Bank Zachodni WBK
Grupa Santander

EYEOPENER

18 November 2016

USDPLN highest since 2002

- **US data better than expected, but Fed chair suggested an imminent rate hike**
- **Zloty stable to euro, but lost versus dollar**
- **Weak auction and strong US data undermined Polish debt**
- **Labour Ministry: OFE funds should be transferred to state-controlled Demographic Reserve Fund**
- **Today Polish labour market data**

Yesterday's session on the FX and FI markets started with a rebound after recent strong moves, but strengthening of bonds and weakening of the dollar did not last too long. Several better than expected US data have been released in the afternoon (housing market, labour market), which was a clear support for the US currency, and factor that triggered correction in the bond market. Another impulse came from the Fed president's comment. Janet Yellen said that interest rate hike could take place relatively soon if data keep showing gradual improvement of the situation on the labour market (probability of FOMC rate hike in December rose to 96% according to Bloomberg).

EURUSD rebounded in the first stage of the session to 1.074, but the next part of the day saw the appreciation of the dollar, under influence of US data and Fed president's comments. As a result, at the end of Polish trading hours EURUSD approached this year's low, established one day earlier, c.1.066. Overnight the strengthening of the dollar has been continued and EURUSD temporarily fell to 1.058 (today in the morning it is close to 1.06). Today we will see no important data releases but several central bank officials from ECB and Fed will speak in public, which may influence the EURUSD. This week is the second week in a row when dollar appreciates, so a tendency to take profits may arise.

EURPLN approached Wednesday's peak at 4.46 but did not manage to break it and pulled back to 4.45 at the end of the day. At the same time, USDPLN resumed the upside move amid further dollar's strengthening and today in the morning the exchange rate is near 4.20 (its highest since 2002). In the case of the other CEE currencies, the ruble was stable vs the dollar while forint gained temporarily vs the euro. The global market sentiment is still fragile and investors are cautious (what we have seen at the yesterday's bond auction – details below) so we see rather limited scope for the zloty's recovery at the end of the week after the recent weakening.

On the domestic debt and IRS markets rates went clearly down at the opening of the session (even 6-7bp for 10Y) but the trend proved to be temporary only. A poor bond auction (details below) and strong US data were the triggers. As a result the domestic debt trimmed the morning gains and at the end of the day 10Y benchmark was 4bp above Wednesday closing. IRS yield moved slightly upwards (1-2bp).

Yesterday the Ministry of Finance sold PS0422, WZ1122 and WS0126 worth PLN3.65bn as compared to demand at PLN5.5bn. 5Y fixed-coupon bond accnounted for the lion's share of sales. Auction results were rather poor – total issue was only slightly above the lower offer limit, while demand was only slightly above the upper offer limit. According to our estimates, the Ministry covered already 100% of total borrowing needs after the budget amendment.

Yesterday the Polish Press Agency released the opinion prepared by the Labour Ministry on the pension system. The main assumption of the document is a transfer of the funds remaining in the private pension funds (OFE) to the state-controlled Demographic Reserve Fund and accounting them on the sub-accounts in the public pension fund (ZUS). Note that this recommendation is in contrast with the earlier propositions presented by deputy PM Mateusz Morawiecki and we do not know what is the official opinion of the government on this issue.

Arnaud Louis, Fitch rating agency analyst thinks that lowering of the retirement age and slower GDP growth entail risk for Polish fiscal outlook. He added that he expects the deficit to will remain below 3% of GDP. The next Fitch rating review for Poland is scheduled for January 2017. Earlier, in Decemeber, S&P will review their rating for Poland.

Maciej Łopiński, minister in the President's Office, said that Polish Financial Supervision Authority (KNF) and the Ministry of Finance should accelerate the works on capital requirements for banks to encourage them to convert FX loans into PLN.

Deputy minister of development Jerzy Kwieciński said that GDP growth will accelerate above 3% y/y in 4Q16. In our view it is more likely that economic growth will slow down below 2% in that period.

Today at 14:00 CET, Poland's StatOffice will release data from the labour market. In our view, employment increased a bit in October, following the trends observed earlier. Wage growth is likely to rebound slightly versus September (3.9% y/y) due to salary increases in the retail trade. On the other hand, the negative working-day effect will exert a negative pressure on wage growth.

