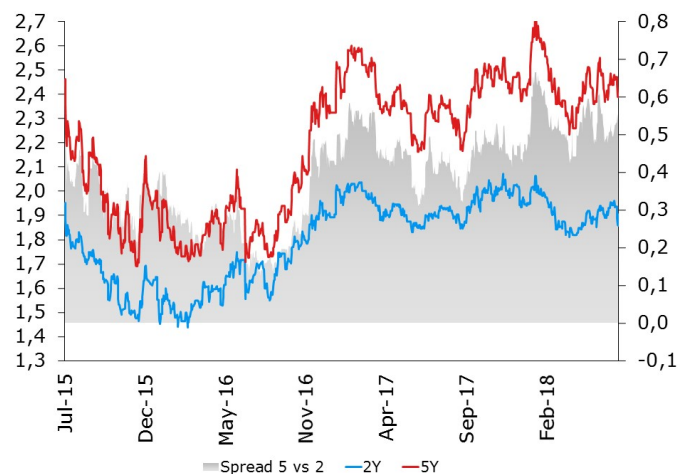
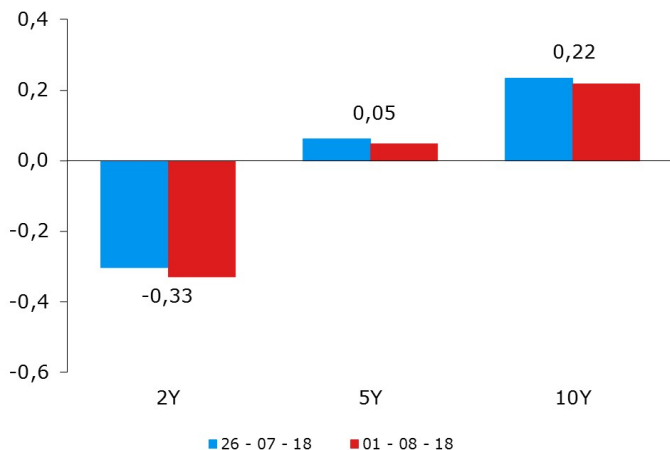
Auction behind us, next is planned for the end of August. Market is quiet, volatility is extremely low. UST10Y is dancing with 3% and it seems to be a crucial point for global markets. Low supply from Ministry tightened ASW severely, WS0428/10y moved to new lows, DS1023/5y is flat.

PS0123/5y is -15bps, WS0428/10y is 17bps. PS0123/WS0428 is 78bps. WS0428/Bund is 265bps. OK0720 is trading at 1.57% (4bps down), PS0123 is trading at 2.34% (1bps up) and WS0428 is trading at 3.12% (1bps down).

