

February 15, 2018

## 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)

Karol Klimas  
analyst  
tel. +48 22 829 02 56  
[karol.klimas@mbank.pl](mailto:karol.klimas@mbank.pl)

### Follow us on Twitter:

[@mbank\\_research](https://twitter.com/mbank_research)

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

### Table of contents

#### Our view in a nutshell

##### Economics

- GDP accelerates in the last quarter of 2017
- Inflation greets the start of the year with a fall

##### Fixed income

- Nihil novi

##### Money market

- Virtue of stability

##### FX market

- Spot – PLN and the relief really
- Options – EURPLN vols higher, USDPLN vols higher

page 2

page 3

page 4

page 5

page 6

### Comment on the upcoming data and forecasts

This Friday, CSO will publish labour market data. Average wage accelerated slightly (from 7.3% to 7.6%) fuelled by calendar effects and pay raises in retail trade. When it comes to employment data, we expect strong growth at 4.8% y/y after yearly update of CSO's population of "9+" enterprises. Next week starts on Tuesday with CSO real sphere data. We expect acceleration of industrial production to 11% on a yearly basis, based on favourable calendar effect. The same factor along with warm January will boost construction output above 20% y/y. When it comes to retail sales car sales (very sensitive to working days) will outbalance price effect in fuel sales and lift yearly growth to 8.5%. Producer price index should remain at the same level as in December (0.3%) after appreciation of exchange rate offset rise of oil prices. On Thursday NBP will publish M3 money supply data. We expect a slightly better outcome than in December (4.9% vs 4.6% y/y). Finally, next Friday CSO will release latest Statistical Bulletin. Preliminary MFLSP data suggest that unemployment rate grew in January to 6.9%, but those estimate usually has upside risk, so we stick to our initial forecast (6.8%).

### Polish data to watch: February 16th to February 23th

Publication	Date	Period	mBank	Consensus	Prior
Average wage y/y (%)	16.02	Jan	7.6	6.9	7.3
Employment y/y (%)	16.02	Jan	4.8	3.1	4.6
Industrial production y/y (%)	20.02	Jan	11.0	8.2	2.7
Construction output y/y (%)	20.02	Jan	21.0	19.7	12.7
Retail sales y/y (%)	20.02	Jan	8.5	7.3	6.0
PPI y/y (%)	20.02	Jan	0.3	0.1	0.3
M3 money supply y/y (%)	22.02	Jan	4.9	4.8	4.6
Unemployment rate (%)	23.02	Jan	6.8	6.9	6.6

### 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 OK0720	2/22/2018	800	1.813	2/8/2018
5Y T-bond PS1023	2/22/2018	1500	2.772	2/8/2018
10Y T-bond WS0428	2/22/2018	700	3.515	2/8/2018
30Y T-bond WS0447	-	125	3.720	10/25/2017

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



### Comment

Unchanged again, after both GDP and CPI came in line with market expectations. Next week brings plenty of opportunities to surprise with labour market, real sphere and unemployment data.

\* 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 2018 Polish GDP is set to grow by 4.6% (with upside risks). 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 2017. 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. In our view, as long as inflation stays within the target band and 5% remains a ceiling for GDP growth, the MPC will keep its rhetoric in place. Our current forecast reflects this reality – no change in interest rates in 2018.
- Fiscal situation continues to be very comfortable. 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

- Political issues moved into the background and the markets are clearly unconcerned with local risks, making the PLN a star performer in the region.
- The key reason for the recent PLN strength is the dollar's weakness. The latter shields Polish currency from repricing along with rising risk-free rates. Moreover, since EM assets survived the equity selloff bravely as a group, they have become much more balanced as a whole of late. In such an environment, PLN remains strong with robust growth and only a hint of higher inflation to come.
- Such an equilibrium is unlikely to persist for long, though. Something has to give in and in either scenario (strong growth and inflation, leading to higher rates globally, or lower growth, higher risk aversion and outflows from EMs) negative real interest rates and dovish MPC will become a liability. Thus, before Zloty strengthens again due to cyclical factors, we might see some weakening in the meantime (to 4.20-ish).

