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Polish Weekly Review

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Comment on the upcoming data and forecasts

This Friday the NBP will publish money supply data. We expect M3 to accelerate somewhat on the back of strong household deposit growth. Next week starts with the release of the monthly Statistical Bulletin on Monday, along with final unemployment rate estimate. The preliminary reading from the Ministry of Family showed that unemployment rate declined from 5.9% in March to 5.6% in April. On Thursday the NBP will publish Minutes from the May meeting of the Monetary Policy Council, however, they are unlikely to shed any new light on Polish monetary policy. Finally, next Friday Statistics Poland will publish the details of Q1 GDP. We expect the flash estimate (4.6% y/y) to be confirmed. We forecast that growth in Q1 was driven by household consumption (4.1% y/y) and investment (7.5% y/y). In addition, net exports likely added as much as 1 p.p. to annual growth in Q1.

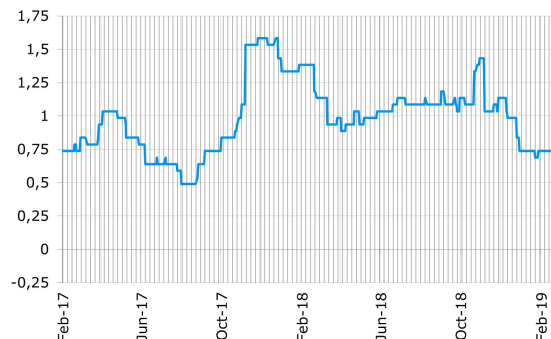
Polish data to watch: May 24th to May 31st

Publication	Date	Period	mBank	Consensus	Prior
M3 y/y (%)	24.05	Apr	10.2	10.0	9.9
Unemployment rate (%)	27.05	Apr	5.6	5.6	5.9
MPC Minutes	30.05	May			
GDP y/y final (%)	31.05	Q1	4.6	4.6	4.6

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 OK0521	6/13/2019	1000	1.598	4/25/2019
5Y T-bond PS0424	6/13/2019	1800	2.224	4/25/2019
10Y T-bond DS1029	6/13/2019	1000	2.890	4/25/2019
30Y T-bond WS0447	6/13/2019	60	3.180	4/25/2019
5Y floater WZ0524	6/13/2019	1000	-	4/25/2019
10Y floater WZ0528	6/13/2019	1000	-	4/25/2019

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



Comment

Last week, Polish surprise index was boosted by strong retail sales. Next week it is likely to stay put, unless either unemployment rate or GDP surprise vis-a-vis their preliminary readings.

* 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. We are forecasting 2019 growth at 4.5% y/y and 2020 growth at 4.0% y/y. Recent data proved our earlier revisions to be prescient. Risks are still tilted to the upside.
- Core inflation is projected to rise steadily. Meat prices (ASF in China; abruptly increased demand for pork), along with considerable increases in fuel prices (May) are set to push inflation beyond NBP target already in 2019. The issue of electricity prices will make a comeback in January. Therefore, inflation might accelerate even further in 2020.
- 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, although the rise in inflation may generate some noise from MPC members.
- Increased government transfers and lower taxes presented in February found new sources of financing (revamp of the pension system) and only moderate GG deficits along with falling debt/GDP ratio are secured. Fiscal story returned to positive path in an unambiguous way.

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 below 2.5% (for now) 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	2.4	2.9
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 (%)	5.2	5.3	5.2	4.9	4.6	4.5	4.5	4.4
Individual consumption y/y (%)	4.6	4.8	4.4	4.2	4.1	4.1	4.5	4.9
Public Consumption y/y (%)	4.5	4.5	5.2	4.7	4.4	4.2	4.0	4.0
Investment y/y (%)	9.6	6.0	11.3	8.2	7.5	5.0	4.0	3.0
Inflation rate (% average)	1.5	1.7	1.9	1.4	1.2	2.5	2.8	3.0
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								

