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Polish Weekly Review

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Comment on the upcoming data and forecasts

On Wednesday the policy meeting of the MPC will end, without any tweaks to current monetary policy stance. Dovish rhetoric will dominate in the post-meeting press conference. The data received over the previous two months likely supported the MPC's view of a slowdown amid heightened global risks and the temporary nature of recent inflation increases. As a result, governor Glapinski is likely to dismiss the recent rate hike motion as a minority view and not a reflection of shifting consensus. Next Friday Statistics Poland will publish final CPI data for August. While the flash estimate was a tad below our forecast (2.8 vs. 2.9% y/y), we see a not insignificant chance of an upward revision, based on the details of the flash reading. On the same day the NBP will publish the latest monthly balance-of-payments statistics. We expect CA deficit to widen more than the consensus is currently forecasting along with the trade deficit as exports is set to fall short of expectations.

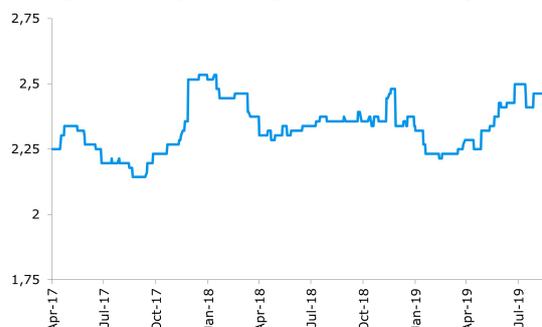
Polish data to watch: September 6th to September 13th

Publication	Date	Period	mBank	Consensus	Prior
MPC decision (%)	11.09	Sep	1.50	1.50	1.50
CPI y/y final (%)	13.09	Aug	2.9	2.8	2.9
Current account balance (m EUR)	13.09	Jul	-765	-334	21
Exports (m EUR)	13.09	Jul	18800	19050	18068
Imports (m EUR)	13.09	Jul	19100	19106	18145

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	10/3/2019	300	1.445	7/26/2019
5Y T-bond PS1024	10/3/2019	2000	1.823	7/26/2019
10Y T-bond DS1029	10/3/2019	1500	2.100	7/26/2019
30Y T-bond WS0447	10/3/2019	60	3.180	4/25/2019
5Y floater WZ0525	10/3/2019	2500	-	7/26/2019
10Y floater WZ0529	10/3/2019	2100	-	7/26/2019

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



Comment

Flash CPI came out in line with expectations, but Manufacturing PMI surprised to the upside and offered a small boost to the surprise index. Unless there is a revision to the flash CPI estimate, the index will remain unchanged next week.

* 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 arrived and fiscal stimulus will hit consumers' wallets in the second half of the year. However, the protracted weakness in external demand and problems in the construction sector are forcing us to downgrade our GDP growth forecasts. The economy will grow by 4.6% this year (prev. 5.0%) and 4.0% in 2020 (unchanged).
- Core inflation is projected to rise steadily. The combination of high 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 beginning of 2020.
- The MPC is now talking about holding rates steady through 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 on-going rise in inflation may generate some noise from MPC members, though. It is more likely to be on the dovish side.
- This year's fiscal deficit is set to widen due to brisk expenditure growth. Nevertheless, revenue growth remains solid and fiscal policy will likely be tightened after the elections. Polish fiscal story remains positive.

Financial markets

- Global growth worries, strong dollar and thin liquidity are a toxic combination for the PLN. The result was marked weakening in recent weeks. The worst is over in our view.
- We see stronger PLN along the way. New wave of global monetary easing makes Polish rates relatively higher and the economy is holding very well given the global slowdown of economic activity.

mBank forecasts

	2015	2016	2017	2018	2019 F	2020 F
GDP y/y (%)	3.8	3.0	4.8	5.1	4.6	4.0
CPI Inflation y/y (average %)	-0.9	-0.6	2.0	1.6	2.4	3.1
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	5.4	5.1
Repo rate (end of period %)	1.5	1.5	1.5	1.5	1.5	1.5

