

EYEOPENER

20 June 2017

Next data from the Polish economy due today

- Global equity markets rose on Monday
- Fed's Dudley expects inflation to rise together with labour market recovery
- Zloty weaker versus main currencies, EURUSD below 1.12
- Higher bond yields in the world markets
- Today, data about production and retail sales in Poland, decision of the Hungarian central bank

After the weekend the risk appetite went up and on Monday most of the equity indexes finished the session in green. At the same time bond yields on the core markets and euro zone peripheries increased. Crude oil prices rebounded after last week's declines and went above \$47 per barrel. Gold prices, which were the lowest since mid-May, fell for a second day in a row. Yesterday the official negotiations on Brexit have started; they are to be finished until March 2019.

Labour market data from the Polish enterprise sector for May showed an acceleration of wage growth from 4.1% y/y to 5.4% and a slightly reduced pace of employment growth – from 4.6% y/y to 4.5%. We have a situation where wages came stronger than expected (market consensus for May was 4.9% y/y, we expected 5.3%) while employment numbers disappointed (the previous growth rate was supposed to hold in May). These are the directions of data surprises one would expect seeing how tight the Polish labour market has become (judging by the record low unemployment rate), but actually the wage data are quite sensitive to calendar effects. We think it is too early to say that there is already a buildup of wage pressure. Wage bill in the corporate sector increased by 8.1% y/y in real terms, the strongest since August 2016. Strong rise in households' incomes will be supportive for the private consumption in 2Q17 and in the following quarters. The acceleration of wages could lead some of the MPC members to try to influence the current dovish rhetoric of the central bank, but it could be difficult with inflation slowing in the last three months and with the NBP governor still convinced that keeping interest rates unchanged until the end of 2018 is the way to go.

After the 25bp rate hike in the USA last week, yesterday FOMC members started to comment about the decision. William Dudley said that the Fed should be able to continue the gradual tightening of monetary policy. In his view inflation has gone a bit too low, but it should go up in line with the improving labour market and wage pressure. After his speech the dollar strengthened vs the euro and EURUSD declined to 1.118. Euro zone industrial production data for April were released yesterday. The result, 3.2% y/y, was weaker than the previous one, which was revised higher from 3.6% y/y to 3.8%. This release did not influence EURUSD, which was stable and close to 1.12 until the afternoon speech by Dudley. Today there are no scheduled publications that could affect the exchange rate.

The zloty remained weaker vs major currencies yesterday. EURPLN approached 4.22, which meant that the local currency gave back a half of its Friday gains. The appreciation of the dollar after Dudley's words caused USDPLN to head higher, to 3.775, after showing stability in the morning. The zloty on Monday was also trading weaker to the Swiss franc and the British pound.

The other currencies of our region were fairly stable. The Czech koruna tested yesterday the lowest level against the euro since the central bank's freed its exchange rate in April this year. EURCZK was close to 26.11 during the day, but it did not manage to keep that level and returned to 26.2 at the end of the day. In turn, the forint strengthened another day against the euro. This afternoon we will know the decision of the Central Bank of Hungary (MNB). We expect the bank to maintain its current monetary policy. The rhetoric of the central bank will remain dovish, in our view, because Hungary's inflation in May dropped to 2.1% from 2.2% in April and 2.7% in March. MNB expects CPI to return to the target of 3% in 1H18. Maintaining a mild attitude by the central bank may put pressure on the Hungarian currency.

Yesterday the MPC member Jerzy Kropiwnicki in Bloomberg's interview said that the labour market situation could lead to wage pressure. However, falling fuel prices will counterbalance inflation. In his opinion, inflation this year will not exceed 2% and the July NBP projection will be similar to March one and there is no risk that inflation in Poland will permanently increase above 2.5%.

Debt markets were under pressure yesterday. 10Y German Bund yield rose to 0.29% and US Treasuries by 2bps to 2.17%. The rise in risk appetite has also contributed to the weakening of Polish bonds. The 10Y benchmark was quoted yesterday with a yield of 3.15% and the corresponding PL-DE spread was 286 bps. IRS rates remained at Friday's close and spread asset swap closed at 53bps.

According to Dziennik Gazeta Prawna daily, VAT revenues reached PLN11.65bn in May and were 13% higher than last year. This was yet another solid result in tax revenues, confirming that in the entire year they should be much above the planned level, and the budget deficit may be lower than initially planned by c.PLN20bn.

Today in the afternoon we will get to know the data on retail sales for May, which in our opinion will be better than April reading (7.1% vs 6.7%), though a bit lower than the market consensus. According to us May manufacturing production should be significantly better than the consensus because the market did not fully price in positive working days effect in May and the scale of the foreign demand revival.

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FX market

Today's opening

EURPLN	4.2168	CZKPLN	0.1610
USDPLN	3.7782	HUFPLN*	1.3709
EURUSD	1.1161	RUBPLN	0.0648
CHFPLN	3.8761	NOKPLN	0.4461
GBPPLN	4.8154	DKKPLN	0.5669
USDCNY	6.8292	SEKPLN	0.4327

*for 100HUF

Last session in the FX market

19/06/2017

	min	max	open	close	fixing
EURPLN	4.204	4.221	4.210	4.214	4.2112
USDPLN	3.752	3.779	3.759	3.776	3.7615
EURUSD	1.116	1.121	1.120	1.116	-

Interest rate market

19/06/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.91	0	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.58	2	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.16	2	23.03.2017	DS0727	3.568

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.77	2	1.42	2	-0.25	0
2L	1.88	1	1.56	3	-0.18	0
3L	1.98	2	1.68	3	-0.09	0
4L	2.10	2	1.77	4	0.02	0
5L	2.21	2	1.86	4	0.14	1
8L	2.47	2	2.06	4	0.53	1
10L	2.64	3	2.16	4	0.76	1

