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Polish Weekly Review

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Table of contents

Our view in a nutshell

Economics

- Realistic assumptions for next year's budget.

Fixed income

- Even 3Y yield is below WIBOR now.

Money market

- Rate cut expectations everywhere.

FX market

- Spot – EUR/PLN – Polish zloty at its strongest since August
- Opts: EUR/PLN and USD/PLN vols lower

page 2

page 3

page 4

page 5

page 6

Comment on the upcoming data and forecasts

Due to the public holiday on Thursday, the next edition of our weekly review will be published in 2 weeks. In upcoming weeks all remaining Polish data releases for May will be published. Tomorrow Statistics Poland will publish final CPI reading for May (flash estimate surprised and amounted to 2.3% y/y – lower than consensus, mostly due to low dynamics of fuel prices). On Monday NBP will publish core inflation (flash CPI suggests the level of 1.6% y/y). On Wednesday labor market data will be published – we expect wages to grow by 6.7% y/y (May is a month of stabilization of wages in manufacturing, slowdown in trade and construction, and acceleration in some services) and employment growth of 2.9% y/y. Industrial production should increase by 8.0% y/y (+1 in working days, high energy production), with PPI at 1.7% y/y (lower prices of raw materials and high base from the previous year). The following week starts with publication of retail sales dynamics (our forecast 7.8% y/y, we expect positive effect of car sales and durable goods) and construction output (forecast: 16.6% y/y). Next day, the NBP will publish M3 aggregate, which dynamics should not change compared to the month before. On Wednesday Statistics Poland will publish unemployment rate (Ministry of Family, Labor and Social Policy flash estimate of 5.4% was in line with forecasts). Month ends with the publication of flash CPI for June.

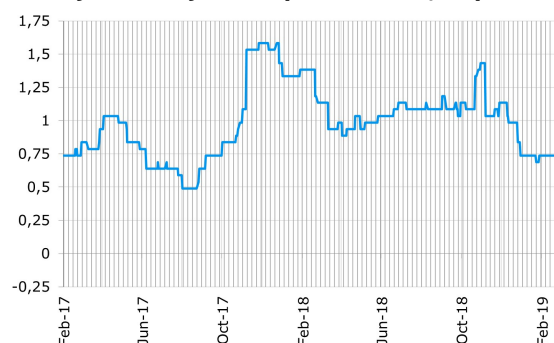
Polish data to watch: June 14th to June 28th

Publication	Date	Period	mBank	Consensus	Prior
Final CPI y/y (%)	14.06	May	2.3	2.3	2.2
CPI core y/y (%)	17.06	May	1.6	1.6	1.7
Wages y/y (%)	19.06	May	6.7	7.2	7.1
Employment y/y (%)	19.06	May	2.9	2.9	2.9
Industrial Output y/y (%)	21.06	May	8.0	7.7	9.2
PPI y/y (%)	21.06	May	1.7	1.7	2.6
Construction Output y/y (%)	24.06	May	16.6	15.4	17.4
Retail Sales y/y (%)	24.06	May	7.8	7.2	11.9
M3 y/y (%)	25.06	May	10.4	10.1	10.4
Unemployment Rate (%)	26.06	May	5.4	5.4	5.6
CPI flash y/y (%)	28.06	Jun	2.2		2.3

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	7/11/2019	1000	1.598	4/25/2019
5Y T-bond PS0424	7/11/2019	1800	2.224	4/25/2019
10Y T-bond DS1029	7/11/2019	1000	2.890	4/25/2019
30Y T-bond WS0447	7/11/2019	60	3.180	4/25/2019
5Y floater WZ0524	7/11/2019	1000	-	4/25/2019
10Y floater WZ0528	7/11/2019	1000	-	4/25/2019

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



Comment

Lack of publications this week results in no changes in surprise index. Next 2 weeks are full of data releases (like labor market data, industrial production, retail sales, and inflation) which can move surprise index.