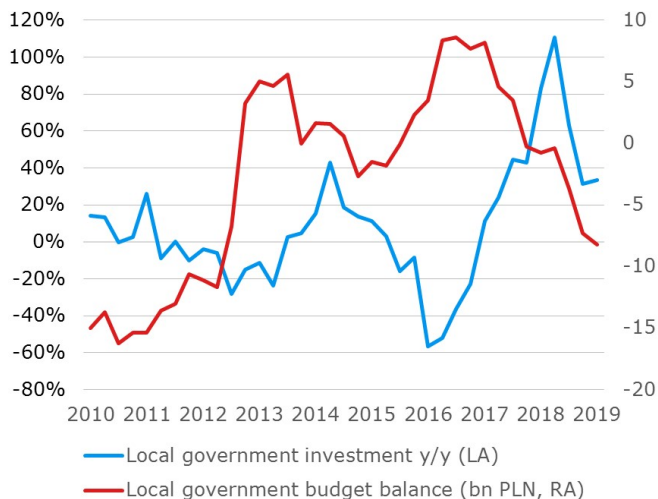
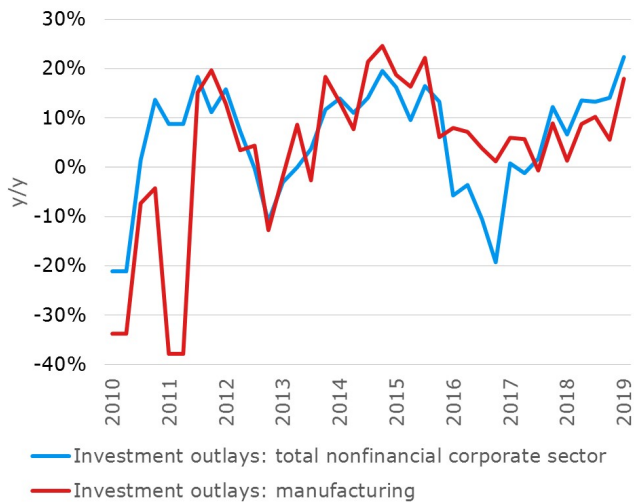
Economics

Goldilocks, again and again.

We had originally thought that the real sphere data for April would be the big, positive, headline-grabbing surprise. Confirmation has arrived. Barring employment data, which are more volatile than usually, industrial production, construction output, wages and retail sales surprised to the upside – the latter to a huge extent. It is the very first month of the quarter. However, judging also from business activity indicators and the inflow of new money onto the market (13th, extra pension paid out in May) we see a considerable risk that Q2 GDP growth will be at least as high as Q1. Therefore our already optimistic forecast for the whole 2019 (4.5%) may be also subject to upside revision should economy remains as resilient to trade tension as it did in Q1.

And it is not only high frequency data that made us more optimistic. Today's data on corporate investment outlays suggest that investment activity finally accelerated a lot in Q1 (see the graph). Due to flat profile of public investment (mind the second graph) of local authorities it is highly possible that private investment has arrived at a pace nobody really expected and indeed when everyone (including us) finally gave up on forecasting a turnaround (i.e. meaningful acceleration).

public investment. It may also have far reaching consequences for the monetary policy. The arrival of private investment activity should lift the realized GDP growth upwards but at the same time keep in check inflationary pressures (potential growth will also be revised up). Therefore, the MPC has more arguments in favor of keeping rates flat. Moreover, it may simply ignore higher CPI readings (even the core ones) by expecting the GDP gap to remain only little closed. We think this new investment data may confirm the Goldilocks nature of Polish growth when both solid GDP growth and moderate inflation are boiling down to local, low rate environment supporting fiscal policy.



That may lift expected path of fixed business investment and work like a mark-up over the already maturing EU-sponsored

