

EYEOPENER

19 May 2017

Political crisis in Brazil hit emerging markets

- Risk aversion increased on the global markets
- Strong data from the Polish labour market
- Zloty weakened against major currencies, EURUSD eased lower
- Polish yields went up
- Today industrial and construction output, retail sales and PPI releases in Poland

World's stock exchanges declined strongly on Thursday. The rise in risk aversion led to the sale of shares and bonds in emerging markets, which was caused not only by the confusion surrounding Donald Trump (the impact of this issue already seems to be fading), but also the political crisis in Brazil. Suspicion of corruption against Brazilian President Michel Temer led to capital outflow from this market - the Brazilian stock index lost 8.8% while USD-denominated bond yields went up by 55 bp. In turn, demand for safe assets rose, and the VIX fear index was at its month-high. The price of oil reached its highest level this month after a statement by Algeria about broad support inside OPEC to extend the oil output restrictions (the decision is expected next Thursday).

Yesterday's labor market data were mixed - April saw an acceleration of employment growth in the corporate sector from 4.5% to 4.6% y/y, but wage growth surprised to the downside, going to 4.1% y/y from 5.2% y/y. This weaker reading comes one month after a big positive surprise in March and seems to confirm our view that the last month was affected by shifts in bonus payments and by a positive working day effect. The considerable month-to-month employment growth of 9.4k marked last month as the strongest April in this respect since 2010. High labour demand will persist taking into account the good business climate confirmed by the robust flash 1Q GDP reading (4% y/y). This data do not undermine yesterday's MPC rhetoric - NBP Governor Adam Glapiński said that there seem to be no imbalances on the labour market, but emphasized the high importance of the inflow of workers from Ukraine to prevent labour shortages.

The International Monetary Fund published its opinion on Poland. According to IMF GDP will grow 3.6% in 2017 (there's upside risk to this view given the already reported strength of 1Q) due to robust consumption and accelerating public investments supported by EU funds. IMF sees this year's budget deficit at c.2.9% GDP, but advises fiscal consolidation as soon as possible

to take advantage of good performance of the economy. IMF called the current monetary policy appropriate, advising the MPC to be ready to tighten it if the inflation target is threatened. The Fund sees the current level of the zloty reflects the fundamentals of Polish economy.

After four sessions of depreciation, yesterday the dollar trimmed some of its losses suffered vs the euro and EURUSD ended the day at 1.111 after falling from 1.117. The US currency was supported by profit-taking and better-than-expected weekly US labour market data as well as by May Philly Fed index. So far, this week has shown the biggest weekly rise in EURUSD since July 2016. No important data from the euro zone and USA are on agenda today, which may encourage investors to take profit from the rise of the euro and yesterday's downward move of EURUSD may be continued.

The zloty and the other CEE currencies were under pressure yesterday and lost vs main currencies. EURPLN rose from 4.20 to nearly 4.22 and stayed close to this level until the end of the day. Higher risk aversion pushed EURCZK up to 26.6 while EURHUF stayed below 310. As EURUSD fell, the zloty lost vs the dollar - Polish currency gave up half of the this week's gain and USDPLN ended the day near 3.80. CHFPLN rose to 3.88. Today in the morning we see some demand for the zloty.

Thursday's session on the Polish interest rate market was driven by the rising aversion on the emerging markets. Bund and Treasuries yields fell and on weekly basis core bonds gained already 9bp and 17bp respectively. Polish IRS did not change much yesterday while debt was under pressure despite the successful bond auction. The Ministry of Finance sold bonds for PLN3bn amid demand at PLN6.86bn. Just like on the previous auctions, the ministry raised most funds from the sale of 5Y and 10Y benchmarks (PLN972mn from PS0422 and PLN990mn from DS0727). The bid/cover ratio rose to 2.29 from 1.22 at the last auction in April. This seems to be impressive, however, this was only due to the ministry's decision to reduce the upper band of planned supply at the auction to PLN3bn from PLN5bn. Without this reduction, the bid/cover ratio would have been at 1.37, similar to April and well below levels seen in January (2.58). The ministry said that after the auction this year's gross borrowing needs are covered in 63%.

Today Polish April industrial output and retail sales data are on the agenda. Y/y output growth might have been even below zero due to adverse calendar effects. As a result, the positive trend of an economic revival in Western Europe may be unseen in April.

