

April 4, 2019

## 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)

Maciej Zdrolik  
analyst  
tel. +48 22 829 02 56  
[maciej.zdrolik@mbank.pl](mailto:maciej.zdrolik@mbank.pl)

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### 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-Gebbska  
institutional sales  
tel. +48 22 829 01 67  
[inga.gaszkowska-gebbska@mbank.pl](mailto:inga.gaszkowska-gebbska@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>

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### Comment on the upcoming data and forecasts

Next Friday the NBP will publish its monthly balance of payments figures. Contrary to market consensus (which sees a trade deficit in March and a small deficit in the current account), we see a modest surplus on the trade account and a small overall C/A surplus. Higher payment to EU budget was more than offset by trade and services balance.

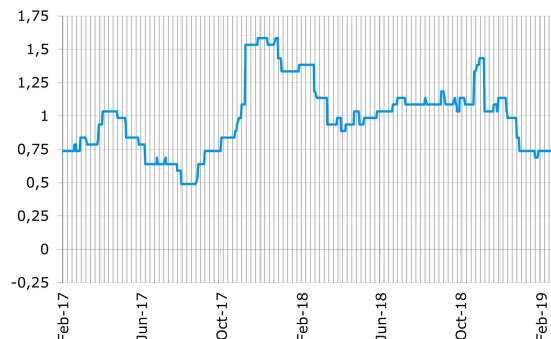
### Polish data to watch: April 5th to April 12th

| Publication                     | Date  | Period | mBank | Consensus | Prior |
|---------------------------------|-------|--------|-------|-----------|-------|
| Current account balance (m EUR) | 12.04 | Feb    | 376   | -350      | 2316  |
| Exports (m EUR)                 | 12.04 | Feb    | 18600 | 17860     | 18493 |
| Imports (m EUR)                 | 12.04 | Feb    | 18200 | 18084     | 18214 |

### Treasury bonds and bills auctions

| Paper              | Next auction | Last Offer | Yield on the prev auction (%) | Prev auction |
|--------------------|--------------|------------|-------------------------------|--------------|
| T-bill             | -            | 700        | 1.500                         | 2/22/2017    |
| 2Y T-bond OK0720   | 4/8/2019     | 300        | 1.561                         | 3/8/2019     |
| 5Y T-bond PS0424   | 4/8/2019     | 2800       | 2.200                         | 3/8/2019     |
| 10Y T-bond DS1029  | 4/8/2019     | 1200       | 2.841                         | 3/8/2019     |
| 30Y T-bond WS0447  | 4/8/2019     | 30         | 3.149                         | 1/25/2019    |
| 5Y floater WZ0524  | 4/8/2019     | 400        | -                             | 3/8/2019     |
| 10Y floater WZ0528 | 4/8/2019     | 200        | -                             | 3/8/2019     |

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



### Comment

Manufacturing PMI surprised to the upside and Polish surprise index extended its gains. Next week is a light one in terms of economic data and no relevant release is scheduled to be published.

\* 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

- Polish economy continues to show great resilience to global slowdown and Polish consumers seem unfazed by pretty much anything. This prompts us to revise our forecasts again, in addition to the effects of the new tax & transfer package (worth 1.0% GDP this year and as much as 1.8% GDP next year). We are now forecasting 2019 growth at 4.5% y/y (prev. 4.1%) and 2020 growth at 4.0% y/y (prev. 3.8%).
- Core inflation is projected to rise steadily, but CPI inflation is likely to stay low and undershoot the MPC target in 2019. Electricity prices were frozen, but there are many other administered prices that will rise this year. Second round effects after surge in electricity costs on the firms' side will be marginal, though. With low food and fuel prices, the beginning of the year will be marked by low inflation. The uptrend later depends on core inflation accelerating.
- The MPC is now talking about holding rates steady until 2021 (the end of most members' term) and – given the overall environment (both global and local factors) – we concur. We don't expect any rate changes in Poland in the foreseeable future. Fiscal stimulus tilts the balance of risks to the upside.
- General government deficit was likely the lowest in history in 2018. From 2019 onwards deficits are likely to head higher. However, the procyclicality of fiscal revenues ensures a modest increase in the deficit.