ECONOMIC ANALYSIS DEPARTMENT:

al. Jana Pawła II 17, 00-854 Warsaw fax +48 22 586 83 40

email: ekonomia@bzwbk.pl Web site: skarb.bzwbk.pl

Maciej Reluga (Chief Economist)	+48 22 534 18 88
Piotr Bielski	+48 22 534 18 87
Agnieszka Decewicz	+48 22 534 18 86
Marcin Luziński	+48 22 534 18 85
Marcin Sulewski	+48 22 534 18 84

TREASURY SERVICES:

Poznań	+48 61 856 5814/30
Warszawa	+48 22 586 8320/38
Wrocław	+48 71 369 9400

FX market

Today's opening

EURPLN	4.4532	CZKPLN	0.1648
USDPLN	4.2030	HUFPLN*	1.4356
EURUSD	1.0595	RUBPLN	0.0646
CHFPLN	4.1570	NOKPLN	0.4899
GBPPLN	5.2100	DKKPLN	0.5985
USDCNY	6.8906	SEKPLN	0.4537

*for 100HUF

Last session in the FX market **17/11/2016**

	min	max	open	close	fixing
EURPLN	4.401	4.449	4.421	4.446	4.4386
USDPLN	4.090	4.166	4.119	4.157	4.1375
EURUSD	1.067	1.076	1.073	1.070	-

Interest rate market 17/11/2016

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0418 (2Y	1.85	6	3.11.2016	OK1018	1.798
PS0421 (5Y)	2.89	-1	21.10.2016	PS0422	2.499
DS0726 (10Y)	3.65	6	3.11.2016	DS0727	3.289

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.75	0	1.07	1	-0.19	0
2L	1.90	1	1.27	2	-0.14	-1
3L	2.03	2	1.45	2	-0.06	-1
4L	2.21	2	1.60	3	0.03	-1
5L	2.38	2	1.73	3	0.14	-1
8L	2.76	2	2.00	3	0.47	-1
10L	2.94	2	2.11	3	0.68	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.05	-1
T/N	1.37	20
SW	1.54	1
2W	1.62	0
1M	1.66	0
3M	1.73	0
6M	1.81	0
9M	1.83	0
1Y	1.85	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.73	0
3x6	1.74	0
6x9	1.74	-1
9x12	1.75	0
3x9	1.81	-1
6x12	1.82	0

Measures of fiscal risk

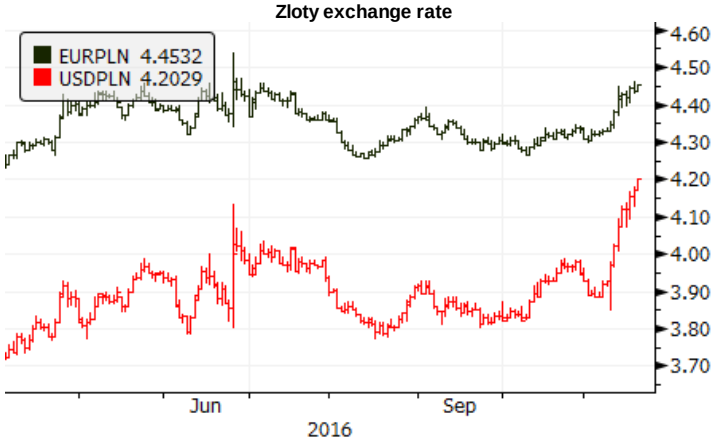
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	3.33	1
France	38	1	0.50	3
Hungary	116	1	3.28	-1
Spain	80	1	1.35	3
Italy	165	5	1.85	4
Portugal	273	-2	3.49	4
Ireland	65	0	0.73	2
Germany	22	0	-	-

* 10Y treasury bonds over 10Y Bunds

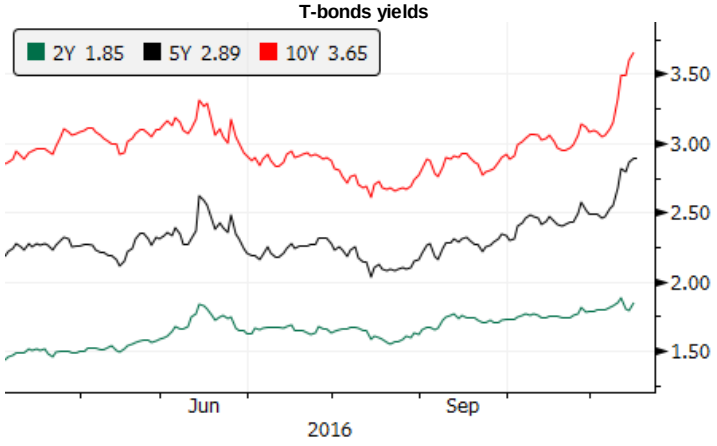
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

