

EYEOPENER

1 June 2017

PMI day

- **Markets in better moods**
- **Disappointing GDP breakdown, inflation in line with our forecasts, PMI fell significantly**
- **Zloty stronger to main currencies, EURUSD up**
- **Polish debt stronger**
- **Today ADP report in the USA**

Wednesday session on the global markets finished on a positive note. Despite growing concerns about the elections in UK, both London and global markets were growing. Higher risk appetite caused the bond yields in the Euro zone peripheries and developing countries to fall. Oil dropped further and the price neared US\$50/bbl. May PMI for China went down to 49.6pts, with 50pts being the breakeven level between better and worse economic situation. Fed President John Williams said that FOMC might raise interest rates even 4 times this year, as long as the economy strengthens. He will get a voting right only in 2018.

European Commission presented a proposal to create a separate budget for the Euro zone and European Monetary Fund, which would aim at preventing crises within the monetary union. Such solution would be unfavourable for the EU countries outside the Euro zone, but according to the EC commissioner for euro and financial stability Valdis Dombrovskis it is a long-term goal.

According DGP daily, the Polish pension system reform is to be delivered on January 22, 2018 and will include a transfer of 75% of assets to the 3rd pillar and the rest to the public Demographic Reserve Fund (from the point of view of the insured it will go to special sub-accounts at the Social Security Entity, ZUS). This is in line with the earlier signals from the government, but at least we got the date.

GDP growth rate in 1Q17 was 4.0% y/y, in line with the flash reading. Seasonally-adjusted GDP increased by 1.1% q/q. The breakdown of growth was rather disappointing, especially with regard to investments, which fell by 0.4% y/y, despite a very low base last year. Such a weak reading means there is need to revise down the path of investment growth for this year. Inventories added 0.7pp, which is relatively high, especially given the fact that they also grew last year. Private consumption rose 4.7% y/y, the fastest pace since 2008 and remained the main driver of economic growth. We expect private consumption to remain robust later in 2017 while some slowdown could be recorded in 2H due to the high base effect from end-2016. The gross value added rose 3.7% y/y contributing 3.3pp to the headline figure. This means that 0.7pp in the 4% GDP growth was added by "taxes less subsidies". We think that the relatively weak breakdown of growth in 1Q17, especially when it comes to investments, high input from inventories and taxes, is an argument for a critical look at the forecasts for the quarters to come. While we do not see a need for downward revisions, we find it hard to assume that the 2017 growth could beat 4%. The GDP data provide reasons for the MPC to stick to its 'wait-and-see' approach.

Flash CPI for May showed a deceleration from 2% y/y to 1.9% as we expected, while market forecasts were focused on 2 and 2.1%. We

have not seen a positive surprise in inflation since February. Our sub-consensus forecast still included the strongest m/m rise in food prices for the month of May since 2013, and this category should be watched closely in the months to come as the stats office signaled in another release that fruit output will most likely be lower y/y due to ground freeze losses.

On Wednesday morning EURUSD shot above 1.12. The euro showed strength despite poor German retail sales for April (-0.9% y/y) and lower-than-expected May euro zone inflation. The US release on pending home sales made the pair climb some more.

EURPLN fell to 4.168 in the morning, but in the afternoon the zloty gave its gains away and was at 4.18. The rising EURUSD has translated into a strengthening of the zloty against the dollar. USDPLN approached 3.71, the lowest level since October 2015. Due to concerns about the outcome of the parliamentary elections in the UK yesterday GBPPLN was close to 4.78, the lowest level since October 2016.

The currencies of CEE region were close to Tuesday's levels. EURCZK fell below 26.3 and the forint after the morning rally against the euro at 307, trimmed its gains at the end of the day and EURHUF closed at 307.7. Crude oil prices weighed sharply on the ruble on Wednesday, and USDRUB dropped to 57.

Wednesday session on the debt market was marked by falling yields. The 10Y Bund was traded with a yield of 0.29% and the Treasury at 2.21%. On the domestic interest rate market, inflation data supported Poland's debt. 10-year benchmark came close to 3.22%, the lowest level since the US presidential election. IRS rates fell mostly at the belly and long end of the curve by 4 bp. Spread asset swap remained at the Wednesday's closing.

