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Polish Weekly Review

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Comment on the upcoming data and forecasts

Tomorrow, Statistics Poland will publish retail sales figures for August. We expect retail sales to decelerate from 5.7 to 4.0% y/y in real terms. This will be primarily driven by weak car sales. We expect spending on other durables to remain solid as the government's fiscal stimulus is being rolled out. At the same time Statistics Poland will publish economic sentiment data for August. On Monday Statistics Poland will release construction output data. Just as industrial output did, construction also slowed down in August. On Monday afternoon the NBP will publish money supply and credit data. On Tuesday Statistics Poland will publish its monthly Statistical Bulletin along with unemployment data. Preliminary estimate from the Ministry of Family is consistent with market consensus of unchanged unemployment rate. Finally, on Thursday the Minutes from September MPC meeting will be published.

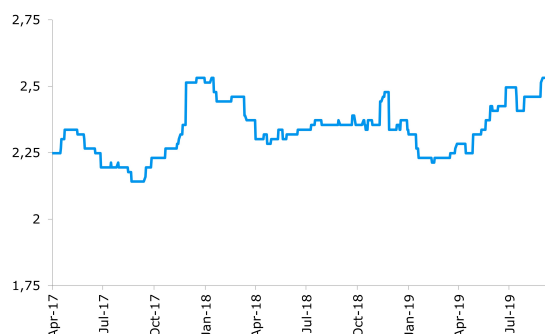
Polish data to watch: September 20th to September 27th

Publication	Date	Period	mBank	Consensus	Prior
Real retail sales y/y (%)	20.09	Aug	4.0	5.5	5.7
Business sentiment	20.09	Sep			
Construction output y/y (%)	23.09	Jul	2.0	2.8	6.6
M3 y/y (%)	23.09	Jul	10.4	10.0	9.9
Unemployment rate (%)	24.09	Aug	5.2	5.2	5.2
MPC Minutes	26.09	Sep			

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

Weak industrial output print lowered our Polish surprise index. Retail sales and construction output can extend the drop in the coming 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

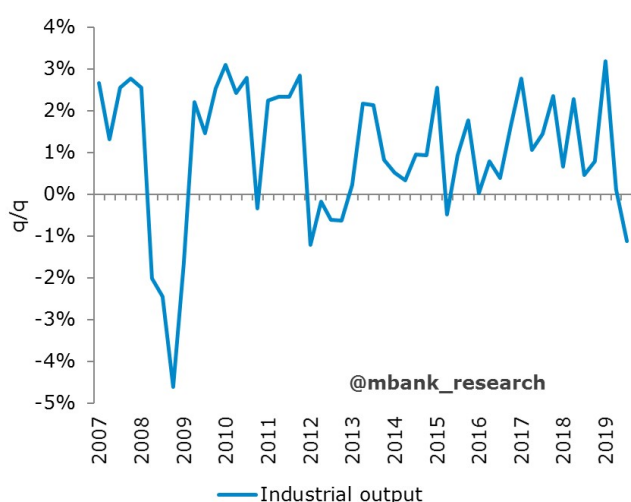
	2015	2016	2017	2018	2019 F	2020 F
GDP y/y (%)	3.8	3.0	4.8	5.1	4.6	4.0
CPI Inflation y/y (average %)	-0.9	-0.6	2.0	1.6	2.4	3.1
General government balance (%GDP)	-2.7	-2.2	-1.4	-0.2	-0.7	-1.1
Current account (%GDP)	-0.6	-0.5	0.2	-0.6	-1.2	-1.4
Unemployment rate (end of period %)	9.8	8.2	6.6	5.9	5.4	5.1
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	3.83	3.79	3.76	3.73	3.70
F - forecast								

Economics

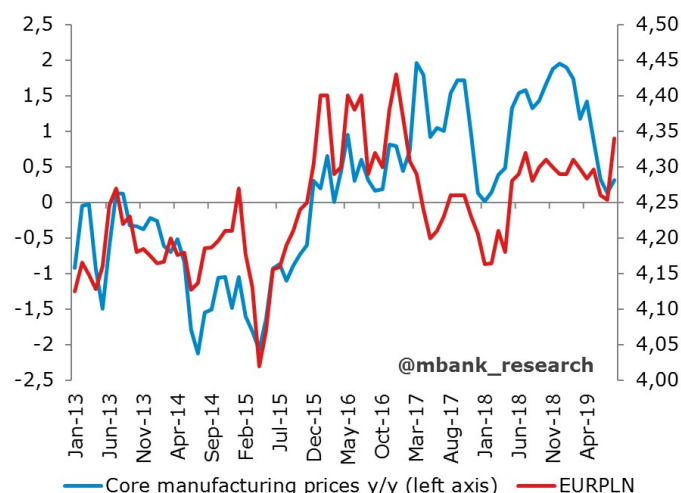
Industrial output again in negative territory. Producer prices accelerate at glacial pace.