IRS curve



Asset swaps



## Money market

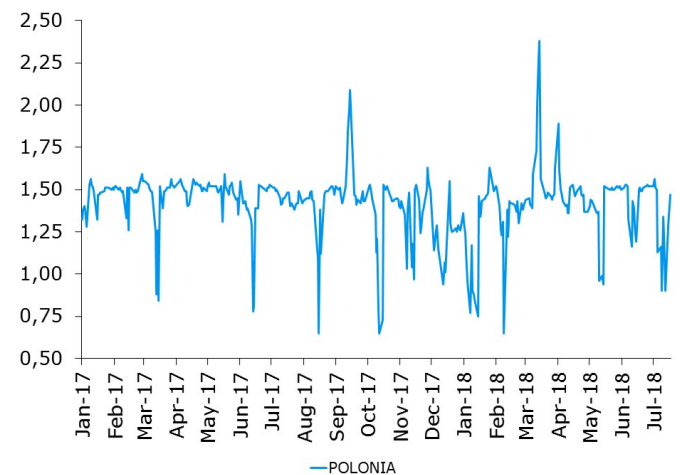
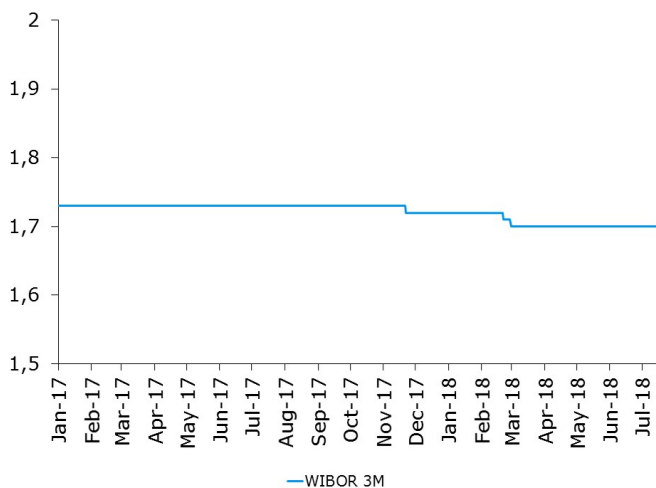
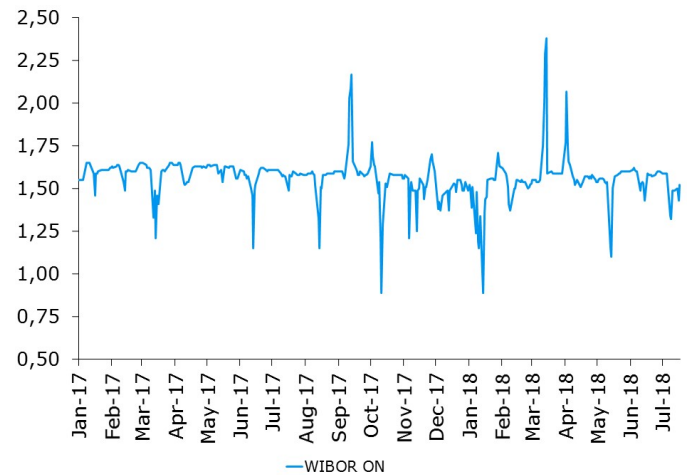
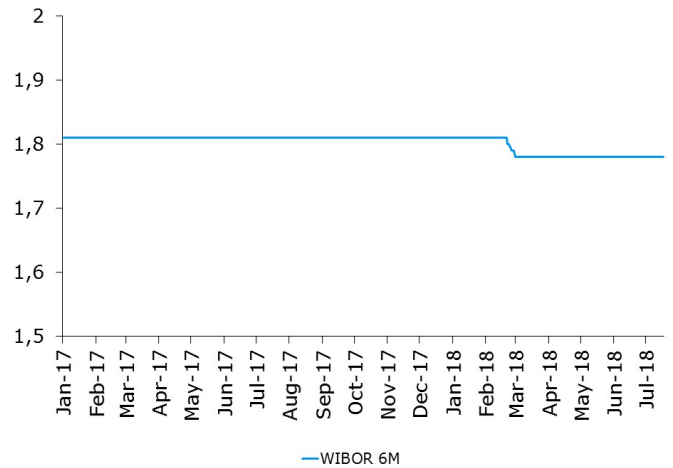
### Rising temperatures but stable rates

Polish yields continue to trade in tight market. This week's CPI print came out in line with expectations supporting this stability. Even the turmoil on Turkish assets was unable to shake POLGBs. Muted volatility should persist till September. We will have a switching auction later this month.

New reserve period so we are back to higher levels in ON.

Ref rate vs Polonia averages:

30 day 6 bps  
90 day 6 bps



## Forex

**Spot – EUR/PLN at support** EUR/PLN slide was at least temporarily halted at 4.25-4.26 support zone. It corrected upward to 4.28ish, still firmly in the wider 4.26-4.36 range. The FOMC was not much of a market mover and the reaction of the PLN was muted as well. Technically, we expect the pace of PLN gains to slow. The EUR/PLN has travelled quite a lot from YTD 4.4130 peak in a relatively short period of time, and we would expect these advances to slow.

**Options – no change** The strong PLN has not translated into the much lower vol in EUR/PLN. The front end is a tad lower, but 1 year atm was paid at 6.0%. The curve is bit steeper as a consequence. 1 month EUR/PLN atm mid is today at 5.7% (0.15% lower), 3 months are 5.8% (0.1% lower), and finally 1 year is fixing at 6% (0.1% higher). The skew is roughly unchanged.

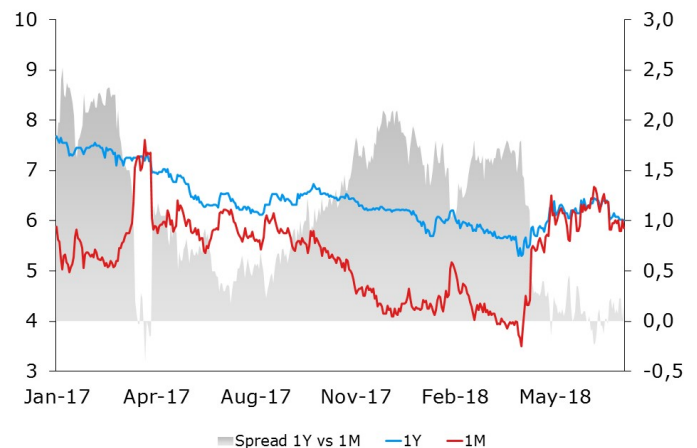
## Short-term forecasts

Main supports / resistances:  
 EUR/PLN: 4.2600 / 4.3600  
 USD/PLN: 3.5500 / 3.8500