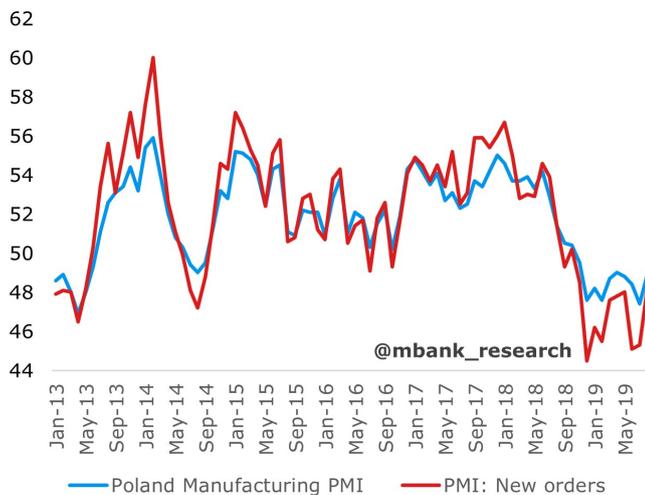
	2019 Q1	2019 Q2	2019 Q3 F	2019 Q4 F	2020 Q1 F	2020 Q2 F	2020 Q3 F	2020 Q4 F
GDP y/y (%)	4.7	4.5	4.5	4.8	4.5	4.2	3.8	3.6
Individual consumption y/y (%)	3.9	4.4	4.4	4.7	4.7	4.2	3.9	3.7
Public Consumption y/y (%)	6.4	3.4	6.4	6.4	4.0	4.0	3.8	3.8
Investment y/y (%)	12.6	9.0	7.5	6.5	4.5	3.5	2.0	2.0
Inflation rate (% average)	1.2	2.4	2.8	3.3	3.7	3.2	2.7	2.7
Unemployment rate (% eop)	5.9	5.2	5.2	5.4	5.5	4.9	4.9	5.1
NBP repo rate (% eop)	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Wibor 3M (% eop)	1.72	1.72	1.72	1.72	1.72	1.72	1.72	1.72
2Y Polish bond yields (% eop)	1.69	1.61	1.45	1.50	1.55	1.55	1.55	1.55
10Y Polish bond yields (% eop)	2.84	2.39	1.95	2.15	2.40	2.54	2.56	2.58
EUR/PLN (eop)	4.30	4.24	4.30	4.25	4.25	4.25	4.25	4.25
USD/PLN (eop)	3.84	3.73	3.91	3.79	3.76	3.73	3.70	3.66

F - forecast

Economics

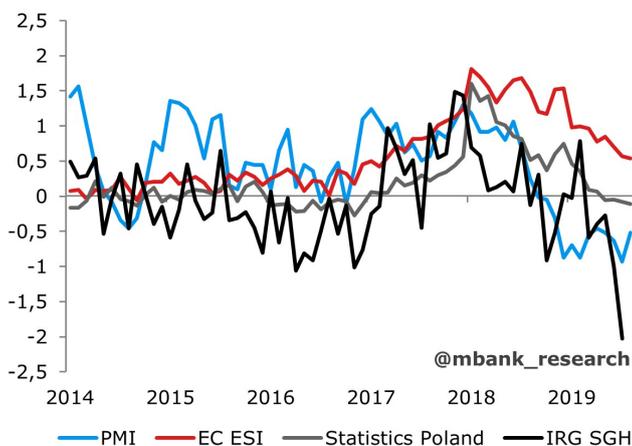
Polish industrial sentiment seems to be stabilizing

Polish Manufacturing PMI rose more than forecast in August (from 47.4 to 48.8). The rebound from the multi-year low was driven by better assessments of output, new orders and employment. Nevertheless, all three subcomponents held below 50 pts. Better sentiment was associated with more cost control and "lean" measures, i.e. inventory cutting and reducing order-book backlogs. Against this backdrop, general outlook for the next 12 months remained bleak, close to multi-year low. The latter might not be as relevant as it seems since "forward-looking" parts of business surveys are not in fact looking forward at all.



August PMI is merely one of many business surveys pointing to the fact that manufacturing sentiment is stabilizing. EC and Statistics Poland's sentiment indices, whose details proved to be more useful in predicting industrial output movements, have basically bottomed out. The PMI itself is essentially unchanged since last November.