Polish industrial output declined by 1.3% y/y in August, below market consensus and our forecast (both at 1.5% y/y). The slowdown vis-a-vis July (to remind our Readers, output rose by 5.8% y/y at the time) is primarily the result of unfavorable working day difference (down from +1 to -1 y/y), but the surprise itself is completely attributable to weakening industrial momentum. In seasonally and calendar adjusted terms industrial output declined by 1.2% m/m. Provided that September does not bring a miracle, Q3 will be the weakest quarter for Polish industry since the beginning of 2012. After two months, average IP is down by 1.1% q/q.

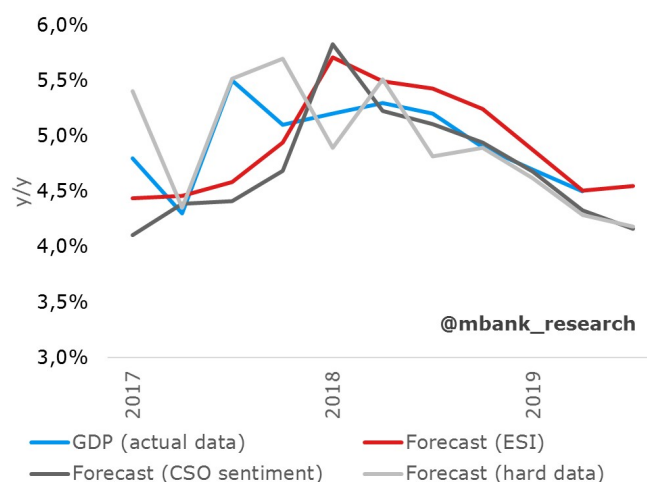


A review of detailed industry data indicates that there is little to tone down the negative interpretation of the headline number. While automotive production clocked a roughly 10% decline in annual terms, it is not enough to explain the drop in headline IP number completely. Without the aforementioned drop in car and car part production, industrial output would have declined by 0.4% y/y. Thus, the weakness in industry is by no means limited to one sector – and that is confirmed by the on-going downtrend in manufacturing sentiment indicators. Why is Polish manufacturing flagging is not a mystery – the ongoing retrenchment in external demand coupled with the downturn in public investment fits both the extent and the structure of the downtrend in industry.

Producer prices rose by 0.7% in August, a tad above our forecast (0.8%). Some interesting insights, though. We see a solid divergence in usually solid relation between core prices and exchange rate. An ongoing (and never-ending?) compression of pricing power seems a good explanation. We also do not see any acceleration in electricity pricing even though costs for large enterprises have been marked-to-market since July. Inflation picture in industry is far different from the one experienced by consumers. It is safe to say that cost absorption at the very low level of production constitutes an anchor for price growth at the consumer level, at least in goods. It is not going to change soon.



In purely mechanical terms, weaker-than-expected industrial output should lower our estimates of Q3 GDP. While this is true, one has to keep in mind the still unknown readings regarding Q3 activity (including September sentiment indices due tomorrow and construction output published on Monday), the divergence between various nowcasts and the possibility of an automotive-led rebound in industrial output in September. In any case, Q3 GDP nowcasts are now between 4.2 and 4.5% y/y and a point estimate should be taken from the upper half of the range. The MPC will see the latest industrial data as neutral for their considerations – a gentle slowdown in after all their baseline scenario.



