

EYEOPENER

20 April 2017

Optimistic Finance Ministry's assumptions

- Ministry of Finance updated the Convergence Programme
- Zloty weaker against the euro and dolar, EURUSD stable
- Slight fluctuations on the interest rate market
- Today, domestic data about retail sales and industrial output

Wednesday was calm on the global markets. Inflation in the Eurozone reached 1.5%, in line with the consensus. The main exchange rates remained stable. Oil prices fell quite sharply during the day, triggered by the information about the rising US supply. Yesterday the British Parliament backed the proposal on hosting early elections on June 8th.

According to the Fed's Beige Book published yesterday evening, the economic activity increased in each of the twelve districts between mid-February and the end of March, with the pace of expansion equally split between modest and moderate. Inflation pressure stayed limited, though companies had bigger difficulties acquiring employers. According to the report, in most areas low-qualified workers were hard to find and employers were pointing at rising wage pressure.

The Ministry of Finance presented the updated Convergence Programme, whereby deficit in the general government sector is expected to reach 2.9% of GDP in 2017, 2.5% in 2018, 2.0% in 2019 and 1.2% in 2020. The document confirmed our expectations that the pace of fiscal deficit reduction will be slower than in the previous update, due to, inter alia, the cost of lower retirement age. Public debt will be 55.3% of GDP in 2017, 54.8% in 2018, 54.0% in 2019 and 52.1% in 2020. The projections of the Ministry of Finance are based on quite optimistic macroeconomic assumptions. The Ministry anticipates GDP growth at 3.6% this year, 3.8% next year and 3.9% in 2019-2020. Economic growth will be driven by better private consumption (up 4% in 2017 and 3.5% in 2018) and sharp inflation growth. Investments are expected to increase 7.2% y/y in real terms this year, 7.6% y/y in 2018 and 7.3% y/y and 7% y/y in 2019 and 2020, respectively. According to the Ministry's projections, the situation in the labour market should improve and the LFS unemployment should fall from 5.7% in 2017 to 4% in 2020. In our opinion the above macroeconomic assumptions are quite ambitious - it will be difficult keep economic growth in the region of 4% in the coming years. Moreover, the assumptions pertaining to the labour market seem unrealistic as the falling number of economically active people and the growing number of working people may drag the LFS unemployment below 4% no later than in early 2018.

EURUSD did not move much yesterday and stabilized just above 1.07 after the Tuesday's jump. Today in the afternoon some US data will be released but these figures should not have much impact on the market as investors are waiting for the French presidential elections.

Both EURPLN and USDPLN neutralized Tuesday's decline and ended the Polish session at 4.24 and 3.96, respectively. Later in the day exchange rates reached c4.26 and c3.98. Zloty's appreciation that started on Tuesday was not continued which might have been due to the uncertainty related to the French elections. The other CEE currencies also lost somewhat at the end of the day, particularly the Russian ruble that was under pressure of falling oil price. Today in the morning EURPLN is above 4.25. Our forecasts for Polish retail sales and industrial output that are out due today are above the consensus which could potentially support the zloty. However, the recent EURPLN's free-fall was partly driven by improving optimism about Poland's economic outlook. That is why the positive impact of the Polish macro data on the zloty could be limited.

Investors' activity on the domestic bond market was modest on Wednesday and 10Y bond yield remained at Wednesday's close. The biggest changes could be seen yesterday on the belly of the curve. 5Y bond yield rose by 3 bp. to 2.83% resulting in steepening of the curve.

Employment in the corporate sector increased by 4.5% y/y in March, slightly slower than our and market expectations (4.6% y/y). It is too early to state that the employment growth rate is losing momentum, but Polish labour market is becoming tighter and it will be more and more difficult to note significant increases in the employment in the coming months. Wages went up sharply (5.2% y/y vs. market expectations of 4.3% y/y). While we expected some acceleration because of the working day effect, but the scale of growth, in our opinion, was caused by one-off effects, such as shifts in bonus payments. In the coming months wage growth should return to around 4% y/y, although we do not exclude acceleration in the coming quarters due to the depletion of labour resources. Wage bill in the corporate sector rose 7.7% y/y in March and c7% y/y in 1Q17. Strong rise in wages was supporting the private consumption at the beginning of the year and we estimate it grew more than 4% y/y in 1Q17.