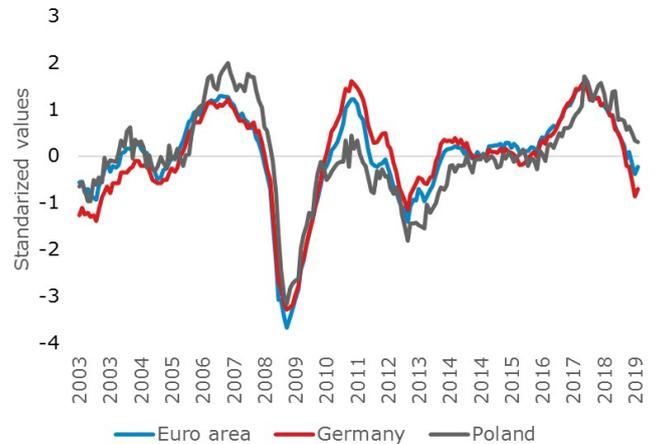
Industrial sentiment indices for Poland



Business sentiment indices are generally consistent with 3-5% growth in industrial output, although the PMI seems to overestimating the extent to which Polish industry slowed down. Alternatively, we can compare Poland to other European countries and find that Polish industry entered the on-going slowdown with buoyant sentiment, but the subsequent retrenchment has been

relatively small relative to the starting point. In other words, the relatively high growth rates are to be expected and Poland's out-performance is seen in both soft and hard data.

EC ESI: Industrial sentiment



Where do we go from here? As our Readers are probably aware, there are two kinds of GDP paths drawn by Polish economy watchers: downward-sloping and flat or mildly accelerating. We belong to the latter camp and forecast the economy to grow by 4.6% y/y this year, conditional on accelerating household consumption. Its composition (likely biased towards services) means, however, that industrial sentiment will not be rebounding materially in the coming months, especially given the overall state of the global economy.

Fixed income

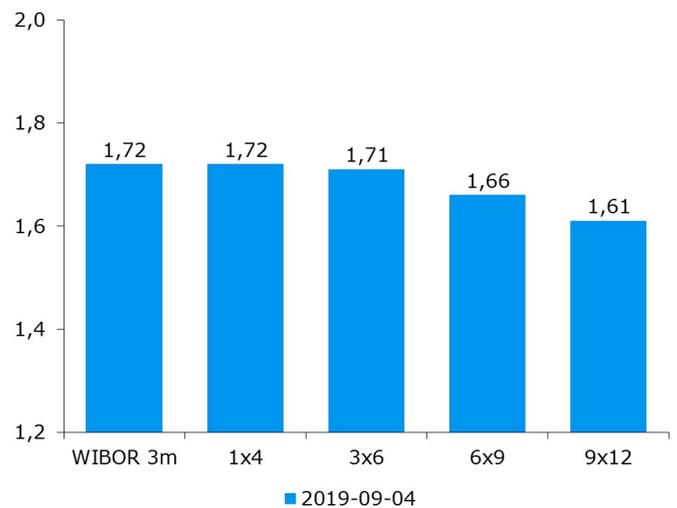
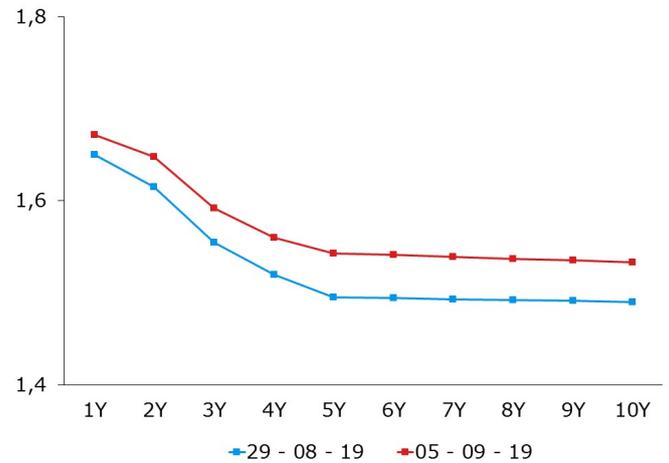
No more outperformance

POLGBs are not outperforming core markets anymore. IRS curve started to flatten, 5v10yr isn't trading negative any more. POLGB curve is consequently flat, but global tailwinds turned to headwinds. 1.4% is a strong support on 10-year US Treasury.

