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## Polish Weekly Review

**mBank Research**  
(macro/FI/FX analysis)

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### Table of contents

#### Our view in a nutshell

#### Economics

- NBP rates and rhetoric unchanged

#### Fixed income

- Low yield, so what?

#### Money market

- Big squeeze

#### FX market

- Spot – PLN – still boxed in range
- Options – EUR/PLN vols – almost unchanged

page 2

page 3

page 4

page 5

page 6

### Comment on the upcoming data and forecasts

On Monday CSO will publish final CPI data for August. We expect it to confirm the flash estimate at 1.8% y/y, which means only minor acceleration comparing to July. When it comes to details, food prices probably dropped slightly less than usually (-0.8/-0.9%), while fuel prices are set to jump by 2.7% m/m. The flash reading was a tad lower than our original forecast, therefore we are a bit wary of our estimates of food price growth at this point. Official core inflation data will be published the day after, CPI excluding food and energy prices has most probably risen from 0.8% to 0.9%. On Wednesday, balance of payments data for July will be published. We expect current account deficit to expand (to more than one billion EUR), with both exports and import dropping based on a seasonal pattern.

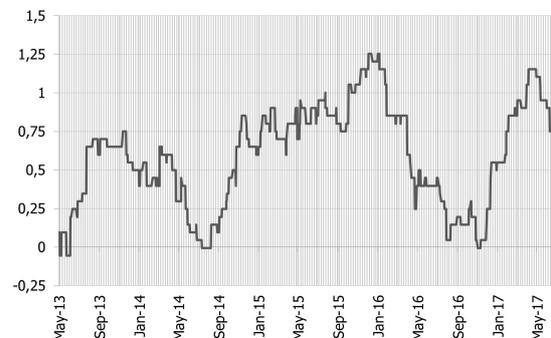
### Polish data to watch: September 8th to September 15th

Publication	Date	Period	mBank	Consensus	Prior
CPI y/y (%) <i>flash</i>	11.09	Aug	1.8	1.8	1.7
Core inflation y/y (%)	12.09	Aug	0.9	0.8	0.8
Current account (bio EUR)	13.09	Jul	-1206	-835	-932
Exports (bio EUR)	13.09	Jul	15300	15222	16627
Imports (bio EUR)	13.09	Jul	15800	15788	16854

### 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 OK1019	9/14/2017	600	1.859	6/9/2017
5Y T-bond PS0422	9/14/2017	1000	2.587	6/9/2017
10Y T-bond DS0727	9/14/2017	600	3.128	6/9/2017
30Y T-bond WS0447	-	100	3.508	6/9/2017

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



#### Comment

Unchanged from the previous week after manufacturing PMI just slightly undershot market estimates. Next week, Polish surprise index will be moved only if the flash estimate is revised.

\* 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

- H1 GDP figures (3.9-4.0% y/y) confirmed that the economy is operating on a high gear. However, so far there is little to suggest that it would continue to accelerate. Household consumption will ultimately slow down slightly, as base effects and inflation bite, while the looming acceleration in investment is set to be checked by negative net exports. Therefore, we are comfortable with our current forecast of flat GDP growth path throughout the year. Rapid acceleration in wages or swifter return of private investment are clear, upside risks for growth this year. First take on Q3 is so far optimistic.
- With stable fuel prices and rising food prices, the local bottom in inflation was set at 1.5% in June.
- The case for accelerating core inflation is strengthening. Stellar employment performance shows no respite but wage growth remains moderate. Such equilibrium is unsustainable. If 2007 and 2008 are taken as guide, wages are ready to take off this year as current demand for labor meets limited supply.
- MPC stays calm and waits rises in headline inflation out, while carrying steady message of stable rates. Such rhetoric can stay in place for some months. However, as trend in core inflation emerges as evident and labor market strengthen further, the case for rate hikes is set to strengthen as well. All we need is a small change in MPC's wording to make rate expectations wander somewhat more freely.
- Solid labor market performance and prospect for faster growing wages support PIT and VAT revenue from consumption. With much higher headline inflation already in place (deflationary 2016!), further improvements in tax income seem a safe bet for 2017 even without any stringent assumptions on the efficiency of tax collection.

