

EYEOPENER

16 May 2017

Flash 1Q GDP today

- **The start of the week under the spell of Friday's trends**
- **Zloty stronger after Moody's decision, EURUSD continues to rise**
- **Polish bond yields rebound**
- **Today flash readings on 1Q GDP in Poland and the rest of the region and US housing data.**

Monday's session on the global stock exchanges was fairly quiet, while in the currency and bond market the changes were quite visible. In reaction to the agreement of Russia and Saudi Arabia to extend the oil output cut for a further nine months until March 2018, the prices of the commodity rose sharply, approaching the level of \$52.5 a barrel.

Yesterday's core inflation data for April confirmed our estimate and amounted to 0.9% y/y - the highest figure since June 2014. In the rest of the year, we expect a gradual rise in core inflation to over 1.5% y/y in December.

March current account balance for Poland was significantly lower than market expectations. It was equal to €-738mn instead of €-354mn. Imports were responsible for a major part of the surprise, having accelerated from 9.9% y/y to 18.9%. At the same time exports growth went from 4.9% y/y to 14.9% which serves as a confirmation of the increasing external demand from Western Europe. The revival in imports points to the strength of domestic demand. At the same time, worse-than-expected goods and service balance in 1Q17 suggests not to overdose optimism about the GDP growth rate in the period (we will find out the data today in the morning).

After Friday's weakening arising from lower-than-expected US retail sales data, the dollar was still under pressure yesterday. Yesterday's data from the US economy contributed to the continuation of this trend and at the end of the day EURUSD surpassed 1.098, approaching the level achieved after the announcement of the results of the second round of the French presidential election. After the recent weaker US data, the market-implied probability of a June rate hike by 25bp slightly decreased, but is still above 90%. In this context, we think EURUSD is a bit too

high (it is higher than in March when FOMC raised interest rates). Today we will get a lot of important US data that may have a clear impact on the markets.

Moody's decision had a positive impact on the zloty and yesterday EURPLN fell temporarily below 4.20 despite Polish data on larger-than-expected C/A deficit. Rising EURUSD intensified USDPLN's drop and the exchange rate eased to 3.82. The other CEE currencies also gained – EURCZK fell below 26.5 reached just after the Czech central bank abandoned the 27.0 floor in early April. Forint gained as well with EURHUF falling below 309, its lowest since early April. Rising oil prices boosted the ruble and USDRUB fell to 56.4. Today the zloty, forint and koruna may be sensitive to flash GDP releases in the CEE countries (Czech and Hungarian data already out, beating market expectations).

On Monday core market was under pressure with the Treasuries losing more than Bunds. On the domestic interest rate market, bonds gave up part of the last week's gains but the 10Y bond yields stayed below 3.35% after it rose 4bp yesterday. The 10Y PL-DE bond yield spread stayed near 292bp. IRS rose 3bp on the short and long end while the 5Y tenor stayed unchanged. The asset swap spread did not move much since Friday.

Yesterday the deputy finance minister Piotr Nowak, said that high coverage of the this year's gross borrowing needs and comfortable budget performance allows for significant reduction in bond issuance which will be seen at auctions yet before summer holidays. The Ministry of Finance does not plan any issuances at the foreign markets. Lower debt supply should support Polish bonds.

This morning we will learn the flash estimate of Poland's 1Q17 GDP that in our view is likely to show a noticeable acceleration vs 4Q16. We expect 3.7% y/y figure while the market consensus is at 3.9% and the most often indicated forecast in economist surveys was 4%. We assume that weaker-than-expected goods and services trade balance in the first three months of the year will determine that today's release will be closer to our conservative forecast than the consensus. Nevertheless, today's release is likely to confirm an economic revival in Poland which should support Polish assets.

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FX market

Today's opening

EURPLN	4.1946	CZKPLN	0.1585
USDPLN	3.8101	HUFPLN*	1.3576
EURUSD	1.1009	RUBPLN	0.0677
CHFPLN	3.8303	NOKPLN	0.4477
GBPPLN	4.9227	DKKPLN	0.5638
USDCNY	6.8915	SEKPLN	0.4328

*for 100HUF

Last session in the FX market

15/05/2017

	min	max	open	close	fixing
EURPLN	4.196	4.217	4.212	4.198	4.2096
USDPLN	3.821	3.861	3.856	3.825	3.8463
EURUSD	1.092	1.099	1.093	1.097	-

Interest rate market

15/05/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.97	1	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.81	5	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.35	5	23.03.2017	DS0727	3.568

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.77	1	1.36	0	-0.23	0
2L	1.94	1	1.53	-1	-0.14	0
3L	2.09	2	1.68	-1	-0.04	0
4L	2.24	2	1.81	-1	0.08	0
5L	2.38	3	1.91	0	0.22	1
8L	2.69	4	2.14	0	0.60	2
10L	2.84	4	2.25	0	0.82	2

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	1.76	1
9x12	1.81	0
3x9	1.81	0
6x12	1.83	0

