

November 28, 2019

## 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, CFA  
senior analyst  
tel. +48 22 526 70 34  
[piotr.bartkiewicz@mbank.pl](mailto:piotr.bartkiewicz@mbank.pl)

Maciej Zdrolik  
analyst  
tel. +48 22 829 02 56  
[maciej.zdrolik@mbank.pl](mailto:maciej.zdrolik@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 Jarczyński  
head of treasury sales  
tel. +48 22 829 15 16  
[jacek.jarczyński@mbank.pl](mailto:jacek.jarczyński@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

- Monetary aggregates and the Polish business cycle

#### Fixed income

- Nothing has changed

#### Money market

- Cheap overnight cash

#### FX market

- Spot - EURPLN - trading in a tight range
- Options - EURPLN volatility stable

### Comment on the upcoming data and forecasts

This Friday Statistics Poland will publish final GDP data for the third quarter. Apart from the relatively high (38%) probability of an upward revision to the flash estimate of 3.9% y/y, the significance of this reading lies in the structure of growth in Q3. Originally, we expected consumption to have slowed down from 4.4 to 4.2% y/y, and investment from 9.0 to 7.0% y/y. The surprise in the flash reading vis-a-vis our forecast implies that our assumptions on the details of the releases were off the mark. The most likely source of the surprise is investment, so one should expect a more pronounced deceleration there. At the same time, flash CPI for November will be published. We expect a hefty acceleration, from 2.5 to 2.7% y/y, driven by higher core inflation and slightly more expensive food items. On Monday Manufacturing PMI for November will be published. We expect it to grow from 45.6 to 46.5, following other sentiment indicators for Poland's industry and European business surveys such as the PMI.

### Polish data to watch: November 29th to December 6th

Publication	Date	Period	mBank	Consensus	Prior
GDP <i>final</i> y/y (%)	29.11	Q3	3.9	3.9	3.9
CPI <i>flash</i> y/y (%)	29.11	Nov	2.7	2.6	2.5
Manufacturing PMI (pts.)	02.12	Nov	46.5		45.6
MPC decision (%)	04.12	Dec	1.5	1.5	1.5

### 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	12/13/2019	300	1.445	7/26/2019
5Y T-bond PS1024	12/13/2019	2000	1.823	7/26/2019
10Y T-bond DS1029	12/13/2019	1500	2.100	7/26/2019
30Y T-bond WS0447	12/13/2019	60	3.180	4/25/2019
5Y floater WZ0525	12/13/2019	2500	-	7/26/2019
10Y floater WZ0529	12/13/2019	2100	-	7/26/2019

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



### Comment

Slightly up - unemployment rate turned out to be lower than anticipated and that outweighed the negative surprise in PPI last Friday. In the next days final GDP, flash CPI (this Friday) and Manufacturing PMI can all surprise and move the index.

\* 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 is set to slow down considerably next year. Waning effects of fiscal stimulus, unfavorable EU spending calendar, retrenchment of local government investment and weaker investment outlook are to blame. That being said, consumption will remain very resilient and this makes all the difference compared to 2011-2013 cycle. Our current 2020 forecasts call for 3.2% y/y growth.
- Core inflation is at multi-year high, but there is limited space for further acceleration. The pass-through from wages is working in services, but wage growth has stabilized there. In addition, deflation is likely to return to core consumer goods given the global environment and the lagged relationship with local manufacturing wage growth.
- 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 risks are to the downside.
- This year's fiscal deficit is set to widen due to brisk expenditure growth. Next year's balanced budget proposal is not realistic given the already announced spending (pension bonus made permanent) and ambitious revenue targets. Bypassing the expenditure rule via off-balance vehicles changes little in the overall assessment of the fiscal stance. General government deficit will remain low as local governments are set to cut investment considerably.

### Financial markets

- In general, PLN remains very stable. Most swings are generated by global growth worries, dollar strength (or weakness) and the occasional local factor bubbling up into the surface (like the CHF loan rulings).
- We see more or less stable 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. However, a slowdown is a slowdown and as the risks for monetary policy are tilted to the downside, the same applies to PLN valuation. Breakeven exchange rates for exporters are, however, moving steadily higher with rising labor costs and that puts an ever-higher floor on EURPLN. No durable appreciation in current circumstances.