### Financial markets

- EURPLN rose to 4.30 on the back of rising local risks (political turbulence, new CHF loan bill and the on-going disputes with the European Commission) and the recent uptick in global risk aversion and volatility associated with North Korean tensions. Worse still, PLN appears to react asymmetrically to global factors (it barely benefitted from renewed bets on easy monetary policy globally).
- While PLN appears undervalued in real terms and cyclical factors should underpin its strength, uncertainties, that prevent us from being bullish in the short term, are mounting. These are: geopolitics, the shape and the effects of the new CHF mortgage legislation, as well as Poland's troubles within the EU.

### mBank forecasts

	2013	2014	2015	2016	2017 F	2018 F
GDP y/y (%)	1.4	3.3	3.8	2.7	3.9	4.1
CPI Inflation y/y (average %)	0.9	-0.1	-0.9	-0.6	1.9	2.2
Current account (%GDP)	-1.2	-2.1	-0.6	-0.2	-0.9	-1.1
Unemployment rate (end of period %)	13.4	11.4	9.8	8.3	6.8	6.0
Repo rate (end of period %)	2.50	2.00	1.50	1.50	1.50	2.00

	2017	2017	2017	2017	2018	2018	2018	2018
	Q1	Q2	Q3 F	Q4 F	Q1 F	Q2 F	Q3 F	Q4 F
GDP y/y (%)	4.0	3.9	3.8	3.9	4.0	4.0	4.2	4.2
Individual consumption y/y (%)	4.7	4.9	4.2	4.0	4.0	3.8	3.8	3.8
Public Consumption y/y (%)	1.0	2.4	2.5	3.0	4.0	3.0	3.0	3.0
Investment y/y (%)	-0.4	0.8	7.0	10.0	10.0	10.0	10.0	9.0
Inflation rate (% average)	2.0	1.8	1.7	1.9	1.5	2.2	2.6	2.6
Unemployment rate (% eop)	8.2	7.1	6.6	6.8	6.8	6.0	5.7	6.0
NBP repo rate (% eop)	1.50	1.50	1.50	1.50	1.50	1.50	1.75	2.00
Wibor 3M (% eop)	1.73	1.73	1.73	1.73	1.73	1.73	1.98	2.23
2Y Polish bond yields (% eop)	2.01	1.90	1.93	2.04	2.12	2.31	2.66	2.84
10Y Polish bond yields (% eop)	3.49	3.32	3.38	3.53	3.63	3.85	4.23	4.45
EUR/PLN (eop)	4.23	4.23	4.25	4.25	4.20	4.15	4.08	4.05
USD/PLN (eop)	3.97	3.70	3.66	3.63	3.59	3.49	3.40	3.35

F - forecast



## Economics

### NBP rates and rhetoric unchanged

As expected, the MPC kept rates unchanged during its September meeting. The accompanying statement was barely altered and its key guidance regarding inflation was the same as in the previous months: "the risk of inflation running persistently above the target in the medium term is limited".

The only notable change in the statement is the removal of reference to low unit labor cost growth. This itself would have been considered mildly hawkish, but any such nuance was completely swamped by the broadly dovish tone of the governor's press conference. As we anticipated, all the usual talking points were utilized: there are no imbalances in the Polish economy, strong economic growth has no bearing on inflation, investment will return soon, inflation set to remain stable throughout the forecast horizon. Mr Glapinski was also very skeptical of wage pressures and labor shortages in the Polish economy. As a result, his earlier expectation of stable rates until end-2018 was reiterated.

This announcement remains broadly consistent with current market pricing that puts the first rate hike in May 2019 and sees no more than 100 bps rate hikes over the next five years. As we repeatedly stressed, such expectations make sense in light of current data. Given the well-known relations between labor market conditions, wage growth and inflation, it is reasonable to expect that inflationary pressures (especially in consumer services) will continue to rise. As a result, current market pricing might be too optimistic. We expect the MPC to acknowledge this in mid-2018 and raise rates in the third quarter of 2018.