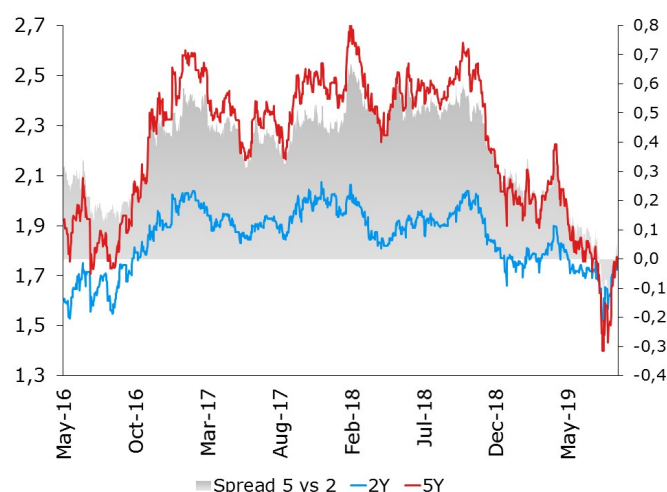
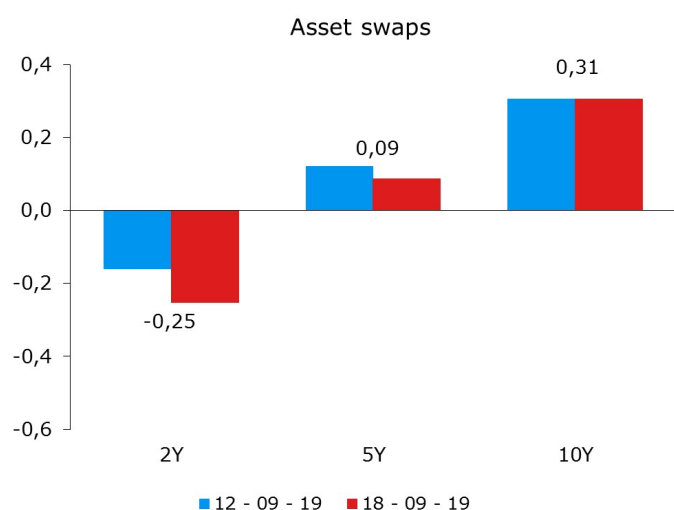
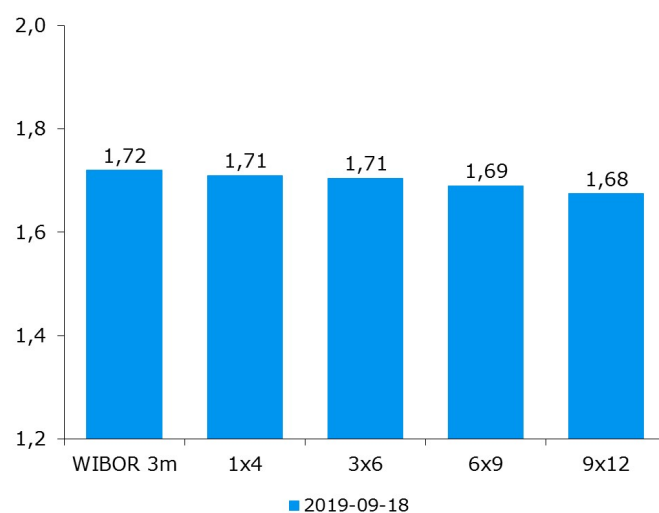
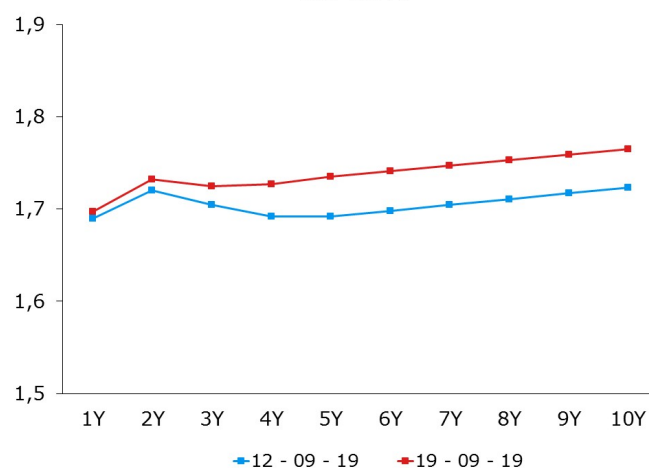
Fixed income

Elections are coming

Today, the Ministry of Finance sold 4.8B of bonds at a switching auction, bid/cover was 1.2, it is not a lot, looks like all the bids were covered. On the secondary market we are following core markets, after morning sell-off we are coming back to yesterday's levels. ASWs are tightening and some market participants might consider taking profits ahead of the elections.