Today at 14:00 we will see data on March retail sales and industrial output, which will be markedly better than in February thanks to a positive working day effect. Retail sales will be slightly undermined by Easter effect, securing lower annual growth rates of sales in some categories, especially in the food sales. Still, we expect real retail sales to grow by healthy 7.0% y/y.

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 Luzziński +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	4.2532	CZKPLN	0.1583
USDPLN	3.9650	HUFPLN*	1.3579
EURUSD	1.0727	RUBPLN	0.0702
CHFPLN	3.9780	NOKPLN	0.4623
GBPPLN	5.0827	DKKPLN	0.5717
USDCNY	6.8865	SEKPLN	0.4426

*for 100HUF

Last session in the FX market

18/04/2017

	min	max	open	close	fixing
EURPLN	4.229	4.254	4.235	4.249	4.2404
USDPLN	3.981	3.999	3.989	3.989	3.9571
EURUSD	1.060	1.067	1.062	1.065	-

Interest rate market

18/04/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.98	0	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.85	-1	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.36	-4	23.03.2017	DS0727	3.568

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.75	-1	1.33	-2	-0.23	0
2L	1.88	-4	1.49	-2	-0.16	-1
3L	2.03	-3	1.62	-3	-0.09	-2
4L	2.17	-4	1.73	-4	0.00	-1
5L	2.30	-4	1.83	-4	0.11	0
8L	2.59	-5	2.04	-5	0.45	-1
10L	2.75	-5	2.15	-5	0.66	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.64	-1
T/N	1.64	-1
SW	1.60	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	3
3x6	1.74	7
6x9	1.74	-2
9x12	1.79	21
3x9	1.81	8
6x12	1.82	16

Measures of fiscal risk

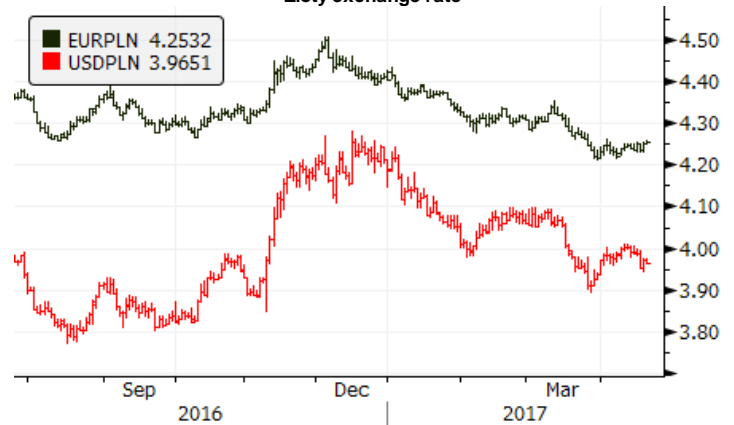
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	3.18	-6
France	54	11	0.79	6
Hungary	116	1	3.09	-1
Spain	83	1	1.49	-2
Italy	191	1	2.08	-1
Portugal	253	0	3.63	-1
Ireland	51	0	0.71	-1
Germany	18	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