### mBank forecasts

	2012	2013	2014	2015	2016	2017
GDP y/y (%)	1.6	1.4	3.3	3.8	2.9	4.6
CPI Inflation y/y (average %)	3.7	0.9	-0.1	-0.9	-0.6	1.9
Current account (%GDP)	-3.7	-1.2	-2.1	-0.5	-0.3	0.2
Unemployment rate (end of period %)	13.4	13.4	11.4	9.8	8.2	6.6
Repo rate (end of period %)	4.25	2.50	2.00	1.50	1.50	1.50

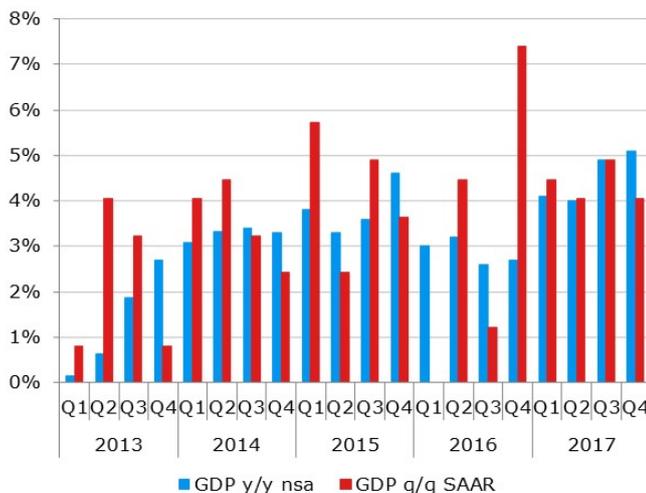
	2016	2017	2017	2017	2017	2018	2018	2018
	Q4	Q1	Q2	Q3	Q4 F	Q1 F	Q2 F	Q3 F
GDP y/y (%)	2.7	4.1	4.0	4.9	5.3	4.8	4.6	4.5
Individual consumption y/y (%)	4.7	4.7	4.9	4.8	4.5	4.6	4.3	4.0
Public Consumption y/y (%)	-1.4	0.5	2.1	1.9	3.0	4.0	3.0	3.0
Investment y/y (%)	-9.7	-0.5	0.9	3.3	11.5	10.0	10.0	9.0
Inflation rate (% average)	0.2	2.0	1.8	1.9	2.0	2.0	2.6	2.6
Unemployment rate (% eop)	8.2	8.0	7.0	6.8	6.6	6.8	6.0	5.7
NBP repo rate (% eop)	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Wibor 3M (% eop)	1.73	1.73	1.73	1.73	1.72	1.72	1.72	1.73
2Y Polish bond yields (% eop)	2.03	2.01	1.90	1.75	1.72	1.73	1.73	1.79
10Y Polish bond yields (% eop)	3.63	3.49	3.32	3.37	3.30	3.40	3.55	3.70
EUR/PLN (eop)	4.40	4.23	4.23	4.31	4.18	4.15	4.20	4.15
USD/PLN (eop)	4.19	3.97	3.70	3.65	3.48	3.52	3.50	3.40

F - forecast

## Economics

### GDP accelerates in the last quarter of 2017

Central Statistical Office announced that GDP growth has accelerated to 5.1% y/y in the final quarter of 2017. Compared to our estimates, it is quite disappointing figure. However, taking account of the fact that our forecast was primarily based upon the whole 2017 results, the interval of possible (consistent) results was wide (5.0-5.4%). We opted for higher number as it fitted best our take on the breakdown of GDP components. Lower number does not change anything in the picture of the Polish economy.

