

EYEOPENER

13 June 2017

CPI declined despite a surge of fruit prices

- Negative start of the week on global markets
- No surprise in Polish inflation
- Polish bond yields and swap rates declined
- Today Polish current account data and core inflation, German ZEW index

Poor sentiment persisted since the beginning of the week but the changes on bond and FX markets were rather minor as investors were waiting for the tomorrow's FOMC decision on rates. Somewhat higher volatility was observed on the equity market where stock prices fell disturbed by the plunge of the US technological shares.

Volatility of EURUSD was limited at the beginning of the week. The downside move triggered after the Thursday's ECB meeting stopped and the euro stabilized vs the dollar with EURUSD ending the session near 1.12. The market is giving 96% probability for a Fed rate hike tomorrow but the exchange rate is well higher than in March when the FOMC raised rates last time. As a result, this week's hike may support the dollar in the days to come, particularly after the still rather dovish ECB tone. Today we will get German ZEW index for June but we do not expect any meaningful reaction just one day before the FOMC decision.

Both EURPLN and USDPLN were on the rise on Monday amid sour global market mood and slight dollar's appreciation vs the euro. As a result, the zloty depreciated temporarily to nearly 4.20 per euro and 3.745 per dollar. The other CEE currencies remained fairly stable. Polish April C/A data is due today. Our forecast assumes deficit larger than market consensus and if we are right, then this figure could weigh slightly on the zloty waiting for the tomorrow's FOMC decision.

On the domestic interest rate market IRS and bond yields eased slightly amid higher demand for safe assets. Bonds abroad also gained: Euro zone peripheral debt gained more than Polish bonds while the core debt underperformed. Despite the quite noticeable sell-off on the equity market, scale of yields decline was rather mild which might have been due to the outlook for the tomorrow's expected Fed rate hike.

Moody's rating agency released a report saying that recommendation presented earlier this month by the Polish Financial Stability Committee should not adversely affect lending. Recommendation includes, among others, an increase of risk weight on exposure to FX mortgages to 150% from 100% used to calculate capital adequacy. This new regulation is expected to be an alternative to mandatory conversion of all FX loans and is aimed to encourage banks to propose conversion to their clients.

CPI eased in May from 2% y/y to 1.9%. Market expectations were corrected from 2% y/y to 1.9% after the flash release from May 31. The full May release confirms that we are dealing with a strong reaction of food prices in expectation of significant ground freeze losses in fruit output this year. And yet there was no positive surprise in the headline inflation because of the drop in fuel prices and a contraction in the prices of transport services after a spike in April, ahead of the Spring holiday period (airline fares). We estimate that core inflation remained at 0.9% y/y in May, but only thanks to a rise of the cost of telecom services by 2.4% m/m – the strongest monthly move since June 2014. Without this factor core CPI would decline to 0.7% y/y. Fuel prices kept declining in early June which makes it quite likely that we will see 1.8% y/y in the next release of CPI.

This should make the Monetary Policy Council stick to the 'wait and see' approach for long. It was confirmed yesterday by Eryk Łon, who said that the MPC could leave the interest rates stable until the end of the next year. In his view the disappointing investment activity is not a reason for resuming a discussion about rate cuts and the risk of oil price decline should limit inflation pressure.

Today at 14:00CET we will get to know the data from Poland, this time on the balance of payments in April. We estimate that April current account deficit went a bit down vs March, as the higher trade deficit was more than offset by better balances of services and incomes. We are expecting that the trade balance will show a weak reading of exports (+1.5% y/y), in line with disappointing output growth, while imports will grow by 8.8% y/y driven by high internal demand.

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FX market

Today's opening

EURPLN	4.1915	CZKPLN	0.1600
USDPLN	3.7430	HUFPLN*	1.3631
EURUSD	1.1198	RUBPLN	0.0658
CHFPLN	3.8655	NOKPLN	0.4426
GBPPLN	4.7450	DKKPLN	0.5636
USDCNY	6.7971	SEKPLN	0.4281

*for 100HUF

Last session in the FX market 12/06/2017

	min	max	open	close	fixing
EURPLN	4.179	4.198	4.191	4.196	4.1927
USDPLN	3.728	3.748	3.741	3.747	3.735
EURUSD	1.119	1.123	1.120	1.120	-

Interest rate market 12/06/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.87	0	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.58	-3	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.15	-1	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	1.40	0	-0.25	0
2L	1.87	-1	1.54	-1	-0.19	0
3L	1.97	-1	1.65	-2	-0.10	0
4L	2.09	-2	1.75	-3	0.01	-1
5L	2.21	-2	1.83	-3	0.13	-1
8L	2.48	-2	2.04	-3	0.51	-1
10L	2.64	-2	2.14	-3	0.74	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.56	-7
T/N	1.56	-8
SW	1.59	-1
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	0
9x12	1.78	0
3x9	1.82	0
6x12	1.81	0