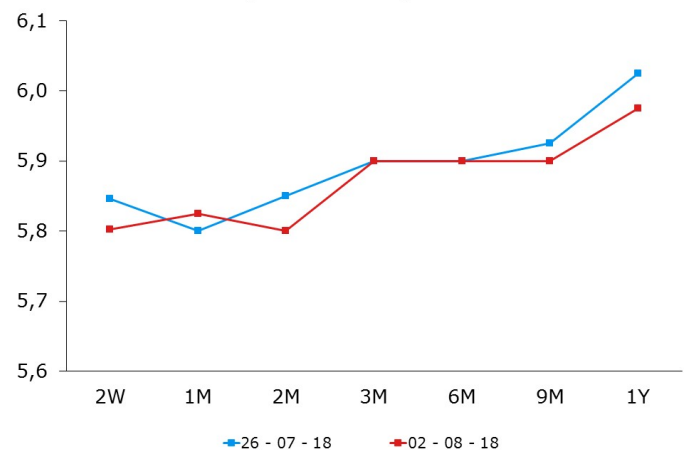
**Spot** Current position: Long EUR/PLN at 4.2700.

We are ready to add to the position at 4.2400 with 4.2250 stop and hopes to revisit 4.35. It is a technical / opportunistic trade, as we are looking for 4.26-4.36 range to hold.

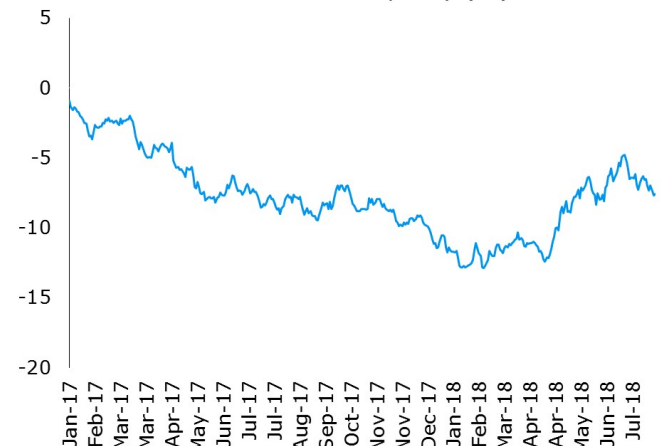
EURPLN volatility



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
7/26/2018	1.82	1.70	1.91	1.68	2.04	1.72	1.71	1.72	1.75	1.80	1.88	1.83
7/29/2018	1.85	1.70	1.93	1.68	2.07	1.72	1.71	1.72	1.75	1.80	1.88	1.84
7/30/2018	1.88	1.70	1.98	1.68	2.09	1.72	1.71	1.72	1.77	1.82	1.88	1.86
7/31/2018	1.70	1.70	1.81	1.68	1.90	1.72	1.70	1.72	1.75	1.80	1.88	1.84
8/1/2018	1.90	1.70	1.99	1.68	2.09	1.72	1.71	1.72	1.73	1.79	1.89	1.83

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	7/27/2018	7/25/2020	96.91	1.59	1000	1780	1180
PS0123	7/27/2018	1/25/2023	100.68	2.34	2300	3260	2275
WS0428	7/27/2018	4/25/2028	96.71	3.14	1300	2133	1348

Fixed income market rates (closing mid-market levels)								
Date	1Y WIBOR	1Y T-bill	2Y IRS	OK0720	5Y IRS	PS0423	10Y IRS	WS0428
7/26/2018	1.720	1.358	1.918	1.614	2.428	2.490	2.895	3.128
7/29/2018	1.720	1.374	1.928	1.613	2.433	2.499	2.898	3.155
7/30/2018	1.720	1.389	1.947	1.640	2.480	2.550	2.945	3.212
7/31/2018	1.720	1.384	1.902	1.640	2.462	2.535	2.926	3.187
8/1/2018	1.720	1.378	1.935	1.605	2.470	2.517	2.940	3.158

EUR/PLN 0-delta stradle					25-delta RR		25-delta FLY
Date	1M	3M	6M	1Y	1M	1Y	1Y
7/26/2018	5.80	5.90	5.90	6.03	6.03	1.51	0.57
7/29/2018	5.80	5.85	5.90	6.03	6.03	1.51	0.57
7/30/2018	6.00	5.90	5.90	6.03	6.03	1.51	0.56
7/31/2018	5.85	5.88	5.90	6.00	6.00	1.51	0.56
8/1/2018	5.83	5.90	5.90	5.98	5.98	1.51	0.56

PLN Spot performance						
Date	EURPLN	USDPLN	CHFPLN	JPYPLN	HUFPLN	CZKPLN
7/26/2018	4.2927	3.6649	3.6909	3.3100	1.3238	0.1675
7/29/2018	4.2945	3.6937	3.7050	3.3220	1.3285	0.1677
7/30/2018	4.2836	3.6684	3.6932	3.3026	1.3291	0.1670
7/31/2018	4.2779	3.6481	3.6928	3.2707	1.3313	0.1671
8/1/2018	4.2758	3.6603	3.6884	3.2676	1.3313	0.1671

## 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.