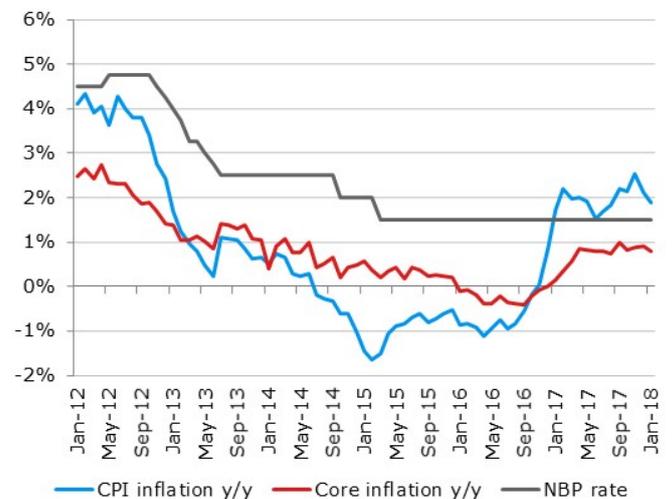


As for the breakdown, we still see a meaningful acceleration of investment (ca 11% y/y) and some deceleration of consumption (4.5%). We think that elevated investment growth is here to stay for several quarters whereas consumption growth may fade a bit and settle in between 4.0 and 4.5%. All in all, GDP growth would still be primarily based on domestic demand but its structure would be more balanced and less inflationary. Such a take on GDP breakdown was recently presented by the MPC.

We saw some comments that were concentrated on the fact that seasonally adjusted GDP growth was little bit disappointing (1.0% q/q). Taking account the deficiencies of the filtering process that enabled the Statistical Office to come up with this number, we wouldn't be concerned at all. Such figures become reliable only in consecutive iteration when information sets fill in and the number of imputed data shrinks. After the initial number is published, the likelihood of revisions (this time possibly upwards) is high.

### Inflation greets the start of the year with a fall

CPI inflation decreased in January from 2.1% y/y to 1.9% y/y – just as we expected. The details accompanying the publication are scarce, as usual just before the change of weights in the consumption basket (to come in February reading published in March). What we know is that food prices were somewhat higher than we expected (+1.1%), the same applies to wearing apparel. Is it a change of trend in surprises or it is just start-of-the-year effect? We bet for the latter since stronger PLN should induce lower prices of "tradables". Housing, transport and health surprised to the downside compared with the readings from the last year. It implies that core inflation may have fallen towards 0.8% instead of staying flat at 0.9%.



February should bring even lower inflation reading due to base effects and correction of oil prices. The change of weights in consumption basket is unlikely to bring a change to the overall level of inflation. Such data are fully consistent with MPC scenario and their wording regarding interest rates. Recent strength of the zloty works in the same direction.

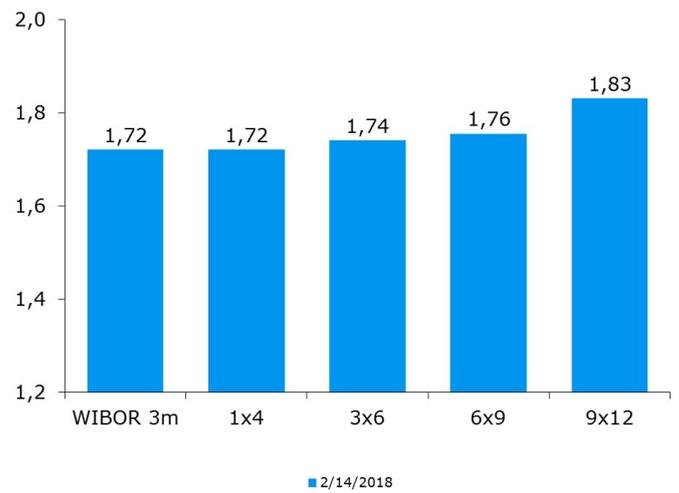
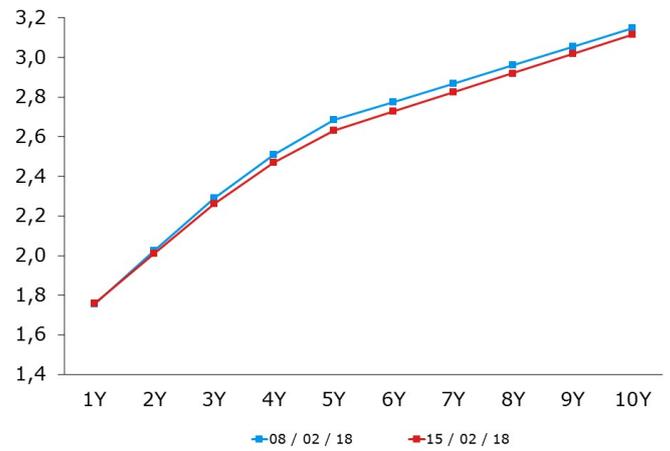
## Fixed income