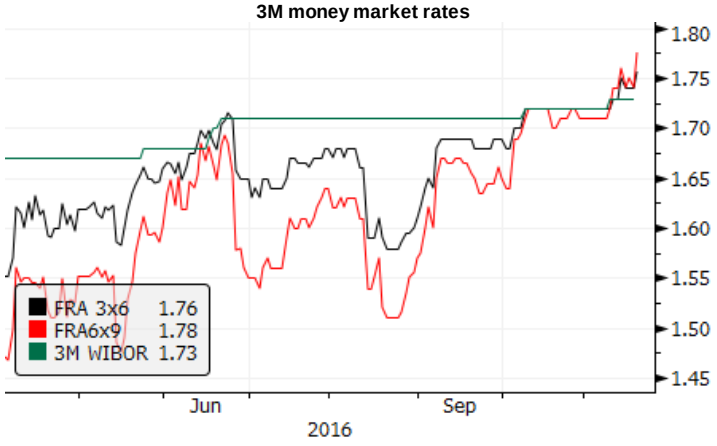
Zloty exchange rate



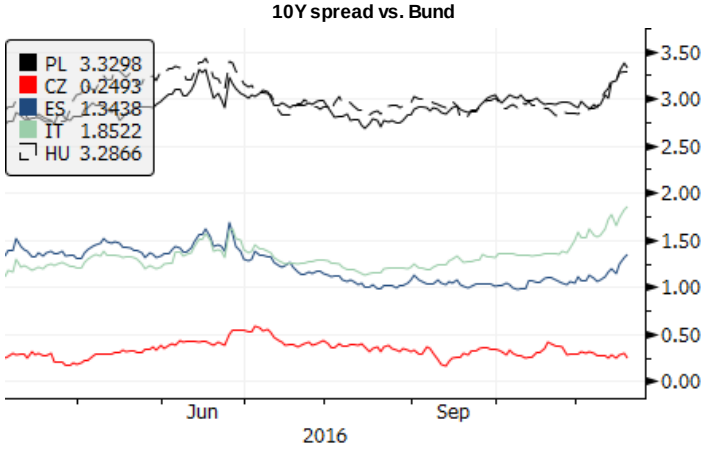
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	BZWBK		
		THURSDAY (10 November)						
14:30	US	Initial jobless claims	week	k	260	-	254	265
		FRIDAY (11 November)						
	PL	**Market holiday**						
16:00	US	Flash Michigan	Nov	pts.	87.3	-	91.6	87.2
		MONDAY (14 November)						
11:00	EZ	Industrial output	Sep	% m/m	-	-	-0.8	1.8
14:00	**PL**	**CPI**	**Oct**	**% y/y**	**-0.2**	**-0.2**	**-0.2**	**-0.5**
14:00	**PL**	**Balance of payments**	**Sep**	**€m**	**-605**	**-616**	**-999**	**-1007**
14:00	**PL**	**Exports**	**Sep**	**€m**	**15680**	**15820**	**15 312**	**13 816**
14:00	**PL**	**Imports**	**Sep**	**€m**	**15531**	**15889**	**15 512**	**14 294**
14:00	**PL**	**Money supply M3**	**Oct**	**% y/y**	**9.0**	**8.8**	**8.7**	**9.4**
		TUESDAY (15 November)						
8:00	DE	Flash GDP	Q3	% y/y	1.8	-	1.7	1.8
9:00	HU	Flash GDP	Q3	% y/y	2.0	-	2.0	2.8
9:00	CZ	Flash GDP	Q3	% y/y	2.1	-	1.9	2.6
10:00	**PL**	**Flash GDP**	**Q3**	**% y/y**	**2.9**	**2.9**	**2.5**	**3.1**
11:00	DE	ZEW index	Nov	pts	61.6	-	58.8	59.5
11:00	EZ	GDP	Q3	% y/y	1.6	-	1.6	1.6
14:00	**PL**	**Core inflation**	**Oct**	**% y/y**	**-0.3**	**-0.2****	**-0.2**	**-0.4**
14:30	US	Retail sales	Oct	% m/m	0.6	-	0.8	1.0
		WEDNESDAY (16 November)						
15:15	US	Industrial output	Oct	% m/m	0.2	-	0.0	-0.2
		THURSDAY (17 November)						
11:00	**PL**	**Bond auction**						
11:00	EZ	HICP	Oct	% y/y	0.5	-	0.5	0.4
14:30	US	House starts	Oct	% m/m	10.7	-	25.5	-9.5
14:30	US	Building permits	Oct	% m/m	-2.5	-	0.3	6.3
14:30	US	CPI	Oct	% m/m	0.4	-	0.4	0.3
14:30	US	Philly Fed index	Nov	pts	7.6	-	7.6	9.7
14:30	US	Initial jobless claims	week	k	257	-	235	254
		FRIDAY (18 November)						
14:00	**PL**	**Wages in corporate sector**	**Oct**	**% y/y**	**4.2**	**4.2**		**3.9**
14:00	**PL**	**Employment in corporate sector**	**Oct**	**% y/y**	**3.1**	**3.1**		**3.2**

Source: BZ WBK, Reuters, Bloomberg

** in case of the revision, the data is updated*

*** estimate after CPI data*

Additional information is available on request. Please contact Bank Zachodni WBK S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 88, email ekonomia@bzwbk.pl, http://www.bzwbk.pl.