



Poland in Pictures: Inflation is here to stay

Economics

Covid-19: dynamics less concerning as vaccination picks up

Covid-19 dynamics are much improved in Poland compared to the start of the year (see [Figure 1](#)) and the government has embarked on a gradual reopening process. Major restrictions have been lifted across the country as of now, with indoor and outdoor dining and all services reopened. The remaining restrictions - mainly related to capacity constraints, rules on mask wearing and social distancing, have now been extended to last until Jun 25th. Some further relaxations of restrictions have been announced for the summer, starting Jun 26th. Poland continues to vaccinate its population at one of the fastest paces in EM, and over 40% of the population have received at least 1 dose of the vaccine. At the current pace, Poland is expected to achieve herd immunity levels of vaccination by September (see [Figure 2](#)). This should allow for a more sustained reopening of the economy and further pickup in domestic demand.

Growth: rebounding strongly

High-frequency data points to a strong demand recovery which was already underway at a time when a majority of domestic Covid related restrictions had been in place. Q1 real GDP growth was revised up to a strong +1.1% QoQ reading - the only country in the region to have posted an improvement in activity over Q4. Retail sales and labour market data for March were extremely strong and though the data for April was a bit subdued, the continued uptick in mobility over the past few weeks points to a continued solid demand recovery this quarter. Wages declined 2.1% MoM in April and while the softness in wages was to be expected given March's number was boosted by overtime pay and bonuses, in YoY terms, wages are still hovering at an impressive 10.0% - indicating a still quite tight labour market. Retail sales data for last month also declined by -6.7% MoM, but remains strong in annual terms at +25.7% YoY (prev. 17.1%). The manufacturing PMI reading for May was also extremely strong - with the headline number at an all-time high of 57.2, driven by further increases in both output and new orders components. Higher PMI data, along with improvements in consumer and economic sentiment indicators, point to an improved outlook ahead. We expect the growth recovery to continue for the rest of the year on the back of a tight labour market, improving sentiment, manufacturing sector growth and drawdown of household savings. Growth is expected to be further supported by inflows from the EU Recovery Fund, of which Poland is one of the largest beneficiaries (please see [here](#) for more details on the

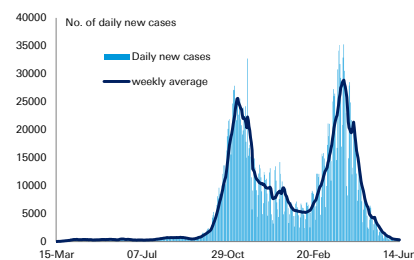
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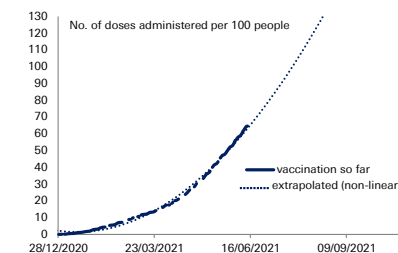
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Figure 1: Daily new cases down significantly from their third wave peaks



Source: JHU, Deutsche Bank

Figure 2: At current pace, likely to achieve herd immunity levels of vaccination in Q3



Source: Our World in Data, Deutsche Bank

Deutsche Bank AG

DISCLOSURES AND ANALYST CERTIFICATIONS ARE LOCATED IN APPENDIX 1. MCI (P) 051/04/2021. UNTIL 19th MARCH 2021 INCOMPLETE DISCLOSURE INFORMATION MAY HAVE BEEN DISPLAYED, PLEASE SEE APPENDIX 1 FOR FURTHER DETAILS.

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Next Generation EU and its impact on the CEE). We have now revised our growth forecast for this year up to +4.7% (prev. +4.5%), on the back of the better than expected Q1 reading as well as the strong high-frequency data. Our forecast is at the higher end of consensus. For 2022, we see further upside risks and we forecast 5.0%.

Inflation: headline likely to remain above target

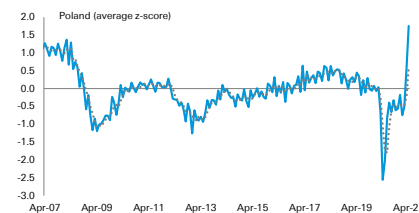
Headline CPI continued to accelerate sharply in May to 4.7% YoY (prev. 4.3%) (see [Figure 4](#)). This said, in monthly terms, prices increased by +0.3% MoM, down from the +0.8% MoM print last month. In fact, this is the lowest monthly reading since November last year, primarily reflecting a significant drop in fuel prices (-0.9% on the month), but also food price inflation, which eased somewhat. Monthly inflation in clothing & footwear, housing, furnishings & other household equipment also eased. On the other hand, certain service categories like restaurants & hotels and recreation & culture saw a faster growth in prices on the month, likely reflecting the impact from reopening. In annual terms, however, most CPI components continued to accelerate, mainly due to the weak base effect from last year. Core inflation also accelerated to 4.0% YoY in May (prev. 3.9%), remaining well above the NBP's target range (2.5% +/-1pp). Overall, we believe that inflation will remain elevated and above target for the rest of the year, though base effects will ensure slightly lower prints in Jun-Aug. However, given the solid demand recovery already underway, strong wage growth emanating from a tight labour market and still elevated upstream pressures, we believe that headline inflation will reach levels well above 4.5% by year-end.

Monetary Policy: dovish NBP, but lift-off ahead of schedule still our base case

At the June meeting, the NBP left rates on hold at 0.10% and retained its ultra-dovish tone. It also once again flagged that inflation was rising as a result of factors outside the purview of domestic monetary policy. In addition, the press statement included comments indicating that the NBP may be willing to tolerate temporary above target inflation for some time and will align its policy to support economic recovery as long as inflation can be anchored to the target in the medium term. Accordingly, the statement also added the following justification for their on-hold decision – *"Taking into account the sources and the expected temporary nature of inflation exceeding the NBP's target, as well as the uncertainty about the persistence and scale of the economic recovery, the NBP is keeping interest rates unchanged."* Aside the ongoing dovish official communication, for now, Governor Glapinski (and the dovish majority of the NBP) continue to expect the end of the QE programme before considering higher short-end rates.

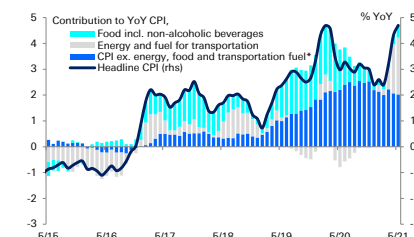
Interestingly, however, as inflation has remained stickier than initially expected, some recent comments by NBP members (even some more dovish members) have been on the more cautious side, implying they may consider tightening by Q4. Although clearly not yet consensus (neither among market participants nor board members), the latter is in line with our current view. As inflation should remain elevated - with further upside risks on the back of our revised growth forecasts, we continue to expect that the NBP will be forced to tighten rates before year-end. The NBP should be the last of the CE3 central banks to hike rates, however, we expect tightening to start with 15bp in October. Risks remain towards the start of tightening in November, when new projections are released. In any case, we see the policy rate at 0.25% by end-2021 and at 1.25% by end-2022 (see [Figure 5](#)).

Figure 3: Our aggregate indicator of high-frequency data shows strong growth recovery already underway in Poland



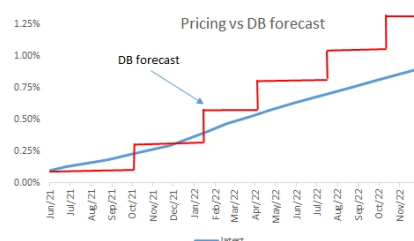
Source: Haver Analytics, Deutsche Bank

Figure 4: Headline inflation has accelerated sharply this year



Source: GUS, Haver Analytics, Deutsche Bank

Figure 5: We expect the lift-off to come in October and remain more hawkish on tightening for 2022



Source: Deutsche Bank

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Risks: fiscal concerns are low, but political risks are picking up

Fiscal risks are more moderate in Poland than in the Czech Republic or Hungary. The general government budget balance recorded a full year deficit of -7.0% of GDP in 2020, the largest deficit in 10 years. However, data so far for 2021 shows that budget dynamics have improved (see [Figure 6](#)), mainly as growth recovery drives revenues higher. The Ministry of Finance sees the budget deficit at -6.9% of GDP this year. However, those estimates are based on a slightly more pessimistic growth assumption of 3.8%. We think that revenues are likely to be higher than the MinFin currently foresees, and based on our real GDP growth forecast for the year we expect a much improved fiscal deficit at -5.8%. In any case, record high accumulation in the MinFin cash balance limits fiscal risks in Poland. External risks also remain limited in Poland - the current account saw a record high surplus of 3.5% of GDP last year, as imports declined faster than exports. As domestic demand recovery boosts imports this year we expect the C/A surplus to narrow - however, we are still likely to see a large surplus. Meanwhile, reserve adequacy remains healthy and external debt moderate.

Political risks have increased over the past year. Frictions within the ruling coalition (PiS, United Poland and Agreement) over a number of issues including taxes, timing of last year's Presidential elections, animal rights and relations with the European Union (including the EU recovery fund ratification) have continued to threaten the stability of the government. However, we think early elections are unlikely as of now. Support for the coalition has declined sharply since last year on the back of the pandemic as well as the controversial abortion law (see [Figure 7](#)) and we think that PiS' coalition partners would not risk an early election now.

The most significant risk to our outlook in Poland stems from the NBP's ultra-dovish stance. In our view, there exists significant risk of inflation de-anchoring if the NBP stick to their current stance of keeping rates low until at least 2022 (as they have previously communicated) even as demand pull inflation continues to drive the headline above target.