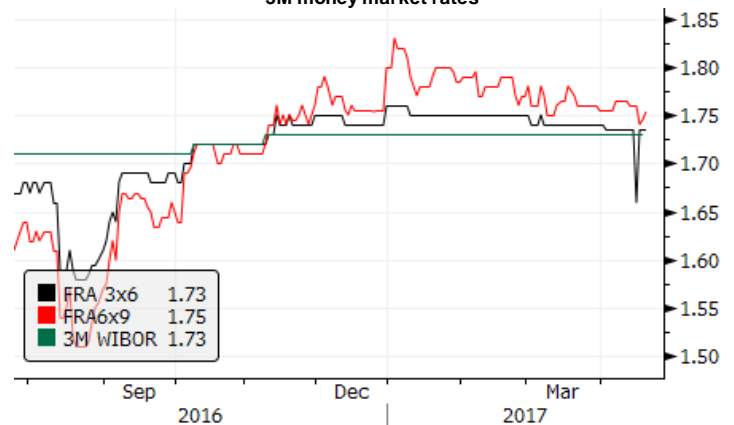
Zloty exchange rate



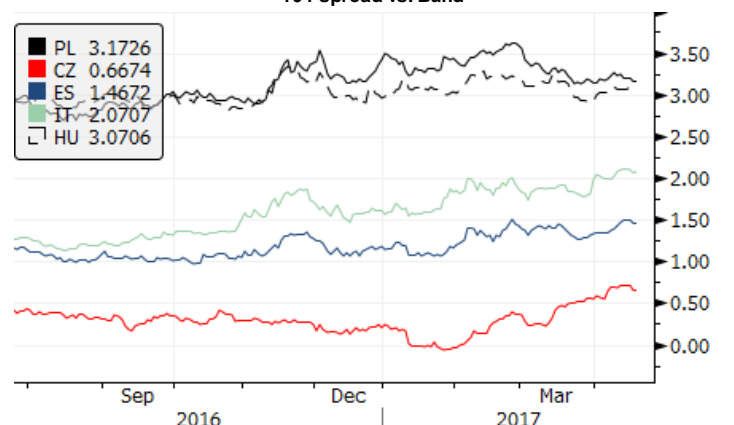
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		REALIZACJA	LAST VALUE*	
				MARKET	BZWBK			
FRIDAY (14 April)								
14:00	PL	Money supply	Mar	% r/r	8.7	8.3	7.7	8.2
14:30	US	CPI	Mar	% m/m	0.0	-	-0.3	0.1
14:30	US	Retail sales	Mar	% m/m	0.0	-	-0.2	-0.3
MONDAY (17 April)								
No important data releases								
TUESDAY (18 April)								
14:30	US	House starts	Mar	k	1253	-	1215	1303
14:30	US	Building permits	Mar	k	1250	-	1260	1216
15:15	US	Industrial output	Mar	%	0.5	-	0.5	0.1
WEDNESDAY (19 April)								
11:00	EZ	CPI	Mar	% y/y	1.5	-	1.5	2.0
14:00	PL	Wages in corporate sector	Mar	% y/y	4.3	4.2	5.2	4.0
14:00	PL	Employment in corporate sector	Mar	% y/y	4.6	4.6	4.5	4.6
20:00	US	Fed Beige Book						
THURSDAY (20 April)								
14:00	PL	Real retail sales	Mar	% y/y	6.6	7.0		5.2
14:00	PL	Industrial output	Mar	% y/y	7.4	8.7		1.2
14:00	PL	Construction and assembly output	Mar	% y/y	1.0	2.1		-5.4
14:00	PL	PPI	Mar	% y/y	4.6	4.6		4.4
14:30	US	Initial jobless claims	week	k	240	-		234
14:30	US	Philly Fed index	Apr	pts	25.8	-		32.8
FRIDAY (21 April)								
9:30	DE	Flash PMI – services	Apr	pts	55.5	-		55.6
9:30	DE	Flash PMI – manufacturing	Apr	pts	58.0	-		58.3
10:00	EZ	Flash PMI – services	Apr	pts	56.0	-		56.0
10:00	EZ	Flash PMI – manufacturing	Apr	pts	56.0	-		56.2
14:00	PL	MPC minutes						
16:00	US	Home sales	Mar	m	5.6	-		5.48

Source: BZ WBK, Reuters, Bloomberg

* in case of the revision, the data is updated

This publication has been prepared by Bank Zachodni WBK S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Bank Zachodni WBK S.A., its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Bank Zachodni WBK S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Bank Zachodni WBK S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

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 87, email ekonomia@bzwbk.pl, <http://www.bzwbk.pl>.