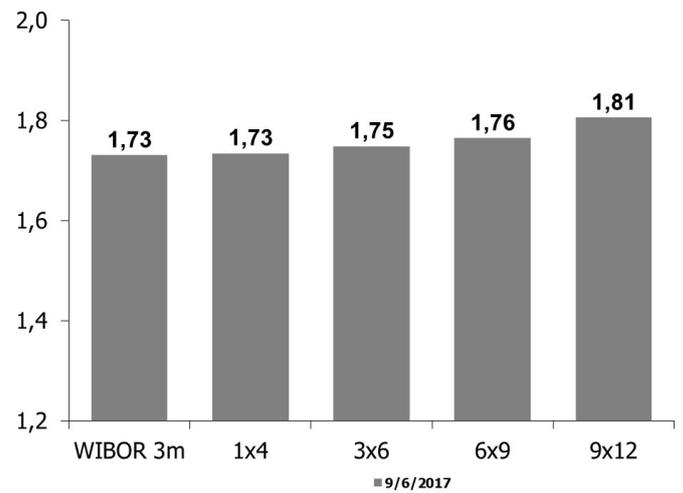
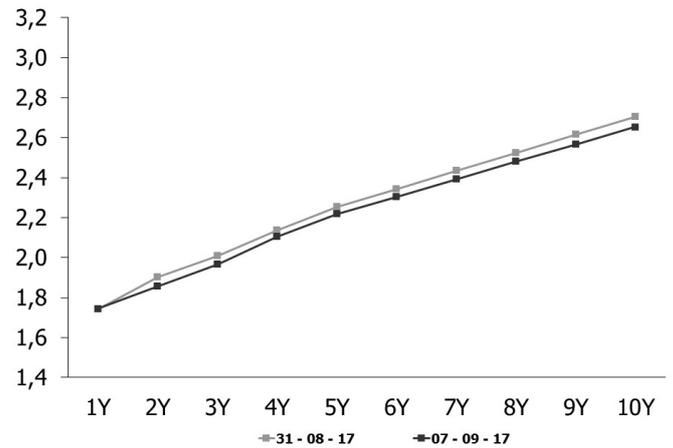
## Fixed income

### Low yields, so what?

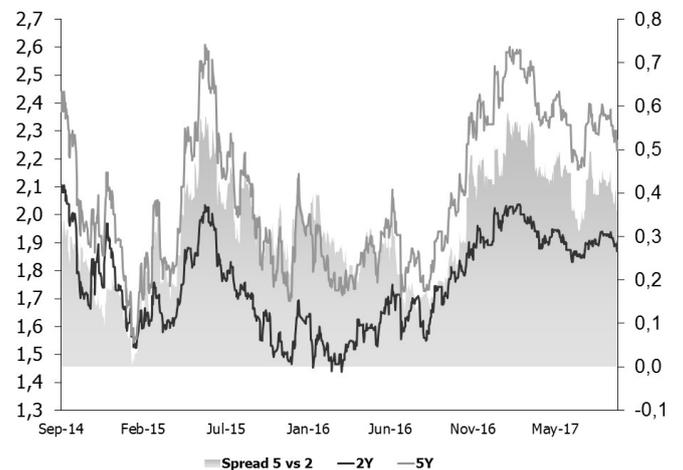
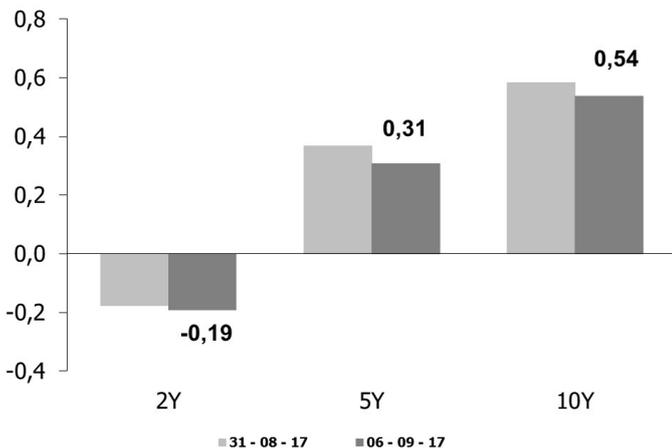
We have been seeing inflows since the beginning of this week. Today was the ECB conference and everything can still happen. Yields are very, very low. After end of month trade, banks are short in bonds. DS0727/Bund is 284 bps.