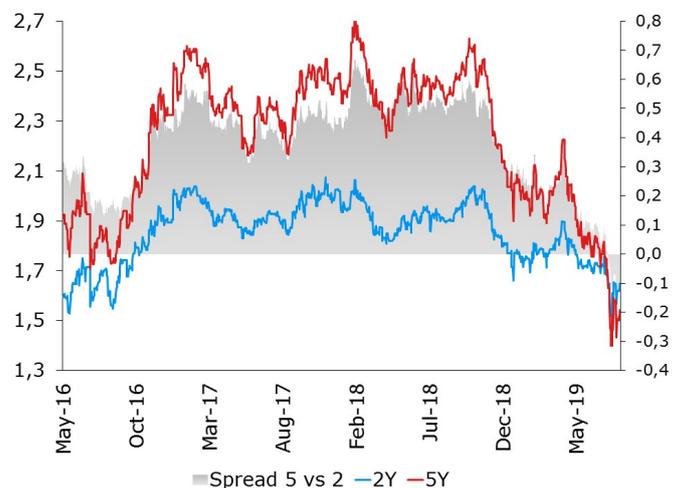
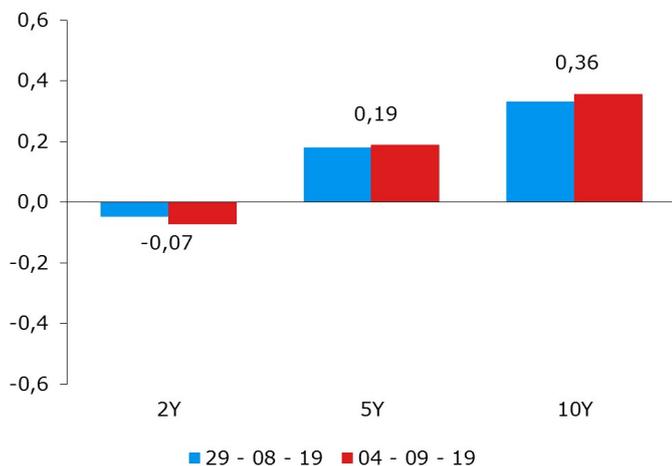
PS1024/5y is 14 bps, DS1029/10y is 32 bps. PS1024/DS1029 is 18 bps DS1029/Bund is 256 bps.

DS1020 is trading at 1.31% (1 bps up), PS1024 is trading at 1.76% (10 bps up) and DS1029 is trading at 1.94% (14 bps down).

IRS curve



Asset swaps





Money market

Wind of change

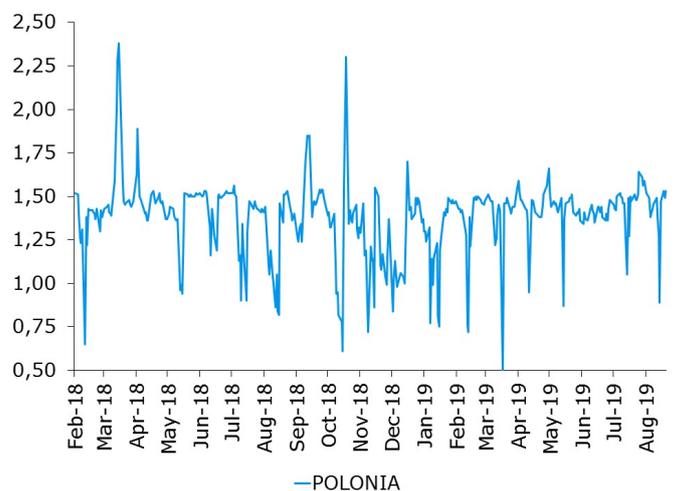
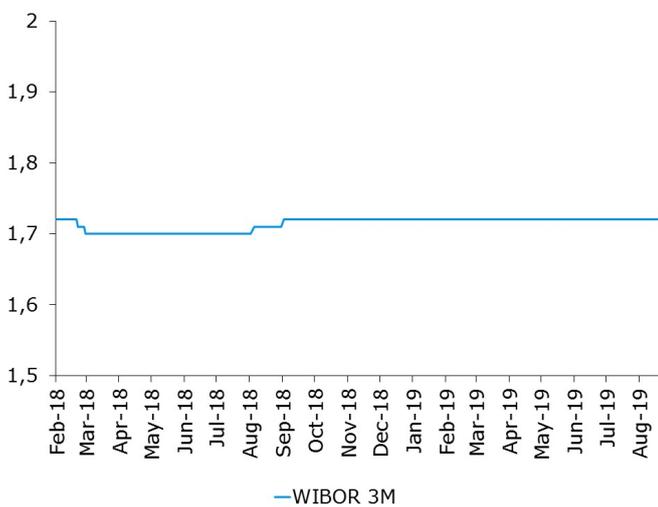
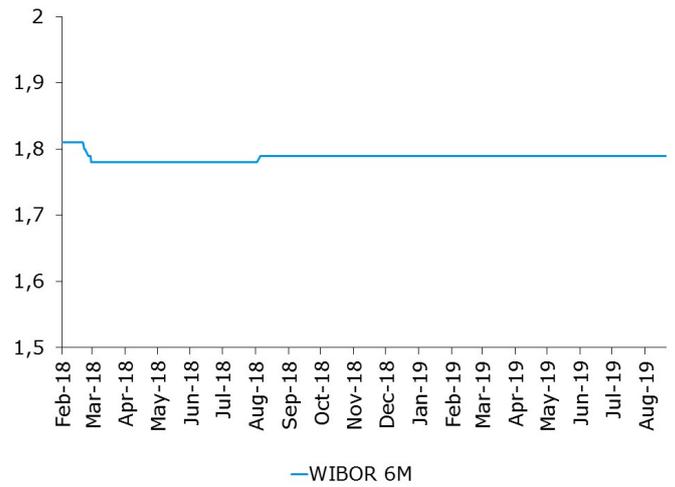
Since yesterday something has changed on Polish rates. Swaps seem better bid, plus there is a steepening tendency. We were unable to reach the previous lows on rates while core markets hit new records. Looks like market positioning is less extreme now, therefore there was no pressure on the downside.