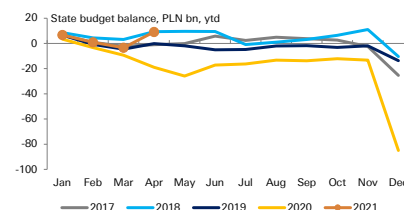
Local Markets Strategy

Cash bonds: stay underweight

Polish fixed income had been trading on the rich side in our fair value models for most of H2-20, thanks to ongoing QE support and strong domestic demand. This completely changed in the first few months of this year, when higher domestic inflation prints and taper talks by the NBP in combination with the repricing in core rates, led to a significant selloff. In fact, the beta of Polish fixed income to core rates spiked to the highest in many years (particularly vs EUR swaps), implying a sharp underperformance during the global rates selloff. Indeed, 10Y bonds sold off from 1.20% in mid-January, to almost 2.0% in mid-May. At that point, local fixed income in fact overshot in our models and was trading at the cheapest since mid-18. With the recent stabilization in core rates in combination with continuously dovish comments by the NBP - and of course the absence of further upside surprises to inflation, Polish fixed income retraced somewhat with 10Y bonds rallying by ~25bp and the 2s10s IRS curve flattening by ~20bp to levels last seen in mid-April.

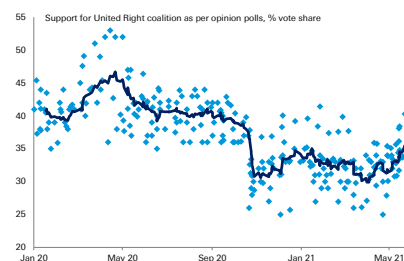
In our models, 10Y bonds are currently trading close to their fair value (1.75% - constant maturity), while 5Y bonds remain around 10-15bp cheap (fair value 1.03% vs current 1.16%). Although inflation should decline in Q3, underlying price pressure remains high and we see the decline as only temporary. Term-premium on

Figure 6: Poland saw a record deficit last year, 2021 performance better ytd...



Source: Haver Analytics, Deutsche Bank

Figure 7: Public support for the ruling PiS-led United Right coalition has declined sharply since last year



Source: Social Changes, Kantar Public, PGB Opinion, CBO, Estymator, Pollster, IBRIS, CBM Indicator, United Survey, IBSP, Kantar, IPSOS, Opinia24, Research Partner, UCE RESEARCH, Deutsche Bank

Figure 8: Poland: Key forecasts

	2019	2020	2021F	2022F
National Income				
Nominal GDP (USD bn)	596	594	702	832
Population (mn)	38.4	38.3	38.2	38.2
GDP per capita (USD)	15 524	15 529	18 352	21 777
Real GDP (YoY%)				
	4.7	-2.7	4.7	5.0
Prices, Money and Banking (YoY%)				
CPI (eop)	3.4	2.4	4.7	3.5
CPI (annual avg)	2.3	3.4	4.0	3.9
Fiscal Accounts (% of GDP)				
Fiscal balance	-0.7	-7.0	-5.8	-3.5
Revenue	41.1	41.7	42.4	42.2
Expenditure	41.8	48.7	48.2	45.7
Primary Balance	0.7	-5.7	-3.9	-0.7
External Accounts (USD bn)				
Current Account Balance	2.9	21.1	17.8	13.3
% of GDP	0.5	3.5	3.0	1.9
EUR/PLN (eop)	4.25	4.56	4.35	4.25
Financial Markets				
Key official interest rate (eop)	0.10	0.10	0.10	0.25
10Y yield (eop)	1.81	1.75	1.85	2.20
EUR/PLN (eop)	4.46	4.45	4.40	4.35

Source: Deutsche Bank

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local bonds is back to the long-term average, after trading at elevated levels just a few weeks back. Positioning remains extremely light after further outflows in April. ASW-spreads have retraced from historically tight levels and 10Y ASW-spreads are now in positive territory again - the first time since late January.

What's next? Despite record light positioning, the ongoing support from the NBP and falling inflation, we remain underweight on local fixed income. Low term-premium, the high sensitivity to core rates and the upcoming tapering should continue to put pressure on local fixed income. We expect 10Y bonds to gradually selloff over the summer with an accelerated speed later in the year. We therefore revise our year-end target for 10Y bonds from 2.10% to 2.20% (constant maturity). This implies a selloff of ~45% vs current levels and is well above levels implied by our models for year-end (~1.90%). If our forecast is realized, this implies a negative duration return of -1.7% (over FX implied yields) - among the lowest in CEEMEA (based on DB forecast). On the curve, we therefore prefer shorter duration bonds, best Jul-26, Oct-26 or Jul-27. We argue against bonds further out the curve - particularly Apr-29, Oct-29, Oct-30, as they are trading particularly rich. As of now, we have recommended 7Y-10Y ASW-spread wideners. Despite the widening in recent weeks, we continue to see value in this trade - particularly if the NBP sticks to the plan of tapering before rate hikes (the contrary to what has been communicated by the NBH in Hungary). We keep the target of 25bp for 7Y ASW-spreads (current: -14bp, entry: -23bp) and expect 10Y ASW-spreads to reach 15bp.

Local Rates: position for repricing of the terminal rate, NOT the very short-end

Of late, the market has scaled back on pricing a front-loaded hiking cycle. This is no surprise, as the NBP continues to prefer keeping rates on hold as long as possible - and has well communicated this. As of now, we have 25bp of hikes priced by year-end, which seems fair if not a touch too high considering that the NBP would prefer to keep rates on hold until 2022 and DB forecast of a 15bp hike in October, followed by another hike in January. More important however, the market is pricing only another 60bp of tightening for 2022, with rates to reach 1.0% by year-end and rates at 1.35% by mid-23. We still find this too low in light of strong inflationary forces (including the recent announcement to increase the minimum wage). In fact, we expect more hikes the later the NBP begins with the lift-off. Hence, we argue that while the short-end remains more or less fairly priced, the terminal rate remains too low. 4Y1Y IRS is trading below 2.0%, compared to ~2.8% in Hungary.

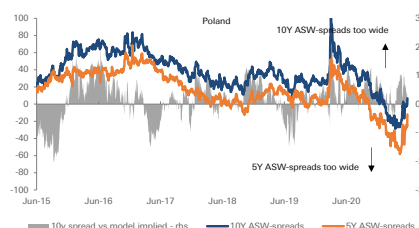
How to position? Despite the negative (carry)/roll, we therefore keep our structural paying bias on local rates, best expressed in the 3Y-6Y part of the curve. We see three ways of expressing this view: either via 1) a simple payers in 5Y IRS (current 1.35%, target: 1.75%, 3m carry/roll: -10bp, vol: 25bp) or 2) leveraged in 2Y2Y IRS (current: 1.67%, target: 2.0%, 3m roll: -9bp, vol: 35bp) or 3) via short-end curve steepeners carry/roll optimized in 3m fwd 2s6s at 63bp (target 85bp) with POSITIVE roll of 11 bp (!) and vol of only 12bp. While we have recommended 1) for the last few months (outright or vs CZK), 2) is a new trade and should benefit the most during a more significant selloff in core rates. Trade 3) is a slightly more convex approach of expressing our view of a higher terminal rate. What makes this trade attractive is the high positive roll with relatively low vol. In addition, the trade benefits from a delayed hiking cycle, the repricing of the terminal rate + higher core rates.

Figure 9: Local bonds have sold off so far this year



Source: Deutsche Bank

Figure 10: ASW-spreads have widened of late, but remain historically tight...



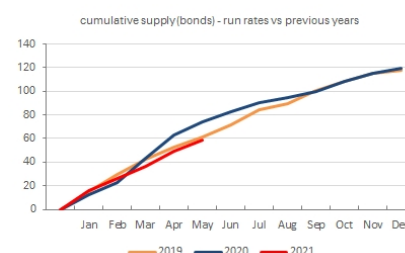
Source: Deutsche Bank, Bloomberg Finance LP

Figure 11: ...term-premium has declined back to the long-term average



Source: Deutsche Bank, Bloomberg Finance LP; based on 5s10s slope over 2Y rate beta-adjusted (7Y rolling data shown as z-score)

Figure 12: Local bond supply is similar to previous years



Source: Deutsche Bank

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FX: massive potential, but uncertainty around the NBP remains main concern

Like HUF and CZK, PLN shares a robust flow picture, strong domestic demand and a high sensitivity to a stronger Euro. In addition, foreigners have increased exposure to PLN of late and valuation looks extremely cheap, even more so than across CEE peers. Last but not least, PLN should further benefit from the Recovery Fund money later this year - even if the timing of the payments are not yet certain. The main obstacle to appreciation has been very dovish NBP policy. Although there are some signs that the NBP's stance is turning, the majority of the board members remain on the dovish side for now - once again confirmed by the most recent monetary policy meeting. Although we see huge potential for PLN to rally and would not rule out a move well below 4.40, the uncertainty around the timing of the shift of the NBP, makes outright bullish calls difficult. We therefore recommend investors to rather position for higher volatility and buy 3m EUR/PLN 25d puts.

Figure 13: Bond yield forecast vs what is implied by the model

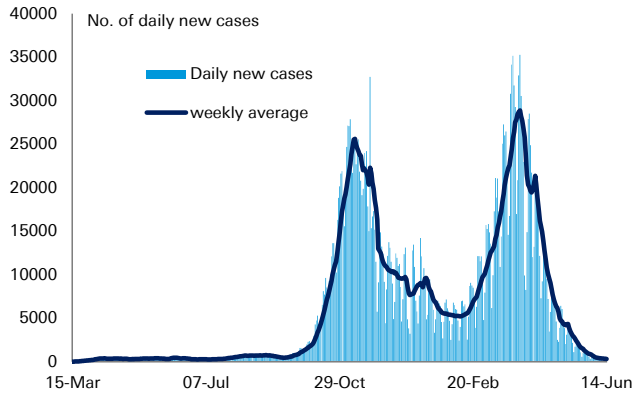
	1x4 FRA	spot CPI	10Y EUR swaps	USD PLN	2Y	5Y	10Y
current	0.23	4.70	0.09	3.73	0.33	1.16	1.76
					implied (avg)		
					2Y	5Y	10Y
					0.26	1.03	1.74
					-7	-13	-1
input variables (DB forecast)					model implied		
year-end	0.45	4.60	0.27	3.35	0.44	1.24	1.89
					11	8	14
					DB forecast		
					0.70	1.55	2.20
					37	39	44

Source : Deutsche Bank



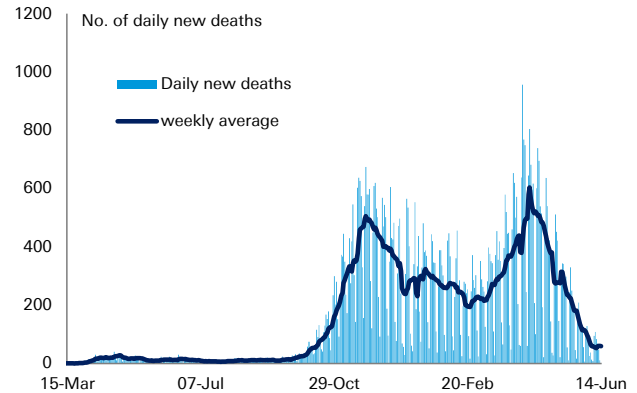
COVID-19 dynamics and vaccination progress

Figure 14: Daily new cases down significantly from their third wave peaks...