### Nihil novi

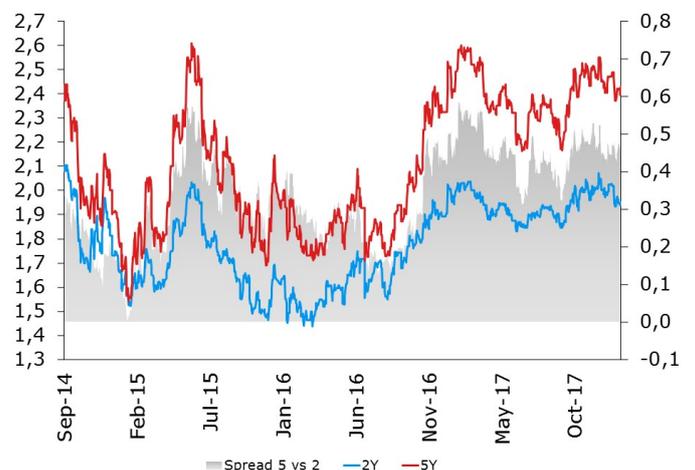
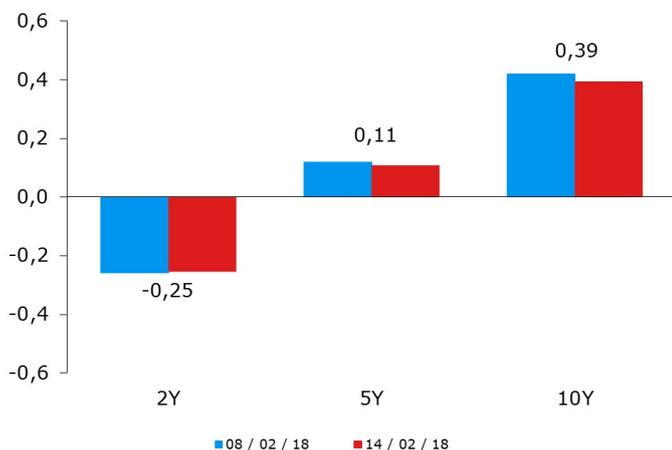
It is sooooo quiet. Polish market is not moving at all. Next week Ministry is selling bonds again, it will be 3-5 bio. US Treasuries are moving higher and higher, today we saw 2.94%. Market seems to be treating this news like an opportunity to buy POL-GBs – they barely moved after repricing in the U.S.

ASW are very tight, PS0123/5y is 8 bps and DS0727/10y is 27 bps. DS0727/Bund is 265 bps. PS0123/DS0727 is 68 bps. DS1019 is trading at 1.52% (1 bps up), PS0123 is trading at 2.75% (3 bps down) and DS0727 is trading at 3.43% (1 bps down).