Yesterday, the Ministry of Finance announced that in June it will hold one auction where it will offer OK0419 / PS0422 / WZ1122 / WZ0126 / DS0727 / WS0447 securities worth PLN3bn and one switch auction on which the OK0717 / DS1017 / WZ0118 securities will be redeemed. The MinFin also announced that it is not planning to sell T-bills in June. After May this year borrowing needs have been financed in 66%.

According to the Ministry of Finance data, in April foreign investors bought Polish PLN marketable bonds for more than PLN5bn, taking the nominal value of their holdings to the fresh all-time high at cPLN210bn. The foreign central banks cut their exposure by PLN607mn. Mutual funds purchased debt for PLN1.4bn and the nominal value of their portfolio reached the highest level since September 2016. Under the geographical criteria, non-residents from the EU but outside the euro zone bought bonds for PLN1.3bn and from Asia (excluding Middle East) increased their portfolio by PLN1.2bn. At the same time, Polish banks sold bonds for PLN2.1bn.

PMI index for Polish manufacturing in May fell to 52.7pts (the lowest level in 6 months) from 54.1pts due to a decline in subindices for output, new orders and employment. This move was in line with earlier development of Statistics Office's business climate indices and suggests that the Polish economic growth will stabilize at 4%. At the same time, the PMI suggested a strong rise on price pressure on Polish producers.

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FX market

Today's opening

EURPLN	4.1780	CZKPLN	0.1584
USDPLN	3.7161	HUFPLN*	1.3571
EURUSD	1.1243	RUBPLN	0.0656
CHFPLN	3.8361	NOKPLN	0.4413
GBPPLN	4.7773	DKKPLN	0.5616
USDCNY	6.7987	SEKPLN	0.4280

*for 100HUF

Last session in the FX market

31/05/2017

	min	max	open	close	fixing
EURPLN	4.168	4.187	4.172	4.183	4.1737
USDPLN	3.714	3.741	3.734	3.722	3.7354
EURUSD	1.117	1.125	1.118	1.124	-

Interest rate market

31/05/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.90	0	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.66	1	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.23	1	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	1.36	0	-0.24	0
2L	1.89	-1	1.51	-1	-0.16	0
3L	2.00	-3	1.64	-1	-0.07	0
4L	2.14	-3	1.74	-1	0.04	0
5L	2.27	-3	1.83	-1	0.17	0
8L	2.57	-3	2.04	-2	0.55	1
10L	2.72	-3	2.15	-2	0.78	1

WIBOR rates

Term	%	Change (bps)
O/N	1.57	3
T/N	1.60	6
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	1.74	-2
9x12	1.79	-1
3x9	1.81	1
6x12	1.82	-1

Measures of fiscal risk

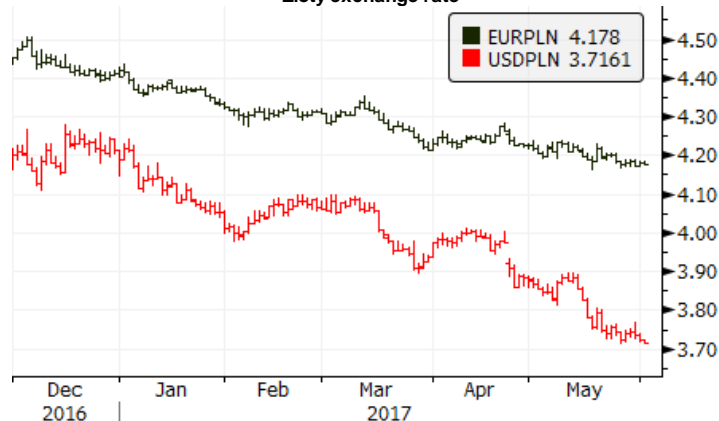
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.93	1
France	28	2	0.43	0
Hungary	116	1	2.74	0
Spain	75	-2	1.24	0
Italy	153	-18	1.90	0
Portugal	199	-1	2.74	0
Ireland	40	1	0.46	0
Germany	15	1	-	-