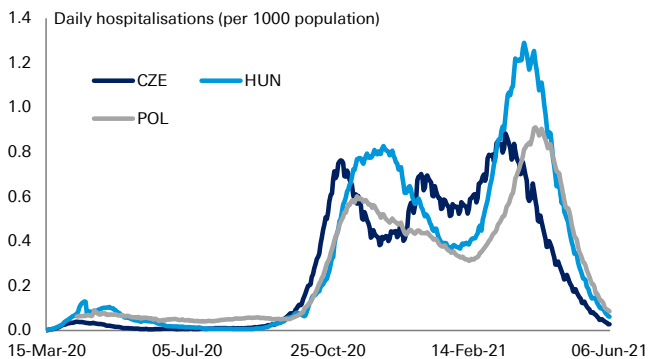
Source : JHU, Deutsche Bank

Figure 15: ...as are daily deaths



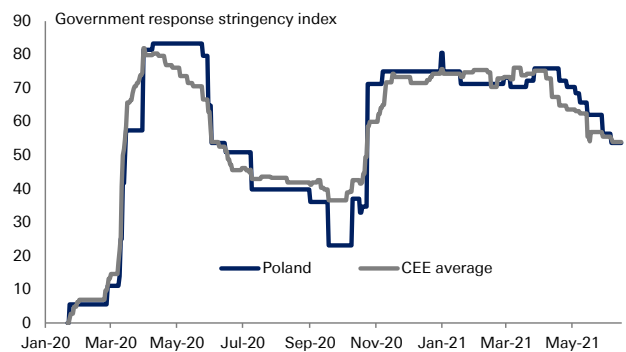
Source : JHU, Deutsche Bank

Figure 16: Daily hospitalizations slightly higher than regional peers



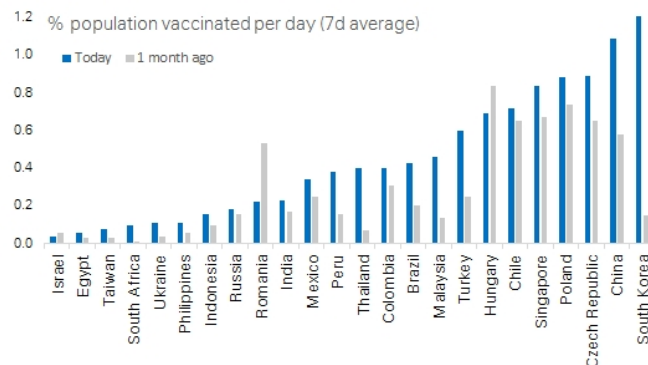
Source : Our World in Data, Deutsche Bank

Figure 17: Reopening in Poland slightly lagged compared to the region but has now caught up



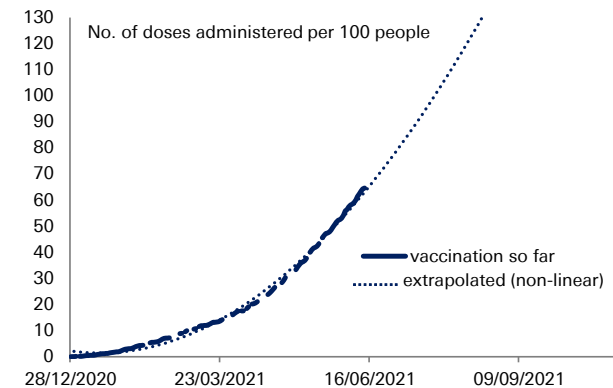
Source : Oxford government response stringency index, Deutsche Bank

Figure 18: Poland is vaccinating its population at one of the fastest paces in EM...



Source : Our World in Data, Deutsche Bank

Figure 19: ...and at current pace, is likely to achieve herd immunity levels of vaccination in Q3



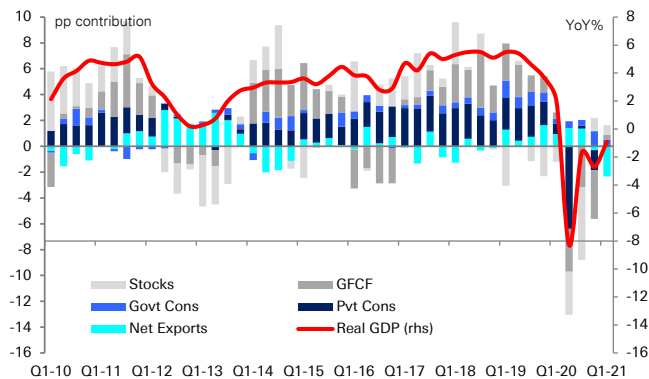
Source : Our World in Data, Deutsche Bank

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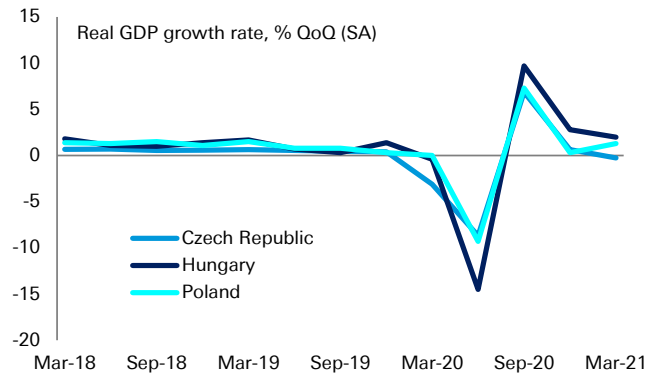
Growth and real activity

Figure 20: Real GDP growth has recovered in Q1-21...



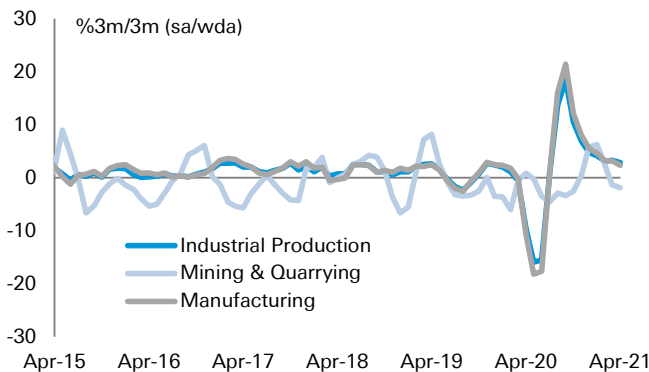
Source : GUS, Deutsche Bank

Figure 21: ...with Poland seeing an improvement in QoQ growth despite local restrictions, unlike its neighbors



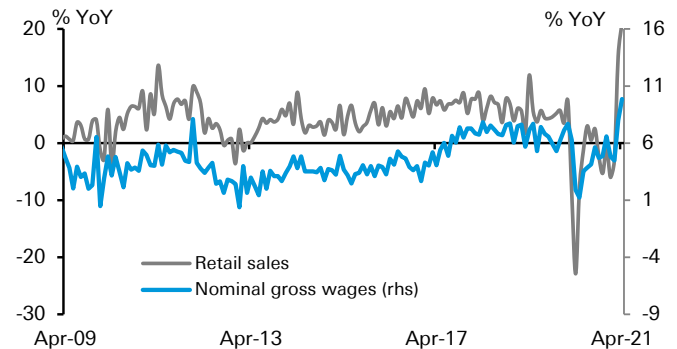
Source : National sources, Deutsche Bank

Figure 22: Industry has remained fairly resilient through Q1



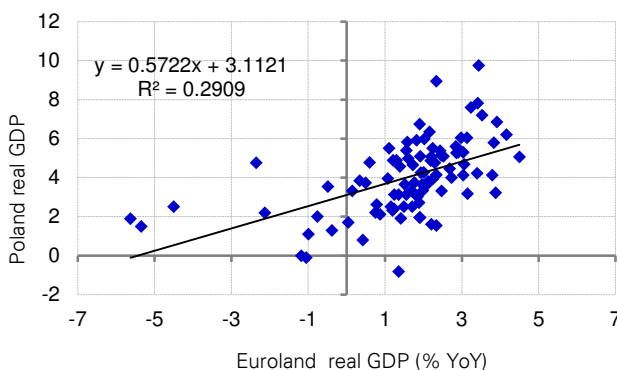
Source : GUS, Haver Analytics, Deutsche Bank

Figure 23: Retail sales are seeing a strong recovery on the back of high nominal wage growth and a tight labour market



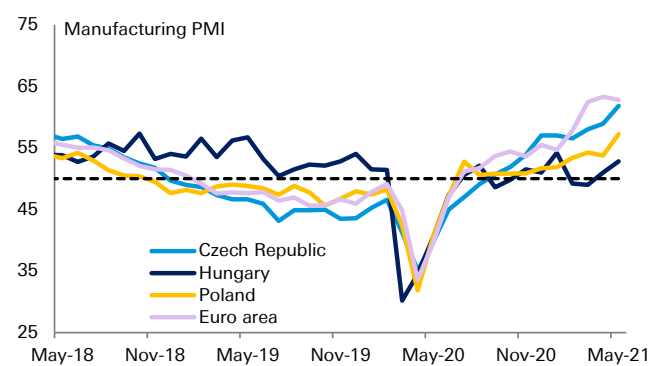
Source : GUS, Haver Analytics, Deutsche Bank

Figure 24: Poland growth has a high correlation with Euro area cycles with strong linkages via manufacturing sectors...



