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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

- The MPC's rose-tinted glasses are firmly on

#### Fixed income

- The Last Month of the Year

#### Money market

- MPC limits rate moves

#### FX market

- Spot – EUR/PLN stable
- Options – EUR/PLN stable, USD/PLN higher in the frontend

page 2

page 3

page 4

page 5

page 6

### Comment on the upcoming data and forecasts

Week starts on Tuesday with final CPI data for November. We expect confirmation of flash release at 2.5% y/y. According to our research, two categories are responsible for higher than expected price growth: fuel and food. The day after, NBP will publish core inflation data, which should accelerate on a yearly basis from 0.8% to 0.9%. On Thursday CSO will publish trade balance data. According to our forecast current account balance should return above zero amid growth in both exports and imports.

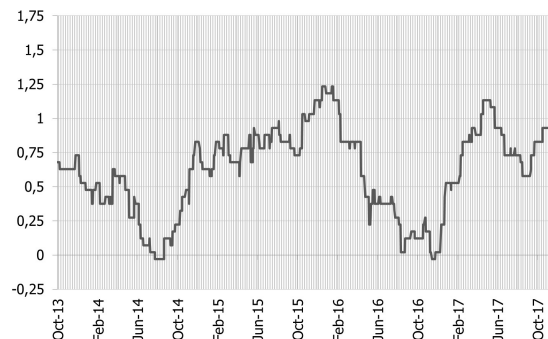
### Polish data to watch: December 8th to December 15th

Publication	Date	Period	mBank	Consensus	Prior
CPI y/y <i>flash</i> (%)	12.12	Nov	2.5	2.5	2.1
Core inflation y/y (%)	13.12	Nov	0.9	0.9	0.8
Current account (mio EUR)	14.12	Oct	309	160	-100
Exports (mio EUR)	14.12	Oct	18000	18100	17207
Imports (mio EUR)	14.12	Oct	17400	17400	16443

### 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	12/15/2017	500	1.846	11/23/2017
5Y T-bond PS0422	12/15/2017	750	2.704	11/23/2017
10Y T-bond DS0727	12/15/2017	800	3.338	11/23/2017
30Y T-bond WS0447	-	125	3.720	10/25/2017

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



#### Comment

Unchanged after manufacturing PMI matched market consensus and MPC did not change interest rates. Next week brings only one opportunity to move the index – final CPI release.

\* 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 2017, Polish economy is set to rise by 4.3%, in 2018 by 4.5%. 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, favorable external environment and stimulation on all fronts.
- Inflation reached a local top in November. Base effects suggest that inflation will drop at the turn of the year and reaccelerate briskly from Q2 on. One should look through short-term fluctuations and look at underlying momentum. The case for accelerating core inflation is strengthening. Polish labor market is operating normally and fits regional trends: wage inflation is coming.
- MPC stays calm and waves away any signs of intensifying wage pressure. Such rhetoric can stay in place for some months, especially when inflation temporarily drops on base effects. 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.
- Fiscal situation continues to be very comfortable and GG deficit will fall below 2% of GDP this year. 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

- Negative local political factors recently eased with CHF bill possibly shelved for some time and other, controversial government activities postponed to unspecified future. At the same time, the economy shows strength from every angle. However, the MPC still sticks to low rate scenario.
- With rising risk-free rates and slow-but-steady monetary tightening in developed markets, Polish monetary policy is increasingly a liability for the PLN via declining interest rate disparities. That is why we do not expect the zloty's performance to be stellar at the moment. 4.20 – 4.40 range seems to be the most likely scenario for now.
- Next year, when the MPC turns around and starts talking rate hikes, while growth continues to be stellar (consensus for a mild slowdown in 2018 is misplaced in our view), zloty should return to its cyclical patterns and appreciate closer to 4.10.