* 10Y treasury bonds over 10Y Bunds

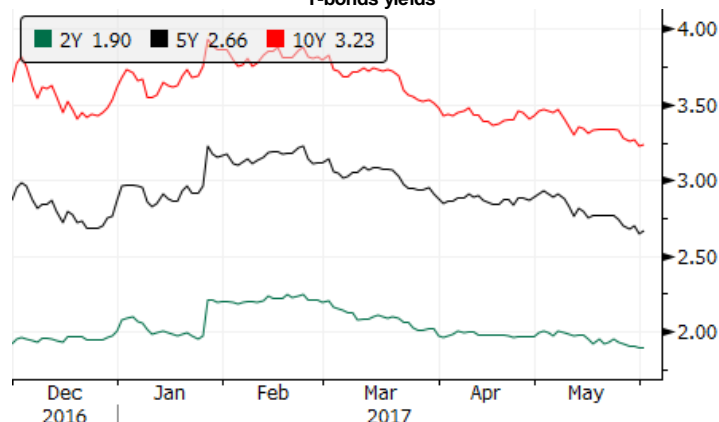
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

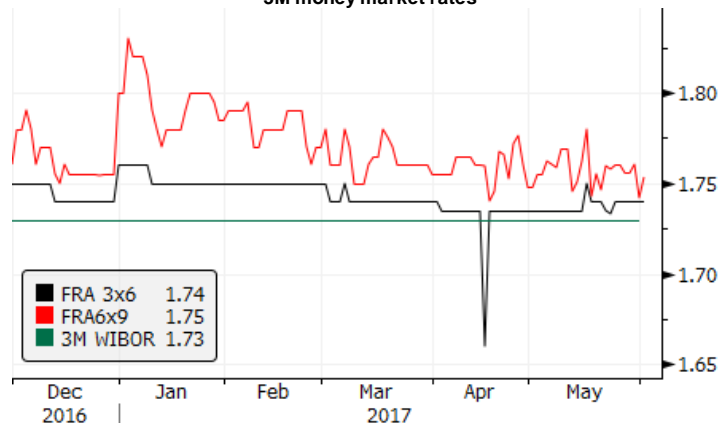
Zloty exchange rate



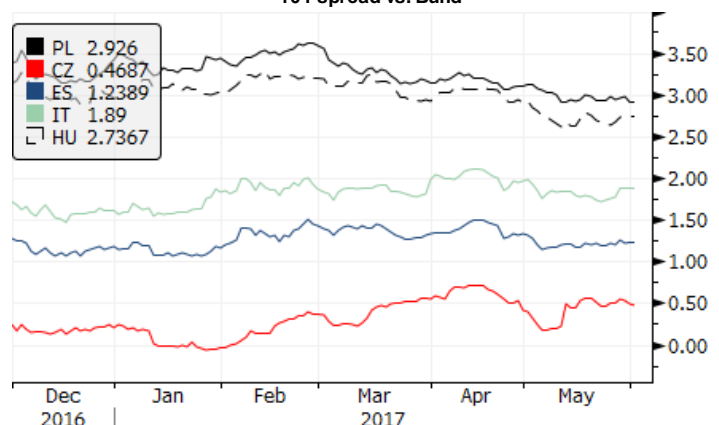
T-bonds yields



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	-	0.4	0.2
14:30	US	Consumer spending	Apr	% m/m	0.4	-	0.4	0.3
16:00	US	Consumer confidence index	May	pts	120.0	-	117.9	120.3
WEDNESDAY (31 May)								
10:00	PL	GDP	Q1	% y/y	4.0	4.0	4.0	4.0
11:00	EZ	Flash CPI	May	% y/y	1.5	-	1.4	1.9
14:00	PL	Flash CPI	May	% y/y	2.0	1.9	1.9	2.0
16:00	US	Pending home sales	Apr	% m/m	0.4	-	-1.3	-0.9
20:00	US	Fed Beige Book						
THURSDAY (1 June)								
9:00	PL	PMI – manufacturing	May	pts	54.5	54.6	52.7	54.1
9:55	DE	PMI – manufacturing	May	pts	59.4	-		59.4
10:00	EZ	PMI – manufacturing	May	pts	57.0	-		57.0
14:00	PL	MPC minutes						
14:15	US	ADP report	May	k	180	-		177
16:00	US	ISM – manufacturing	May	pts	54.6	-		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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