



September 27, 2018

# Polish Weekly Review

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**Comment on the upcoming data and forecasts**

This week inflation data see the light. We bet on a slight fall of inflation in Poland to 1.9% y/y. Core inflation is set to accelerate a bit to 1.0% at the same time. Seemingly, the German inflation should be generating an upside risk. However, the major drivers were energy prices and food prices. For both categories correlation with Polish data is small. Next week also PMI data see the light. We expect a small uptick but the risk is tilted downwards.

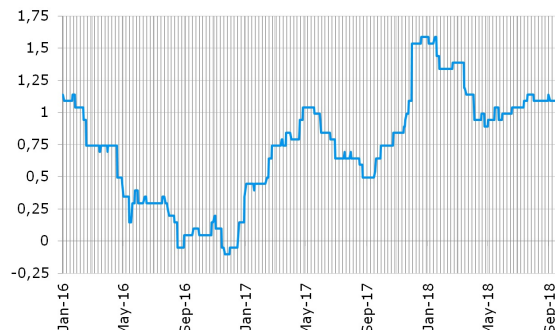
**Polish data to watch: September 28th to October 5th**

Publication	Date	Period	mBank	Consensus	Prior
Manufacturing PMI (pts)	01.10	Sep	52.1		51.4
Flash CPI y/y (%)	01.10	Sep	1.90		2.0
MPC decision (%)	03.10	Oct	1.50		1.50

**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	10/4/2018	250	1.610	9/6/2018
5Y T-bond PS1023	10/4/2018	1500	2.460	9/6/2018
10Y T-bond WS0428	10/4/2018	1000	3.249	9/6/2018
30Y T-bond WS0447	10/4/2018	180	3.495	7/27/2018

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



**Comment**

Index went up on unemployment rate which is not a surprise per se since it was known for some time. All in all it was again a consensus-data 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 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 likely peaked at 2% in the summer months and will drop back towards 1.5% by 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.
- Risk off mood impacted the PLN negatively and better sentiment may only bring a transient relief rally. 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. Therefore, the floor on EURPLN is quite high by historical standards.
- Thus, 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	1.7	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

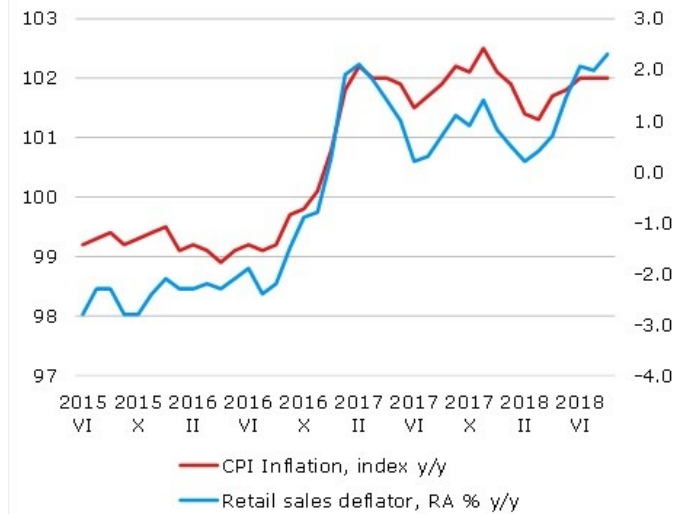
	2018	2018	2018	2018	2019	2019	2019	2019
	Q1	Q2	Q3 F	Q4 F	Q1 F	Q2 F	Q3 F	Q4 F
GDP y/y (%)	5.2	5.1	4.8	4.7	4.4	4.2	4.0	3.7
Individual consumption y/y (%)	4.8	4.9	4.8	4.2	4.0	3.8	3.8	3.8
Public Consumption y/y (%)	3.6	4.4	4.0	4.0	2.0	2.0	2.0	2.0
Investment y/y (%)	8.1	4.5	6.5	7.0	7.0	6.0	5.0	4.0
Inflation rate (% average)	1.5	1.7	2.0	1.5	1.9	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	4.35	4.40	4.35	4.30	4.25	4.20
USD/PLN (eop)	3.42	3.74	3.78	3.83	3.75	3.68	3.60	3.51