Fixed income

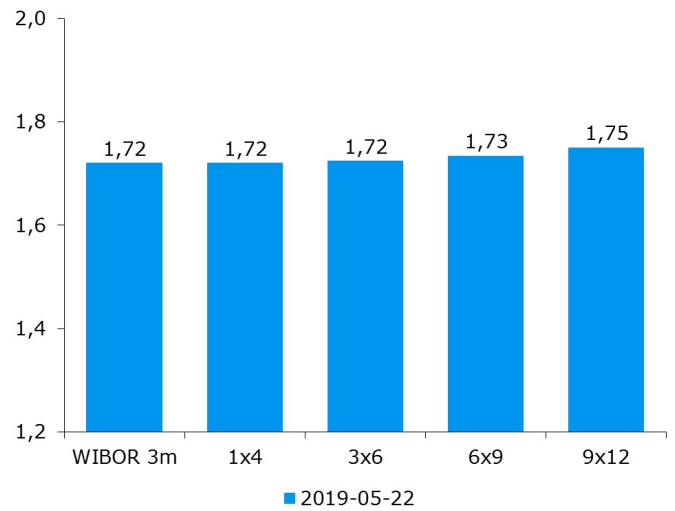
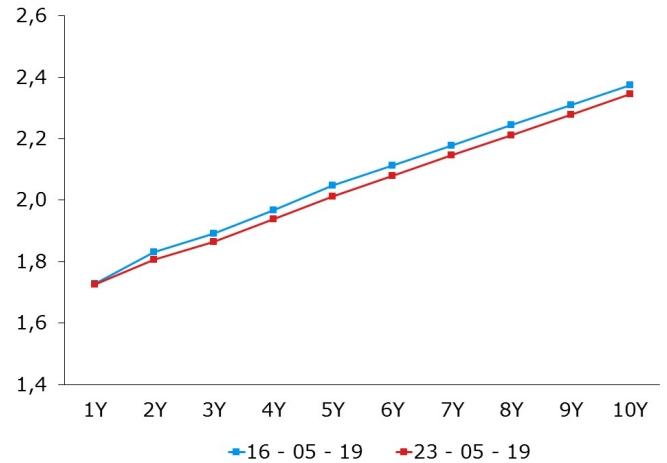
Quiet week behind us

It was a quiet week. Yields were falling slightly, following core markets. Main drivers are US-China trade talks and EU election. As tension is rising, ASW are widening, including PS0424/5y. Key events to watch: EP elections this weekend and May CPI (due on June 4th).

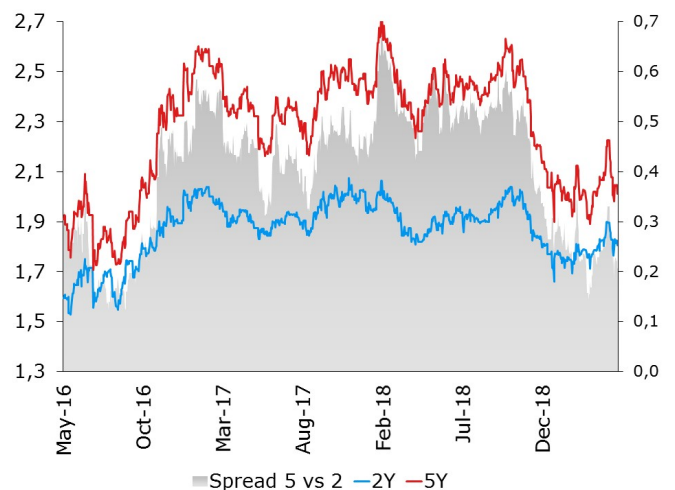
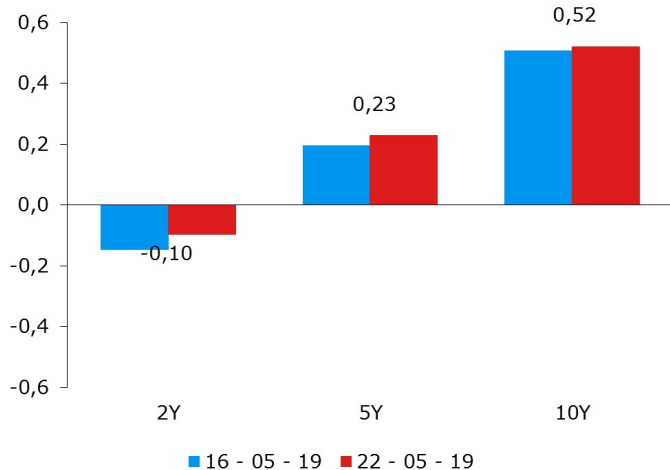
PS0424/5y is 19 bps, DS1029/10y is 48 bps. PS0424/DS1029 is 63 bps DS1029/Bund is 293 bps.

DS1020 is trading at 1.57% (5 bps up), PS0424 is trading at 2.20% (4 bps down) and DS1029 is trading at 2.83% (5 bps down).