### mBank forecasts

	2015	2016	2017	2018	2019 F	2020 F
GDP y/y (%)	3.8	3.1	4.9	5.1	4.3	3.2
CPI Inflation y/y (average %)	-0.9	-0.6	2.0	1.6	2.4	2.6
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	5.5	5.3
Repo rate (end of period %)	1.5	1.5	1.5	1.5	1.5	1.5

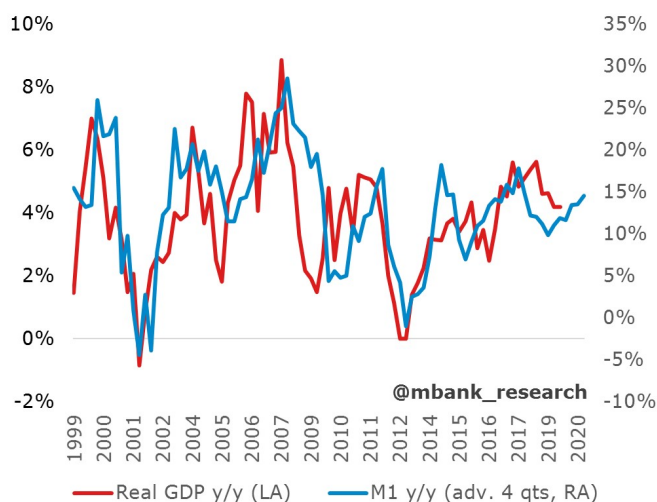
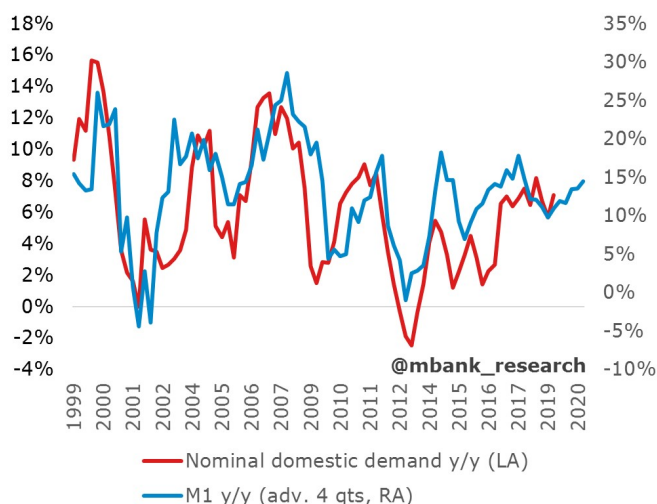
  

	2019 Q1	2019 Q2	2019 Q3 F	2019 Q4 F	2020 Q1 F	2020 Q2 F	2020 Q3 F	2020 Q4 F
GDP y/y (%)	4.7	4.5	4.0	3.9	3.9	3.6	3.0	2.5
Individual consumption y/y (%)	3.9	4.4	4.1	4.8	4.6	4.2	3.4	2.8
Public Consumption y/y (%)	6.4	3.4	3.0	5.0	3.0	3.0	3.0	3.0
Investment y/y (%)	12.6	9.0	5.5	4.0	2.0	2.0	0.0	0.0
Inflation rate (% average)	1.2	2.4	2.8	3.0	3.3	2.6	2.2	2.3
Unemployment rate (% eop)	5.9	5.2	5.1	5.5	5.6	5.0	5.0	5.3
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	1.71	1.71	1.71	1.71	1.71
2Y Polish bond yields (% eop)	1.69	1.61	1.52	1.51	1.55	1.55	1.55	1.55
10Y Polish bond yields (% eop)	2.84	2.39	2.00	1.95	2.10	2.24	2.27	2.30
EUR/PLN (eop)	4.30	4.24	4.37	4.35	4.35	4.40	4.40	4.40
USD/PLN (eop)	3.84	3.73	4.01	3.95	3.95	3.93	3.86	3.83
F - forecast								

## Economics

### Monetary aggregates and the Polish business cycle

For many researchers, monetary aggregates hold a key to forecasting business cycle developments. In particular, M1, which consists of the most liquid part of nonfinancial sector assets, is seen as a leading indicator for economic activity. Examples are: the euro area, China or even global averages. It tends to hold up pretty well. Is the same true for Poland?