### Financial markets

- The PLN proved to be exceptionally resilient in recent months: neither the increase in global rates, nor their subsequent decline and violent repricing of monetary policy expectations managed to break it out of the narrow, 2.5% range vis-a-vis the euro.
- Fiscal stimulation is both a blessing and a curse for the PLN. Over the short term, fiscal stimulus and expectations of a monetary offset should be PLN-positive. New wave of forecast revisions and dovish central banks globally also support PLN strength. However, if no monetary offset arrives and the economy begins to overheat, weaker currency is the only rebalancing mechanism left. For this scenario to play out we need to see inflation. Lots of inflation. With CPI much below 2.5% the story appeals on to speculative minds.

### mBank forecasts

|                                     | 2015 | 2016 | 2017 | 2018 | 2019 F | 2020 F |
|-------------------------------------|------|------|------|------|--------|--------|
| GDP y/y (%)                         | 3.8  | 3.0  | 4.8  | 5.1  | 4.5    | 4.0    |
| CPI Inflation y/y (average %)       | -0.9 | -0.6 | 2.0  | 1.6  | 1.6    | 2.5    |
| General government balance (%GDP)   | -2.7 | -2.2 | -1.4 | -0.2 | -0.7   | -1.1   |
| Current account (%GDP)              | -0.6 | -0.5 | 0.2  | -0.6 | -1.2   | -1.4   |
| Unemployment rate (end of period %) | 9.8  | 8.2  | 6.6  | 5.9  | 5.5    | 4.9    |
| Repo rate (end of period %)         | 1.5  | 1.5  | 1.5  | 1.5  | 1.5    | 1.5    |

|                                | 2018 | 2018 | 2018 | 2018 | 2019 | 2019 | 2019 | 2019 |
|--------------------------------|------|------|------|------|------|------|------|------|
|                                | Q1   | Q2   | Q3   | Q4   | Q1 F | Q2 F | Q3 F | Q4 F |
| GDP y/y (%)                    | 5.3  | 5.1  | 5.1  | 4.9  | 4.4  | 4.5  | 4.5  | 4.4  |
| Individual consumption y/y (%) | 4.7  | 4.9  | 4.5  | 4.3  | 4.2  | 4.1  | 4.5  | 4.9  |
| Public Consumption y/y (%)     | 3.0  | 3.5  | 3.6  | 4.0  | 4.4  | 4.2  | 4.0  | 4.0  |
| Investment y/y (%)             | 8.2  | 4.7  | 9.9  | 6.7  | 5.0  | 5.0  | 4.0  | 3.0  |
| Inflation rate (% average)     | 1.5  | 1.7  | 1.9  | 1.4  | 1.2  | 1.5  | 1.6  | 2.0  |
| Unemployment rate (% eop)      | 6.6  | 5.9  | 5.7  | 5.9  | 5.9  | 5.4  | 5.3  | 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)               | 1.70 | 1.70 | 1.72 | 1.72 | 1.72 | 1.72 | 1.72 | 1.72 |
| 2Y Polish bond yields (% eop)  | 1.49 | 1.63 | 1.56 | 1.35 | 1.69 | 1.33 | 1.35 | 1.37 |
| 10Y Polish bond yields (% eop) | 3.18 | 3.22 | 3.24 | 2.83 | 2.84 | 2.85 | 2.96 | 3.12 |
| EUR/PLN (eop)                  | 4.21 | 4.37 | 4.28 | 4.29 | 4.30 | 4.30 | 4.25 | 4.25 |
| USD/PLN (eop)                  | 3.42 | 3.74 | 3.69 | 3.74 | 3.84 | 3.77 | 3.70 | 3.66 |
| F - forecast                   |      |      |      |      |      |      |      |      |