F - forecast

## Economics

### Retail sales slows down a bit. There was no effect of increased car sales. Retail sales deflator above CPI.

Real retail sales increased by 6.7% y/y in August (9.0% nominally), at the rate close to the market consensus, but below our forecast. We are surprised by the low car sales, which in fact do not differ from the results implied by working days. It seems that a huge growth of new registered cars (media claim that car dealerships registered as much cars as they could, just to make it before the new EURO norm) did not show in sales data. Perhaps customers are waiting until the stored cars get cheaper. Among other categories we can see that food sales and sales in non-specialized stores got a relief after last poor results, but they still did not reach previous rates of growth. It may be a result of both holidays and non-working Sundays. We are waiting for further information. A big picture is still good. As for now, the average retail sales' dynamics in 3rd quarter is above the analogous one a quarter before, even given forecasts for weaker September (working days). Consumption is simply not slowing down.



August was another month of acceleration of the retail sales' deflator. Currently retail sales' prices grow faster than CPI (see graph below). Accelerating goods inflation is another argument suggesting a higher probability of the core inflation speeding up in the future.

Data should not affect the market, nor the MPC. Retail sales are just another data that turned out to be consistent with the market consensus this month. In our opinion, still strong retail sales (excluding food and fuels) is a foundation for thinking about strong domestic demand and GDP, decreasing mostly because of the negative net exports (as demand is pouring out abroad). Prices' growth, as a result of such a structure, should be firstly noticed in goods prices, which we are actually observing. However CPI declines are still ahead, because of the base effects, and we doubt that investors will be able to ignore it and focus on the longer horizon.

## Fixed income

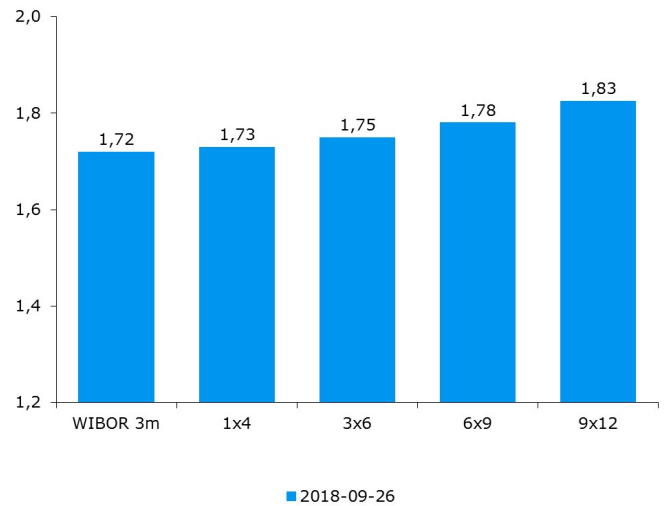
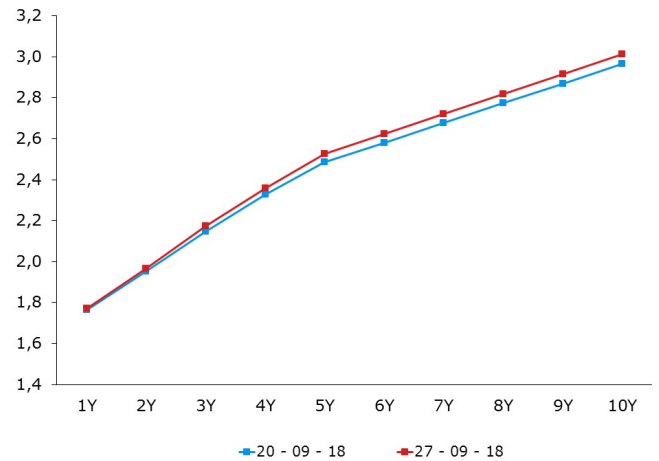
### Steepening

Last week yield curve steepened significantly to 80bps (0123 vs 0727) to flatten back in the next few days. Switch auction was cancelled, which pushed short end bonds to the all time highs due to the ALM books demand.