Cash rates were rather high last week. Tomorrow's OMO will set the tone for the next week.

Ref rate vs Polonia averages:

30 day 6 bp

90 day 8 bp



Forex

Spot: EUR/PLN strengthened During the last days the Zloty has regained some of its shine. EUR/PLN was falling for several sessions, thanks to growing risk appetite. that was supporting riskier assets (PLN included). The political developments in Italy, U.S.-China trade war news (China confirmed formal trade talks with Washington would resume next month) and also Brexit news (the attempt to block a no-deal Brexit) have eased investors' fears. EUR/PLN is currently testing the 4.33-4.34 support zone, USD/PLN fell from 3.9970 to 3.93.

EUR/PLN vols – little lower The week was eventless in the PLN option market. EUR/PLN vol has curve melted a little as the Zloty strengthened. EUR/PLN 1 month ATM mid today is 4.8% (0.3% lower), 3 month is 4.95% (0.3% lower) and, finally, 1 year fixed at 4.9% (0.1% lower). The currency spread (difference between USD/PLN vol and EUR/PLN) is roughly unchanged.

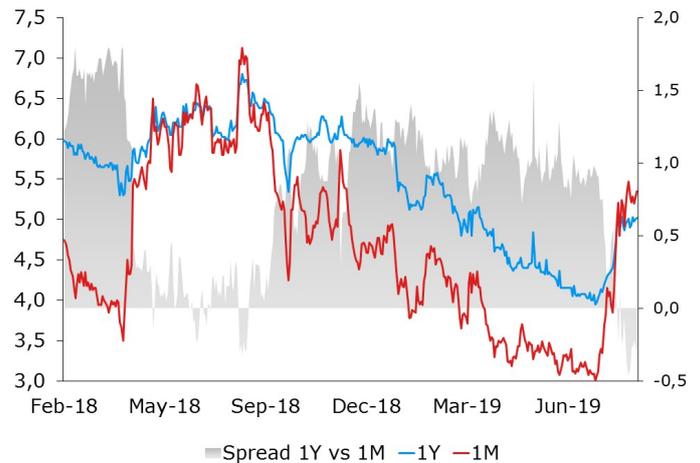
Short-term forecasts

Main supports / resistances:
 EUR/PLN: 4.3300 / 4.4000
 USD/PLN: 3.7000 / 4.0000

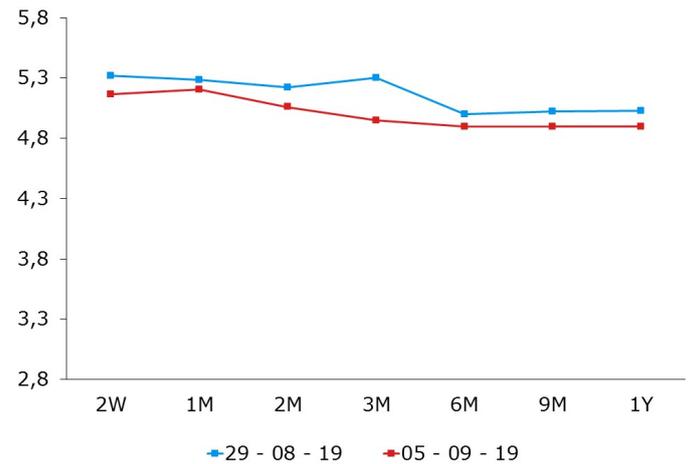
Spot – Current position: long EUR/PLN at 4.3400

This week the market has tested local EUR/PLN support level at 4.3400. We went long at 4.3450. We are ready to add again to the position at 4.3250, with 4.3100 stop and hopes to revisit 4.37/38. The trade War, Brexit and EU Tribunal verdict are the factors to watch in the nearest future.