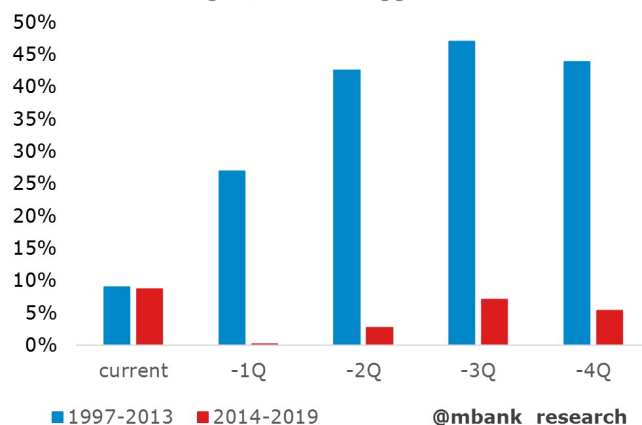
At first glance, M1 has been a good predictor of business cycle turning points, although glances alone are insufficient to determine how long the lead is (between 2 and quarters). The current context of this debate is quite important. Since M1 growth in Poland bottomed in Q1'18 and has accelerated ever since, widespread forecasts of economic slowdown next years might be off the mark. We remain skeptical.

First, the relationship between M1 and the business cycle is a prime example of „a fact in search of a theory”. The strongly cyclical behavior of M1 might be related to a factor that matters for economic activity as well, i.e. monetary policy stance. The impact of monetary policy on aggregate demand is typically lagged (it takes 4-6 quarters for the effects to fully realize, per NBP research). On the other hand, the impact on the liquidity preference of the nonfinancial sector and monetary

aggregates is likely almost instantaneous. Monetary policy is no longer impacting the Polish economy via the usual channels, since nothing changed for almost five years. The putative link between negative real interest rates and household decisions is generally unproven and likely less tentative than the one with nominal interest rates.

Second, the empirical relationship between M1 and aggregate demand clearly changed after 2013. To move beyond eyeballing, we decided to investigate the extent to which various lags of M1 growth correlate with nominal domestic demand. The latter choice is due to the need to maintain consistency (both are measured in current prices) and abstract from terms-of-trade swings that heighten the volatility of nominal GDP. It turns out (see the graph below) that M1 lagged by 3-4 quarters was highly correlated (and more than its present value) with nominal domestic demand growth until 2013. No such pattern exists afterwards. Why does it matter? A statistical relationship that manifests itself with variable and unpredictable lags is not a useful relationship at all.

R-squared in nominal domestic demand regressions on lagged M1



Third, a case can be made that the strength of the relationship between M1 and GDP (or any broad measure of aggregate demand) depends on the nature of the shocks impacting the economy. Consumption-driven slowdowns are probably more likely to be reflected in M1. Investment-driven ones - maybe not. For instance, analysts relying on M1 would have missed the 2016 slowdown entirely. Since public investment is likely again at the forefront of the ongoing slowdown (with more to come in 2020), M1 might not be helpful in detecting it.