WIBOR rates

Term	%	Change (bps)
O/N	1.60	-1
T/N	1.60	-1
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	1.77	2
9x12	1.77	0
3x9	1.82	0
6x12	1.80	0

Measures of fiscal risk

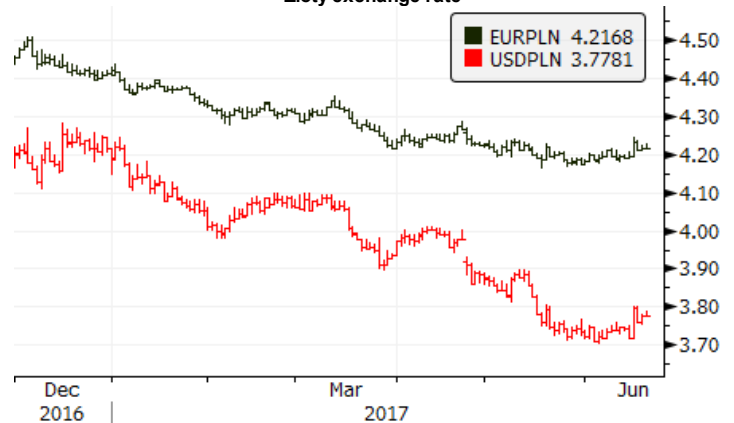
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.88	2
France	24	-1	0.35	0
Hungary	116	1	2.68	-1
Spain	66	-3	1.15	-1
Italy	135	-4	1.66	-1
Portugal	184	-2	2.56	-1
Ireland	40	1	0.39	0
Germany	14	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

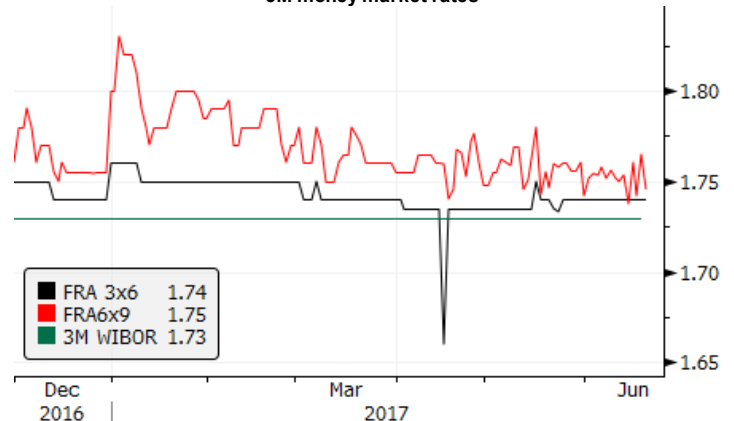
Zloty exchange rate



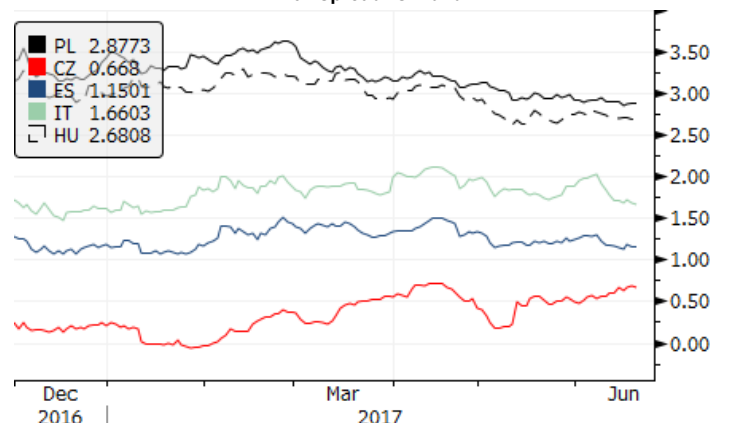
T-bonds yields



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 16 June)								
11:00	EZ	CPI	May	% y/y	1.4	-	1.4	1.9
14:30	US	House starts	May	k	1225	-	1092	1172
14:30	US	Building permits	May	k	1250	-	1168	1229
16:00	US	Flash Michigan	Jun	pts	97.0	-	94.5	97.1
MONDAY (19 June)								
14:00	PL	Wages in corporate sector	May	% y/y	4.5	5.3	5.4	4.1
14:00	PL	Employment in corporate sector	May	% y/y	4.6	4.6	4.5	4.6
TUESDAY (20 June)								
14:00	HU	Central bank decision		%	0.90	-		0.90
14:00	PL	Industrial output	May	% y/y	7.0	9.6		-0.6
14:00	PL	Construction and assembly output	May	% y/y	13.0	16.2		4.3
14:00	PL	PPI	May	% y/y	2.9	2.8		4.3
14:00	PL	Real retail sales	May	% y/y	7.8	7.1		6.7
WEDNESDAY (21 June)								
16:00	US	Home sales	May	% m/m	-0.4	-		-2.3
THURSDAY (22 June)								
14:00	PL	MPC Minutes						
14:30	US	Initial jobless claims	week	k	-	-		237
FRIDAY (23 June)								
9:30	DE	Flash PMI – manufacturing	Jun	pts	59.0	-		59.5
		Flash PMI – services	Jun	pts	55.4	-		55.4
10:00	EZ	Flash PMI – manufacturing	Jun	pts	56.7	-		57.0
		Flash PMI – services	Jun	pts	56.2	-		56.3
16:00	US	New home sales	May	% m/m	5.5	-		-11.4

Source: BZ WBK. Reuters. Bloomberg

* in case of the revision. the data is updated

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