## Economics

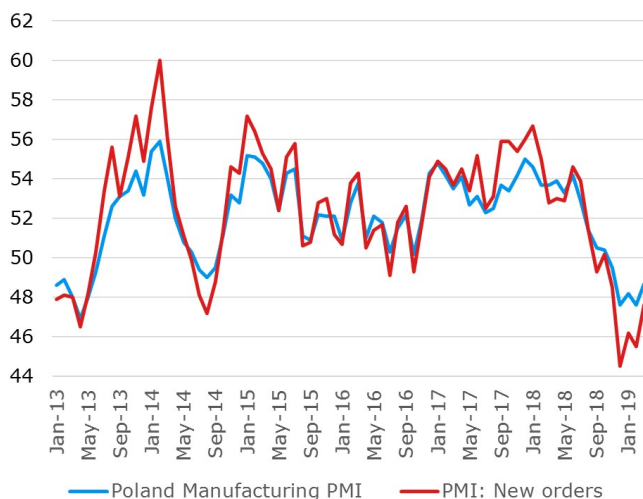
### Interest rates in Poland on hold, as expected

As expected, the MPC left rates on hold. Flat rates are still the preferred scenario for the future. During the conference we learned that the recently announced fiscal package is about to lift GDP growth (also from supply side as tax cuts increase the labor supply) and to some extent also inflation. However, the global economy is disinflationary and any local inflationary impulse is going to be treated as transitory.

Looking from a different angle, what would you expect from the MPC? Economy evolves exactly as indicated by inflation projections. It is quite natural that it is going to mobilize some more hawkish members to be more vocal as inflation rises but - in the end - the current consensus was coined under the assumption that inflation is going to rise but within acceptable limits. Only a sharp and unexpected rise beyond the path indicated by the projection should escalate expectations for monetary tightening. Our baseline still favors flat rates. We think that the MPC is going to be very tolerant towards higher inflation, as it was for low and even negative inflation. It suits nicely with the seemingly new central bank paradigm (better to have inflation than deflation). Last but not least, as inflation accelerates beyond central bank target in 2020 (as we expect), economy is going to already be in a slowdown phase of the business cycle with additional risks imposed by the end of EU budget (2014-2020). Any inflation generated beforehand is going to be treated as transitory, regardless of the state of the global economy (which is cyclically advanced too).

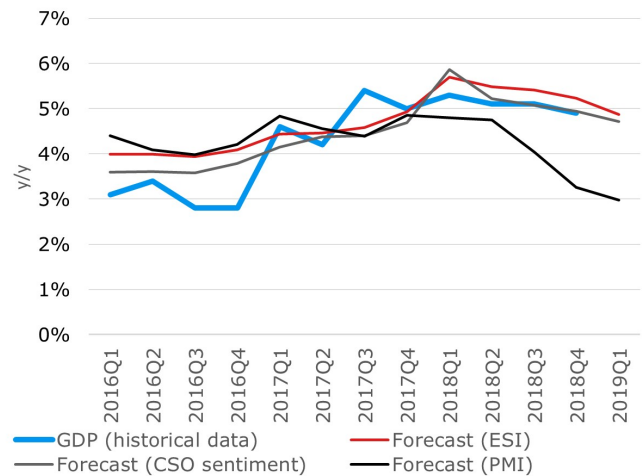
### PMI rebounds a bit

In March, Polish manufacturing PMI surprised to the upside, having risen from 47.6 to 48.7 (consensus 47.4-47.5; our forecast at 48.6).



The rebound in the PMI was primarily driven by better assessment of output and new orders. The latter, in turn, was entirely due to strong increase in domestic orders, since new export orders have been falling at the fastest rate since June 2009. Headline PMI was dragged by worse employment prospects (lowest since April 2013). A sub-50 reading in both orders and output unsurprisingly led to a decline in backlogs of work and company purchases. Interestingly, stocks of final goods have continued to accumulate (which is quite exceptional for this series). To com-

plete the picture of the economy, we will also note that delivery times have not shortened despite lower pressure on supply chains. Also, input costs and output prices have continued to rise at a solid pace.



As usual, it is worth noting that the PMI has been a poor predictor of GDP growth and hard data in general. In case of GDP growth, using the PMI has resulted in a total failure, while alternative sentiment indicators from Statistics Poland and EC's ESI were spot on when determining both the pace of the slowdown and actual economic growth (and no, the PMI is not a leading indicator). For the first quarter, the latter two are pointing to a 4.7-4.8% y/y figure, while the PMI points to sub-3% growth. If we take into account the nascent signs of a recovery in global growth (Chinese data, European services PMIs, industrial commodity prices, etc.) and the surge in consumer sentiment in February and March, it is entirely possible that the Polish economy might not show any meaningful signs of a slowdown this year.