## Fixed income

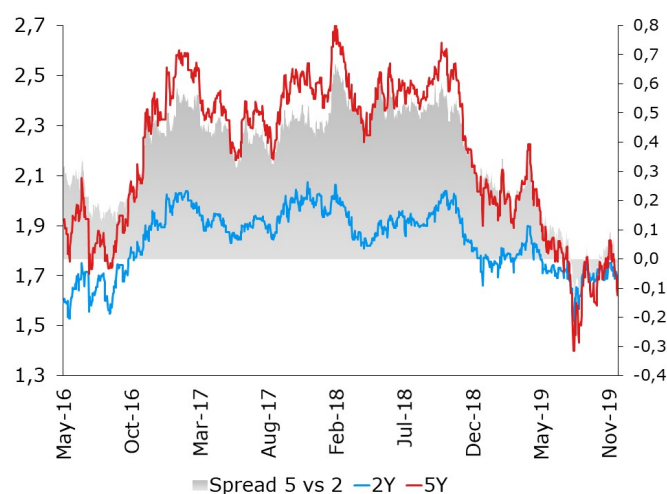
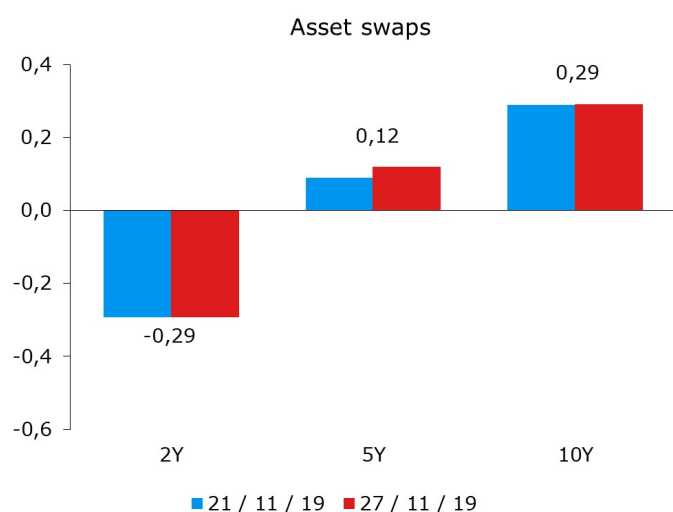
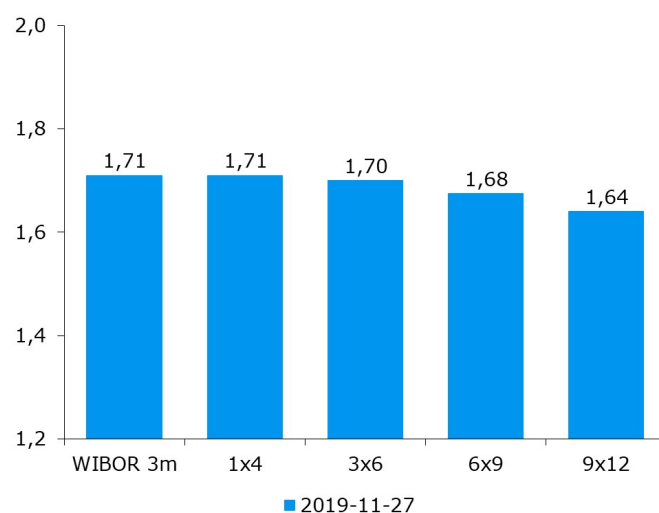
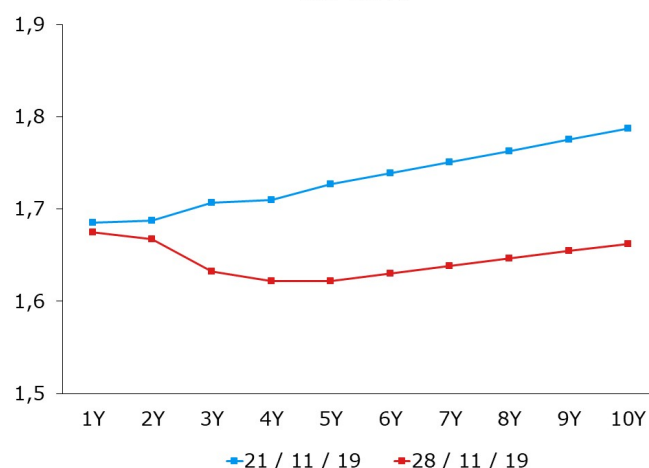
### Nothing has changed

Almost nothing has changed since last week, there are not many trades in the market and Poland tends to outperform both core and local markets. We have moved 12 bps for the past week on the long end and ASWs widened further. Receiving interest on swaps is clearly visible and it is probably due to ASW offers.

PS1024/5y is 8 bps, DS1029/10y is 31 bps. PS1024/DS1029 is 24 bps DS1029/Bund is 235 bps.

DS1021 is trading at 1.35% (3 bps down), PS1024 is trading at 1.73% (6 bps down) and DS1029 is trading at 1.98% (9 bps down).

