

EYEOPENER

29 May 2017

US data better than expected

- **Mixed moods after OPEC decision, US data better than expected**
- **Zloty stable to main currencies, EURUSD down**
- **Polish bond yields strongly down**
- **Today no important data**

Before the weekend sentiments on the global markets were mixed. The investors, disappointed by the OPEC decision, sold stocks and turned to bonds, which saw a significant decline of yields. The crude oil price dropped by 5% since Thursday, after OPEC decided to maintain limits on extraction until March 2018.

On Friday, the preliminary 1Q USA GDP estimation was published showing a revision from 0.9% y/y to 1.2% y/y. This higher than expected data stem mostly from greater contribution to of private consumption (0.6% q/q vs. first reading at 0.3%), private investment (4.8% q/q vs. 4.3%) and public consumption (-1.1% q/q vs. 1.7% q/q). Imports went up at a slower pace than in the first reading (3.8% q/q), whereas exports remained strong. We expect that the US economy will accelerate in the coming quarters and GDP will expand by 2.0-2.5% y/y.

According to the Statistical Bulletin published by the Statistics Office, the registered unemployment rate decreased in April to 7.7%, in line with our expectations and flash estimate of the Ministry of Family, Labour and Social Policy. These data confirm that the demand for labour remains stable. We expect further drop of unemployment in the months to come. On the other hand, the business climate indices for May showed declines in the three main, i.e. manufacturing, construction and retail trade. Despite the drop, the economic indices remained on high level, coherent with the economic growth of about 4% y/y.

Fiscal revenues reached PLN117bn after April, which is 105.6% of the plan, while expenditures were at PLN117.9bn (or 97.2% of the plan). As a consequence the central deficit after four months of 2017 was only PLN0.9bn. The data showed that the high growth of tax revenues was maintained. In April alone VAT revenues increased by 18.2% y/y, PIT by 14.4% y/y and CIT by 14.9% y/y. In our view good budget performance in the first part of the year means a high chance that the full-year result will be much better than the planned PLN59.3bn deficit.

On Friday EURUSD fell temporarily to almost 1.115 from 1.123 in reaction to better-than-expected US GDP data. Recent data from the US were below forecasts, which, combined with rather dovish tone of Thursday FOMC minutes, was one of the factors behind the significant increases of EURUSD. Third week of May

was the best one since February 2016 for the euro vs dollar, but last week the impulse did not persist as a result of good Friday data from the US and still high expectations of the market for Fed rate hike in June. At the beginning of this week we will not get to see any important data, which, together with Friday readings for the US economy, could act for the benefit of the dollar. In the next days a lot of important publications from the US including monthly job market report are on schedule.

On Friday the zloty was stable. EURPLN declined to 4.17, before changing direction. The pair finished the day above 4.18. In case of USDPLN there was not much happening in the morning, but the downward reaction of EURUSD to the positive data from the USA increased the value of the dollar to 3.85. On Friday the zloty gained significantly vs the British pound, bringing GBPPLN below 4.80 by the end of the day – the lowest level since the US presidential elections.

According to the NBP Governor Adam Glapiński, the zloty is currently at the level, which warrants economic competitiveness, even more than in 2013. In his view, the monetary tightening in the USA and the possible tapering of the ECB asset purchases programme are not a threat for the Polish currency, and the zloty should remain immune to any monetary tightening abroad. The Polish Minister of Finance also believes that the zloty exchange rate is currently consistent with the economic fundamentals.

The Czech koruna was near Thursday's closing on Friday and EURCZK at the end of the day was below 26.5. On the other hand, the forint, after Thursday's strengthening against the euro, triggered by Prime Minister Orban's pledge to increase child benefits and support for big families in 2018, remained stable on Friday, and at the end of the day the EURHUF was at 307.5. Despite a sharp fall in oil prices, on Friday USDRUB was at Thursday's close.

On Friday, there was a very sanguine mood on the interest rate market, resulting in yields on the core markets falling by c2bp. On the domestic market, the yields at the belly and at the long end of the curve fell sharply. Polish 5Y and 10Y bonds strengthened by 6bp and the 2-10Y spread narrowed to 137bp. Similarly, IRS rates on Friday fell by c4bp at the belly and long end of the curve, and the 2-10Y spread narrowed to 86bp, the lowest level since the US election. Spread asset swap as a result returned at the end of the week to 51bp.

On Thursday, the Ministry of Finance sold securities worth PLN4.317bn at a switch tender.