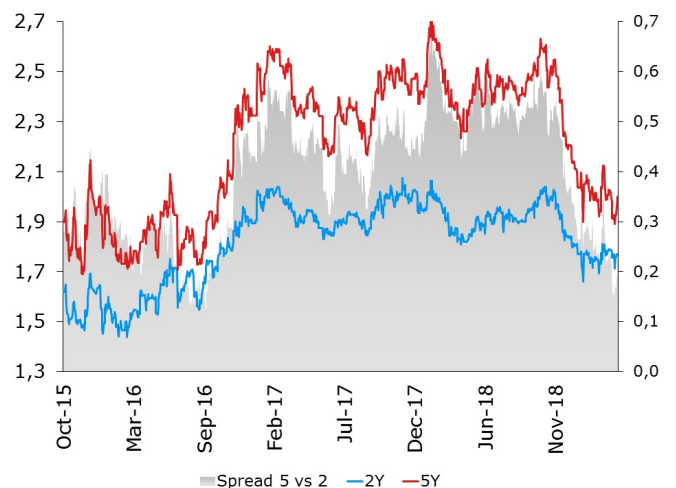
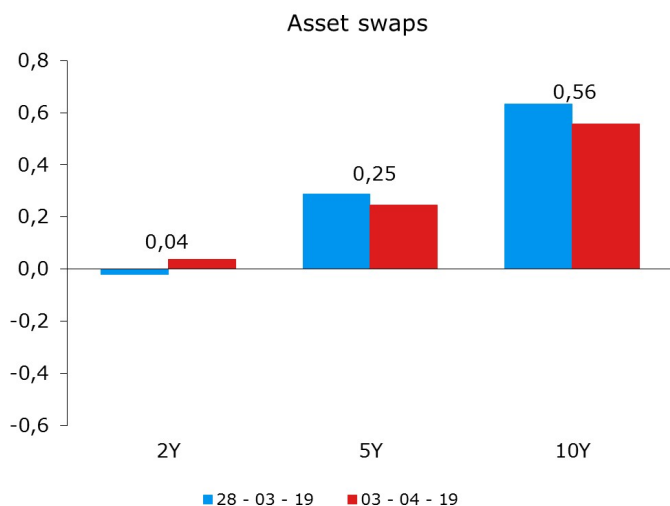
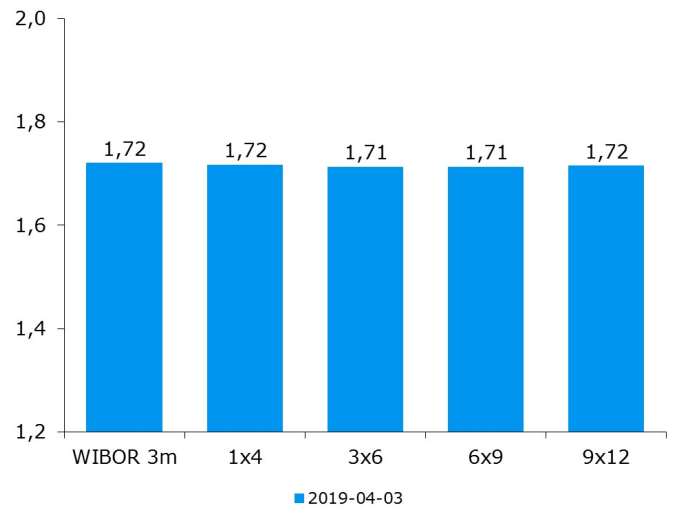
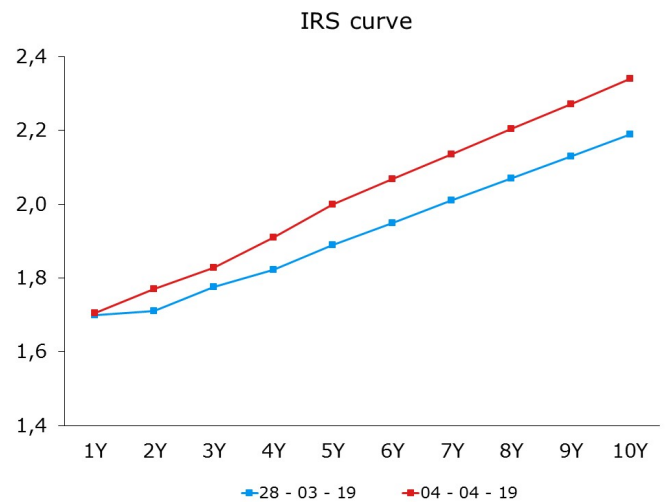
## Fixed income