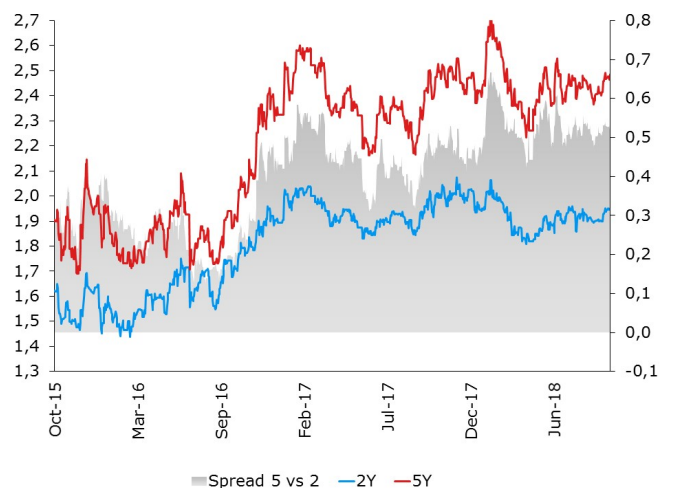
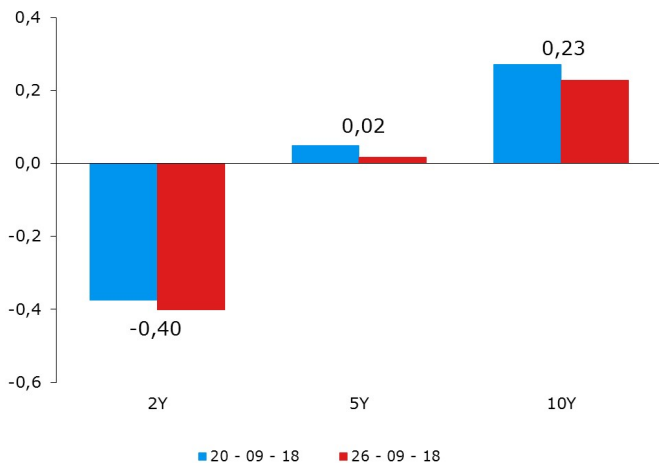
New 5y benchmark will be issued in the upcoming auction PS0424.

DS1023/5y is 0.1bps, WS0428/10y is 22.5bps. DS1023/WS0428 is 69.8bps. WS0428/Bund is 271bps. DS1020 is trading at 1.54% (1bps down), DS1023 is trading at 2.52% (2bps up) and WS0428 is trading at 3.24% (2bps up).

