

EYEOPENER

22 May 2017

A calm ending of a nervous week

- **Positive sentiment returned to global markets**
- **Weak data on Polish output and retail sales**
- **Zloty showed gains vs major currencies, EURUSD still on the rise**
- **Polish yields went up a bit more**
- **No important data releases today**

Global stock exchanges recovered on Friday from Thursday's losses. Main indices ended higher while bonds lost. Calm in markets caused the VIX fear index to give up more than half of the recent gains and the price of gold was lower on the day. On Friday, crude oil continued to rise and ended the day at US\$53.4/bbl. Brent price is already half a dollar higher today thanks to further comments from OPEC regarding the likelihood that the deal to curb oil output will be extended this Thursday. This factor helps stock exchanges to start a week in spite of another North Korean ballistic missile test, which served as a reminder of the geopolitical risk.

On Friday we found out that industrial output fell in April by 0.6% y/y with our forecast of -0.2% and market consensus at +1.9%. Significant slowdown with respect to 11.1% y/y recorded in March was a result of a negative working days effect (-2 y/y). Seasonally adjusted data showed a growth of 4.0% y/y. Although it is significantly less than in March (+8.1% y/y), the reading is close to what was recorded in January and February. Data suggested decreases of output in many export-oriented sectors, but lack of signals of worse economic climate in the euro zone makes us believe this was only a temporary weakness. Construction and assembly output was also lower than expected and grew by 4.3% y/y (we expected 6.6%, market 6.8%). That said, the seasonally adjusted result was strong and similar to the one from March. Retail sales figure disappointed as well as it rose 6.7% y/y in real terms vs 7.9% y/y seen in March, market consensus at 7.3% y/y and our forecast at 8.8% y/y. Households' income still rises at a high rate, which makes us expect better readings in the months to come.

The upward trend on EURUSD caused by political turmoil about Donald Trump and weak USA data saw an only temporary correction on Thursday. The pair extended the trend on Friday, partly due to James Bullard's opinion that FOMC plans of policy tightening might be too aggressive given the weakness of the US data including inflation expectations also negatively influenced the dollar. EURUSD broke the Wednesday high setting the new six-month record at 1,119. The rise of the fx pair seen last week was the biggest since February 2016. The market again fully prices a rate hike by 25bp in June, which might result in the appreciation of the American currency - the exchange rate is clearly higher than in March when FOMC raised interest rates for the last time, so there is a potential for correction after the recent dollar's depreciation. EURUSD can be under the influence of this week's data on German Ifo index and new home sales reading from the US economy.

After Thursday's sell-off and Friday's rise of demand for safe assets, the CEE currencies were gaining. The zloty strengthened to the euro and in weekly terms EURPLN remained unchanged. The weaker-than-expected data from Poland did not affect the domestic currency and EURPLN was at 4.20 at the end of the day. The zloty gained vs the dollar under impact of the stronger rise of EURUSD. On Friday USDPLN fell to 3.75 from 3.80. Other CEE currencies gained more than the zloty. The forint returned to 309 per euro, while the Czech koruna tested 26.5 after a temporary weakening. The ruble reacted to higher oil prices, and gained versus the dollar, moving USDRUB above 57.0. This morning the rate is trading below this level.

The final session of the week saw a mild increase in Polish IRS/yields. Higher risk appetite weighed on Bunds and Treasuries that ended the Friday's session at 2.25% and 0.37% for the 10Y tenor. Polish 10Y benchmark ended the week near 3.34%. PL-DE 10Y bond yield spread fell to 295bp after it rose to 300bp on Thursday. IRS did not move much on Friday and on weekly basis the short end fell the most (3bp). The asset swap spread rebounded to 50bp after it reached a local bottom at 46bp on Wednesday.

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	4.1950	CZKPLN	0.1585
USDPLN	3.7494	HUFPLN*	1.3592
EURUSD	1.1189	RUBPLN	0.0662
CHFPLN	3.8462	NOKPLN	0.4479
GBPPLN	4.8751	DKKPLN	0.5636
USDCNY	6.8921	SEKPLN	0.4294

*for 100HUF

Last session in the FX market

19/05/2017

	min	max	open	close	fixing
EURPLN	4.191	4.221	4.219	4.193	4.2069
USDPLN	3.739	3.804	3.792	3.747	3.7735
EURUSD	1.108	1.121	1.113	1.121	-