### Three weeks without new supply

Today, the Ministry of Finance sold PLN 4.5b of bonds, demand was only 6.7b. After the auction yields went a bit higher. POLGBs/Bund is also much higher than a few weeks ago. Until April 25th there will be no new supply from Ministry. ASWs are wide: PS0424/5y trades above 20 bps. FRNs have also cheapened: WZ0524 trades at Wibor+24 bps.

PS0424/5y is 22 bps, WS0428/10y is 44 bps. PS0424/WS0428 is 57 bps. WS0428/Bund is 282 bps.

DS1020 is trading at 1.57% (1 bps down), PS0424 is trading at 2.24% (8 bps up) and WS0428 is trading at 2.81% (10 bps up).





## Money market

### Middle of the range

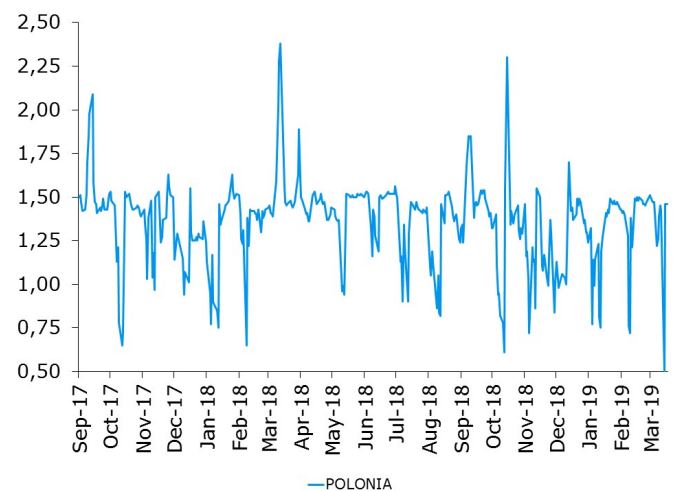
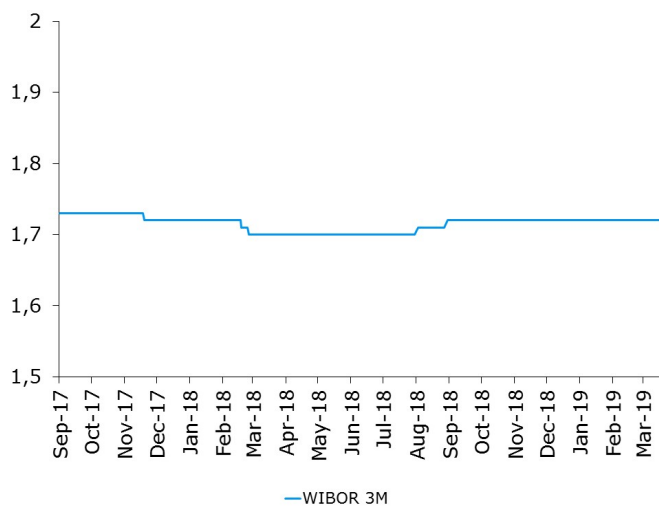
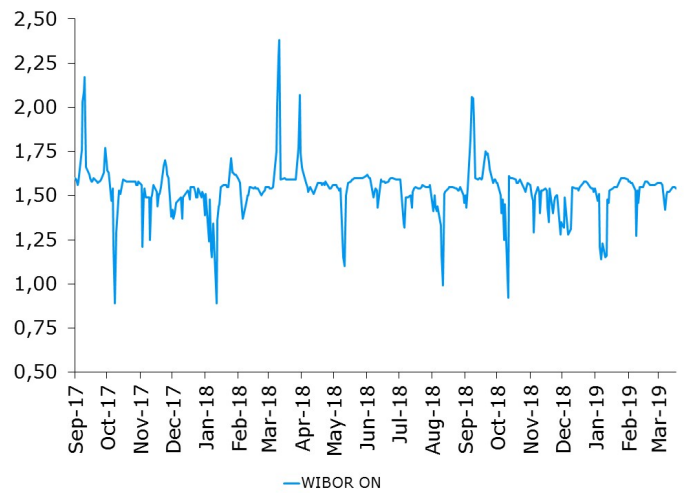
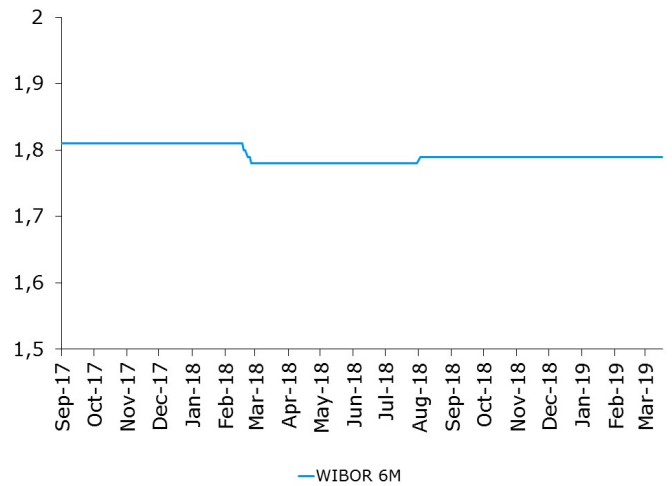
During the MPC meeting this week we had the same statement as usual. The economy is in perfect shape, with solid growth and low inflation. Therefore, the MPC reiterates that rates might stay at the current level for an extended period. Polish rates bounced back from range lows in tandem with core rates. At the moment it feels like we are in the middle of the historical range.