Source : GUS, Eurostat, Deutsche Bank

Figure 25: ...as is evident in the strong PMI data in Poland

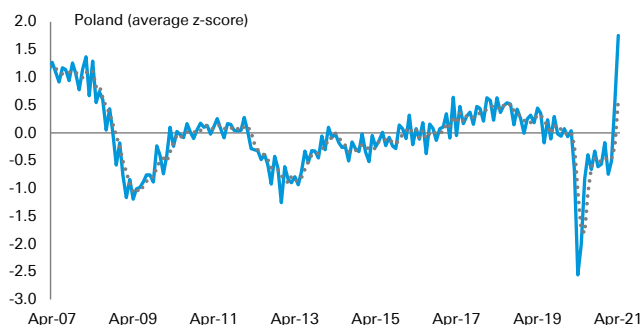


Source : Haver Analytics, Deutsche Bank

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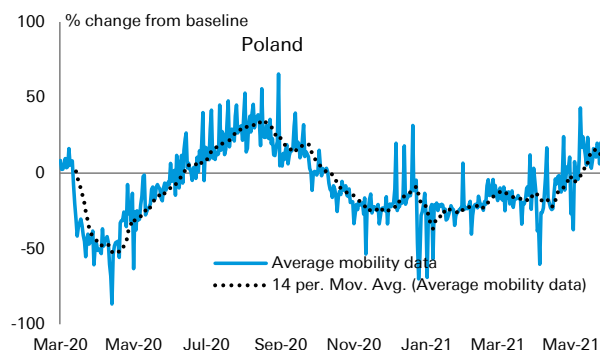


Figure 26: Our aggregate indicator of high-frequency data shows strong growth recovery already underway in Poland



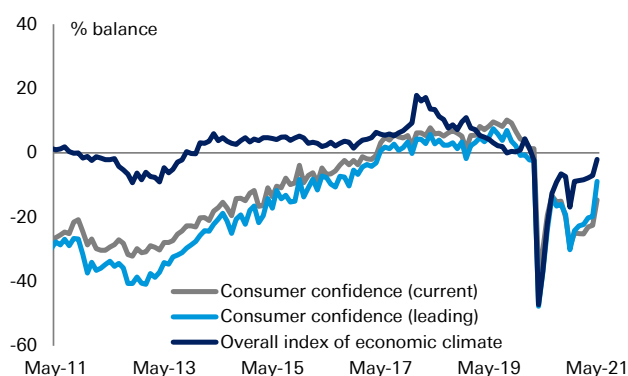
Source : Haver Analytics, Deutsche Bank

Figure 27: Phone mobility data shows activity back above pre-Covid levels



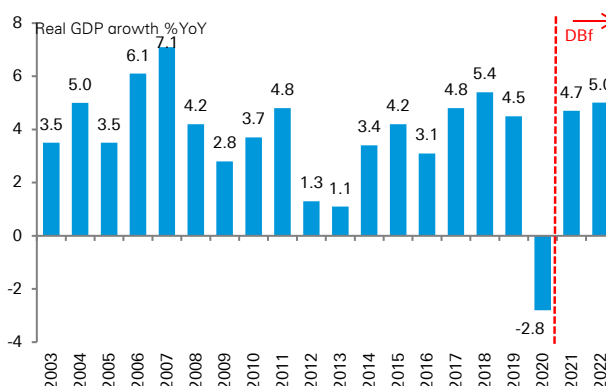
Source : Google community mobility reports, Deutsche Bank

Figure 28: Forward-looking indicators point to improved outlook ahead



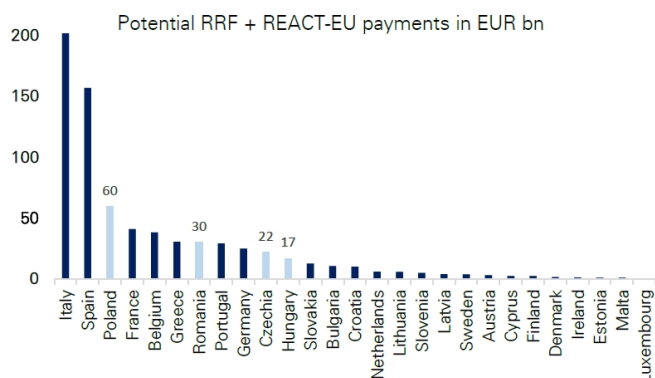
Source : Haver Analytics, Deutsche Bank

Figure 29: We expect Poland too post a strong growth recovery this year



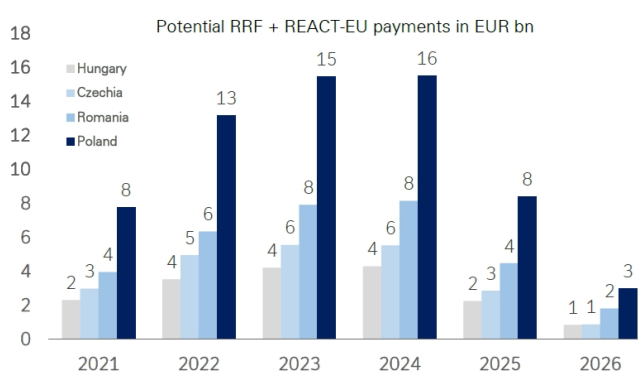
Source : GUS, Deutsche Bank

Figure 30: Poland is one of the largest beneficiaries of the EU Recovery Fund...



Source : European Commission, Deutsche Bank

Figure 31: ...with payments likely to aid growth recovery over the next five years



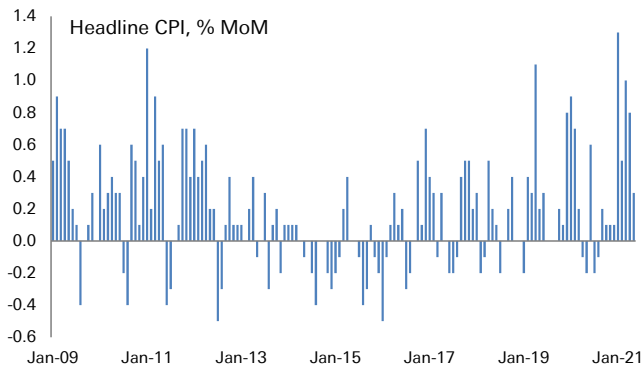
Source : European Commission estimates, Deutsche Bank

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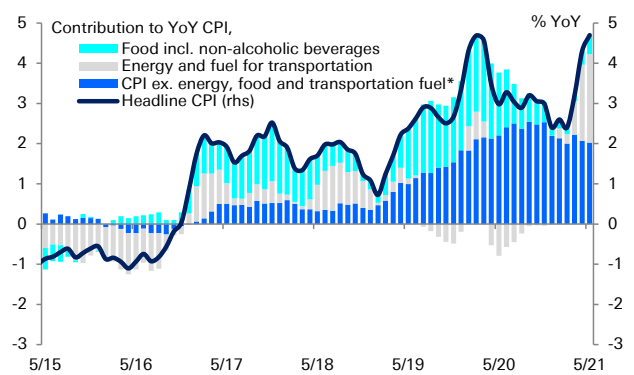
Inflation

Figure 32: Headline inflation in MoM terms declined in May to a 5-month low....



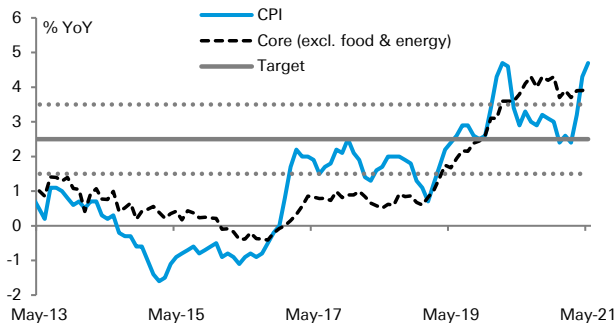
Source : GUS, Haver Analytics, Deutsche Bank

Figure 33: ...but YoY inflation is being driven higher by base effects and fuel prices



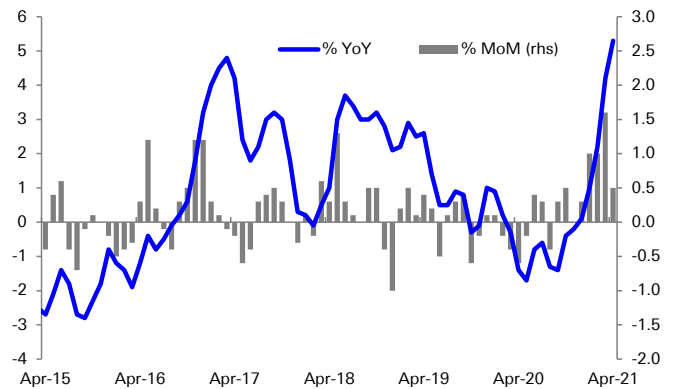
Source : GUS, Haver Analytics, Deutsche Bank

Figure 34: Headline and core inflation both significantly above the NBP's target



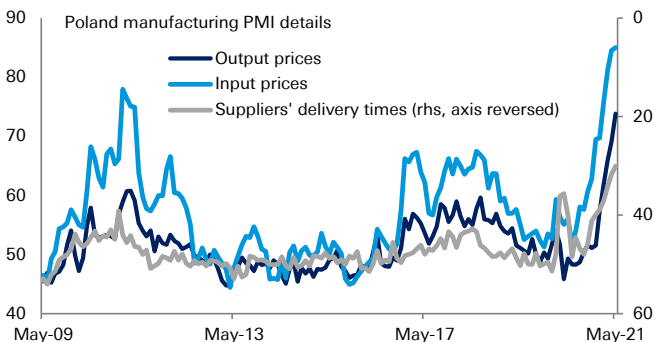
Source : GUS, Haver Analytics, Deutsche Bank

Figure 35: PPI data shows that upstream pressures are elevated



Source : GUS, NBP, Haver Analytics, Deutsche Bank

Figure 36: Supply side constraints adding to inflationary pressures



Source : Haver Analytics, Deutsche Bank

Figure 37: Consumer price expectations remain elevated while industry pricing picking up sharply