### mBank forecasts

	2013	2014	2015	2016	2017 F	2018 F
GDP y/y (%)	1.4	3.3	3.8	2.9	4.3	4.5
CPI Inflation y/y (average %)	0.9	-0.1	-0.9	-0.6	1.9	2.2
Current account (%GDP)	-1.2	-2.1	-0.5	-0.3	-0.9	-1.1
Unemployment rate (end of period %)	13.4	11.4	9.8	8.2	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	Q4 F	Q1 F	Q2 F	Q3 F	Q4 F
GDP y/y (%)	4.1	4.0	4.9	4.7	4.7	4.5	4.5	4.5
Individual consumption y/y (%)	4.7	4.9	4.8	4.5	4.5	4.2	4.0	4.0
Public Consumption y/y (%)	0.5	2.1	1.9	3.0	4.0	3.0	3.0	3.0
Investment y/y (%)	-0.5	0.9	3.3	7.5	10.0	10.0	9.0	8.0
Inflation rate (% average)	2.0	1.8	1.9	2.0	1.6	2.3	2.5	2.5
Unemployment rate (% eop)	8.0	7.0	6.8	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	1.75	1.80	1.92	2.11	2.36	2.59
10Y Polish bond yields (% eop)	3.49	3.32	3.37	3.45	3.53	3.68	3.89	4.08
EUR/PLN (eop)	4.23	4.23	4.31	4.30	4.25	4.20	4.15	4.08
USD/PLN (eop)	3.97	3.70	3.65	3.68	3.63	3.53	3.46	3.37

F - forecast



## Economics

### The MPC's rose-tinted glasses are firmly on

During the December meeting, the Monetary Policy Council left monetary policy unchanged. However, the Council lowered the interest paid on mandatory reserves held by commercial banks from 1.35 to 0.50% (equal to the official deposit rate). This move should be seen as a technical one and its only impact will be a fiscal one. Lower interest paid on reserves will boost the NBP's profit by ca. 360m PLN and lower the banking sector's profit by a commensurate amount. All else equal, a higher remittance to the state budget is in store.

The NBP's rhetoric regarding the state of the economy stays almost unchanged. If anything, the statement is more dovish, since the MPC is now highlighting lower projected GDP growth in the coming years and lower ULC growth in the previous quarter. The chairman, predictably, was also very dovish. The slowdown in unit labor cost (temporary and inconsequential, in our view), is seen as proof that wage pressures have "materially declined". Mr. Glapinski also highlighted uncertainty regarding future growth and the possibility of renewed deflationary tendencies in the global economy. With no imbalances in sight, the Chairman reiterated his call for unchanged rates until the end of 2018.