* 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. Additionally, private investment finally arrives and public spending cycle seems to be stronger than we expected. It changes the starting point and the durability of investment activity going forward. Therefore we are upgrading GDP forecast to 5.0% in 2019 and 4.0% in 2020 (with upside risk).
- Core inflation is projected to rise steadily. The combination of food prices and base effects are set to push inflation above target in the year's end. The issue of electricity prices will make its comeback in January. Therefore, inflation might accelerate even further at the onset of 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. The rise in inflation may generate some noise from MPC members, though.
- 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	5.0	4.0
CPI Inflation y/y (average %)	-0.9	-0.6	2.0	1.6	2.0	2.8
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	Q2 F	Q3 F	Q4 F
GDP y/y (%)	5.2	5.3	5.2	4.9	4.7	4.9	5.0	5.3
Individual consumption y/y (%)	4.6	4.8	4.4	4.2	3.9	4.3	4.5	4.8
Public Consumption y/y (%)	4.5	4.5	5.2	4.7	6.4	6.4	6.4	6.4
Investment y/y (%)	9.6	6.0	11.3	8.2	12.6	10.0	8.0	7.0
Inflation rate (% average)	1.5	1.7	1.9	1.4	1.2	2.3	2.1	2.5
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

Realistic assumptions for next year's budget

Ministry of Finance published macroeconomic assumptions for the next year's budget. It will be constructed based on the GDP growth rate at 3.7% y/y and annual average CPI of 2.5% y/y. Lower estimates of GDP growth results in lower dynamics of both private consumption (3.8%) and wages (6.0%).

Economic growth and labor market assumptions are slightly lower than our forecasts (in our opinion in 2020 GDP will increase by 4.0%, with private consumption growth higher than the MF expects), there is also space for higher inflation figures, but in this case a lot will depend on electricity prices. Summing up, budget assumptions can be described as realistic, especially if conservative assumptions for this year's realization are taken into account. The Ministry of Finance assumes GDP growth in 2019 at 4.0%, consumption growth at 4.0% and yearly inflation at 1.8% – in our opinion each of them will be at a higher level. Hence, the starting point for a next year's budget can be better than current forecasts suggest.

The budget itself will be constructed in the coming weeks. Probably it will include most of the solutions presented in the last multi-year fiscal plan ([we wrote about them in April](#)). It is therefore quite possible that Ministry can surprise with relatively low budget deficit for the next year.

Fixed income

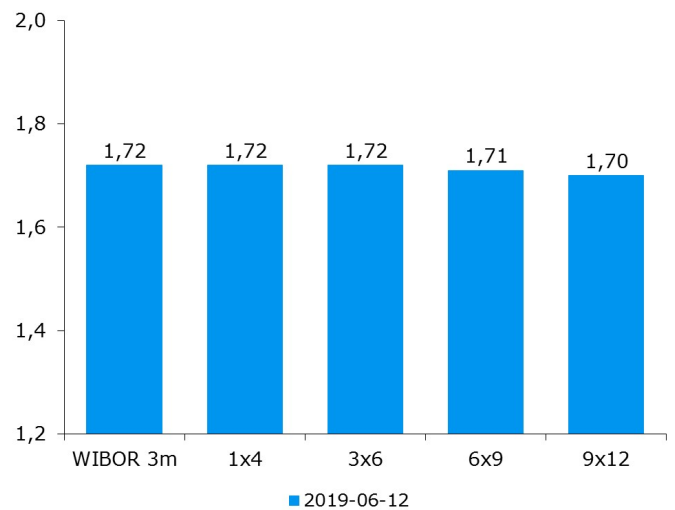
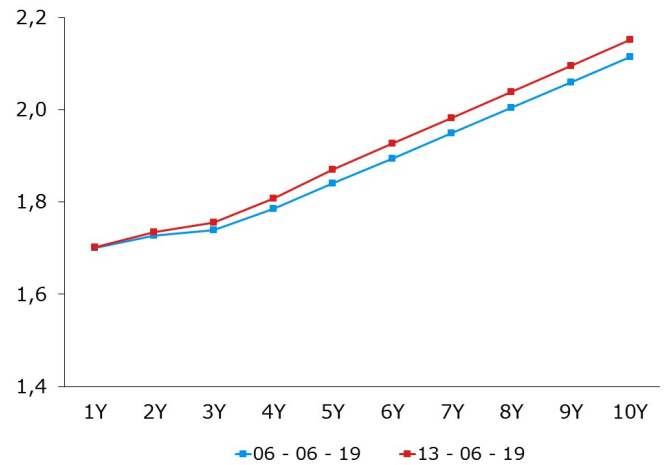
Even 3Y yield is below WIBOR now