IRS curve



Asset swaps





Money market

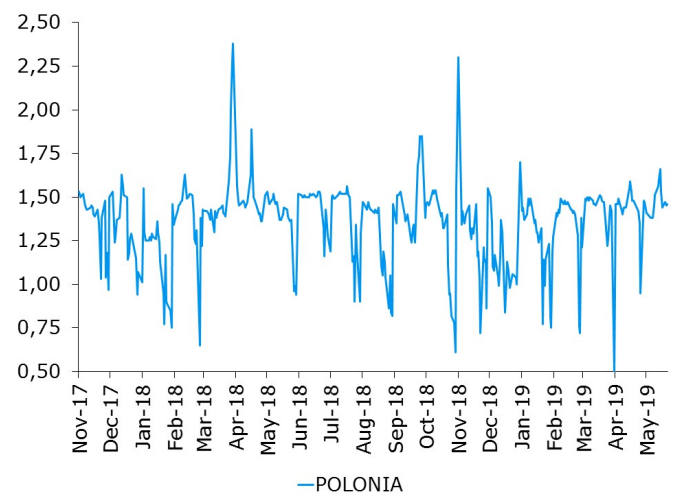
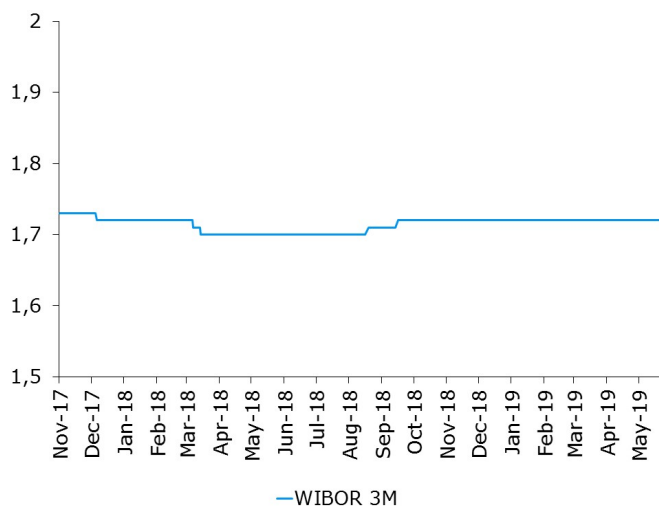
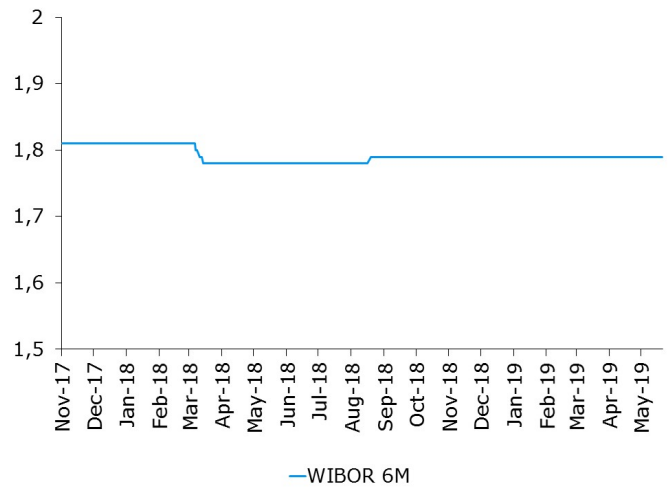
Range trading ahead of the EP elections

We are trading in a range again. I would dare to say that we are close to the lower band in terms of yield. During the weekend we have EU elections which may put some light on Polish political scene. Opinion polls have been mixed. If the ruling party were to lose or make a draw, investors might start expecting more social spending before national elections in the Autumn. May CPI (due on June 4th) is also a factor to watch closely. Fears about EU and US growth are spreading across the world and pushing core yields lower.

Cash rates stable around 1.50%. Next week we enter month end period which will add volatility.