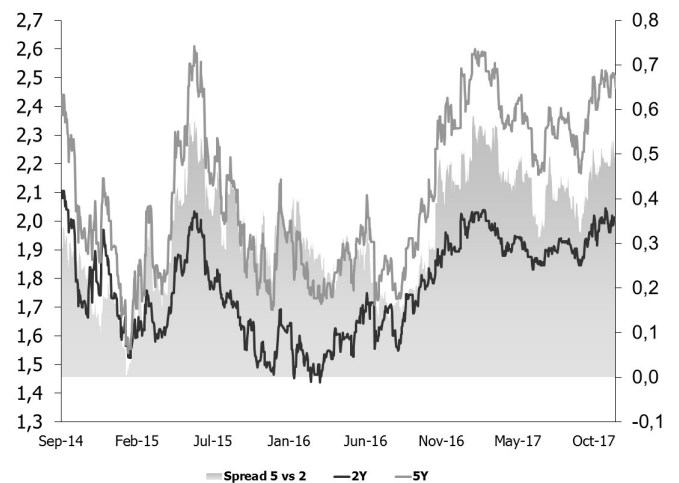
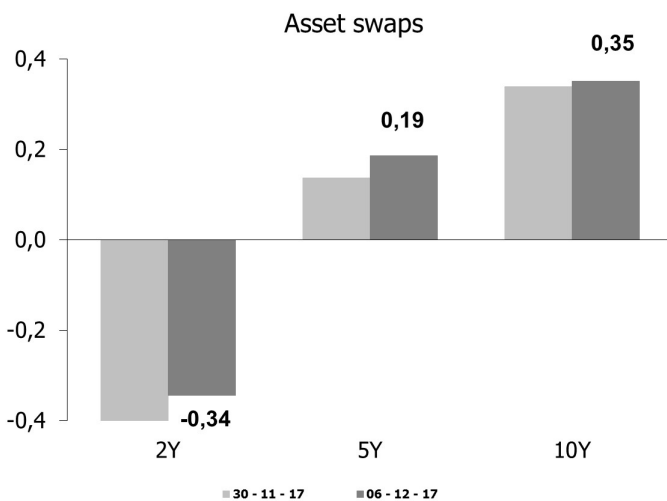
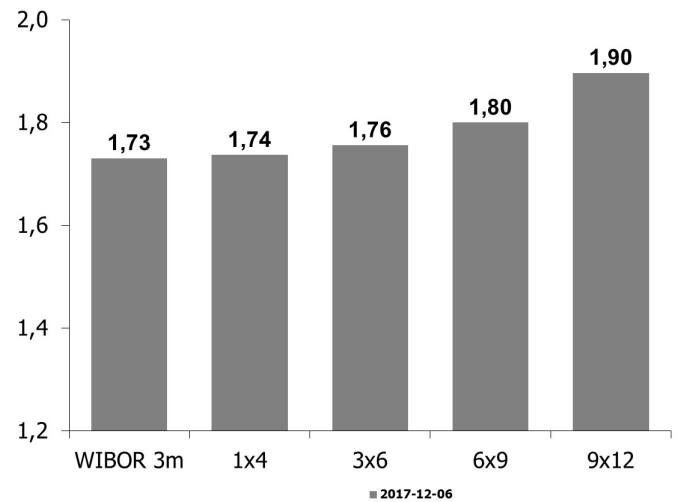
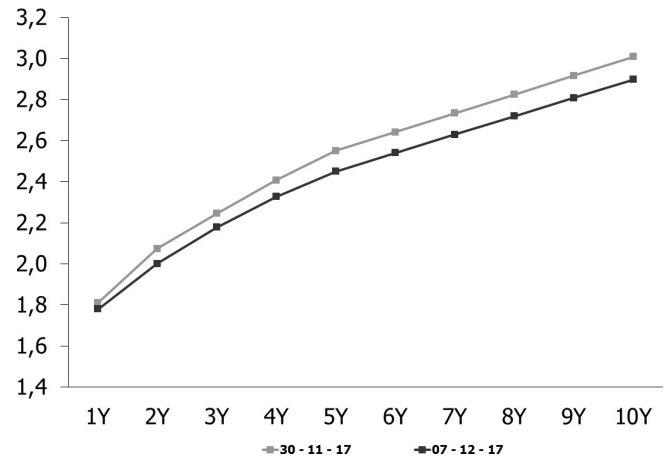
It seems that the MPC is less and less willing to make a move, and the higher the inflation and GDP growth, the more dovish the rhetoric. Given the trends in wage growth and likely over-estimation of productivity growth due to immigration, we judge the conclusions drawn from noisy ULC data as unfounded. In addition, the latest inflation projection is already undershooting both inflation and GDP growth. All in all, after the upcoming base effects in inflation wane, and stronger inflationary signals emerge, the MPC might be forced to consider a change in its stance earlier than it currently anticipates, i.e. in 2018 H2.

## Fixed income

### The Last Month of the Year

WS0922/DS0727 is 71bps, we moved another 6bps but it's still far away from normal levels, DS0727/Bund is 295bps. WS0922/5y is 4bps and DS0727/10y is 30bps. DS1019 is trading at 1.62% (5bps up), WS0922 is trading at 2.53% (2bps down) and DS0727 is trading at 3.24% (8bps down).