PS1024/5y is 6 bps, DS1029/10y is 30 bps. PS1024/DS1029 is 27 bps DS1029/Bund is 258 bps. DS1021 is trading at 1.42% (5 bps down), PS1024 is trading at 1.81% (4 bps up) and DS1029 is trading at 2.08% (10 bps up).

IRS curve



Money market

Narrow range

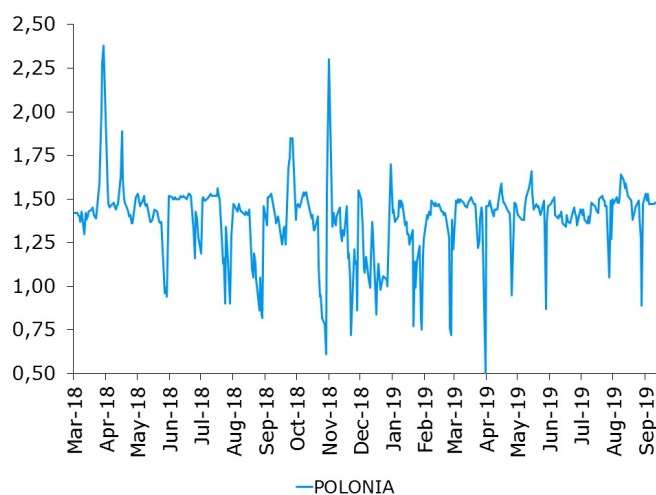
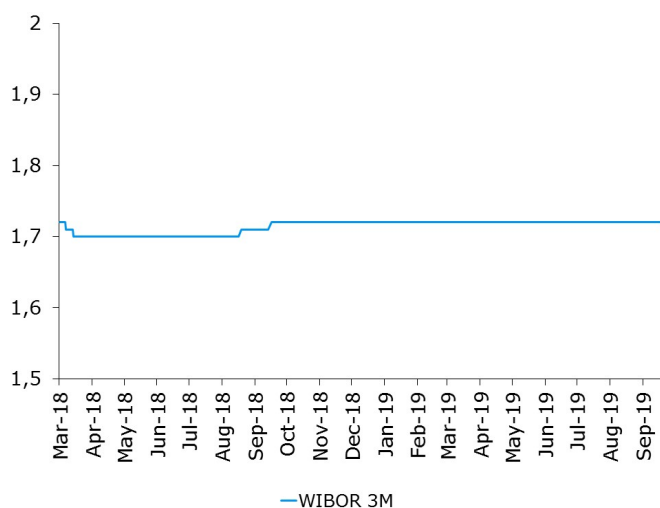
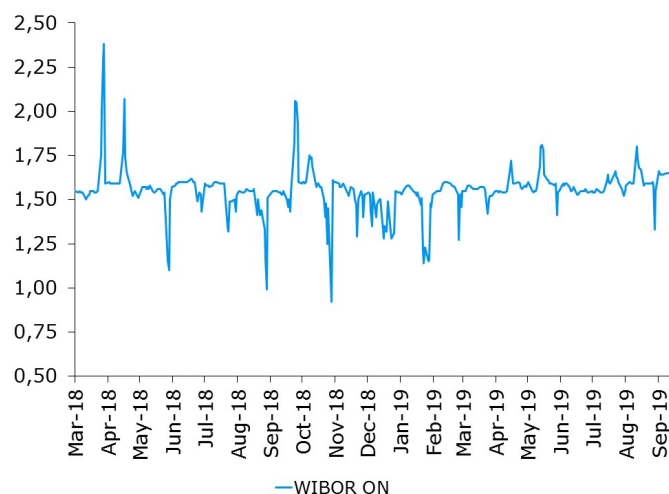
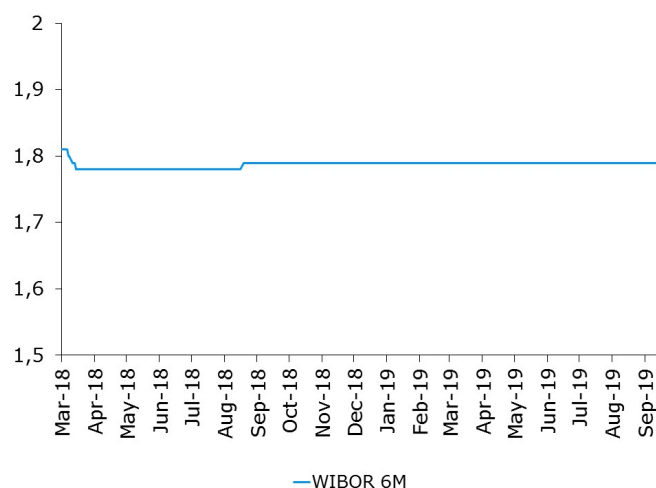
Polish swaps stabilized slightly below the current WIBOR level and we are trading in a narrow range. Polish MPC reiterated the rates would stay at current level for an extended period. We have national elections coming soon, which might insert some uncertainty, although the global story should drive the market over the medium term.

