

# EYEOPENER

12 May 2017

## Today inflation data and Moody's decision

- Slight changes on the global market, German GDP in line with expectations
- European Commission presented its new economic forecasts
- Złoty weaker to euro and dollar, EURUSD temporarily down
- CEE bonds gained, core markets down
- Today Polish data on April inflation and Moody's rating update, important US data

Global markets seemed calm on Thursday, but equities ended the day in a mixed mood. The Bank of England left its policy unchanged and informed that a rate hike should be expected only in late 2019. Increasing risk appetite led to more demand for bonds in the CEE region despite core market yields moving higher. Oil and copper prices pushed to the highest levels this week.

Preliminary release of German GDP for 1Q showed 1.7% y/y, as was expected. The statistics office did not offer a full breakdown of the result but underscored stronger investment and very positive contribution of net exports. Such growth structure bodes well for demand for Polish goods which should be seen in export numbers. We expect the German economy to grow by 1.8% this year.

Yesterday the European Commission (EC) published its spring economic forecasts. EC expects that Polish GDP will grow by 3.5% this year (from 3.2% estimated at the end of 2016, we expect 3.6%) and will slow to 3.2% next year, which is below our forecast. (3.3%). HICP inflation should be 1.8% this year, and 2.1% in 2018. The Commission draws attention to the tightening labour market (the unemployment rate at the end of 2018 is expected to be 4.4%), which may affect some sectors of the economy and limit infrastructure investments (we have been stressing this issue for some time now). On the downside, there is also the possibility of the worsening business confidence, which may weigh on private investment. The Commission predicts that the general government deficit will reach 2.9% of GDP in 2017 and 2018, and rising expenditure will be offset by higher VAT revenues. At the end of 2018, the Commission forecasts that the Polish debt to GDP should approach 55%.

On yesterday's opening EURUSD fell and better-than-expected data from the US labour market additionally strengthened the

dollar and the rate reached 1.084. In the rest of the day, the euro rebounded and EURUSD returned to 1.087 - level from the opening session. EURUSD may be influenced by data from the US economy (CPI, retail sales, consumer sentiment).

On Thursday, the zloty lost vs main currencies. EURPLN was on the rise since the beginning of the day and reversed the whole Wednesday's decline. Despite significant strengthening of Polish bonds, EURPLN ended the day near 4.22. The zloty lost also vs the dollar – USDPLN rose temporarily to nearly 3.90. Continued rebound in oil price boosted the ruble vs the greenback and USDRUB reached its lowest since early May. The other CEE currencies did not move much – EURHUF stayed near Wednesday's closing and EURCZK remained close to 26.6.

After Wednesday's strengthening, on Thursday European bonds were under pressure. The 10Y Bund yield rose above 0.43%. At the same time, investors continued to buy the CEE debt and the Polish long-term benchmark was traded at 3.34% after having fallen by 5bp. Hungarian and Russian bonds gained even more. The 10Y PL-DE bond yield spread is now at 295bp, and respective spread for Hungarian bond is at 272bp. In the meantime, IRS stayed unchanged and the asset swap spread narrowed to 50bp.

Today Poland final April inflation will be released and we expect it should stabilise near 2% y/y for the better part of the year, possibly sliding a bit below this level. We see some risk of upward surprise from food prices later this year due to the fact that the recent weeks, crucial for this year's fruit output, were quite cold compared to the previous years. Our scenario still assumes CPI growth going down to 1.5% y/y at the end of the year and core inflation rising to 1.5%.

According to Moody's calendar, today the agency may release its revision of Polish credit risk. One cannot exclude the agency could upgrade the rating outlook from negative to stable (like it is at Fitch and S&P). Surprisingly strong macroeconomic performance in 1Q could justify action, but actually when Moody's imposed the negative outlook in May 2016 it used the economic resilience of Poland as a reason to refrain from an outright downgrade of the country. The decision on outlook was driven by the lowering of the pension age and signals of little fiscal discipline as well as risks of a collapse in investment climate.

### ECONOMIC ANALYSIS DEPARTMENT:

al. Jana Pawła II 17, 00-854 Warsaw fax +48 22 586 83 40  
 email: [ekonomia@bzwbk.pl](mailto:ekonomia@bzwbk.pl) Web site: [skarb.bzwbk.pl](http://skarb.bzwbk.pl)  
 Piotr Bielski +48 22 534 18 87  
 Marcin Luziński +48 22 534 18 85  
 Grzegorz Ogonek +48 22 534 19 23  
 Izabela Sajdak, CFA +48 22 534 18 86  
 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	4.2222	CZKPLN	0.1589
USDPLN	3.8838	HUFPLN*	1.3604
EURUSD	1.0871	RUBPLN	0.0681
CHFPLN	3.8541	NOKPLN	0.4517
GBPPLN	5.0049	DKKPLN	0.5675
USDCNY	6.9026	SEKPLN	0.4374

\*for 100HUF

## Last session in the FX market

11/05/2017

	min	max	open	close	fixing
EURPLN	4.207	4.230	4.212	4.221	4.215
USDPLN	3.866	3.898	3.875	3.884	3.8744
EURUSD	1.084	1.089	1.087	1.087	-