Curve is steep again: PS0422/DS0727 is trading at 73bps. ASWs stay strong: PS0422/5y is at 24bps and DS0727/10y is at 49bps; both have narrowed 5bps. PS0719 is trading at 1.65% (5 bps down), PS0422 is trading at 2.43% (16 bps down) and DS0727 is trading at 3.16% (14 bps down).

IRS curve



Asset swaps





## Money market

### Big squeeze

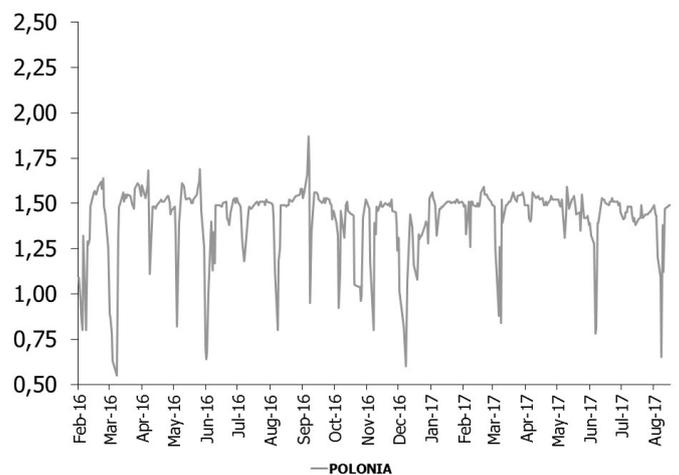
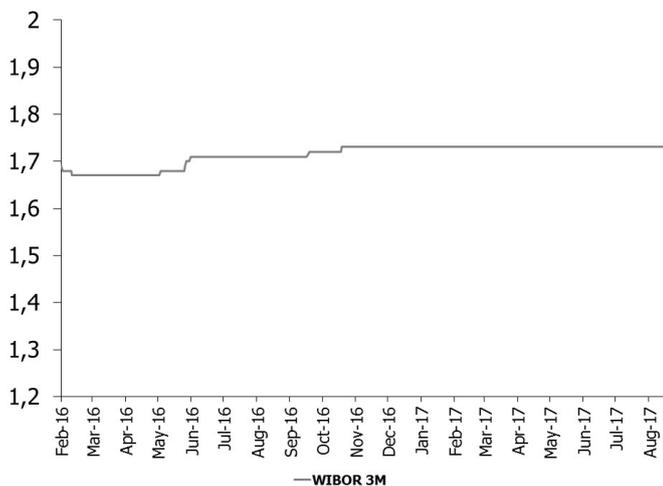
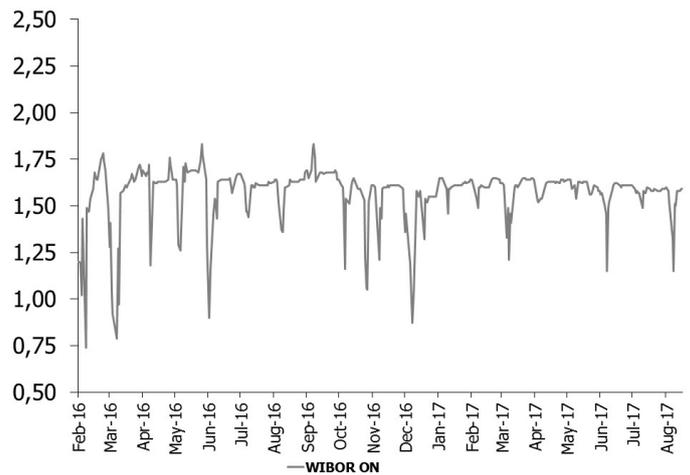
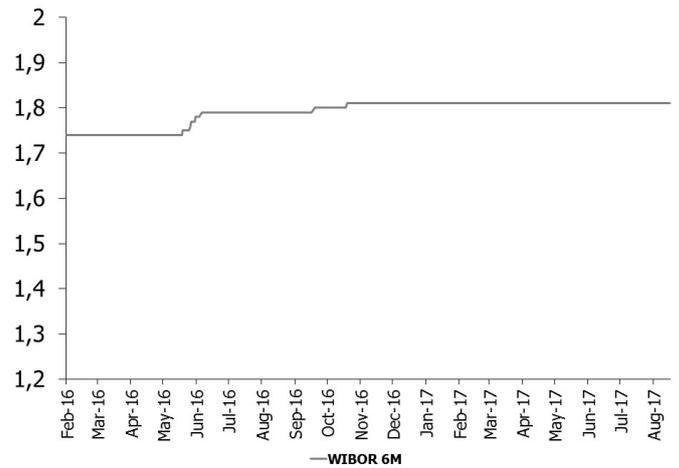
MPC meeting was a non-event again. Governor Glapinski reiterated that in his opinion rates should stay on hold until the end of 2018. With the Ministry of Finance cutting supply in September again, the market feels a bit squeezed on POLGBs. Prices are grinding higher with core markets supporting this move.