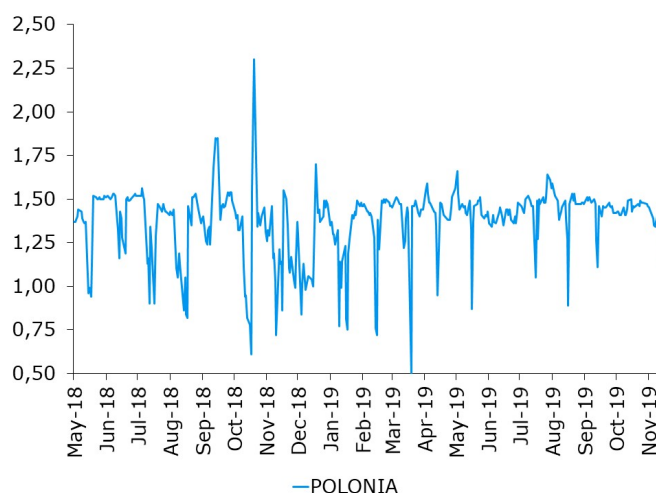
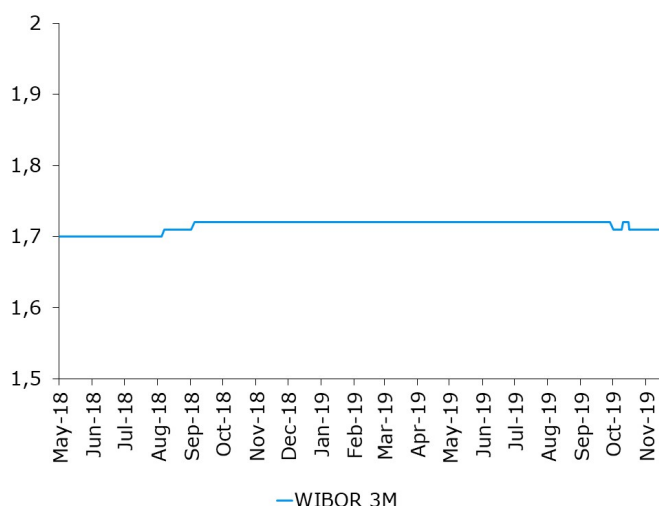
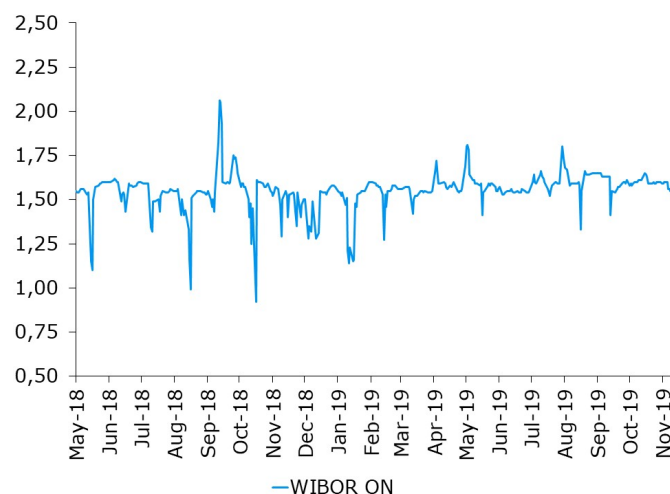
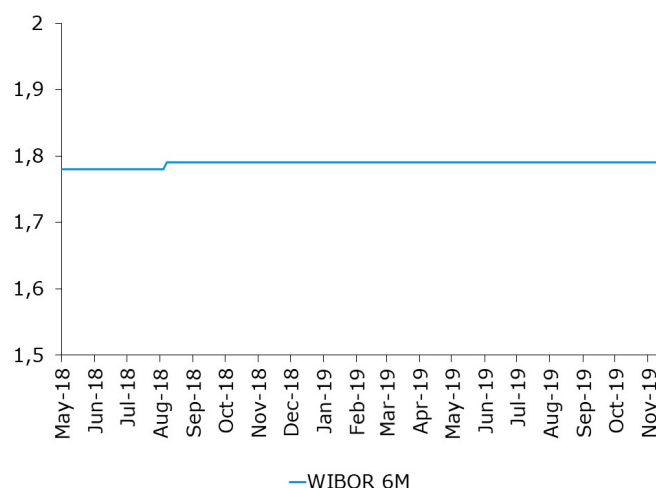
IRS curve



## Money market

### Cheap overnight cash

Overnight cash was little cheaper this week with Polonia reached 1.12% on Wednesday. On Friday's OMO banks bought PLN 89.2 bn bills out of 95 bn offered. This week is the last one of the mandatory reserve period (with ends on December 1st coming on Sunday). Next week cash should come back to "normal" level 1.50% as we will open a new mandatory reserve period. The last month of the year looks a little boring, the only one bond auction on December 13th and no coupon payments. As traders will be closing their positions in the end of the year cash liquidity should be secured.