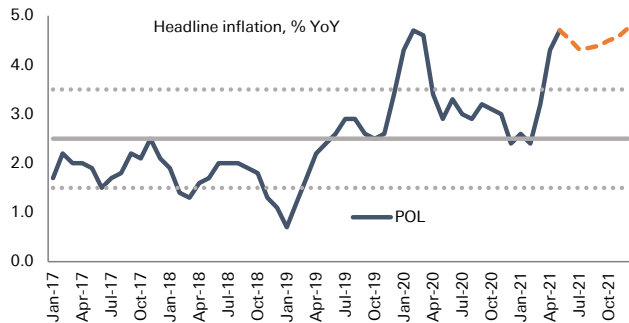
Source : Eurostat, GUS, NBP, Haver Analytics, Deutsche Bank

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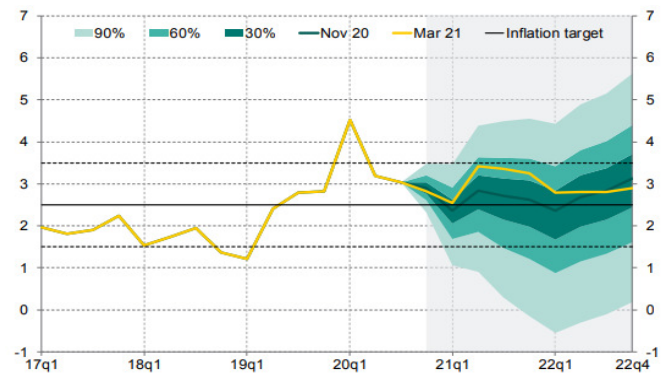
Monetary policy

Figure 38: We expect inflation to remain above target for the rest of 2021 on the back of strong demand recovery and persistent cost pressures



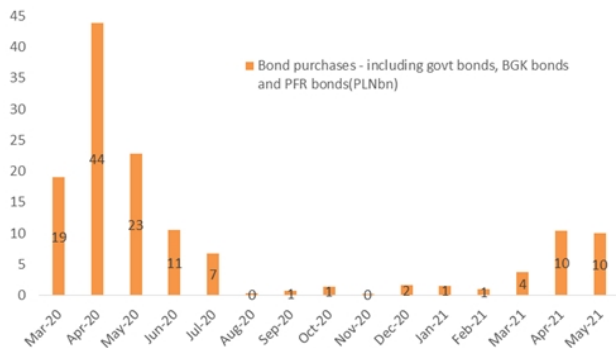
Source : GUS, NBP, Haver Analytics, Deutsche Bank

Figure 39: Despite revising inflation path upwards, NBP's March projections are quite subdued



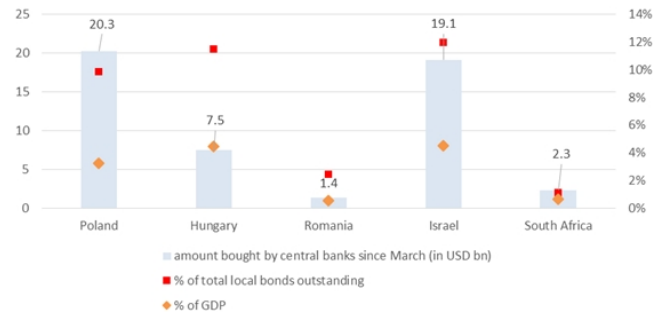
Source : NBP, Deutsche Bank

Figure 40: The NBP has bought PLN 134bn in local bonds so far and sees an end to QE before hiking rates



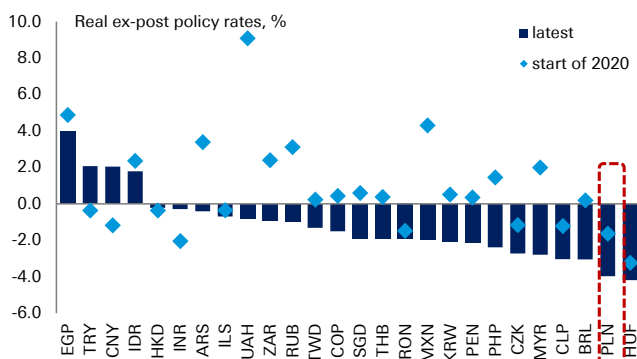
Source : NBP, Deutsche Bank

Figure 41: NBP's post-Covid bond purchases are the highest in the region up to now



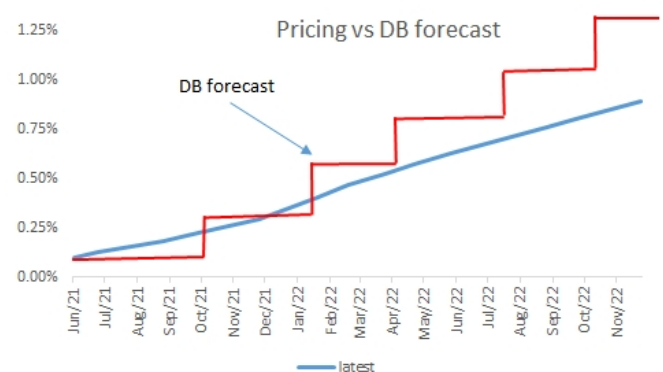
Source : National sources, Deutsche Bank

Figure 42: Real rates in Poland now among the lowest in EM



Source : Haver Analytics, Deutsche Bank

Figure 43: We expect the lift-off to come in October and remain more hawkish than market pricing for 2022



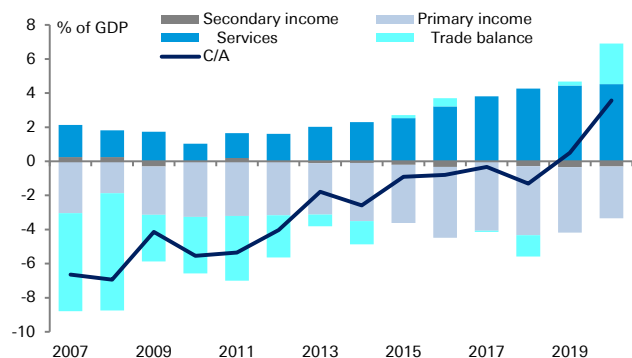
Source : Deutsche Bank

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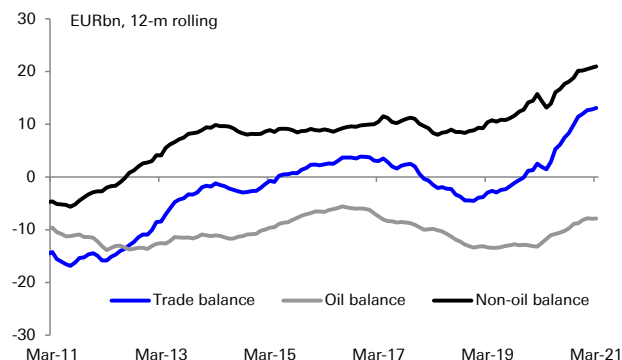
External risks

Figure 44: Current account reached record surplus in 2020...



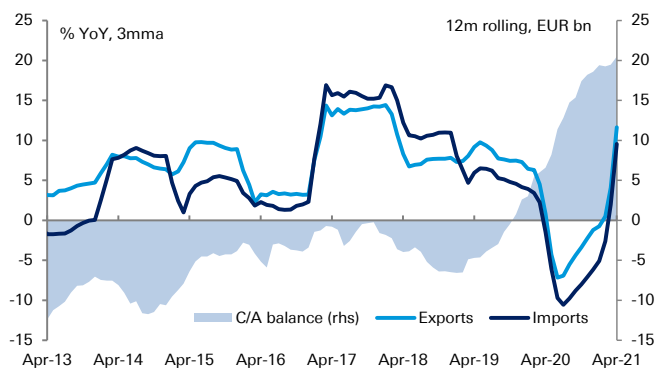
Source : Haver Analytics, Deutsche Bank

Figure 45: ...led by a rising non-oil trade balance, which has continued to improve into Q1-21