IRS curve



Asset swaps



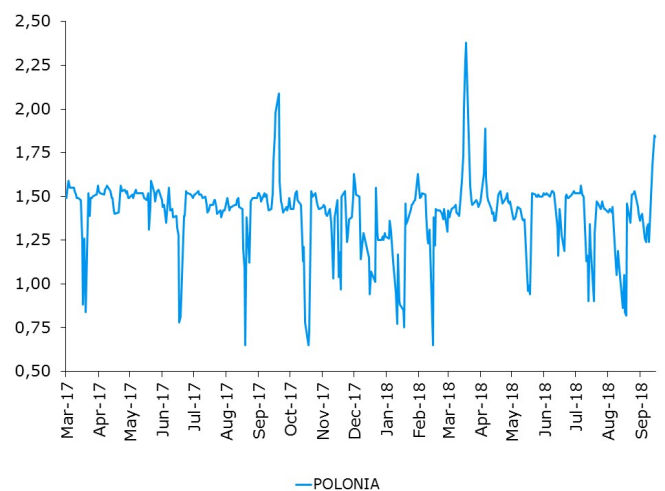
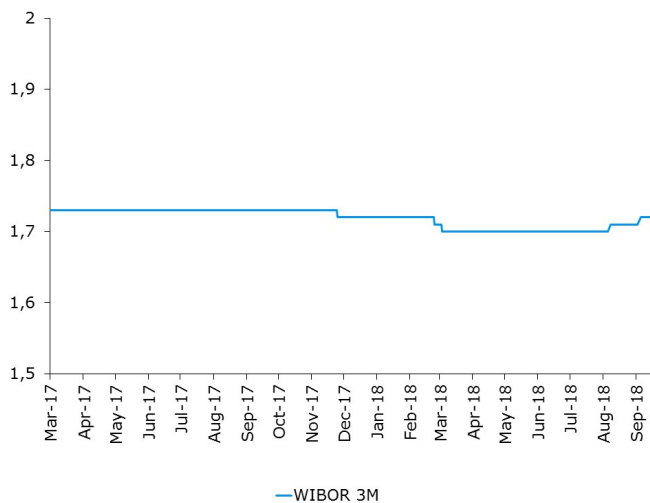
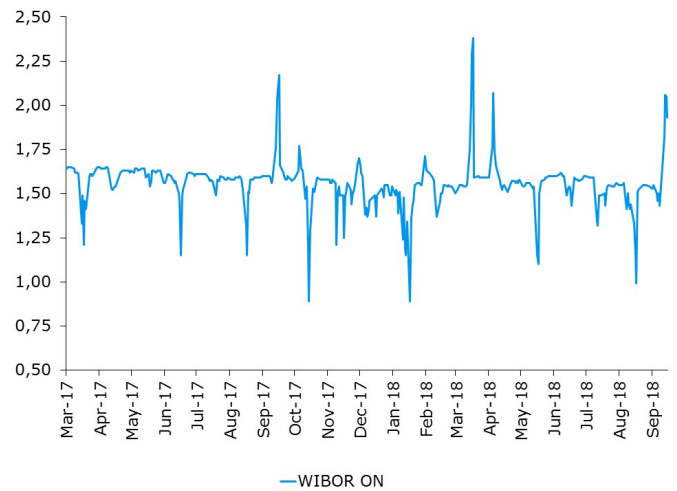
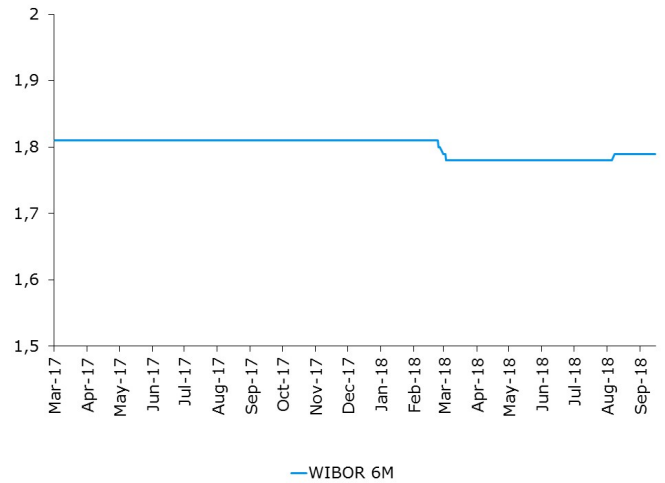
## Money market

### Poland – still lacking local story

We are touching again the top of the range in Polish rates. Curve moved around 10-17 bp from recent lows with 5y swap trading as high as 2.565%. We still lack any local story and the move was fueled by pre-Fed repricing on core markets. Since nothing major has changed on Polish playground one may ask "is it the right time to receive again?". Polish MPC is rock solid with its "no move" stance plus analysts expect somewhat weaker figures coming out soon. On the other hand rates globally are moving higher. Fed funds are already at 2.25% with another hikes coming soon, Czech's are rising and ECB expected to hike next year.

Ref rate vs Polonia averages:

30 day 8 bp  
90 day 15 bp



## Forex

**Spot – EUR/PLN – lower.** EURPLN keeps on sliding, the move is painfully slow but we briefly touched 4,2685 low, before correcting slightly. Technically we are still in 4,26-4,34 range, and we doubt if there is momentum to break out of that range. The European Union dispute with the Polish Government over judicial system got to the higher level but the market was immune to that. We expect current range to hold.