## Forex

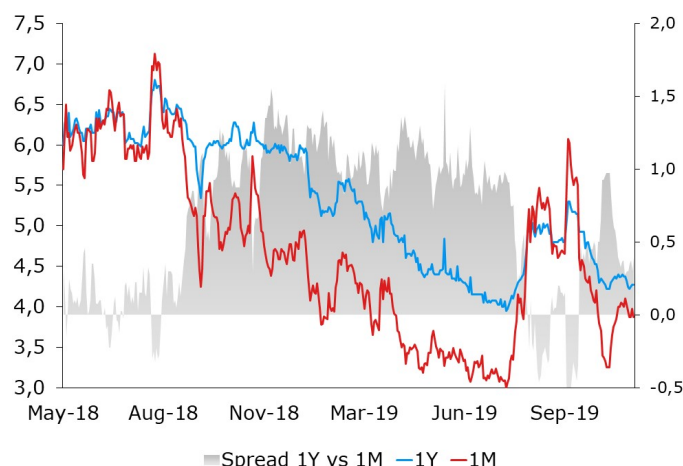
**Spot - EURPLN - trading in a tight range** The main topic is unchanged - trade war i.e. issues related to phase one of the trade agreement. Investors are still hoping that the United States and China will reach a trade agreement soon to end a drawn-out tariff war that has hampered economic growth globally. Last week EUR/PLN was locked in a narrow 4.2930-4.3210 trading range. We are waiting for some fresh signal to push us out of the current stagnation and that will create more volatility.

**Options - EURPLN volatility stable** The week was eventless in the PLN spot and option markets. The EUR/PLN vol has curve melted a minimally in last a few days. 1 month EUR/PLN atm mid today is 3.55% (0.2% lower than week ago), 3 month is 3.75% (unchanged) and, finally, 1 year fixed at 4.15% (0.15% lower). The currency spread (difference of USD/PLN minus EUR/PLN) is roughly unchanged.

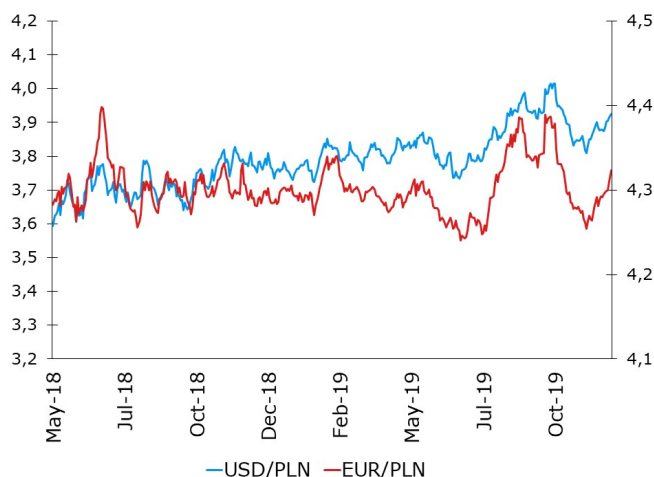
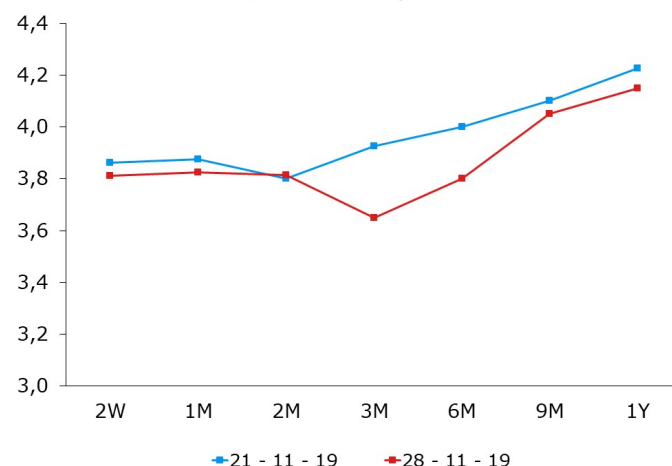
### Current position: short EUR/PLN