It's the beginning of the month so cash should stick close to 1.50.

Ref rate vs Polonia averages:

30 day 10 bp

90 day 16 bp



## Forex

**Spot – EUR/PLN – consolidation in the range** The 4.2850 - 4.3100 EUR/PLN range held for another week, with 4.30-ish being the natural magnet for the cross. And there is very little to say about that, EUR/PLN is being dragged and pulled by flows sparked by the global market sentiment. The still dovish rhetoric from the MPC, which is convinced that it will keep rates unchanged over a longer horizon. On the whole, there is a risk-on mood in the market. Upticks in Chinese and Europe data, headlines on progress in U.S.-China trade talks and the chances for a Brexit compromise in the UK parliament are behind the better sentiment. But to be very honest, EUR/PLN is trading water and we think it will continue...

**Opts – EUR/PLN vols – little lower** The EUR/PLN vol curve melted a little as spot was really calm and there are some factors which lifted risk appetite globally. EUR/PLN ATM mid today is 3.85% (0.4% lower), 3 month is 4.15% (0.2% lower) and, finally, 1 year fixed at 4.9% (0.2% lower). The skew is at the same level as week ago. The currency spread (difference between USD/PLN and EUR/PLN) moved higher by around 0.25%.

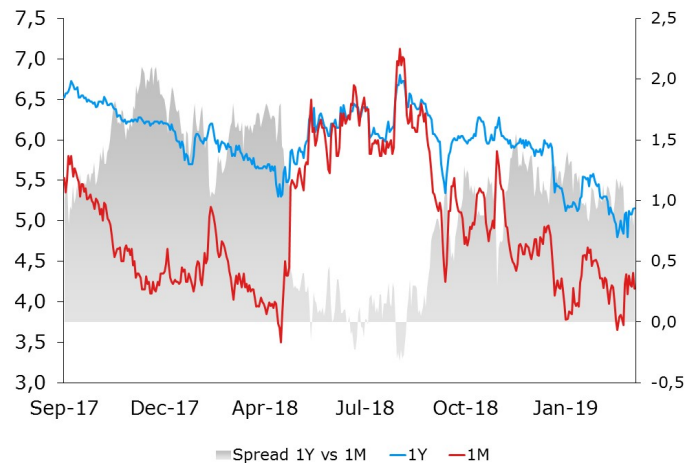
## Short-term forecasts

Main supports / resistances:  
 EUR/PLN: 4.2600 / 4.3400  
 USD/PLN: 3.6000 / 3.9000