IRS curve



Asset swaps





## Money market

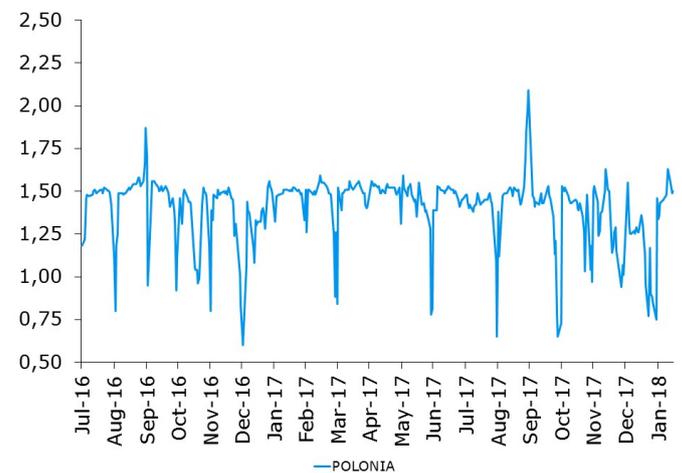
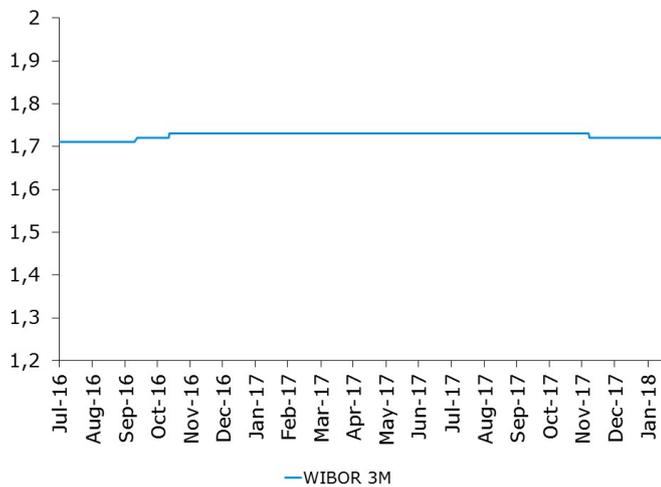
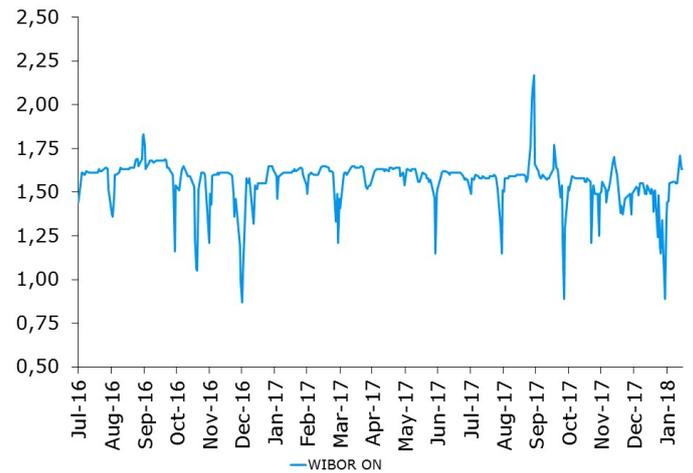
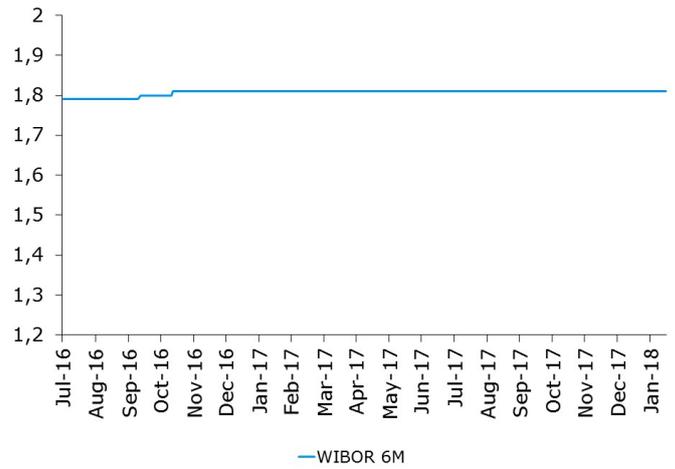
### Virtue of stability

Polish rates are extremely stable these days comparing to other markets. This comes from recent lack of story for POLGBs and commitment to stable rates from MPC. Stability might be seen as a virtue these days when volatility spikes across all classes of assets. Today's CPI reading straight in line with the expectations adds to this equilibrium.

As we mentioned previously, cash conditions came back to normal and we hover close to reference rate.

Ref rate vs Polonia averages:

30 day 26 bps  
90 day 23 bps



## Forex

**Spot – PLN and the relief really** Global stock markets, the USD and better global investment sentiment, all the above added to more positive sentiment towards the Zloty. The equally weighted basket of EUR & USD against PLN moved lower again, back from last week stress levels. Of course it was mostly at the expense of the weaker USDPLN, but EURPLN has also noticed a healthy drop (from last Friday top at 4.2035 to Thursday low at 4.1470). It makes the 4.14 - 4.20 range intact as our baseline scenario. Play that range.