**Opts: EUR/PLN vols – still melting.** The FOMC meeting gave mild support to the vols in the frontend. That support was brutally removed, on the day after the meeting. The FOMC failed to produce the fireworks, the market sold vols again. As the consequence 1 month ATM mid is this Thursday at 4.1% (0.5% lower), 3 months mid are 4.9% (0.55% lower), 1 year is 5.95% (0.45% lower). The skew and the currency spread (difference between USD/PLN and EUR/PLN) are roughly unchanged.

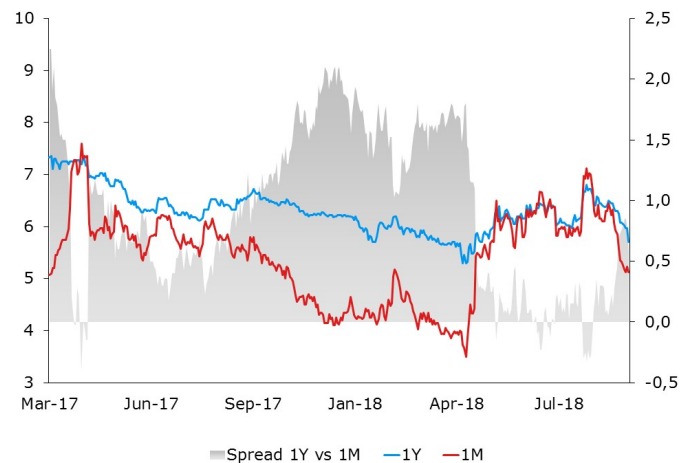
## Short-term forecasts

Main supports / resistances:  
 EUR/PLN: 4.2600 / 4.3400  
 USD/PLN: 3.6000 / 3.8000

### Spot - Sidelined.

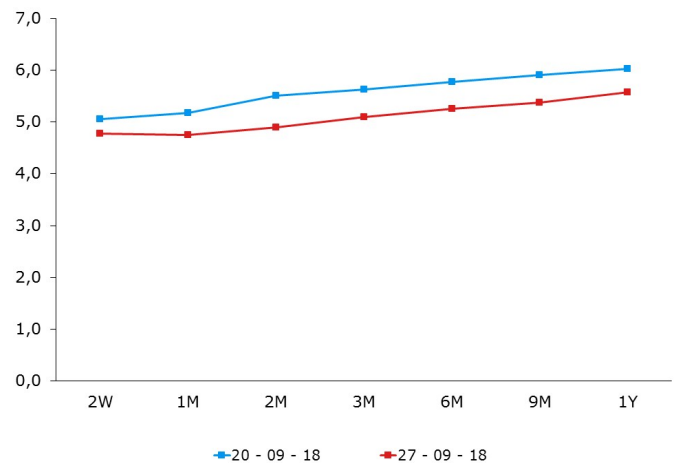
We are ready to buy at 4.2600, with room to add 4.2400 and 4.2250 stop. The target would be at revisiting 4.34+ zone. That would be purely technical/opportunistic trade.