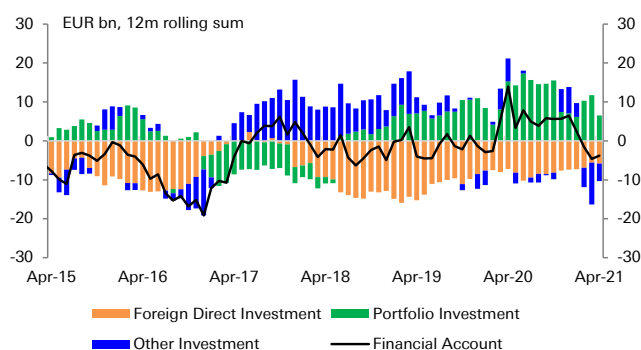
Source : Haver Analytics, Deutsche Bank

Figure 46: More subdued imports growth continues to keep the C/A elevated



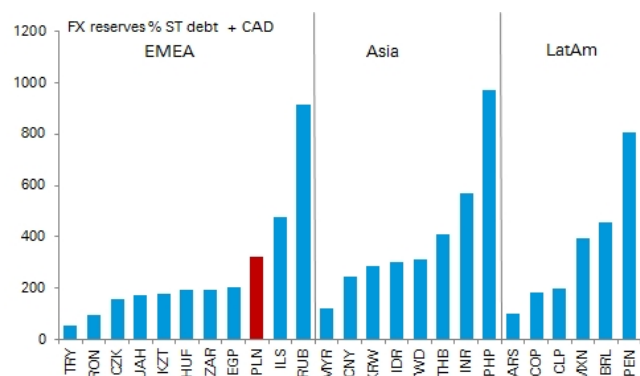
Source : Haver Analytics, Deutsche Bank

Figure 47: The financial account has deteriorated



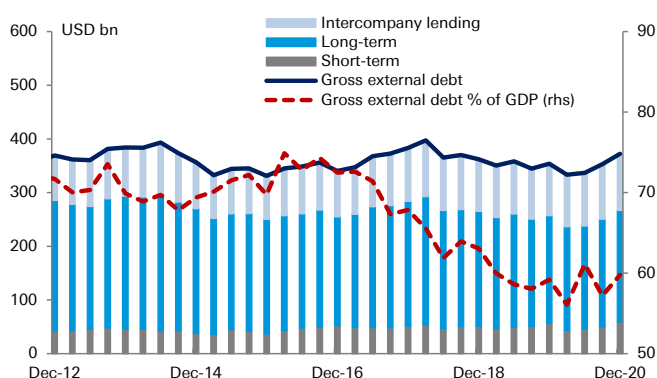
Source : Haver Analytics, Deutsche Bank

Figure 48: Poland has a healthy reserve adequacy in CEEMEA



Source : Haver Analytics, Deutsche Bank

Figure 49: External debt has seen only a slight increase in 2020



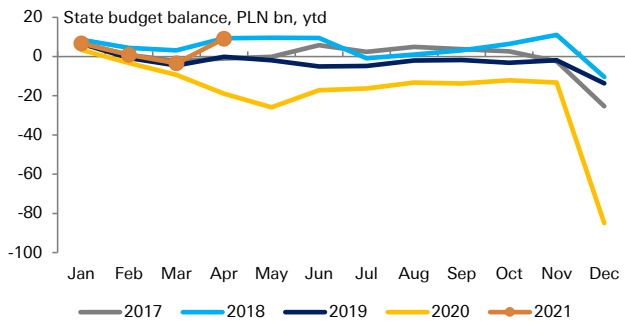
Source : Haver Analytics, Deutsche Bank

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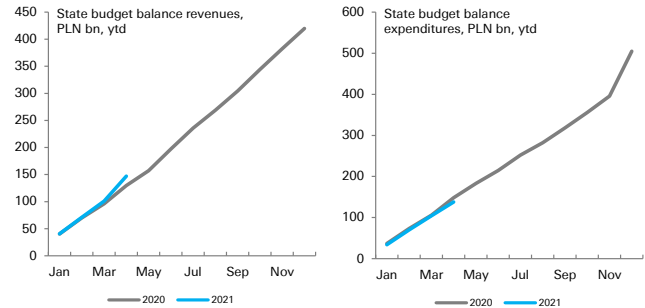
Fiscal and political risks

Figure 50: Poland saw a record deficit last year, 2021 performance better ytd...



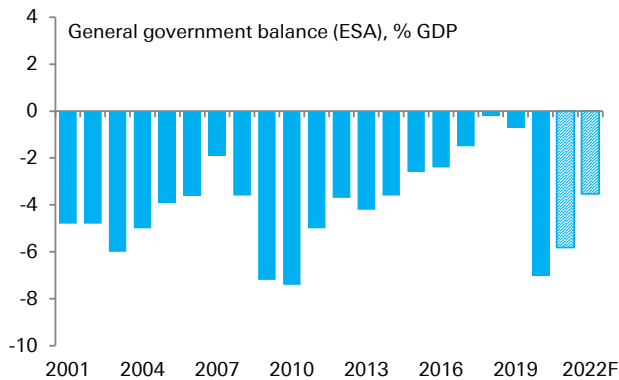
Source : Haver Analytics, Deutsche Bank

Figure 51: ...as expenditures are slightly lower amidst rising revenues



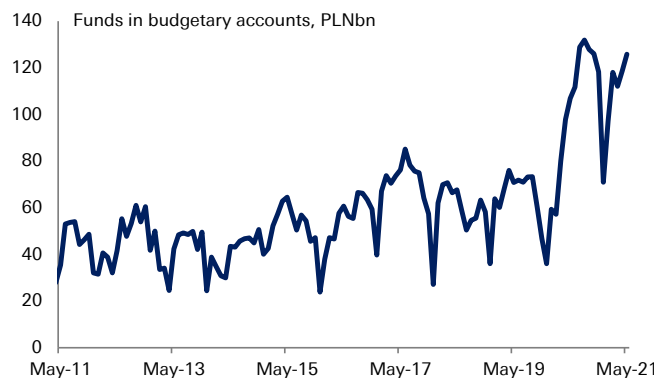
Source : Haver Analytics, Deutsche Bank

Figure 52: We expect the general government deficit to narrow this year



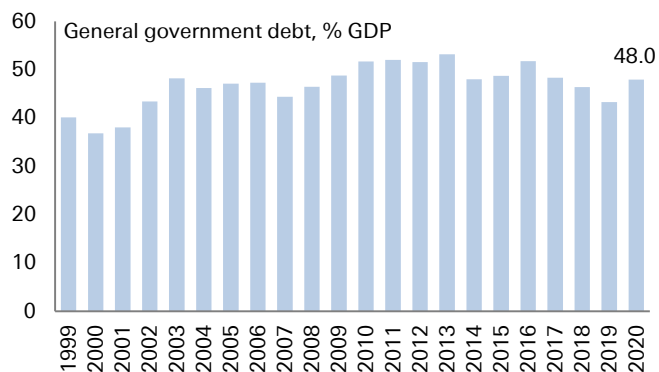
Source : Haver Analytics, Deutsche Bank

Figure 53: Poland's cash balances, at record high, limit fiscal risks



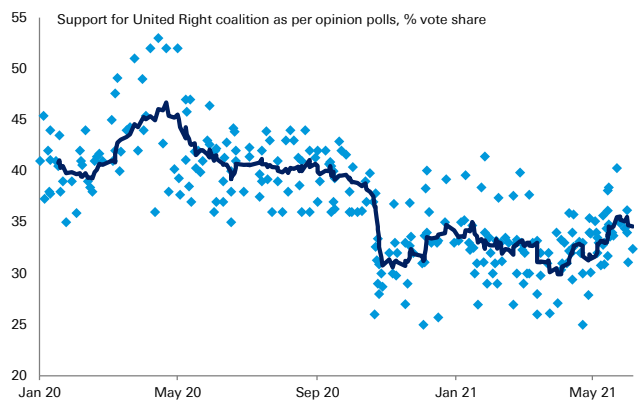
Source : Haver Analytics, Deutsche Bank

Figure 54: Government debt increased only moderately last year, to a three year high



Source : Haver Analytics, Deutsche Bank

Figure 55: Public support for the ruling PiS-led United Right coalition has declined sharply since last year



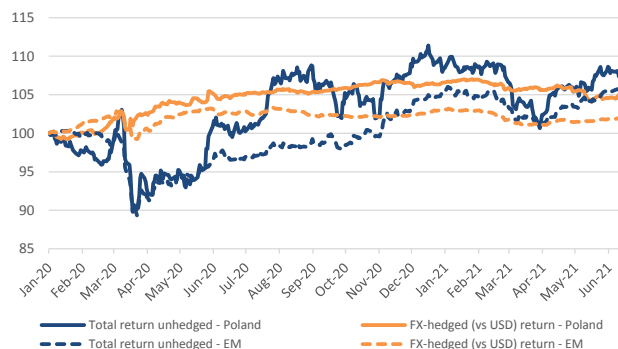
Source : Social Changes, Kantar Public, PGB Opinium, CBOS, Estymator, Pollster, IBRIS, CBM Indicator, United Survey, IBSP, Kantar, IPSOS, Opinia24, Research Partner, UCE RESEARCH, Deutsche Bank

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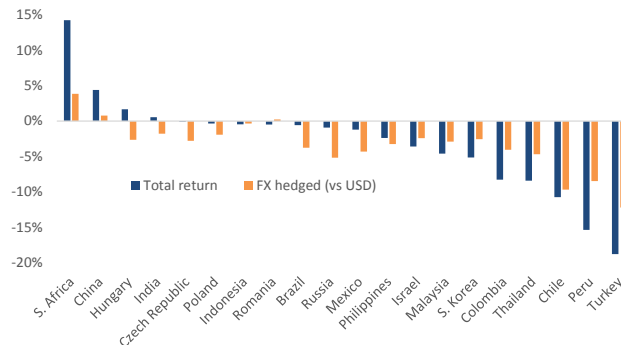
Local Markets Strategy

Figure 56: Polish local markets provided decent returns of late...



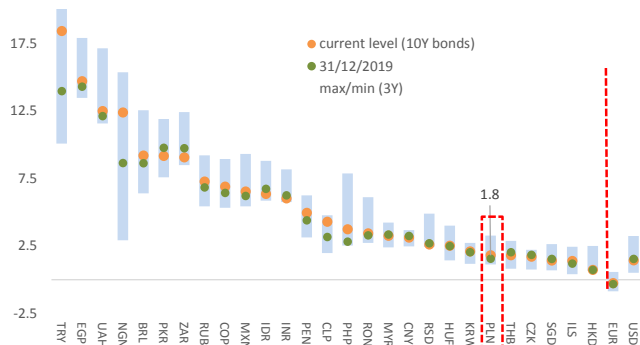
Source : Deutsche Bank, Bloomberg Finance LP

Figure 57: ...however, primarily driven by FX, not fixed income



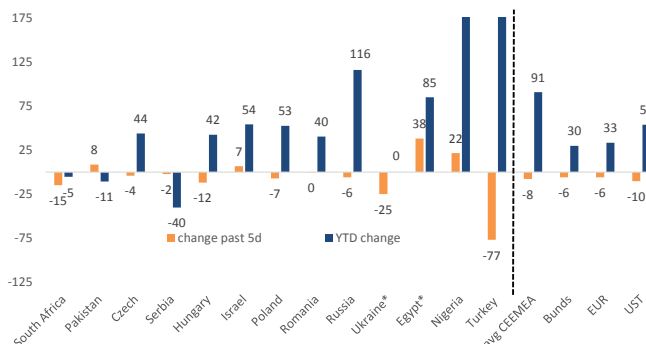
Source : Deutsche Bank, Bloomberg Finance LP

Figure 58: 10Y bonds yields - based on constant maturity curves



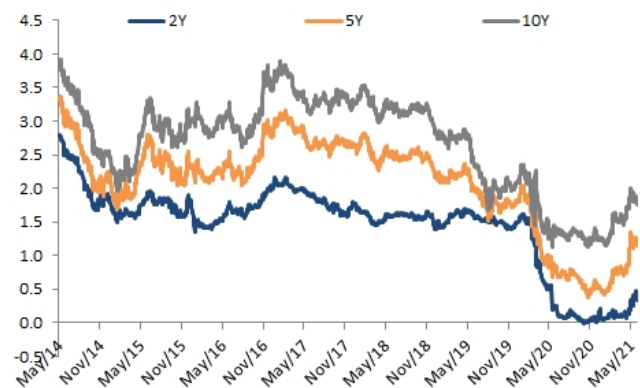
Source : Deutsche Bank, Bloomberg Finance LP

Figure 59: Change in 10Y bonds - last 5d/YTD



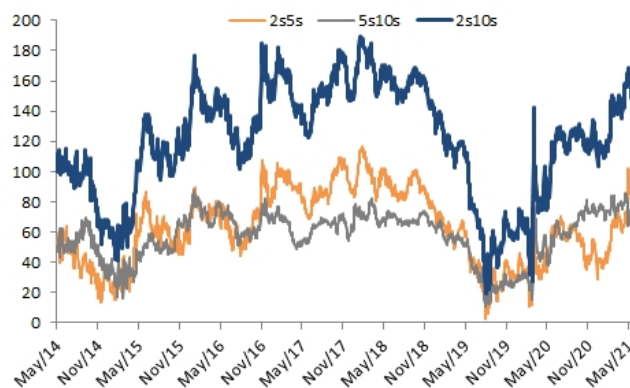
Source : Deutsche Bank, Bloomberg Finance LP

Figure 60: Local bonds have sold off so far this year...