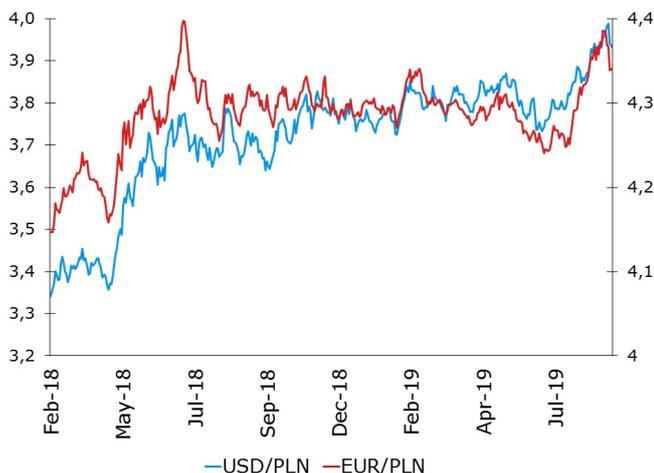
EURPLN volatility



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
8/29/2019	1.68	1.72	1.71	1.69	1.75	1.75	1.71	1.70	1.65	1.59	1.51	1.68
9/1/2019	1.70	1.72	1.73	1.69	1.74	1.75	1.71	1.70	1.65	1.60	1.54	1.69
9/2/2019	1.73	1.72	1.74	1.69	1.75	1.75	1.72	1.70	1.65	1.60	1.51	1.72
9/3/2019	1.62	1.72	1.63	1.69	1.60	1.75	1.72	1.71	1.65	1.60	1.52	1.69
9/4/2019	1.70	1.72	1.75	1.69	1.75	1.75	1.72	1.71	1.66	1.61	1.55	1.70

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	7/26/2019	5/25/2021	97.42	1.45	300	625	300
PS1024	7/26/2019	10/25/2024	102.10	1.82	2000	2330	1500
DS1029	7/26/2019	10/25/2029	105.91	2.10	1500	2248	1511

Fixed income market rates (closing mid-market levels)								
Date	1Y WIBOR	1Y T-bill	2Y IRS	OK0720	5Y IRS	PS0423	10Y IRS	WS0428
8/29/2019	1.750	1.307	1.615	1.567	1.495	1.673	1.490	1.820
9/1/2019	1.750	1.296	1.620	1.565	1.507	1.683	1.502	1.832
9/2/2019	1.750	1.292	1.627	1.562	1.517	1.706	1.515	1.851
9/3/2019	1.750	1.272	1.620	1.554	1.500	1.684	1.493	1.819
9/4/2019	1.750	1.218	1.648	1.576	1.543	1.731	1.533	1.889

EUR/PLN 0-delta stradle					25-delta RR		25-delta FLY	
Date	1M	3M	6M	1Y	1M	1Y	1Y	
8/29/2019	5.29	5.30	5.00	5.03	5.03	1.38	0.36	
9/1/2019	5.20	5.10	5.08	4.98	4.98	1.38	0.36	
9/2/2019	5.28	5.16	4.98	5.00	5.00	1.38	0.36	
9/3/2019	5.35	5.17	4.98	5.02	5.02	1.47	0.36	
9/4/2019	5.21	4.95	4.90	4.90	4.90	1.37	0.36	

PLN Spot performance						
Date	EURPLN	USDPLN	CHFPLN	JPYPLN	HUFPLN	CZKPLN
8/29/2019	4.3845	3.9586	4.0252	3.7247	1.3279	0.1696
9/1/2019	4.3844	3.9717	4.0174	3.7325	1.3241	0.1695
9/2/2019	4.3691	3.9819	4.0192	3.7468	1.3199	0.1685
9/3/2019	4.3667	3.9882	4.0244	3.7605	1.3188	0.1686
9/4/2019	4.3385	3.9414	3.9966	3.7111	1.3208	0.1681

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