Interest rate market

19/05/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.95	3	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.77	0	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.34	0	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	1.35	3	-0.23	0
2L	1.92	1	1.52	3	-0.14	1
3L	2.08	2	1.66	4	-0.03	3
4L	2.24	2	1.77	4	0.08	2
5L	2.39	2	1.86	4	0.20	2
8L	2.70	3	2.08	4	0.57	2
10L	2.86	2	2.18	4	0.80	2

WIBOR rates

Term	%	Change (bps)
O/N	1.63	-1
T/N	1.63	-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	-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	0
France	29	0	0.44	0
Hungary	116	1	2.75	0
Spain	72	-1	1.21	2
Italy	163	-2	1.75	-1
Portugal	199	-1	2.80	-1
Ireland	40	1	0.45	0
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

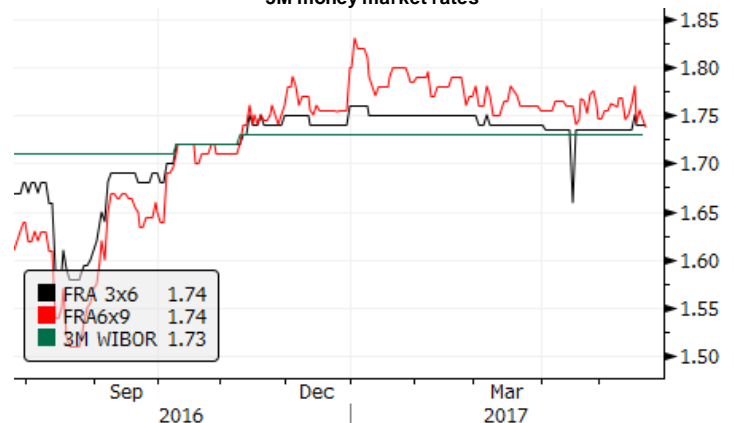
Zloty exchange rate



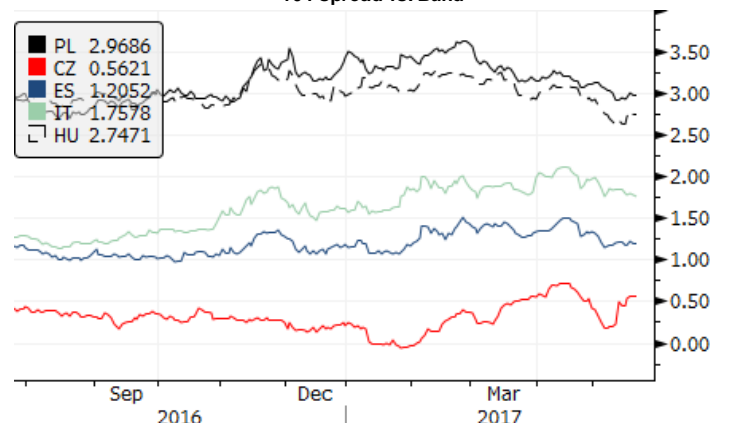
T-bonds yields



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 (19 May)								
14:00	PL	PPI	Apr	% y/y	4.5	4.0	4.3	4.7
14:00	PL	Industrial output	Apr	% y/y	1.9	-0.2	-0.6	11.1
14:00	PL	Construction and assembly output	Apr	% y/y	6.8	6.6	4.3	17.2
14:00	PL	Real retail sales	Apr	% y/y	7.2	8.8	6.7	7.9
MONDAY (15 May)								
No important data								
TUESDAY (23 May)								
8:00	DE	GDP	Q1	% y/y	-	-		0.6
10:00	DE	Indeks Ifo	May	pts	-	-		112.9
14:00	HU	Central bank decision		%	0.90	-		0.90
16:00	US	New home sales	Apr	% m/m	-0.2	-		5.8
WEDNESDAY (24 May)								
9:30	DE	Flash PMI – manufacturing	May	pts	-	-		58.2
10:00	EZ	Flash PMI – manufacturing	May	pts	-	-		56.7
16:00	US	Home sales	Apr	% m/m	-0.7	-		4.4
THURSDAY (25 May)								
10:00	PL	Unemployment rate	Apr	% y/y	7.7	7.7		8.1
14:30	US	Initial jobless claims	week	k	232	-		
FRIDAY (26 May)								
14:30	US	Preliminary GDP	Q1	% y/y	0.9	-		0.7
16:00	US	Michigan index	May	pts	97.5	-		97.7

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 Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@bzwbk.pl, <http://www.bzwbk.pl>.