Ref rate vs Polonia averages:

30 day 8 bp
90 day 12 bp



Forex

Spot - EUR/PLN - Never-ending stories: trade wars and Brexit news

Fed cooled investor expectations for a rate cut, despite calls from President Trump to cut rates. On the other hand, good data was published from the Polish economy, i.e. industrial production and retail sales. Finally, Polish zloty remained stable in tight ranges: EURPLN 4.2920-4.3100 and USDPLN 3.8250-3.8720. All in all, it was another very clam week on the Polish market.

Options - implied volatility stable Both volatility curves (EUR/PLN and USD/PLN) stayed still stable and have not changed much for week. 1 month EUR/PLN atm is today at 3.40% (0.10% lower than a week ago), 3 months is at 3.65% (0.10% lower), 1 year is at 4.3% (unchanged). The currency spread (difference between USD/PLN vol and EUR/PLN) is roughly unchanged.

Short-term forecasts

Main supports / resistances:

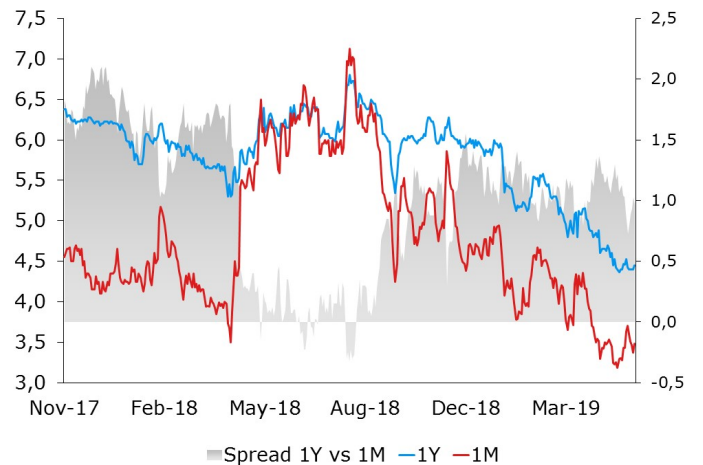
EUR/PLN: 4.2600 / 4.3400

USD/PLN: 3.6000 / 3.9000

Spot - buy on dips

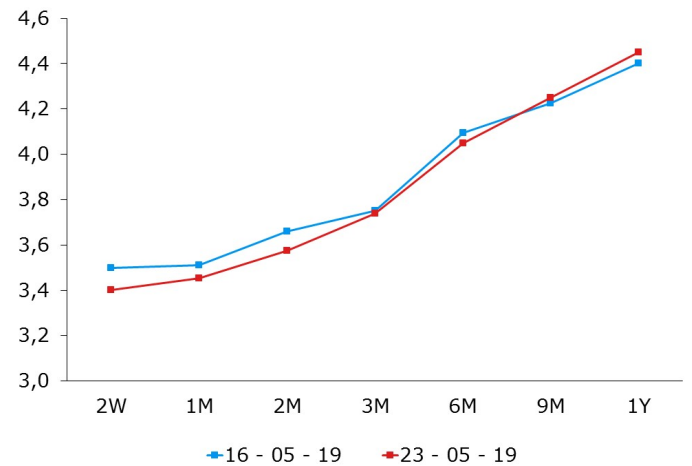
The global market sentiment shall continue to play the main role on the local market, we don't expect EURPLN to leave the 4.27-4.34 range anytime soon. Our strategy to play that range still applies. Ideally we are ready to buy EUR/PLN at 4.27-28 with stop at 4.24 and hopes to see again 4.34.

