

EYEOPENER

3 April 2017

Inflation below expectations

- Profit-taking at the end of the week
- Surprising fall of inflation in March
- Zloty gave away some gains versus euro and dollar, EURUSD with no major changes
- Polish IRS and yields down
- Today Polish activity index

On Friday European stocks gave up some of their gains, while the bond appreciation impulse decelerated, which had a slight negative impact on some of the CEE currencies. The preliminary March inflation data for the eurozone was lower than consensus but in the light of the estimates published for Germany and Spain a day earlier, the reading came as no major surprise to the market. The US consumer confidence index was worse than the preliminary estimates but it did not have a negative impact on risk assets.

EURUSD was hovering near 1.068 since the start of the session on Friday. Dollar has stopped gaining despite lower than expected inflation data from the euro zone. Today the indicators of manufacturing activity in March will be in focus. The final data for the euro zone and Germany should not differ too much from the flash readings, so the US data may prove to be the most important.

EURPLN rose to 4.24 from 4.21 after falling for six straight sessions, which could be attributable to weaker sentiment and preliminary March inflation data. The Polish zloty weakened against the US dollar at the end of the day. As for other CEE currencies, high fluctuation was observed. The Czech koruna recovered Thursday's declines (on the back of higher-than-consensus GDP growth in Q4). The Hungarian forint also advanced. The Russian rouble weakened after appreciating against the US dollar for two consecutive days. Today sentiment is quite good, hence the exchange rate may remain steady after the recent increases.

On the domestic interest rate market we saw a significant impact of the Polish inflation data although at the end of the day IRS and bond yields rebounded somewhat after the post-data decline. Still, the 10Y yield fell below 3.50%.

The Ministry of Finance announced that in 2Q17 it plans to offer bonds worth PLN20-30bn at five auctions. On April 6 the Ministry will offer OK0419/PS0422/WZ1122/WZ0126/DS0727

for the total amount of PLN3-5bn. The Ministry does not plan to issue T-bills in 2Q17.

According to the data released by the Ministry of Finance, in February Polish PLN-denominated marketable debt increased by PLN13bn out of which PLN11.5bn was bought by the Polish banks. As a result, the nominal value of their portfolio rose above PLN251bn. Non-residents purchased PLN1.3bn of the Polish bonds and at the end of February the nominal value of their portfolio stood at PLN195bn (highest since October 2016). Within this group, mutual funds purchased bonds for PLN2.2bn, commercial banks increased their holdings by PLN645mn while the stock on the omnibus accounts fell by PLN2bn and central banks (mainly from Asia and Middle East) reduced holdings for PLN900mn. Under the geographical criteria, euro zone countries and the entities from the US were the biggest buyers.

Flash CPI inflation in March fell to 2.0% y/y, from 2.2% in February and was lower than expected (market consensus at 2.3%). We do not know the details yet but the usual suspect for the surprise is food prices, especially prices of vegetables, which surged early in the year and now started retreating. Apart from that, fuel prices and gas tariffs fell quite significantly in March, and probably there was still no signs of underlying price pressure. According to our current forecast, in April inflation may inch up to 2.1% y/y but since May it may be below 2% again. The data are strongly against expectations for rate hikes in Poland.

This week two important events on the Polish market are PMI data and the Monetary Policy Council meeting. The MPC decision on Wednesday is not likely to surprise. The main interest rates will remain unchanged, and the NBP President Adam Glapiński will most likely repeat a similar story as in the previous months – there are no reasons for interest rate hikes this year (or possibly even in 2018), as inflation surge at the start of the year was temporary and driven by exogenous factors. The flash CPI data for March have even reinforced this argumentation.

PMI index for Poland slumped to 53.5pts in March from 54.2pts in April. The decline was driven by lower subindices of output, new orders and employment. The index fell for the second time in a row, but let us note that PMI is rather volatile and it is too early to state that the upward trend is reversing.

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

Piotr Bielski +48 22 534 18 87

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	4.2349	CZKPLN	0.1567
USDPN	3.9689	HUFPLN*	1.3707
EURUSD	1.0670	RUBPLN	0.0709
CHFPLN	3.9644	NOKPLN	0.4630
GBPPLN	4.9775	DKKPLN	0.5694
USDCNY	6.8872	SEKPLN	0.4448

*for 100HUF

Last session in the FX market 31/03/2017

	min	max	open	close	fixing
EURPLN	4.210	4.235	4.221	4.214	4.2198
USDPN	3.922	3.941	3.926	3.938	3.9455
EURUSD	1.070	1.077	1.075	1.070	-

Interest rate market 31/03/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.97	-5	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.87	-4	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.48	-3	23.03.2017	DS0727	3.568

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.77	0	1.38	0	-0.22	0
2L	1.91	-3	1.62	-1	-0.13	0
3L	2.06	-3	1.81	-1	-0.04	0
4L	2.22	-3	1.95	-1	0.07	0
5L	2.36	-3	2.06	-1	0.18	0
8L	2.66	-2	2.29	-1	0.55	0
10L	2.82	-2	2.39	-1	0.76	0