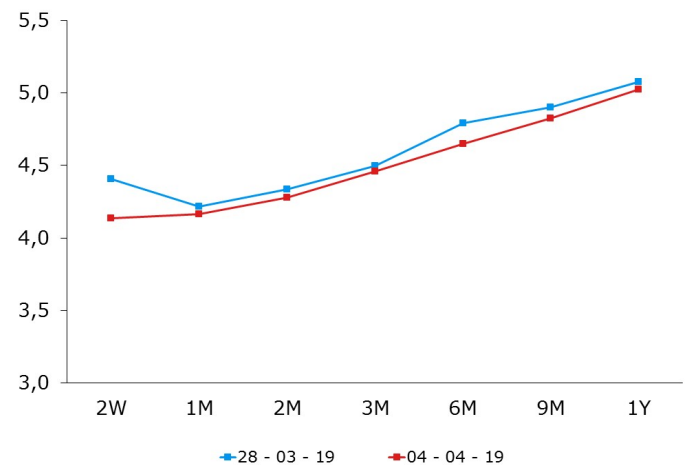
### Spot – Buy on dips

The market is so slow, the range is getting tighter and tighter. Since EUR/PLN risks remain skewed higher with the Brexit story and global growth worries, we prefer to be sideways at this moment. We are ready to buy EUR/PLN at 4.26-27 with stop at 4.24 and hopes for 4.34.

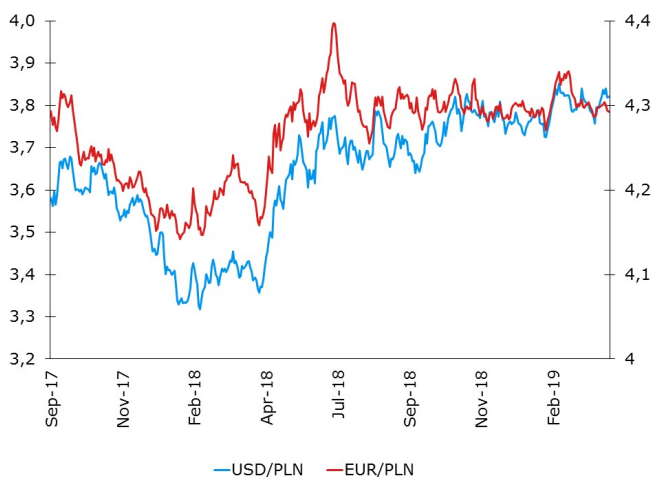
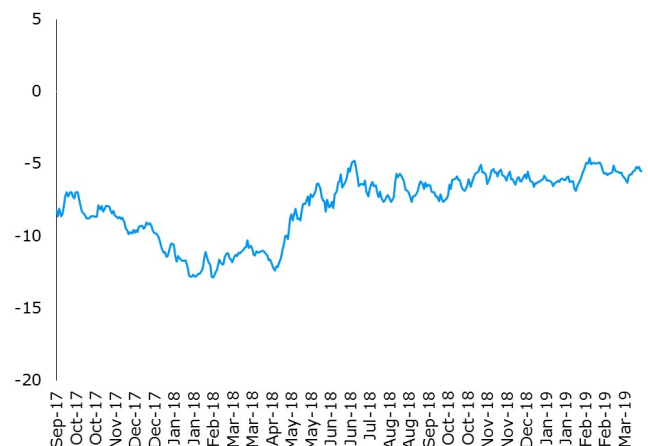
EURPLN volatility