Overnight market was very stable again. We already forgot about any major move and additional OMO. There are two more operations this month, so don't expect a major drop in rates next week.

Ref rate vs Polonia averages:

30 day 6 bp

90 day 8 bp



Forex

EURPLN – trading in a tight range The Federal Reserve cut interest rates, as expected, by a quarter of a percentage point. The market expectations were not overly dovish, so there was little impact from the decision. During the last days, Zloty stayed relatively stable and fluctuated in a tight range, 4.3165-4.3505 in EURPLN, and 3.8960-3.9620 in USDPLN. Zloty is still influenced by signals from the global markets and EURUSD, with the EU Court of Justice verdict being the biggest unknown.

Options – volatility remained stable The EUR/PLN vol curve is very stable and has not changed much for several days. 1 month EUR/PLN atm mid is today at 4.65% (0.1% lower than a week ago), 3 month is at 4.7% (unchanged), 1 year is at 4.7% (unchanged). The currency spread (difference between USD/PLN and EUR/PLN) is roughly the same as a week ago.

Short-term forecasts

Main supports / resistances:

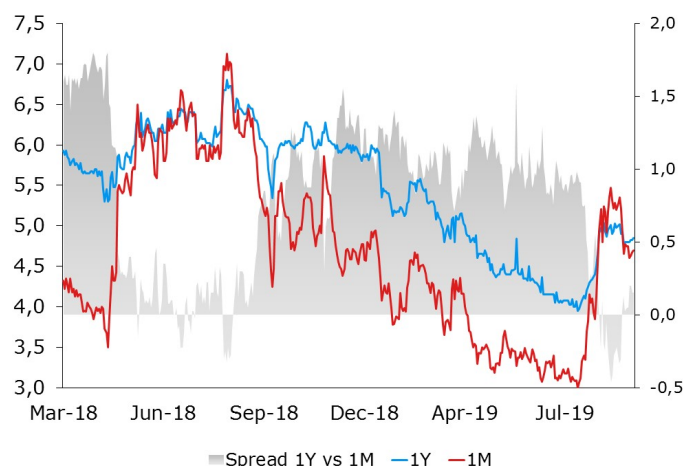
EUR/PLN: 4.3000 / 4.4000

USD/PLN: 3.7000 / 4.0000

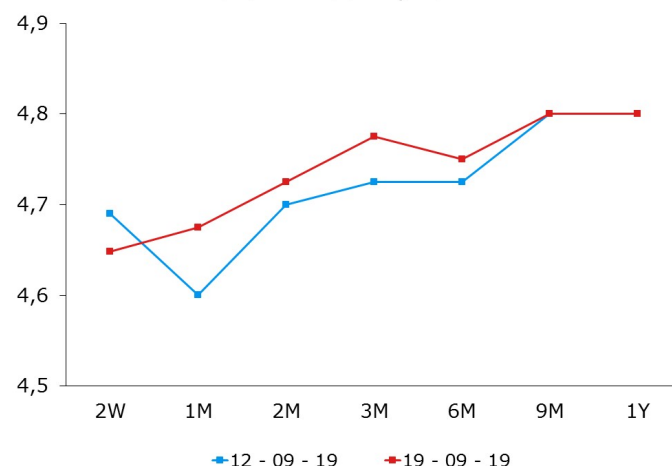
Spot – Long EUR/PLN at 4.34

Technically, we are still in a range (for EURPLN 4.32-4.38), and we don't expect to break out that range any time soon, therefore our strategy is unchanged. We are long at 4.34 with a stop loss at 4.31 and hopes to revisit 4.39.