Market is still pricing in rate cuts, with 3y trading lower than WIBOR. ASWs widened a bit especially on the belly. Yield curve is flattening further and ASW curve is inverted on the long end (0428 ASW is wider than 1029 ASW). On today's auction 5.7 bn of bonds was sold, from which 2 bn was DS1029.

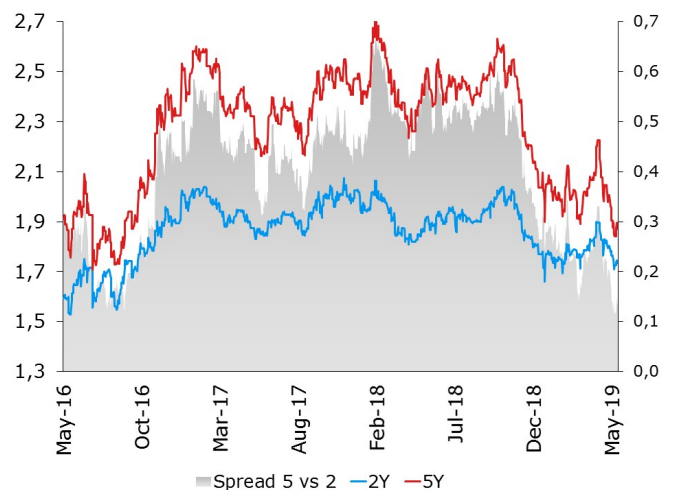
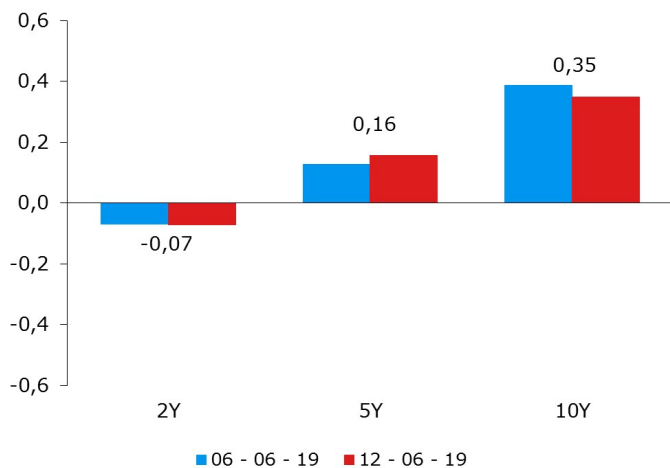
PS0424/5y is 15 bps, WS0428/10y is 28 bps. PS0424/WS0428 is 43 bps. WS0428/Bund is 267 bps.

DS1020 is trading at 1.48%, PS0424 is trading at 1.99% and WS0428 is trading at 2.42%.