We activated our trade idea. It means that we are short EUR/PLN at 4.3160 (on average) with the stop at 4.33. The global market sentiment shall continue to play the main role on the local market. We expect the upcoming week will be the another period with EURPLN boxed in the tight range of 4.26-4.31.

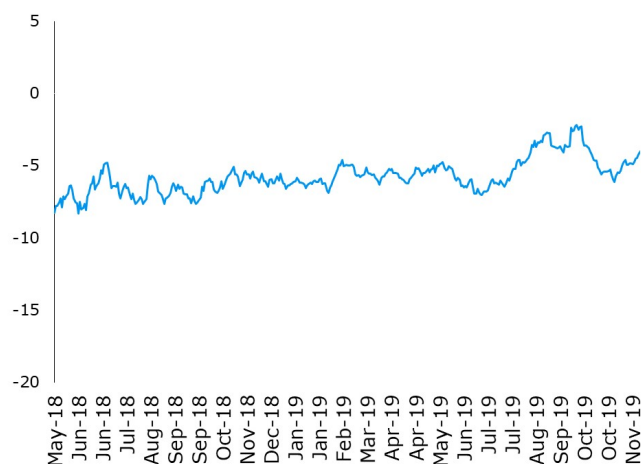
EURPLN volatility



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
11/21/2019	2.01	1.71	2.01	1.69	2.01	1.74	1.71	1.71	1.69	1.67	1.63	1.77
11/24/2019	2.03	1.71	2.00	1.69	1.99	1.74	1.71	1.71	1.68	1.65	1.60	1.75
11/25/2019	2.04	1.71	2.01	1.69	2.00	1.74	1.71	1.71	1.69	1.65	1.61	1.76
11/26/2019	2.05	1.71	1.97	1.69	1.91	1.74	1.71	1.71	1.69	1.63	1.57	1.76
11/27/2019	2.15	1.71	2.07	1.69	2.02	1.74	1.71	1.70	1.68	1.64	1.57	1.75

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
11/21/2019	1.740	1.018	1.687	1.395	1.727	1.815	1.787	2.075
11/24/2019	1.740	1.024	1.715	1.399	1.703	1.792	1.763	2.047
11/25/2019	1.740	1.019	1.705	1.404	1.683	1.789	1.730	2.052
11/26/2019	1.740	1.048	1.685	1.383	1.645	1.737	1.685	1.991
11/27/2019	1.740	1.016	1.668	1.376	1.622	1.741	1.663	1.953

EUR/PLN 0-delta stradle					25-delta RR		25-delta FLY	
Date	1M	3M	6M	1Y	1M	1Y	1Y	
11/21/2019	3.88	3.93	4.00	4.23	4.23	1.16	0.43	
11/24/2019	3.88	3.90	4.05	4.25	4.25	1.16	0.43	
11/25/2019	3.98	3.95	4.08	4.28	4.28	1.16	0.43	
11/26/2019	3.88	3.93	4.01	4.28	4.28	1.16	0.43	
11/27/2019	3.83	3.65	3.80	4.15	4.15	1.01	0.43	

PLN Spot performance						
Date	EURPLN	USDPLN	CHFPLN	JPYPLN	HUFPLN	CZKPLN
11/21/2019	4.2948	3.8737	3.9113	3.5693	1.2868	0.1684
11/24/2019	4.2975	3.8853	3.9102	3.5796	1.2852	0.1684
11/25/2019	4.2990	3.9036	3.9130	3.5858	1.2832	0.1686
11/26/2019	4.2999	3.9039	3.9131	3.5830	1.2779	0.1685
11/27/2019	4.3107	3.9154	3.9240	3.5866	1.2833	0.1690

## 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 83c of the Act on Trading in Financial Instruments (Journal of Laws of 2017, item 1768, 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 2019. All rights reserved.