IRS curve



## Money market

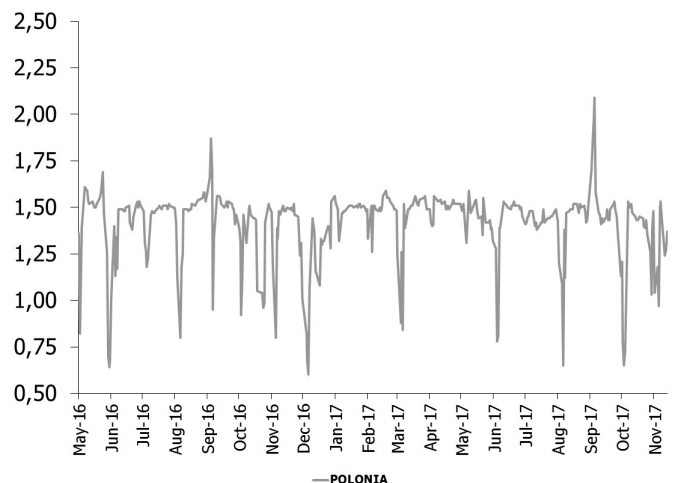
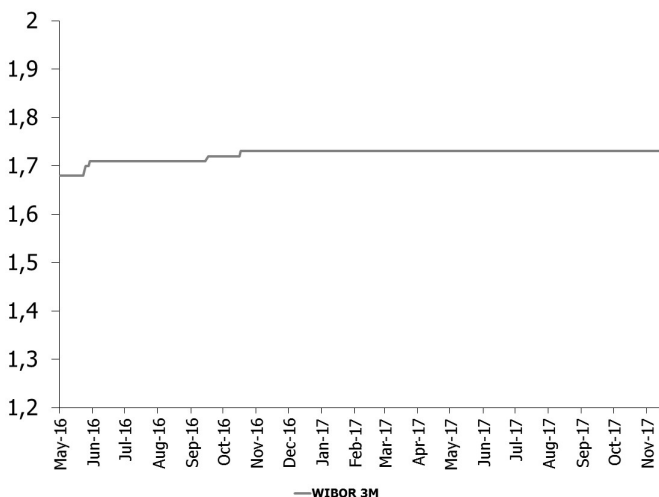
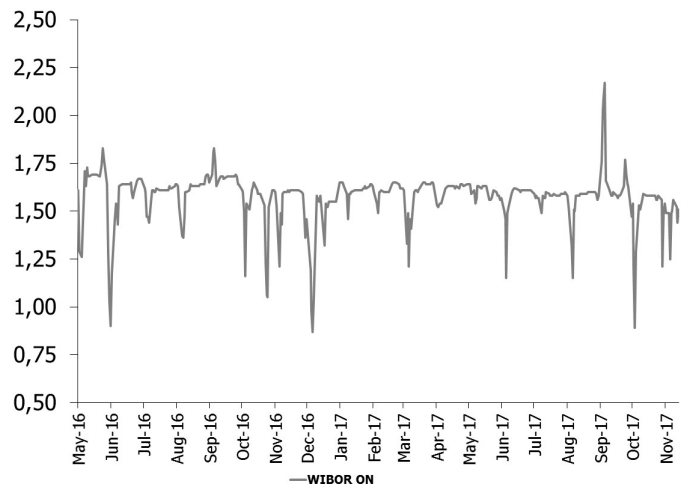
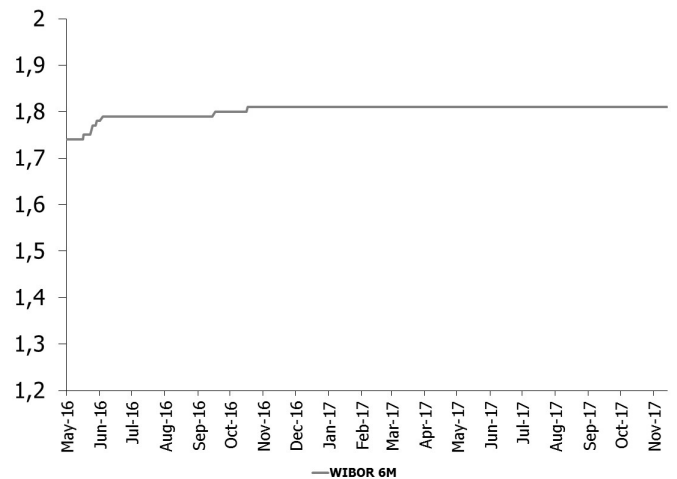
### MPC limits rate moves