### Options – EURPLN vols higher, USDPLN vols higher

The vols are higher, there is a rare occasion to write that. Turbulence in equity market caused deterioration of risk sentiment. On Friday with EUR/PLN being traded as high as 4.20 both volatility curves EURPLN and USDPLN were healthy bid. 1 month EURPLN ATM was traded at 5.1%, 3m – 5.25%, 1y – 6.3%. But the most spectacular move we have seen on USDPLN – on Friday 6m and 9m ATM USDPLN was traded at 10.7% (1.5% higher than few days earlier). This week, amid better global sentiment, volatilities have melted again. 1 month EURPLN ATM mid is 4.8% (0.4% higher than week ago), 3 months EURPLN are 5.1% (0.2% higher) and finally 1 year is fixing at 6.0% (unchanged). The currency spread (difference between USDPLN and EURPLN) is higher by 0.5%. The skew is at the same level as week before.

### Short-term forecasts

Main supports / resistances:

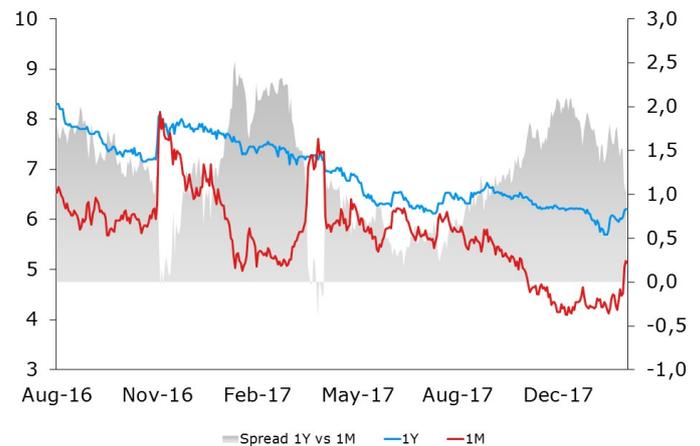
EUR/PLN: 4.13 / 4.23

USD/PLN: 3.35 / 3.60

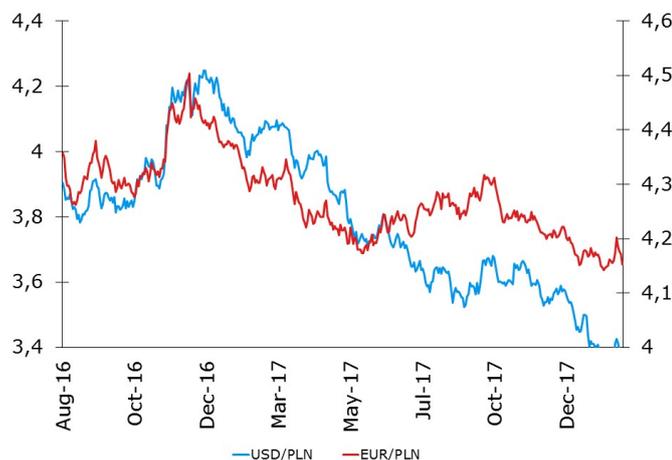
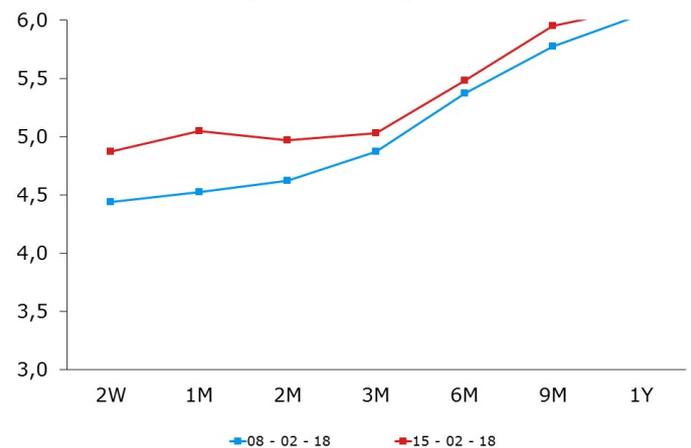
**Spot** Current position: None.

We are back to our favourite game – range playing. We see 4.14-4.19 as the current range, and we are trying to play that range with an open mind.