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
 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	4.2129	CZKPLN	0.1585
USDPLN	3.7869	HUFPLN*	1.3600
EURUSD	1.1125	RUBPLN	0.0662
CHFPLN	3.8645	NOKPLN	0.4479
GBPPLN	4.9054	DKKPLN	0.5659
USDCNY	6.8922	SEKPLN	0.4306

*for 100HUF

Last session in the FX market

18/05/2017

	min	max	open	close	fixing
EURPLN	4.183	4.229	4.186	4.219	4.22
USDPLN	3.746	3.805	3.758	3.792	3.7926
EURUSD	1.110	1.117	1.114	1.113	-

Interest rate market

18/05/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.92	-3	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.77	1	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.33	2	23.03.2017	DS0727	3.568

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.76	0	1.33	0	-0.23	0
2L	1.91	0	1.49	1	-0.15	0
3L	2.06	0	1.62	1	-0.06	0
4L	2.22	1	1.73	0	0.06	0
5L	2.37	2	1.82	0	0.18	0
8L	2.67	2	2.04	-1	0.55	-1
10L	2.83	3	2.15	-1	0.78	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.64	0
T/N	1.64	0
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	1.80	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	2.97	1
France	30	0	0.44	-2
Hungary	116	1	2.76	-2
Spain	73	9	1.18	-3
Italy	165	2	1.76	-4
Portugal	200	0	2.81	-3
Ireland	40	1	0.45	-2
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

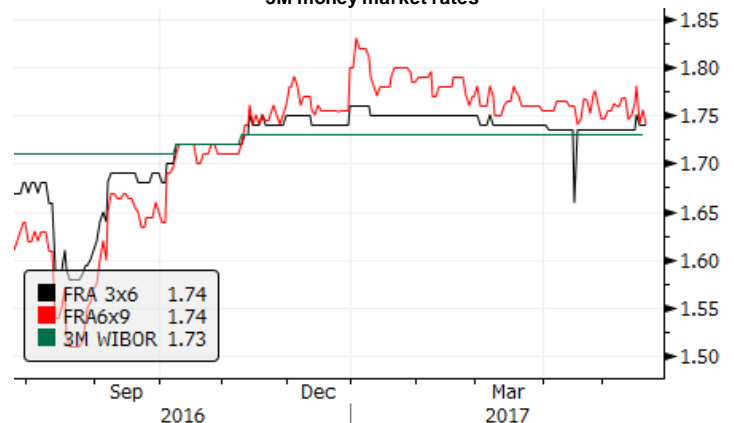
Zloty exchange rate



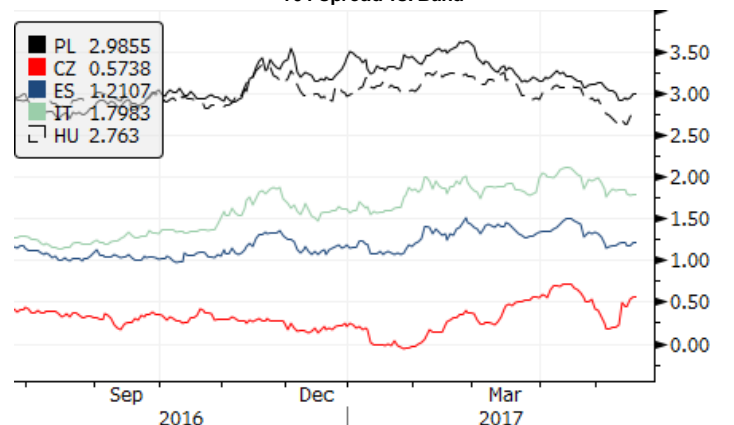
T-bonds yields



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	4.0	2.7
11:00	DE	ZEW index	May	pts	80.9	-	83.9	80.1
11:00	EZ	Flash GDP	Q1	% y/y	1.7	-	1.7	1.7
14:30	US	House starts	Apr	k	1250	-	1172	1215
14:30	US	Building permits	Apr	k	1270	-	1229	1260
15:15	US	Industrial output	Apr	% m/m	0.4	-	1.0	0.5
WEDNESDAY (17 May)								
	PL	MPC decision		%	1.50	1.50	1.50	1.50
11:00	EZ	CPI	Apr	% y/y	1.9	-	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	240	-		236
14:30	US	Index Philadelphia Fed	May	pts	18.5	-		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	1.9	-0.2		11.1
14:00	PL	Construction and assembly output	Apr	% y/y	6.8	6.6		17.2
14:00	PL	Real retail sales	Apr	% y/y	7.2	8.8		7.9

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.