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 |
| 3/28/2019                      | 1.82    | 1.72     | 1.92    | 1.69     | 1.92    | 1.77     | 1.72                  | 1.72 | 1.71 | 1.70 | 1.70  | 1.77 |
| 3/31/2019                      | 1.60    | 1.72     | 1.70    | 1.69     | 1.86    | 1.77     | 1.72                  | 1.71 | 1.71 | 1.71 | 1.71  | 1.77 |
| 4/1/2019                       | 1.63    | 1.72     | 1.71    | 1.69     | 1.74    | 1.77     | 1.73                  | 1.73 | 1.73 | 1.73 | 1.71  | 1.79 |
| 4/2/2019                       | 1.52    | 1.72     | 1.61    | 1.69     | 1.76    | 1.77     | 1.72                  | 1.71 | 1.71 | 1.71 | 1.71  | 1.77 |
| 4/3/2019                       | 1.71    | 1.72     | 1.81    | 1.69     | 1.96    | 1.77     | 1.72                  | 1.71 | 1.71 | 1.72 | 1.72  | 1.77 |

| 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  |
| OK0521                    | 3/8/2019  | 5/25/2021  | 96.64      | 1.56       | 300    | 555    | 325  |
| PS0424                    | 3/8/2019  | 4/25/2024  | 101.42     | 2.20       | 2800   | 4841   | 2996 |
| DS1029                    | 3/8/2019  | 10/25/2029 | 99.15      | 2.84       | 1200   | 2262   | 1219 |

| Fixed income market rates (closing mid-market levels) |          |           |        |        |        |        |         |        |
|---|----------|-----------|--------|--------|--------|--------|---------|--------|
| Date  | 1Y WIBOR | 1Y T-bill | 2Y IRS | OK0720 | 5Y IRS | PS0423 | 10Y IRS | WS0428 |
| 3/28/2019   | 1.770    | 1.570     | 1.711  | 1.690  | 1.890  | 2.178  | 2.190   | 2.822  |
| 3/31/2019   | 1.770    | 1.565     | 1.760  | 1.691  | 1.928  | 2.204  | 2.235   | 2.840  |
| 4/1/2019  | 1.770    | 1.556     | 1.770  | 1.700  | 1.965  | 2.241  | 2.295   | 2.876  |
| 4/2/2019  | 1.770    | 1.555     | 1.770  | 1.693  | 1.960  | 2.223  | 2.257   | 2.865  |
| 4/3/2019  | 1.770    | 1.551     | 1.770  | 1.808  | 2.000  | 2.246  | 2.340   | 2.896  |

| EUR/PLN 0-delta stradle |      |      |      |      | 25-delta RR |      | 25-delta FLY |      |
|-------------------------|------|------|------|------|-------------|------|--------------|------|
| Date                    | 1M   | 3M   | 6M   | 1Y   | 1M          | 1Y   | 1Y           | 1Y   |
| 3/28/2019               | 4.22 | 4.50 | 4.79 | 5.08 | 5.08        | 1.43 | 0.51         | 0.51 |
| 3/31/2019               | 4.19 | 4.47 | 4.70 | 5.08 | 5.08        | 1.43 | 0.51         | 0.51 |
| 4/1/2019                | 4.36 | 4.52 | 4.70 | 5.15 | 5.15        | 1.48 | 0.51         | 0.51 |
| 4/2/2019                | 4.16 | 4.54 | 4.77 | 5.16 | 5.16        | 1.46 | 0.51         | 0.51 |
| 4/3/2019                | 4.17 | 4.46 | 4.65 | 5.03 | 5.03        | 1.48 | 0.51         | 0.51 |

| PLN Spot performance |        |        |        |        |        |        |
|----------------------|--------|--------|--------|--------|--------|--------|
| Date                 | EURPLN | USDPLN | CHFPLN | JPYPLN | HUFPLN | CZKPLN |
| 3/28/2019            | 4.2998 | 3.8202 | 3.8376 | 3.4630 | 1.3430 | 0.1666 |
| 3/31/2019            | 4.3013 | 3.8365 | 3.8513 | 3.4625 | 1.3409 | 0.1666 |
| 4/1/2019             | 4.3035 | 3.8267 | 3.8495 | 3.4469 | 1.3399 | 0.1669 |
| 4/2/2019             | 4.3004 | 3.8403 | 3.8412 | 3.4475 | 1.3352 | 0.1671 |
| 4/3/2019             | 4.2941 | 3.8192 | 3.8328 | 3.4249 | 1.3430 | 0.1671 |

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