IRS curve



Asset swaps



Money market

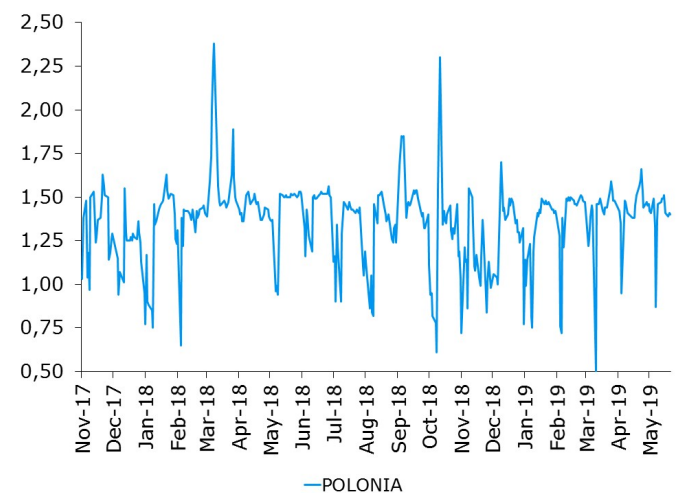
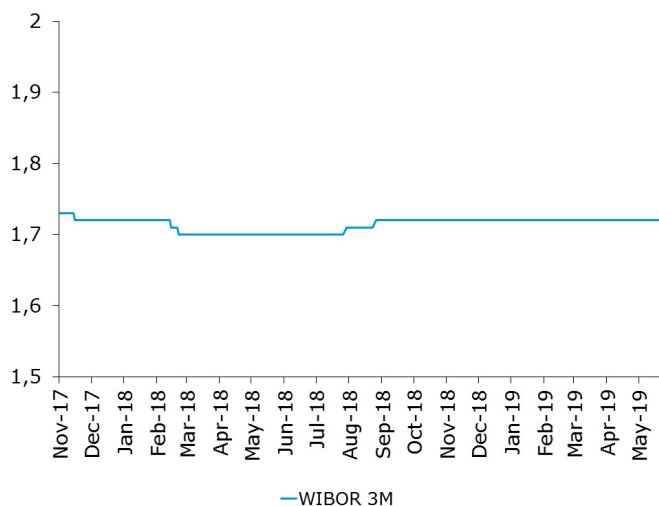
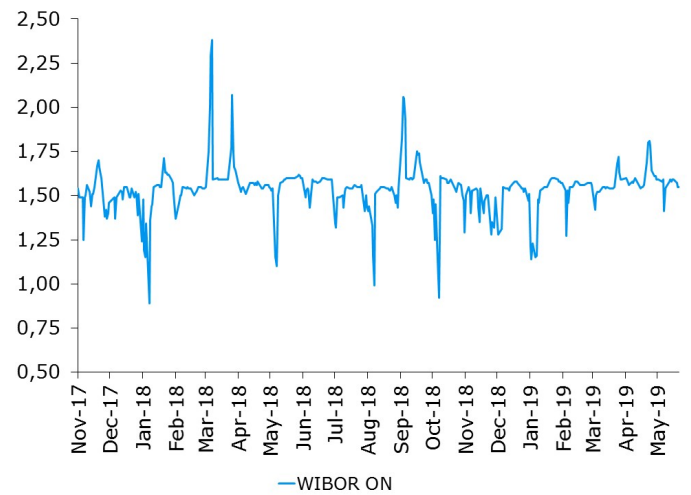
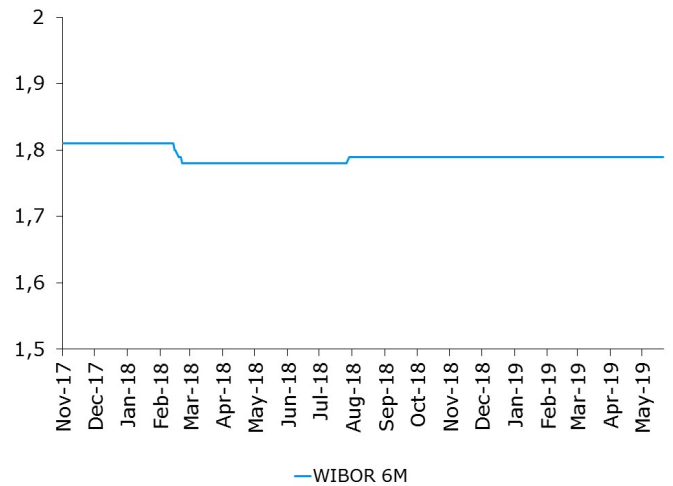
Rate cut expectations everywhere

Rates bounced back from recent lows with 5y rate reaching 1.94%. As time passes this move is fading and we are falling again. The story at moment are rate cuts in the United States with some banks expecting 50 bps cut as soon as July. Therefore, our curve is pricing in cuts as well too, even though the Polish central bank's situation is quite different.

Cash stable slightly below 1.50%. Tomorrow's NBP operation will set the tone for the next week.

Ref rate vs Polonia averages:

30 day 8 bp
90 day 12 bp



Forex

Spot – EUR/PLN – Polish zloty at its strongest since August.