Polish rates are stuck in a narrow range once again. Polish economy is in a shape we haven't seen in many years. GDP is approaching 5%, unemployment at all-time lows and salaries are booming. On the other hand, we have the MPC which is reiterating their dovish stance each meeting. Whatever happens, governor Glapinski is happy with current situation and doesn't want to harm this thriving economy. He even used a phrase "let this moment last". It's pretty hard to imagine them to change this stance, therefore rates are stuck with some small deviations in either direction. Any changes from current "equilibrium" are caused by flows, incoming data surprises and core rates movements.

As we get closer to year's end liquidity should be limited, although market should tend to be flooded with spare cash.

Ref rate vs Polonia averages:

30 day 16 bps  
90 day 10 bps



## Forex

**Spot – EUR/PLN stable** EUR/PLN has been trading water for another week. The dovish message from MPC has failed to produce any volatility – in fact EUR/PLN rate increased only by 1 figure after MPC conference. The bigger picture is blurred. Healthy fundamentals and generally solid economy are in favor of strong Zloty. On the other hand next week we have ECB and Fed meetings, which can surprise the market on the hawkish side. The market seems to ignore the fact that the parliament is going ahead with the Supreme Court legislation, but this might change if political risks increase due to mass protests or renewed conflict with the EU. Until then, we are still in range trading mode (a wider 4.19-4.26 range), with slightly PLN-negative skew.

**Options – EUR/PLN stable, USD/PLN higher in the frontend** The proximity of FOMC and ECB meetings, pushed a very frontend USD/PLN curve over 1% higher. Nevertheless, the changes on EUR/PLN are cosmetic. 1 month ATM mid is 4.20% today (unchanged), 3 months are at 4.8% (0.1% lower) and finally 1 year fixed at 6.2% (unchanged). The skew as well as the currency spread (difference between USD/PLN and EUR/PLN) were stable (apart short dates till 1 week).

### Short-term forecasts

Main supports / resistances:  
 EUR/PLN: 4.19 / 4.26  
 USD/PLN: 3.50 / 3.70

**Spot** Current position: Long EUR/PLN at 4.1970.

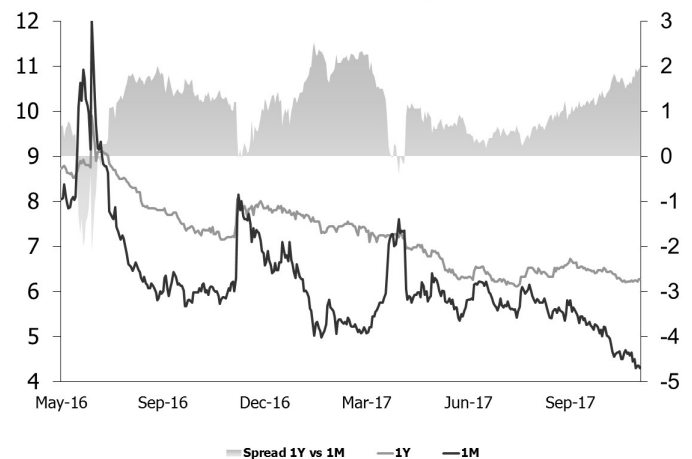
We are long at 4.1970 with a stop at 4.1600 and hopes to see 4.25+. It is technical trade based on the mean reverting approach. In fact the main topic for the next week is how aggressive will ECB and Fed's actions be.