EURPLN volatility

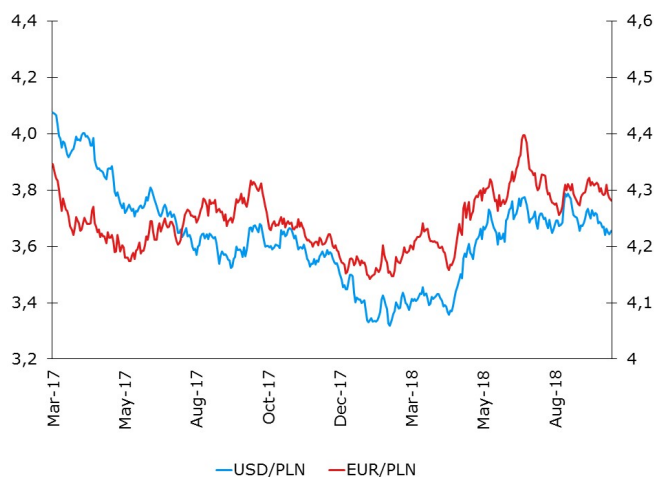


— Spread 1Y vs 1M — 1Y — 1M

EUR/PLN volatility curve

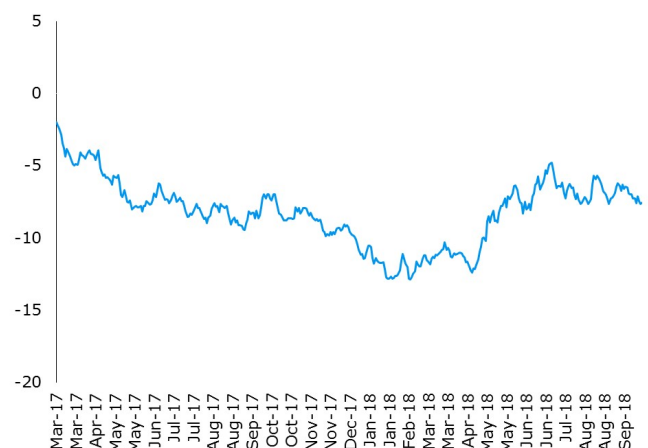


— 20 - 09 - 18 — 27 - 09 - 18



— USD/PLN — EUR/PLN

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
9/20/2018	1.63	1.72	1.83	1.69	1.97	1.77	1.73	1.75	1.78	1.82	1.89	1.87
9/23/2018	1.79	1.72	1.94	1.69	2.06	1.77	1.73	1.75	1.78	1.83	1.90	1.87
9/24/2018	1.79	1.72	1.84	1.69	2.06	1.77	1.73	1.76	1.79	1.84	1.91	1.88
9/25/2018	1.59	1.72	1.73	1.69	1.88	1.77	1.74	1.76	1.79	1.83	1.91	1.88
9/26/2018	1.79	1.72	1.85	1.69	1.99	1.77	1.73	1.75	1.78	1.83	1.90	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
OK0720	9/6/2018	7/25/2020	97.05	1.61	250	1060	260
PS0123	9/6/2018	1/25/2023	100.14	2.46	1500	2100	1524
WS0428	9/6/2018	4/25/2028	95.90	3.25	1000	1712	1049

Fixed income market rates (closing mid-market levels)								
Date	1Y WIBOR	1Y T-bill	2Y IRS	OK0720	5Y IRS	PS0423	10Y IRS	WS0428
9/20/2018	1.770	1.365	1.952	1.578	2.485	2.535	2.965	3.237
9/23/2018	1.770	1.367	1.957	1.577	2.485	2.533	2.965	3.237
9/24/2018	1.770	1.372	1.972	1.583	2.520	2.557	3.005	3.266
9/25/2018	1.770	1.364	1.915	1.580	2.535	2.564	3.018	3.256
9/26/2018	1.770	1.316	1.965	1.564	2.527	2.545	3.013	3.242

EUR/PLN 0-delta stradle					25-delta RR		25-delta FLY	
Date	1M	3M	6M	1Y	1M	1Y	1Y	
9/20/2018	5.18	5.63	5.78	6.03	6.03	1.59	0.54	
9/23/2018	5.13	5.58	5.73	5.98	5.98	1.59	0.54	
9/24/2018	5.23	5.58	5.73	5.98	5.98	1.60	0.56	
9/25/2018	5.13	5.38	5.45	5.70	5.70	1.50	0.55	
9/26/2018	4.75	5.10	5.25	5.58	5.58	1.54	0.57	

PLN Spot performance						
Date	EURPLN	USDPLN	CHFPLN	JPYPLN	HUFPLN	CZKPLN
9/20/2018	4.2912	3.6702	3.7985	3.2692	1.3259	0.1679
9/23/2018	4.2929	3.6402	3.8095	3.2311	1.3273	0.1681
9/24/2018	4.3092	3.6620	3.8177	3.2497	1.3307	0.1681
9/25/2018	4.2939	3.6511	3.7773	3.2345	1.3260	0.1676
9/26/2018	4.2865	3.6430	3.7735	3.2273	1.3238	0.1675

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