Source : Deutsche Bank

Figure 61: ...the curve remains steep - despite recent flattening

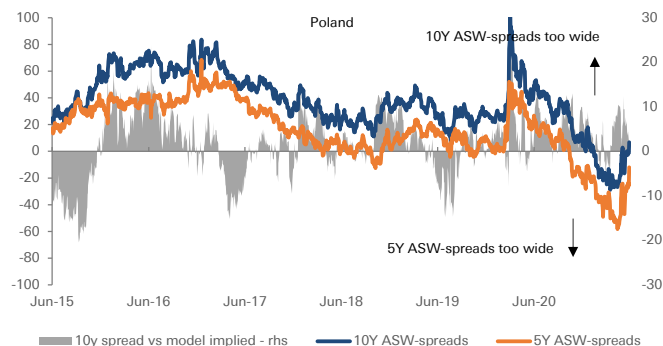


Source : Deutsche Bank

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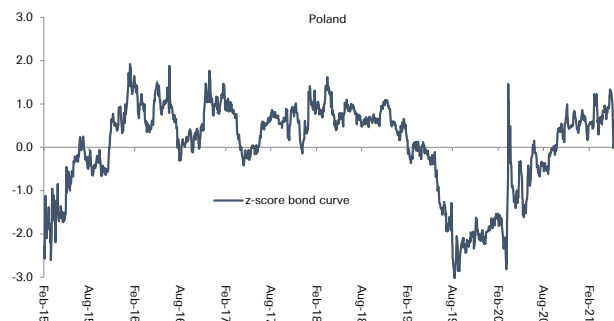


Figure 62: ASW-spreads have widened of late, but remain historically tight...



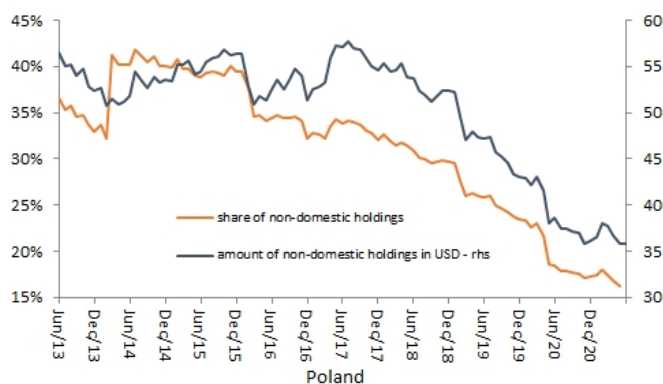
Source : Deutsche Bank, Bloomberg Finance LP

Figure 63: ...term-premium has declined back to the long-term average



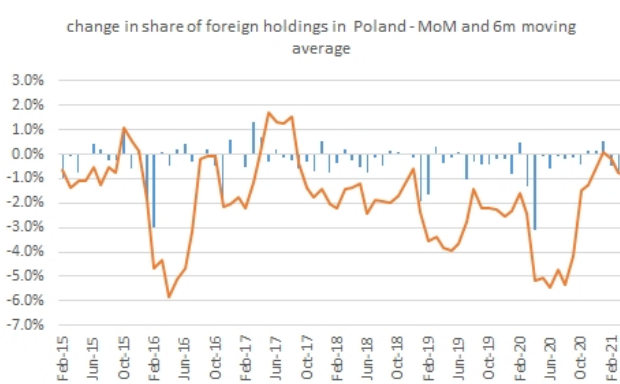
Source : Deutsche Bank, Bloomberg Finance LP; based on 5s10s slope over 2Y rate beta-adjusted (7Y rolling data shown as z-score)

Figure 64: Foreign holdings have reached a new record low...



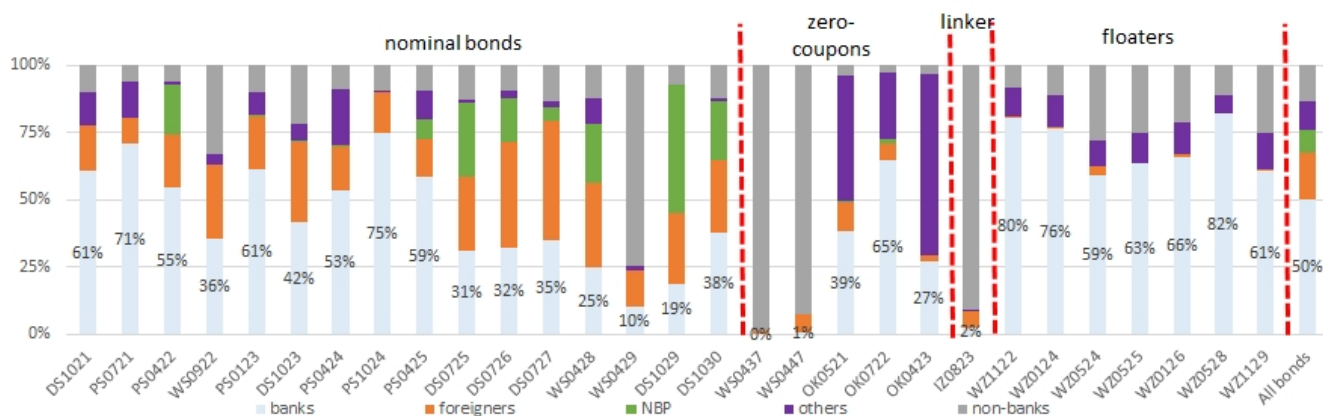
Source : Deutsche Bank, Haver Analytics

Figure 65: ...as the share has declined in almost every month in recent years



Source : Deutsche Bank, Haver Analytics

Figure 66: Who owns local bonds?

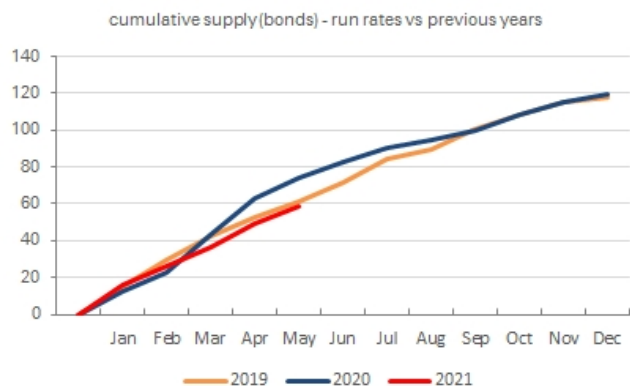


Source : Deutsche Bank, Haver Analytics

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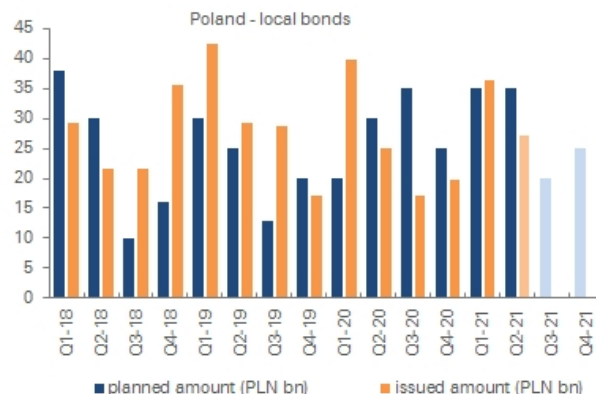


Figure 67: Local bond supply is similar to previous years...



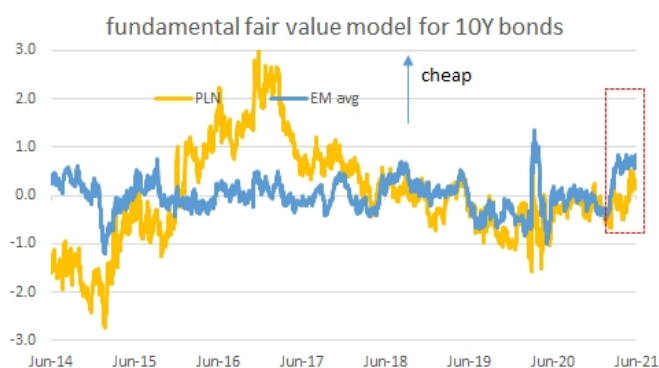
Source : Deutsche Bank

Figure 68: ...and we don't expect higher pressure



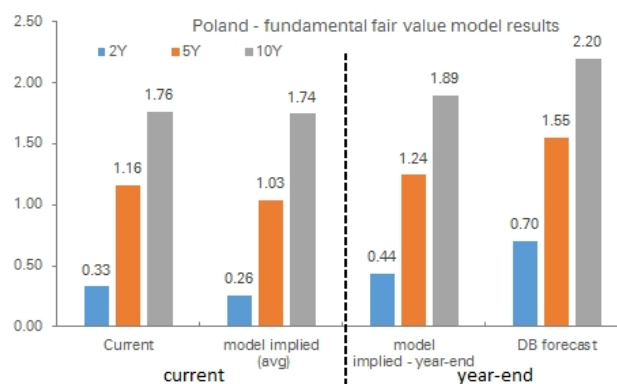
Source : Deutsche Bank

Figure 69: Bonds are slightly cheap in our models...