### Options Vol – sidelined

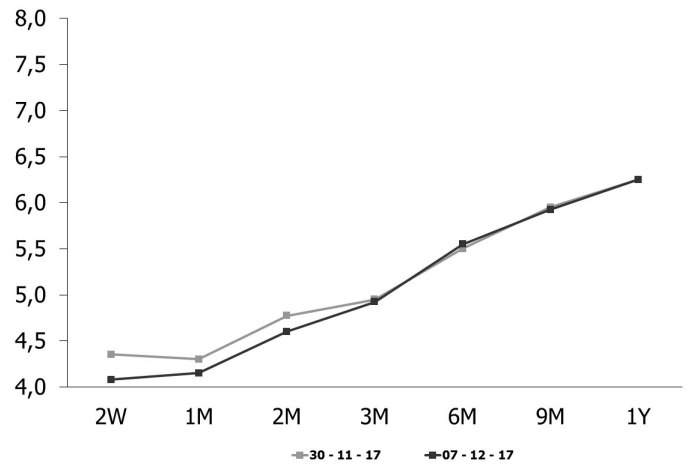
With fast approaching Christmas, we prefer to keep light position. The market is not really moving, we are in the very tight price ranges. The fundamentals for Poland are still very strong, but the political headlines may lead to further nervousness. Historically the vols are extremely cheap, but the realized volatilities are not really encouraging for any purchases.



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
11/30/2017	1.69	1.73	1.83	1.71	2.02	1.75	1.73	1.76	1.83	1.93	2.06	1.92
12/3/2017	1.77	1.73	1.84	1.71	2.13	1.75	1.73	1.76	1.83	1.93	2.06	1.92
12/4/2017	1.79	1.73	1.95	1.71	2.15	1.75	1.73	1.76	1.82	1.93	2.06	1.93
12/5/2017	1.53	1.73	1.61	1.71	1.64	1.75	1.74	1.77	1.83	1.92	2.04	1.91
12/6/2017	1.80	1.73	1.97	1.71	2.13	1.75	1.74	1.76	1.80	1.90	2.01	1.89

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
11/30/2017	1.750	1.474	1.635	1.578	1.960	2.232	2.405	2.949
12/3/2017	1.750	1.474	1.635	1.578	1.960	2.232	2.405	2.949
12/4/2017	1.750	1.474	1.635	1.578	1.960	2.232	2.405	2.949
12/5/2017	1.750	1.474	1.635	1.638	1.990	2.290	2.447	2.985
12/6/2017	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
11/30/2017	4.30	4.95	5.50	6.25	6.25	1.44	0.52
12/3/2017	4.35	4.98	5.58	6.23	6.23	1.44	0.52
12/4/2017	4.35	5.00	5.58	6.28	6.28	1.44	0.52
12/5/2017	4.30	5.08	5.58	6.28	6.28	1.44	0.52
12/6/2017	4.15	4.93	5.55	6.25	6.25	1.48	0.55

PLN Spot performance						
Date	EURPLN	USDPLN	CHFPLN	JPYPLN	HUFPLN	CZKPLN
11/30/2017	4.2055	3.5543	3.6008	3.1637	1.3451	0.1650
12/3/2017	4.2078	3.5352	3.5950	3.1438	1.3411	0.1649
12/4/2017	4.2082	3.5499	3.6105	3.1443	1.3430	0.1645
12/5/2017	4.2024	3.5454	3.5963	3.1512	1.3390	0.1641
12/6/2017	4.2154	3.5653	3.6071	3.1790	1.3403	0.1642

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