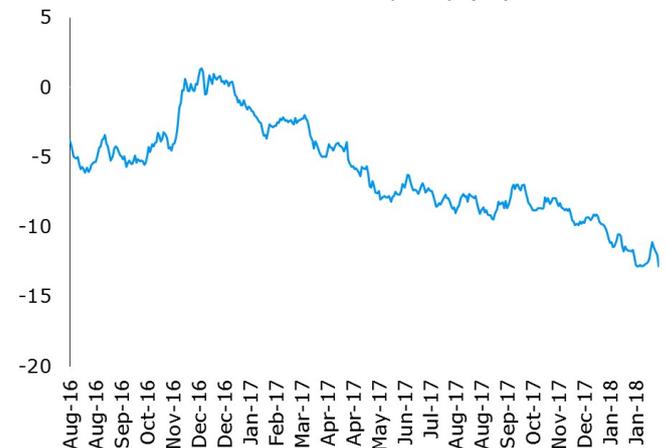
EURPLN volatility



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
2/8/2018	1.72	1.72	1.81	1.71	1.99	1.75	1.73	1.75	1.76	1.84	1.98	1.86
2/11/2018	1.79	1.72	1.86	1.71	2.02	1.75	1.72	1.75	1.76	1.84	1.97	1.84
2/12/2018	1.78	1.72	1.88	1.71	2.03	1.75	1.72	1.75	1.77	1.85	1.97	1.84
2/13/2018	1.55	1.72	1.67	1.71	1.83	1.75	1.72	1.73	1.76	1.84	1.96	1.84
2/14/2018	1.74	1.72	1.84	1.71	2.02	1.75	1.72	1.74	1.76	1.83	1.95	1.84

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
2/8/2018	1.750	1.474	1.635	1.578	1.960	2.232	2.405	2.949
2/11/2018	1.750	1.474	1.635	1.578	1.960	2.232	2.405	2.949
2/12/2018	1.750	1.474	1.635	1.578	1.960	2.232	2.405	2.949
2/13/2018	1.750	1.474	1.635	1.638	1.990	2.290	2.447	2.985
2/14/2018	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	1Y
2/8/2018	4.53	4.88	5.38	6.05	6.05	1.38	0.54	0.54
2/11/2018	5.05	5.15	5.55	6.18	6.18	1.38	0.54	0.54
2/12/2018	5.18	5.25	5.65	6.20	6.20	1.39	0.54	0.54
2/13/2018	5.13	5.23	5.63	6.20	6.20	1.36	0.57	0.57
2/14/2018	5.05	5.03	5.48	6.11	6.11	1.36	0.54	0.54

PLN Spot performance						
Date	EURPLN	USDPLN	CHFPLN	JPYPLN	HUFPLN	CZKPLN
2/8/2018	4.1733	3.4119	3.6056	3.1088	1.3415	0.1653
2/11/2018	4.2024	3.4263	3.6506	3.1421	1.3463	0.1659
2/12/2018	4.1846	3.4122	3.6380	3.1381	1.3410	0.1650
2/13/2018	4.1764	3.3916	3.6283	3.1506	1.3391	0.1645
2/14/2018	4.1716	3.3769	3.6110	3.1419	1.3359	0.1643

## Disclaimer

Note that [research@mbank.pl](mailto:research@mbank.pl) is an e-mail address used exclusively for the distribution of mBank's publications. We advise to reply and send feedback directly to their authors.

The document has been drafted at the Investor Relations, Group Strategy and Macro Research Department of mBank S.A. for the purpose of promotion and advertising in line with Article 9 (1) of the Regulation of the Minister of Finance dated 24 September 2012 on the Mode and Conditions of Conduct of Investment Firms, Banks referred to in Article 70 (2) of the Act on Trading in Financial Instruments, and Custodian Banks (Journal of Laws of 2015, item 878, as amended). The document does not constitute investment research or marketing communication within the meaning of Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive. The document does not constitute investment advice, nor is it an offer within the meaning of Article 66 (1) of the Polish Civil Code.

The document has been drafted based on the authors' best knowledge, supported by information from reliable market sources. All assessments herein reflect outlooks as at the date of issue of this material and may be subject to change at the discretion of the authors without prior notification. Quotations presented herein are average closing levels of the interbank market from the previous day, they are obtained from information services (Reuters, Bloomberg) and serve information purposes only. Distribution or reprint of the full text or a part of it is allowed only upon obtaining a prior written consent of its authors.

©mBank 2018. All rights reserved.