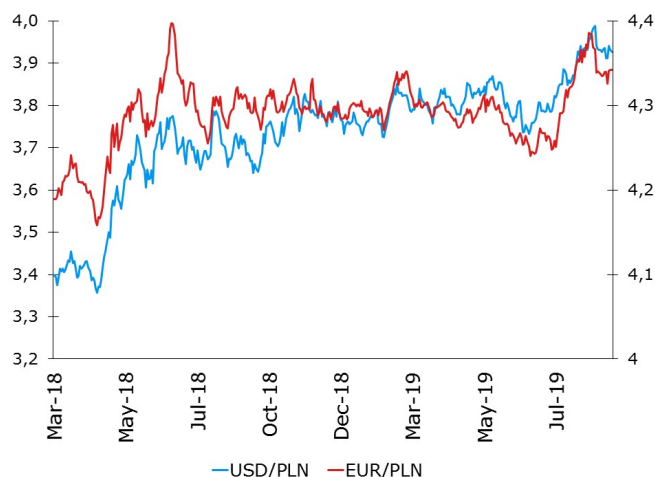
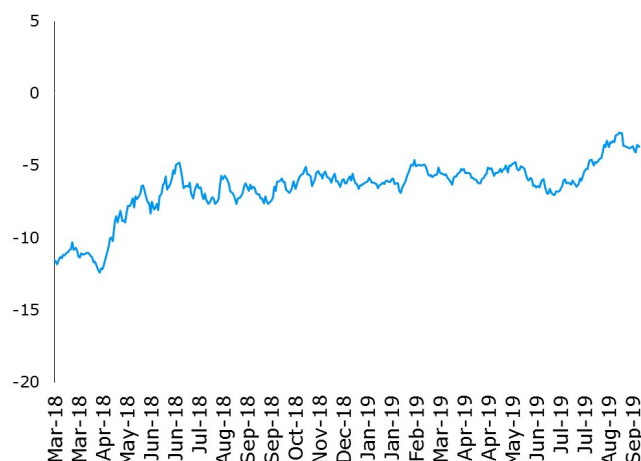
EURPLN volatility



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
9/12/2019	1.62	1.72	1.69	1.69	1.76	1.75	1.72	1.71	1.67	1.66	1.60	1.73
9/15/2019	1.61	1.72	1.69	1.69	1.83	1.75	1.72	1.72	1.70	1.69	1.67	1.77
9/16/2019	1.66	1.72	1.74	1.69	1.87	1.75	1.72	1.71	1.71	1.70	1.68	1.77
9/17/2019	1.51	1.72	1.59	1.69	1.72	1.75	1.72	1.72	1.70	1.69	1.68	1.76
9/18/2019	1.60	1.72	1.66	1.69	1.79	1.74	1.71	1.71	1.69	1.68	1.65	1.76

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
9/12/2019	1.750	1.245	1.720	1.561	1.692	1.813	1.724	2.029
9/15/2019	1.750	1.301	1.744	1.559	1.752	1.908	1.780	2.082
9/16/2019	1.750	1.252	1.722	1.536	1.772	1.881	1.810	2.126
9/17/2019	1.750	1.269	1.750	1.501	1.775	1.867	1.805	2.140
9/18/2019	1.740	1.205	1.732	1.480	1.735	1.821	1.765	2.070

EUR/PLN 0-delta stradle					25-delta RR		25-delta FLY	
Date	1M	3M	6M	1Y	1M	1Y	1Y	
9/12/2019	4.60	4.73	4.73	4.80	4.80	1.47	0.35	
9/15/2019	4.63	4.75	4.78	4.83	4.83	1.47	0.35	
9/16/2019	4.68	4.75	4.75	4.83	4.83	1.42	0.35	
9/17/2019	4.70	4.78	4.75	4.85	4.85	1.47	0.35	
9/18/2019	4.68	4.78	4.75	4.80	4.80	1.41	0.36	

PLN Spot performance						
Date	EURPLN	USDPLN	CHFPLN	JPYPLN	HUFPLN	CZKPLN
9/12/2019	4.3400	3.9362	3.9738	3.6486	1.3097	0.1677
9/15/2019	4.3396	3.9120	3.9608	3.6227	1.3043	0.1678
9/16/2019	4.3262	3.9116	3.9500	3.6284	1.3034	0.1673
9/17/2019	4.3410	3.9412	3.9649	3.6428	1.3020	0.1676
9/18/2019	4.3419	3.9322	3.9499	3.6335	1.3035	0.1677

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