WIBOR rates

Term	%	Change (bps)
O/N	1.41	-5
T/N	1.59	19
SW	1.58	0
2W	1.63	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	1.74	0
3x6	1.74	0
6x9	1.76	-1
9x12	1.80	-1
3x9	1.80	-1
6x12	1.82	-2

Measures of fiscal risk

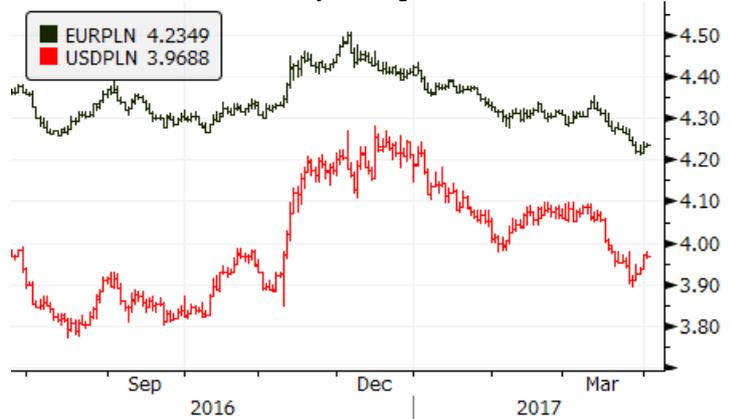
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	3.16	-2
France	50	1	0.64	0
Hungary	116	1	2.93	1
Spain	78	1	1.32	-1
Italy	170	1	1.98	0
Portugal	238	1	3.62	-1
Ireland	51	1	0.66	3
Germany	17	0	-	-

* 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



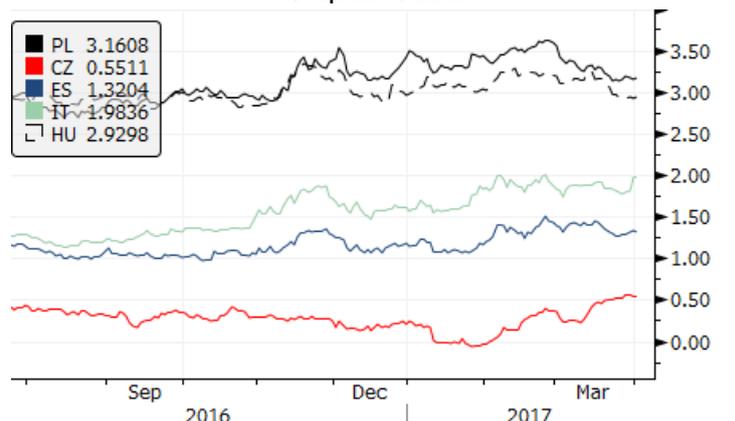
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		REALIZACJA	LAST VALUE*
				MARKET	BZWBK		
FRIDAY (31 March)							
9:00	CZ	GDP	Q4	% y/y	1.7	-	1.9
11:00	EZ	Flash HICP	Mar	% y/y	1.8	-	1.5
14:00	PL	Flash CPI	Mar	% y/y	2.3	2.2	2.2
14:30	US	Personal income	Feb	% m/m	0.4	-	0.4
14:30	US	Consumer spending	Feb	% m/m	0.2	-	0.1
16:00	US	Michigan index	Mar	pts	97.6	-	96.9
MONDAY (3 April)							
9:00	PL	PMI – manufacturing	Mar	pts	54.6	54.7	54.2
9:55	DE	PMI – manufacturing	Mar	pts	58.3	-	56.8
10:00	EZ	PMI – manufacturing	Mar	pts	56.2	-	55.5
16:00	US	ISM – manufacturing	Mar	pts	57.0	-	57.7
TUESDAY (4 April)							
11:00	EZ	Retail sales	Feb	% y/y	0.8	-	1.2
14:30	US	Trade balance	Feb	\$bn	-46.5	-	-48.5
16:00	US	Industrial orders	Feb	% m/m	0.9	-	1.2
16:00	US	Durable goods orders	Feb	% m/m	-	-	1.7
WEDNESDAY (5 April)							
	PL	MPC decision		%	1.50	1.50	1.50
9:55	DE	PMI – services	Mar	pts	55.6	-	54.4
10:00	EZ	PMI – services	Mar	pts	56.5	-	55.6
14:15	US	ADP report	Mar	k	180	-	298
16:00	US	ISM – services	Mar	pts	57.0	-	57.6
20:00	US	FOMC minutes					
THURSDAY (6 April)							
8:00	DE	Industrial orders	Feb	% m/m	3.4	-	-7.4
9:00	CZ	Industrial output	Feb	% y/y	-	-	9.6
11:00	PL	Bond auction					
14:30	US	Initial jobless claims	week	k	-	-	258
FRIDAY (7 April)							
8:00	DE	Industrial output	Feb	% m/m	-0.3	-	2.8
8:00	DE	Exports	Feb	% m/m	-0.5	-	2.7
14:30	US	Non-farm payrolls	Mar	k	174	-	235
14:30	US	Unemployment rate	Mar	%	4.7	-	4.7

Source: BZ WBK, Reuters, Bloomberg

* in case of the revision, the data is updated

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Additional information is available on request. Please contact Bank Zachodni WBK S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawla II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@bzwbk.pl, http://www.bzwbk.pl.