## Interest rate market

11/05/2017

## T-bonds on the interbank market\*\*

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.98	-1	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.83	-4	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.36	-5	23.03.2017	DS0727	3.568

## IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.76	-1	1.39	0	-0.23	0
2L	1.93	-1	1.60	0	-0.13	0
3L	2.09	-2	1.76	0	-0.02	0
4L	2.26	-2	1.88	0	0.10	0
5L	2.39	-2	1.99	0	0.23	-1
8L	2.68	-2	2.22	1	0.61	-1
10L	2.83	-2	2.32	1	0.83	-1

## WIBOR rates

Term	%	Change (bps)
O/N	1.62	-1
T/N	1.62	-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	0
3x6	1.74	0
6x9	1.75	-2
9x12	1.81	0
3x9	1.80	0
6x12	1.83	0

## Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.93	-5
France	29	0	0.44	0
Hungary	116	1	2.63	2
Spain	66	0	1.20	0
Italy	160	1	1.85	-1
Portugal	201	-2	2.95	0
Ireland	39	0	0.46	4
Germany	16	0	-	-

\* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

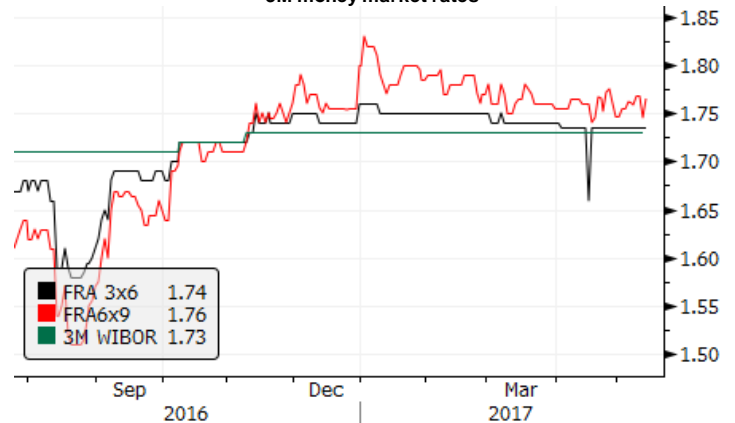
## Zloty exchange rate



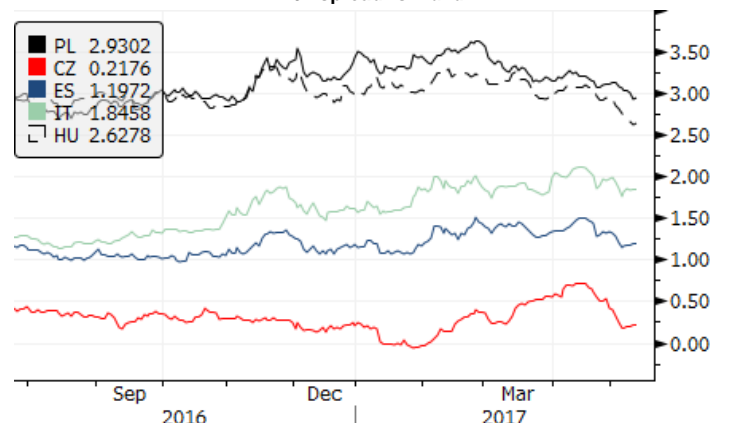
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic calendar

Economic calendar								
TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	BZWBK		
FRIDAY (5 May)								
14:30	US	Non-farm payrolls	Apr	k	190	-	211	79
14:30	US	Unemployment rate	Apr	% y/y	4.6	-	4.4	4.5
MONDAY (8 May)								
8:00	DE	Industrial orders	Mar	% m/m	0.8	-	1.0	3.4
TUESDAY (9 May)								
8:00	DE	Exports	Mar	% m/m	0.2	-	0.4	0.9
8:00	DE	Industrial output	Mar	% m/m	-0.7	-	-0.4	1.8
WEDNESDAY (10 May)								
9:00	CZ	Industrial output	Mar	% y/y	9.5	-	10.9	2.7
9:00	CZ	CPI	Mar	% y/y	2.3	-	2.0	2.6
9:00	HU	CPI	Apr	% y/y	2.3	-	2.2	2.7
THURSDAY (11 May)								
14:30	US	Initial jobless claims	week	k	245	-	236	238
FRIDAY (12 May)								
	PL	Moody's rating decision						
8:00	DE	Flash GDP	Q1	% y/y	1.7	-	1.7	1.7
11:00	EZ	Industrial output	Mar	% y/y	2.4	-		1.2
14:00	PL	CPI	Apr	% y/y	2.0	2.0		2.0
14:00	PL	Money supply	Apr	% y/y	7.2	7.3		7.7
14:30	US	CPI	Apr	% m/m	0.2	-		-0.3
14:30	US	Retail sales	Apr	% m/m	0.6	-		-0.2
16:00	US	Flash Michigan	May	pts	97.0	-		97.0

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.