Most of the week the zloty was on the rise, due to the better risk sentiment – EUR/PLN slide was halted at 4.2530 level, in fact at the bottom of the range 4.25 - 4.34. Finally it has bounced off this low and now is trading above 4.26. Similarly USD/PLN fell from 3.79 to 3.7530 and now is trading around 3.775. The situation for the zloty remains good – market still obtains solid data from the Polish economy. On the other hand, trade tensions and Fed interest rate policy stay in focus – Fed rate cuts are coming. Global economic outlook is not too optimistic. Thus in our opinion, the zloty is more likely to depreciate.

Opts: EUR/PLN and USD/PLN vols lower. The stronger zloty, low realized returns are to blame for undisturbed slide of EUR/PLN and USD/PLN volatilities curves. 1 month EUR/PLN ATM mid is this Thursday at 3.2% (0.1% lower than a week ago), 3 months are 3.45% (0.1% lower) and 1 year is fixing 4.3% (unchanged from last week). The currency spread (difference between USD/PLN and EUR/PLN) moved lower by around 0.5%. The skew was better offered too.

Short-term forecasts

Main supports / resistances:

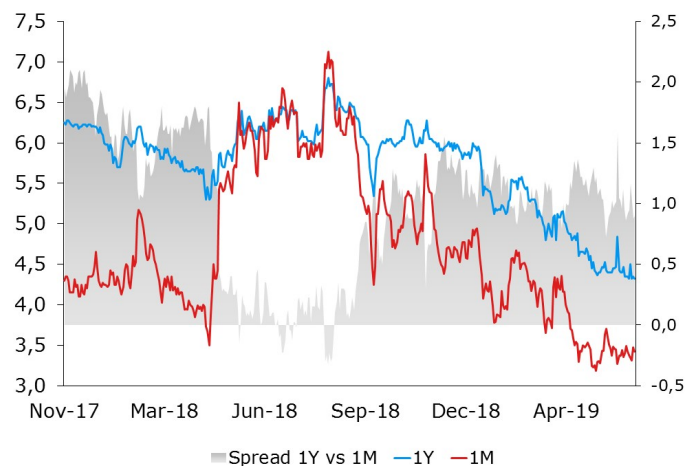
EUR/PLN: 4.2400 / 4.3400

USD/PLN: 3.6000 / 3.9000

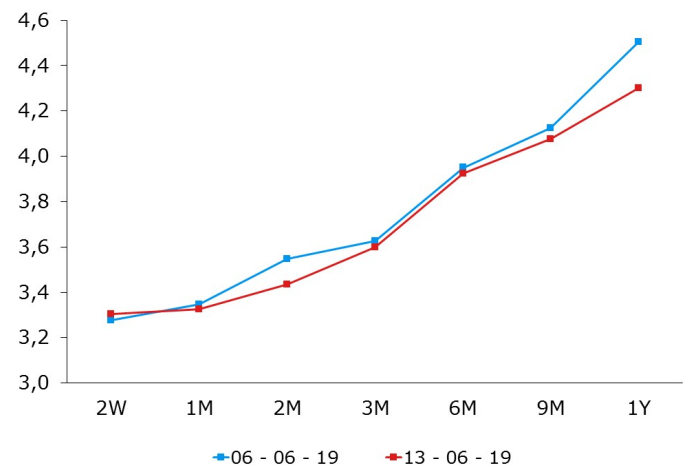
Spot : Current position – long EUR/PLN at 4.2600

In this week market has tested local EUR/PLN support level at 4.25/4.26, and finally we bought it at 4.26. We are ready to add to the position at 4.25, with 4.24 stop and hopes to revisit 4.30. It is technical/opportunistic trade, as we are looking for 4.24-4.34 range to hold. The global market sentiment shall to play the main role on the local market...