Cash came back to normal with overnight trading close to the reference rate.

Ref rate vs Polonia averages:

30 day 12 bp

90 day 9 bp



## Forex

**Spot: EUR/PLN – still boxed in range** EUR/PLN had another sleepy week, it was interrupted only by Moody's improved GDP growth forecast for Poland. It was raised to 4.3% in 2017, which seems ambitious. As a result, EUR/PLN dropped to 4.2300, but later returned to 4.25-ish. The weaker PLN was at least partially caused by dovish message from Polish MPC. We are still in "play the range" mood, but for a choice we prefer playing that from short PLN side as political risk looms on the horizon.

**EUR/PLN vols – almost unchanged** EUR/PLN frontend is tic higher in anticipation to EBC and FOMC, and probably because of the of some short covering. EUR/PLN 1 month ATM mid is today 5.9% (0.2% higher), 3 months are at 6% (unchanged) and finally, 1 year fixed at 6.3% (0.1% lower). The skew was roughly unchanged, and the currency spread (difference between USD/PLN and EUR/PLN), frontend is tic better bid.

### Short-term forecasts

Main supports / resistances:

EUR/PLN: 4.20 / 4.30

USD/PLN: 3.50 / 3.80

**Spot** Current position: Still long EUR/PLN at 4.2550.

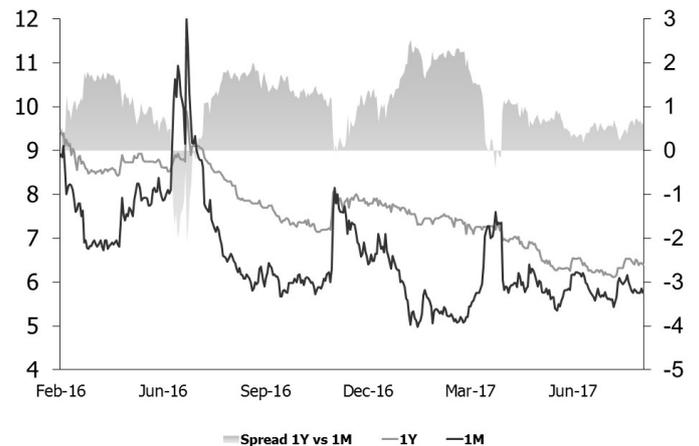
We are ready to add to the position at 4.2200 with a stop at 4.1900, and hope to see 4.3000, possibly on the way to 4.33+. We are of the opinion that political risk in Poland is not priced in at current PLN levels. Technically, we see a good chance of EUR/PLN coming back to the middle of the multi-month range, namely 4.35ish.