Source : Deutsche Bank

Figure 70: ...however, the cheapness is not significant



Source : Deutsche Bank

Figure 71: Bond yield forecast vs what is implied by the model

	1x4 spot FRA	10Y EUR CPI	10Y EUR swaps	USD PLN	2Y	5Y	10Y
current	0.23	4.70	0.09	3.73	0.33	1.16	1.76
					implied (avg)		
					2Y	5Y	10Y
					0.26	1.03	1.74
					-7	-13	-1
input variables (DB forecast)					model implied		
year-end	0.45	4.60	0.27	3.35	0.44	1.24	1.89
					11	8	14
					DB forecast		
					0.70	1.55	2.20
					37	39	44

Source : Deutsche Bank

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Figure 72: Return expectations in local fixed income

Tenor	Current	Year-end			bond return in lcy		FX implied yield (return)	excess return	
		DB forecast	Model implied	spread in bp	DB forecast	Model implied		DB forecast	Model implied
2Y	0.33	0.70	0.44	26	-0.5%	0.0%	0.1%	-0.7%	-0.2%
5Y	1.16	1.55	1.24	31	-1.1%	0.7%		-1.3%	0.5%
10Y	1.76	2.20	1.89	31	-1.6%	0.9%		-1.7%	0.8%

Source : Deutsche Bank

Figure 73: Bond valuation table - Jul-26, Oct-26 & Jul-27 are the most attractive bonds on the curve

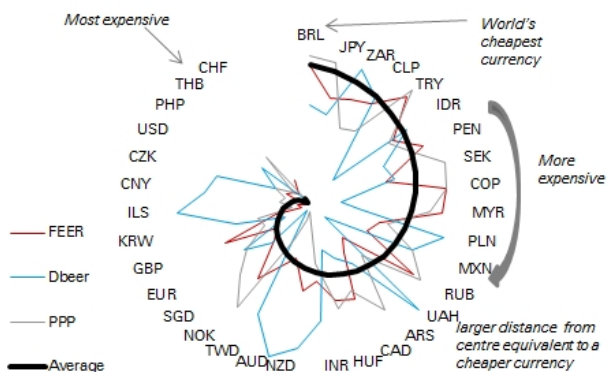
Poland																												
Maturity	Amount outstanding (USD bn)	Amount issued in auctions YTD (USD bn)	Amount issued in switches YTD (USD bn)	Liq	Valuation Rank	Dur	Yield in %	YTM change (bp)			Carry/Roll (3m)			Rich (-) / Cheap (+)				Rich/Cheap (3m)		ASW: bond - swap		Change			Range 12m			
								1d	1w	1m	B/E	Vol	Ratio	current (bp)	avg (bp)	pickup (bp)	Z-Score (3m)	-15	15	Level	Z-Score (1Y)	1d	1w	1m	-50	100		
Sep-22	6.0	-	-	L2	5	1.22	0.13	-1	-12	2	7.4	8.7	0.8	3	1	1	0.8			-38	-1.4	-1	-6	8				
Jan-23	8.8	-	-	L1	1	1.58	0.29	-1	-16	9	8.3	11.1	0.7	9	5	3	0.7			-33	-0.9	-2	-8	19				
Oct-23	7.2	-	-	L2	8	2.24	0.35	0	-13	6	7.6	15.0	0.5	-8	-6	-2	-0.8			-48	-1.0	-2	-2	19				
Apr-24	8.6	-	-	L1	12	2.77	0.51	0	-13	2	7.7	19.2	0.4	-7	-2	-4	-1.5			-46	-1.0	-2	0	16				
Oct-24	9.0	-	-	B	11	3.21	0.66	1	-10	1	7.5	20.4	0.4	-5	-2	-4	-1.0			-42	-0.9	-2	3	16				
Apr-25	6.9	1.6	0.7	L1	10	3.78	0.80	0	-13	-5	7.4	19.6	0.4	-4	0	-3	-2.2			-38	-0.9	-4	2	11				
Jul-25	10.3	-	-	L1	6	3.78	0.93	1	-11	-9	7.2	24.4	0.3	4	4	0	0.0			-29	-0.6	-3	5	7				
Jul-26	11.2	-	-	L1	2	4.71	1.21	2	-9	-11	6.7	27.5	0.2	10	3	6	1.4			-15	-0.3	-2	6	7				
Oct-26	4.7	2.8	1.0	B	-	5.25	1.28	2	-10	-11	6.6	-	-	9	5	4	1.4			-11	1.5	-2	6	8				
Jul-27	8.6	-	-	L1	3	5.56	1.35	2	-11	-16	6.0	27.4	0.2	5	1	4	1.3			-12	-0.4	-2	4	3				
Apr-28	8.1	-	-	L2	7	6.07	1.42	2	-12	-15	5.4	26.1	0.2	1	-1	1	0.2			-13	-0.4	-2	2	3				
Apr-29	2.3	-	-	L1	13	6.59	1.49	2	-12	-15	4.8	29.1	0.2	-4	-2	-2	-0.8			-14	-0.4	-2	1	3				
Oct-29	12.7	-	-	L1	14	7.38	1.60	2	-10	-17	4.5	24.1	0.2	-4	-1	-2	-0.8			-7	-0.6	-2	3	0				
Oct-30	8.9	4.9	0.9	B	15	8.65	1.74	2	-11	-14	4.0	21.9	0.2	-5	-2	-3	-0.7			0	-0.5	-1	1	2				
Apr-37	0.3	-	-	L2	4	11.75	2.12	2	-11	-3	1.8	22.1	0.1	4	2	3	1.2			-5	-0.1	-1	0	13				
Apr-47	1.0	-	-	L1	9	17.44	2.27	9	-4	0	0.9	25.5	0.0	-1	0	-1	-1.3			3	-0.5	6	9	14				

Source : Deutsche Bank, Bloomberg Finance LP

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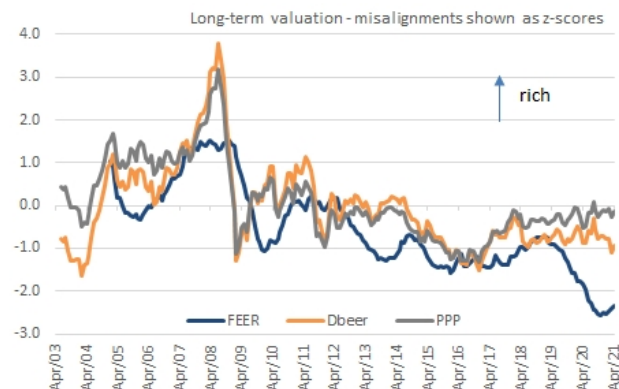


Figure 74: PLN is cheap in our models...



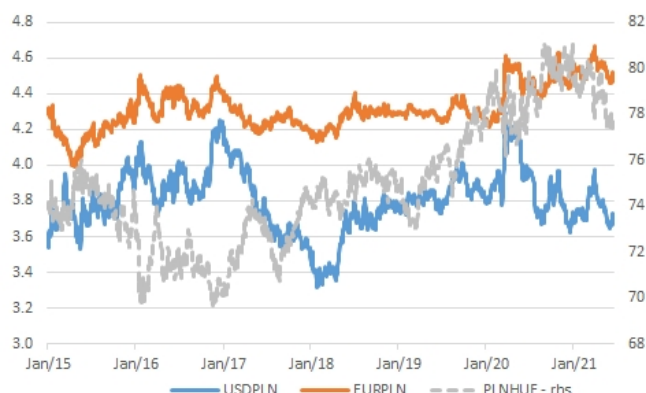
Source :Deutsche Bank, Bloomberg Finance LP

Figure 75:...particularly in the FEER, but also in the preferred DBeer model



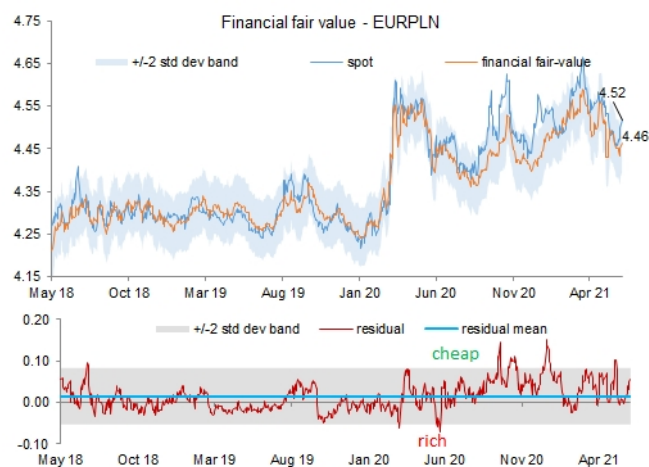
Source :Deutsche Bank, Bloomberg Finance LP

Figure 76: FX price action



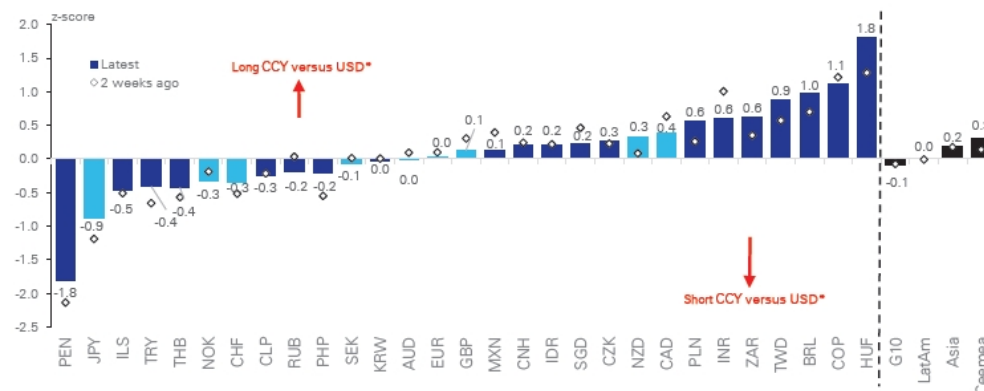
Source :Deutsche Bank, Bloomberg Finance LP

Figure 77: Short-term fair value model - PLN slightly cheap



Source :Deutsche Bank, Bloomberg Finance LP

Figure 78: DB EPIC+ positioning (as of 11-Jun-2021)



Source : Deutsche Bank, Bloomberg Finance LP, DTCC, EBS, Reuters, IMM, CORAX; <https://research.db.com/Research/TinyUrl/2D782>

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Appendix 1

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