Measures of fiscal risk

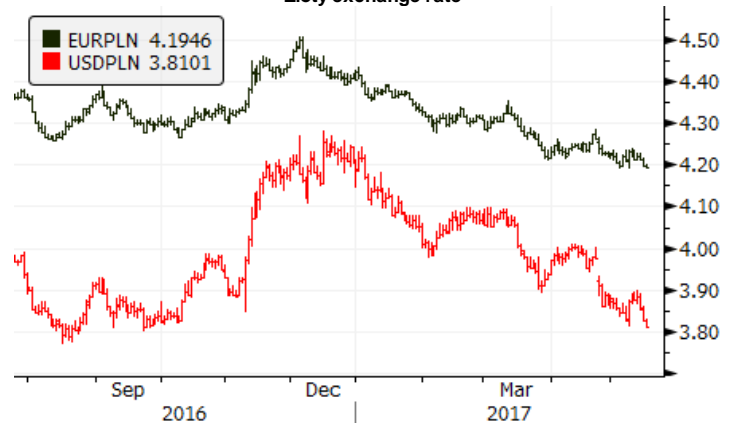
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.93	5
France	30	0	0.46	0
Hungary	116	1	2.63	0
Spain	70	3	1.21	0
Italy	163	3	1.85	0
Portugal	201	0	2.95	1
Ireland	39	0	0.46	4
Germany	16	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

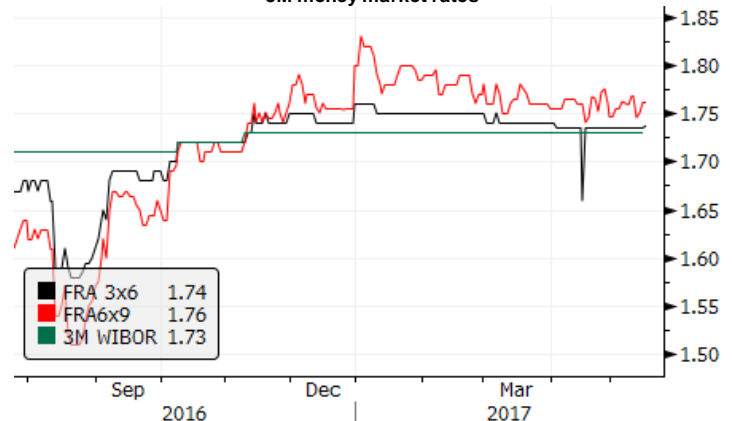
Zloty exchange rate



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)								
	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	2.3	-	1.9	1.2
14:00	PL	CPI	Apr	% y/y	2.0	2.0	2.0	2.0
14:00	PL	Money supply	Apr	% y/y	7.2	7.3	6.6	7.7
14:30	US	CPI	Apr	% m/m	0.2	-	0.2	-0.3
14:30	US	Retail sales	Apr	% m/m	0.6	-	0.4	-0.2
16:00	US	Flash Michigan	May	pts	97.0	-		97.0
MONDAY (15 May)								
14:00	PL	Current account	Mar	€m	-319	-177	-738	-825
14:00	PL	Exports	Mar	€m	17 639	18 053	17 798	15 193
14:00	PL	Imports	Mar	€m	17 607	17 607	18 016	15 696
14:00	PL	Core inflation	Apr	r/r	0.7	0.9	0.9	0.6
TUESDAY (16 May)								
9:00	CZ	Flash GDP	Q1	% y/y	2.3	-	2.9	1.9
9:00	HU	Flash GDP	Q1	% y/y	3.1	-	4.1	1.6
10:00	PL	Flash GDP	Q1	% y/y	3.9	3.7		2.7
11:00	DE	ZEW index	May	pts	80.9	-		80.1
11:00	EZ	Flash GDP	Q1	% y/y	1.7	-		1.7
14:30	US	House starts	Apr	k	1250	-		1215
14:30	US	Building permits	Apr	k	1270	-		1260
15:15	US	Industrial output	Apr	% m/m	0.4	-		0.5
WEDNESDAY (17 May)								
	PL	MPC decision		%	1.50	1.50		1.50
11:00	EZ	CPI	Apr	% y/y	1.9	-		1.5
THURSDAY (18 May)								
11:00	PL	Bond auction						
14:00	PL	Wages in corporate sector	Apr	% y/y	4.3	4.4		5.2
14:00	PL	Employment in corporate sector	Apr	% y/y	4.5	4.5		4.5
14:30	US	Initial jobless claims	week	k	-	-		236
14:30	US	Index Philadelphia Fed	May	pts	19.4	-		22.0
FRIDAY (19 May)								
14:00	PL	PPI	Apr	% y/y	4.5	4.0		4.7
14:00	PL	Industrial output	Apr	% y/y	6.7	-0.2		17.2
14:00	PL	Construction and assembly output	Apr	% y/y	6.8	6.6		11.1
14:00	PL	Real retail sales	Apr	% y/y	7.3	8.8		7.9

Source: BZ WBK, Reuters, Bloomberg

* in case of the revision, the data is updated

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