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FX market

Today's opening

EURPLN	4.1862	CZKPLN	0.1583
USDPLN	3.7460	HUFPLN*	1.3597
EURUSD	1.1175	RUBPLN	0.0659
CHFPLN	3.8438	NOKPLN	0.4458
GBPPLN	4.8065	DKKPLN	0.5625
USDCNY	6.8555	SEKPLN	0.4309

*for 100HUF

Last session in the FX market

26/05/2017

	min	max	open	close	fixing
EURPLN	4.169	4.188	4.176	4.180	4.1803
USDPLN	3.716	3.749	3.722	3.740	3.7248
EURUSD	1.116	1.124	1.122	1.118	-

Interest rate market

26/05/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.91	-1	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.69	-5	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.27	-6	23.03.2017	DS0727	3.568

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.77	0	1.37	0	-0.24	-1
2L	1.92	0	1.53	1	-0.16	-1
3L	2.04	-2	1.67	1	-0.05	-2
4L	2.18	-3	1.78	1	0.06	-1
5L	2.31	-4	1.88	1	0.18	-2
8L	2.61	-5	2.09	1	0.56	-1
10L	2.77	-4	2.20	1	0.79	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.59	-5
T/N	1.59	-5
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	0
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	2.94	-6
France	28	1	0.44	1
Hungary	116	1	2.68	0
Spain	73	0	1.21	1
Italy	159	-1	1.78	2
Portugal	199	-1	2.80	-5
Ireland	40	1	0.46	1
Germany	14	-1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

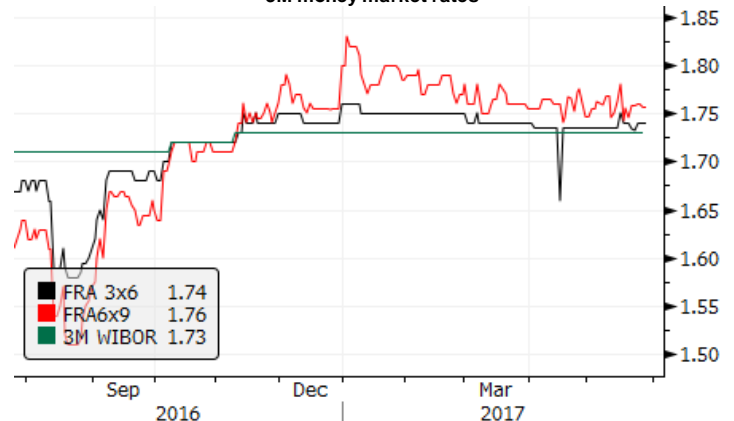
Zloty exchange rate



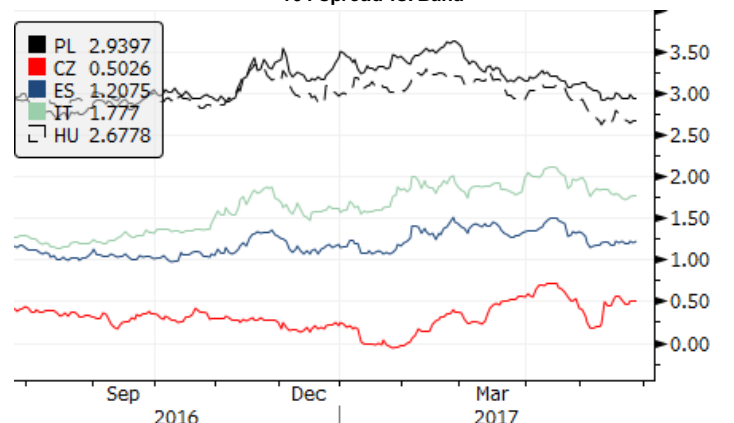
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar								
TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	BZWBK		
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	238	-	234	232
FRIDAY (26 May)								
14:30	US	Preliminary GDP	Q1	% y/y	0.9	-	1.2	0.7
16:00	US	Michigan index	May	pts	97.5	-	97.1	97.7
MONDAY (29 May)								
No important data								
TUESDAY (30 May)								
14:30	US	Personal income	Apr	% m/m	0.4	-		0.2
14:30	US	Consumer spending	Apr	% m/m	0.4	-		0.0
16:00	US	Consumer confidence index	May	pts	120.0	-		120.3
WEDNESDAY (31 May)								
10:00	PL	GDP	Q1	% y/y	4.0	4.0		4.0
11:00	EZ	Flash CPI	May	% y/y	-	-		1.9
14:00	PL	Flash CPI	May	% y/y	-	1.9		2.0
16:00	US	Pending home sales	Apr	% m/m	1.0	-		-0.8
20:00	US	Fed Beige Book						
THURSDAY (1 June)								
9:00	PL	PMI – manufacturing	May	pts	-	54.0		54.1
9:55	DE	PMI – manufacturing	May	pts	-	-		59.4
10:00	EZ	PMI – manufacturing	May	pts	-	-		57.0
14:00	PL	MPC minutes						
14:15	US	ADP report	May	k	175	-		177
16:00	US	ISM – manufacturing	May	pts	55	-		54.8
FRIDAY (2 June)								
9:00	CZ	Preliminary GDP	Q1	% y/y	-	-		2.9
14:30	US	Non-farm payrolls	May	k	175	-		211
14:30	US	Unemployment rate	May	% y/y	4.4	-		4.4

Source: BZ WBK, Reuters, Bloomberg

* in case of the revision, the data is updated

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