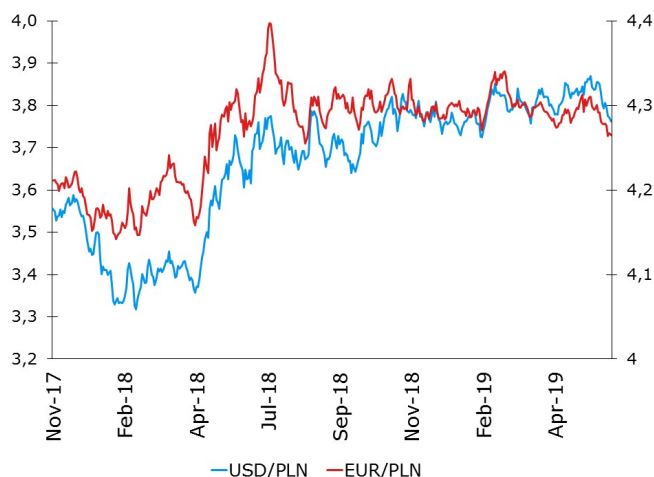
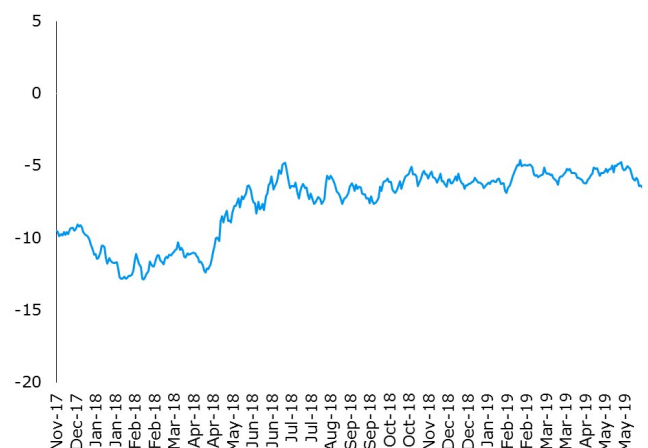
EURPLN volatility



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
6/6/2019	1.63	1.72	1.71	1.69	1.74	1.76	1.72	1.72	1.71	1.69	1.67	1.77
6/9/2019	1.63	1.72	1.81	1.69	2.00	1.76	1.72	1.72	1.71	1.70	1.67	1.76
6/10/2019	1.61	1.72	1.66	1.69	1.72	1.76	1.72	1.72	1.70	1.70	1.68	1.77
6/11/2019	1.52	1.72	1.63	1.69	1.84	1.76	1.72	1.72	1.71	1.71	1.69	1.77
6/12/2019	1.60	1.72	1.79	1.69	1.93	1.76	1.72	1.72	1.71	1.70	1.69	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	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
6/6/2019	1.760	1.496	1.727	1.658	1.840	1.967	2.115	2.502
6/9/2019	1.760	1.536	1.725	1.652	1.842	1.956	2.120	2.477
6/10/2019	1.760	1.497	1.737	1.662	1.875	2.014	2.155	2.506
6/11/2019	1.760	1.518	1.745	1.654	1.895	2.037	2.175	2.549
6/12/2019	1.760	1.507	1.735	1.664	1.870	2.026	2.153	2.502

EUR/PLN 0-delta stradle					25-delta RR		25-delta FLY
Date	1M	3M	6M	1Y	1M	1Y	1Y
6/6/2019	3.35	3.63	3.95	4.51	4.51	1.37	0.49
6/9/2019	3.31	3.63	3.95	4.33	4.33	1.37	0.49
6/10/2019	3.48	3.67	3.98	4.35	4.35	1.37	0.49
6/11/2019	3.43	3.65	3.95	4.33	4.33	1.37	0.49
6/12/2019	3.33	3.60	3.93	4.30	4.30	1.29	0.49

PLN Spot performance						
Date	EURPLN	USDPLN	CHFPLN	JPYPLN	HUFPLN	CZKPLN
6/6/2019	4.2783	3.8065	3.8281	3.5191	1.3321	0.1668
6/9/2019	4.2762	3.7958	3.8191	3.4981	1.3300	0.1667
6/10/2019	4.2640	3.7745	3.8100	3.4749	1.3320	0.1665
6/11/2019	4.2675	3.7722	3.8059	3.4711	1.3312	0.1664
6/12/2019	4.2650	3.7630	3.7943	3.4765	1.3251	0.1665

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