**Options** Vol – tactical long

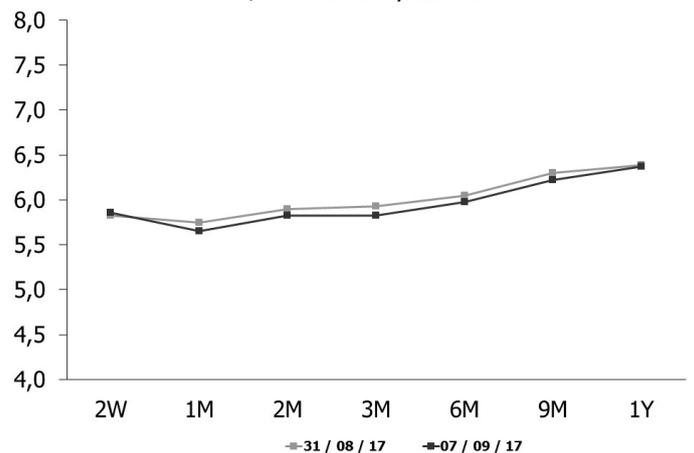
We reduced some vega position but still have small tactical long in mid curve Vega. The market is not really moving, we are in very tight price ranges. In the bigger picture, we are much more keen to enter bigger long Vega trade, but timing is key. For now we are sticking to our small tactical long.



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
8/31/2017	1.43	1.73	1.62	1.71	1.82	1.75	1.73	1.75	1.78	1.80	1.85	1.84
9/3/2017	1.52	1.73	1.69	1.71	1.88	1.75	1.73	1.75	1.77	1.82	1.87	1.85
9/4/2017	1.77	1.73	1.83	1.71	1.90	1.75	1.74	1.77	1.77	1.81	1.86	1.85
9/5/2017	1.37	1.73	1.53	1.71	1.72	1.75	1.73	1.75	1.77	1.80	1.83	1.84
9/6/2017	1.55	1.73	1.72	1.71	1.90	1.75	1.73	1.75	1.76	1.81	1.82	1.85

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
OK0419	6/9/2017	4/25/2019	96.62	1.86	600	1505	500
PS0422	6/9/2017	4/25/2022	98.47	2.59	1000	1811	1085
DS0727	6/9/2017	7/25/2027	94.61	3.13	600	944	640

Fixed income market rates (closing mid-market levels)								
Date	1Y WIBOR	1Y T-bill	2Y IRS	OK0715	5Y IRS	PS0718	10Y IRS	DS1023
8/31/2017	1.750	1.474	1.635	1.578	1.960	2.232	2.405	2.949
9/3/2017	1.750	1.474	1.635	1.578	1.960	2.232	2.405	2.949
9/4/2017	1.750	1.474	1.635	1.578	1.960	2.232	2.405	2.949
9/5/2017	1.750	1.474	1.635	1.638	1.990	2.290	2.447	2.985
9/6/2017	1.750	1.474	1.635	1.525	2.000	2.269	2.460	2.964

EUR/PLN 0-delta stradle					25-delta RR		25-delta FLY	
Date	1M	3M	6M	1Y	1M	1Y	1Y	
8/31/2017	5.75	5.93	6.05	6.39	6.39	1.77	0.57	
9/3/2017	5.75	5.88	6.05	6.43	6.43	1.77	0.57	
9/4/2017	5.85	5.88	6.05	6.43	6.43	1.77	0.58	
9/5/2017	5.75	5.83	6.00	6.40	6.40	1.77	0.58	
9/6/2017	5.65	5.83	5.98	6.38	6.38	1.81	0.59	

PLN Spot performance						
Date	EURPLN	USDPLN	CHFPLN	JPYPLN	HUFPLN	CZKPLN
8/31/2017	4.2618	3.5822	3.7184	3.2414	1.3919	0.1632
9/3/2017	4.2457	3.5693	3.7134	3.2431	1.3915	0.1629
9/4/2017	4.2570	3.5718	3.7350	3.2618	1.3911	0.1633
9/5/2017	4.2361	3.5642	3.7128	3.2573	1.3834	0.1624
9/6/2017	4.2446	3.5538	3.7263	3.2696	1.3850	0.1626

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