EURPLN volatility

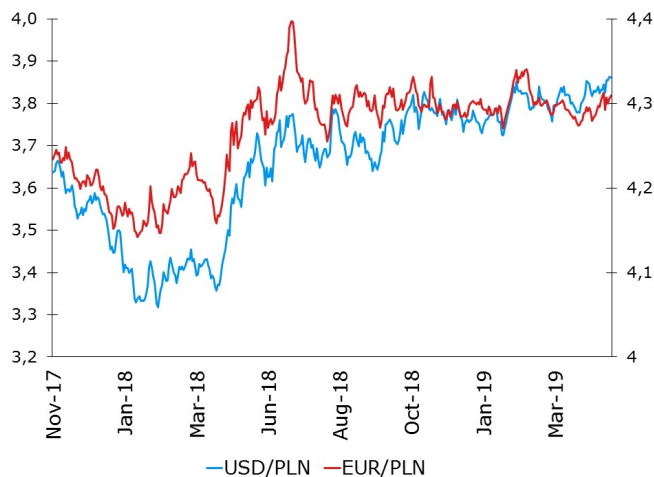


■ Spread 1Y vs 1M — 1Y — 1M

EUR/PLN volatility curve

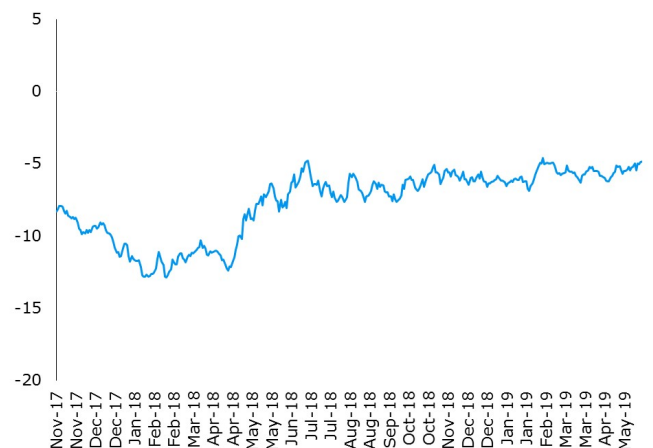


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— USD/PLN — EUR/PLN

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
5/16/2019	1.79	1.72	1.88	1.69	2.07	1.77	1.72	1.73	1.74	1.76	1.77	1.81
5/19/2019	1.72	1.72	1.96	1.69	2.14	1.77	1.72	1.73	1.74	1.75	1.76	1.81
5/20/2019	1.73	1.72	1.80	1.69	1.99	1.77	1.72	1.73	1.73	1.74	1.76	1.80
5/21/2019	1.64	1.72	1.73	1.69	1.92	1.77	1.72	1.72	1.74	1.75	1.77	1.81
5/22/2019	1.75	1.72	1.91	1.69	2.01	1.77	1.72	1.72	1.73	1.75	1.75	1.81

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	4/25/2019	5/25/2021	96.77	1.60	1000	1260	1010
PS0424	4/25/2019	4/25/2024	101.28	2.22	1800	2766	1896
DS1029	4/25/2019	10/25/2029	98.72	2.89	1000	1598	923

Fixed income market rates (closing mid-market levels)								
Date	1Y WIBOR	1Y T-bill	2Y IRS	OK0720	5Y IRS	PS0423	10Y IRS	WS0428
5/16/2019	1.770	1.563	1.830	1.684	2.047	2.242	2.375	2.882
5/19/2019	1.770	1.552	1.813	1.714	2.040	2.269	2.360	2.893
5/20/2019	1.770	1.552	1.825	1.685	2.045	2.269	2.370	2.900
5/21/2019	1.770	1.552	1.825	1.685	2.047	2.395	2.380	2.918
5/22/2019	1.770	1.568	1.805	1.708	2.012	2.241	2.345	2.866

EUR/PLN 0-delta stradle					25-delta RR		25-delta FLY
Date	1M	3M	6M	1Y	1M	1Y	1Y
5/16/2019	3.51	3.75	4.10	4.40	4.40	1.38	0.51
5/19/2019	3.47	3.73	4.03	4.40	4.40	1.38	0.51
5/20/2019	3.38	3.71	4.05	4.40	4.40	1.37	0.50
5/21/2019	3.49	3.75	4.08	4.45	4.45	1.41	0.51
5/22/2019	3.45	3.74	4.05	4.45	4.45	1.40	0.51

PLN Spot performance						
Date	EURPLN	USDPLN	CHFPLN	JPYPLN	HUFPLN	CZKPLN
5/16/2019	4.2929	3.8259	3.7952	3.4922	1.3242	0.1670
5/19/2019	4.3072	3.8545	3.8196	3.5165	1.3247	0.1673
5/20/2019	4.2995	3.8543	3.8189	3.5035	1.3173	0.1668
5/21/2019	4.3055	3.8625	3.8235	3.5075	1.3159	0.1669
5/22/2019	4.3098	3.8620	3.8209	3.4974	1.3192	0.1672

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