Measures of fiscal risk

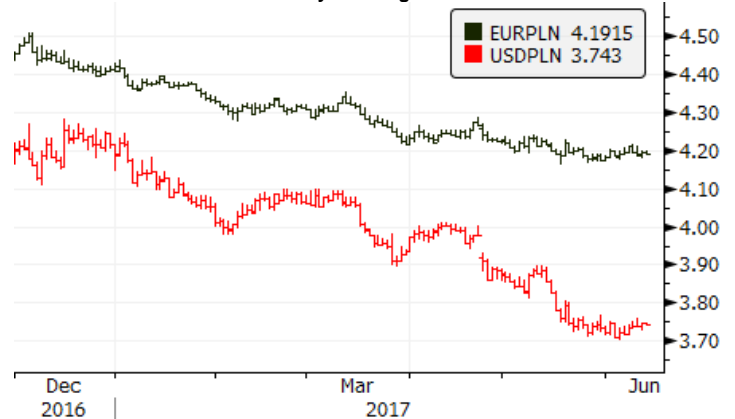
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.89	-2
France	27	-1	0.35	0
Hungary	116	1	2.72	1
Spain	70	-3	1.19	0
Italy	145	-5	1.77	0
Portugal	192	-3	2.72	1
Ireland	40	1	0.40	-3
Germany	15	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

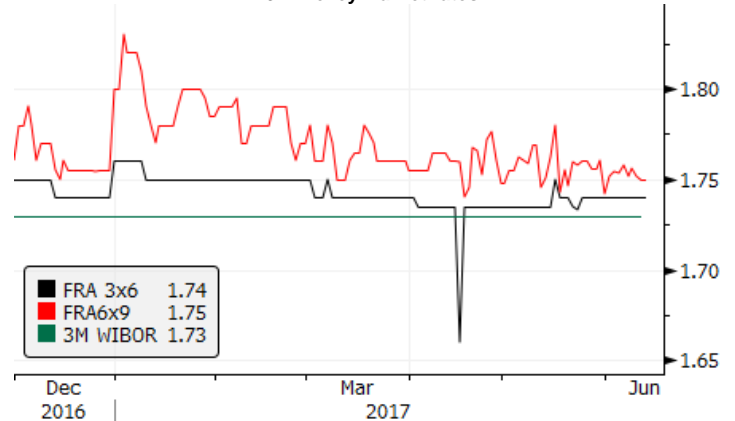
Zloty exchange rate



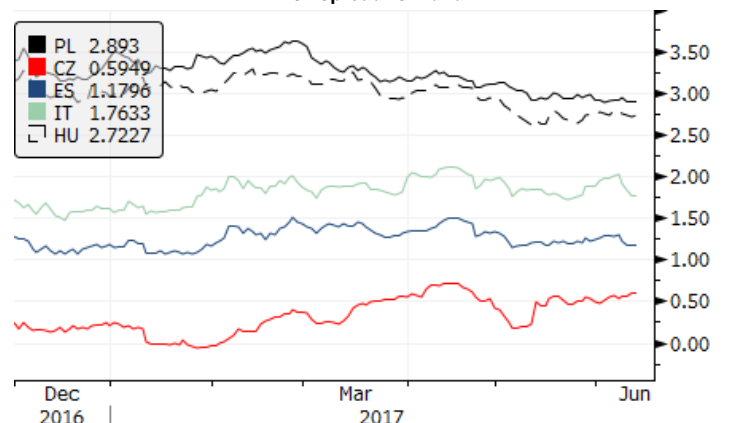
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	BZWBK		
FRIDAY (9 June)								
9:00	DE	Exports	Apr	% m/m	0.3	-	0.9	0.4
9:00	CZ	CPI	May	% y/y	2.1	-	2.4	2.0
11:30	PL	Bond auction						
MONDAY (12 June)								
14:00	PL	CPI	May	% y/y	1.9	1.9	1.9	1.9
TUESDAY (13 June)								
11:00	DE	ZEW index	Jun	pts	85.0	-		83.9
14:00	PL	Current account	Apr	€mn	+4	-535		-738
14:00	PL	Exports	Apr	€mn	15 712	15 299		17 798
14:00	PL	Imports	Apr	€mn	15 930	15 869		18 016
14:00	PL	Core inflation	May	% y/y	1.0	0.9		0.9
WEDNESDAY (14 June)								
11:00	EZ	Industrial output	Apr	% y/y	0.5	-		-0.1
14:00	PL	Money supply	May	% y/y	6.5	5.7		6.6
14:30	US	Retail sales	May	% m/m	0.1	-		0.4
14:30	US	CPI	May	% y/y	2.0	-		2.2
20:00	US	FOMC decision		%	1.0-1.25	-		0.75-1.00
THURSDAY (15 June)								
	PL	Market holiday						
14:30	US	Initial jobless claims	week	k	-	-		245
14:30	US	Philly Fed index	Jun	pts	25.0	-		38.8
15:15	US	Industrial output	May	% m/m	0.1	-		1.0
FRIDAY 16 June)								
11:00	EZ	CPI	May	% y/y	1.4	-		1.9
14:30	US	House starts	May	k	1225	-		1172
14:30	US	Building permits	May	k	1250	-		1229
16:00	US	Flash Michigan	Jun	pts	97.1	-		97.1

Source: BZ WBK, Reuters, Bloomberg

* in case of the revision, the data is updated

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