

EYEOPENER

3 July 2017

Further decrease of inflation

- **Some rebound on the global markets**
- **Polish inflation down to 1.5% y/y in June**
- **Zloty slightly stronger vs major currencies, EURUSD holding close to 1.14**
- **Polish bond market strengthened by news on supply**
- **Today plenty of PMI indices**

There were moderately positive moods on Friday on world stock exchanges. Global stock exchanges closed the day in green, a slight rebound was also visible on the debt market after the sell-off last week. Increase in the risk appetite caused a drop in price of gold. Although Chinese industry PMI in June went back to over 50pts and further increase in prices of crude oil continue to support stock exchanges, the Asian session was under mixed moods. It signals that the hawkish message by central bankers last week caused a more lasting state of cautiousness on the markets.

Flash estimate of Polish June CPI, 1.5% y/y, was much below the market and our forecast of 1.7%, as it went further down from the 2.2% y/y February peak, after 1.9% y/y was recorded in May. This surprise makes the full report (due 11-Jul) a highly awaited release. Based on our calculations it seems likely that the low CPI headline could not have been achieved without core inflation moving down in June. Growing food prices (of meat and fruit in particular) were probably offset by falling fuel prices and lower roaming charges. We expect CPI to stay around 1.5% in the months to come. At the same time, core inflation might stay depressed in the summer and rise to or above 1% only in late 2017.

1Q17 current account data showed a surplus of EUR1.2bn while the earlier monthly data had it at 1bn. The revision was most significant when it comes to trade balance, which was reported at EUR+188mn instead of estimated EUR-508mn. Balance of services was also revised higher, by cEUR 0.4bn. This means there is scope for an upside revision of the already surprisingly strong 1Q GDP.

EURUSD still remained under the spell of the hawkish messages by major central bankers. June data on inflation in Euro zone were above estimates (1.3% vs 1.2%) and core inflation growing to 1.1% may be read as rising inflationary pressure. Despite this, the euro weakened slightly vs the dollar and the rate went temporarily down to below 1.139. The potential monetary policy tightening by ECB keeps the euro strong. The euro further strengthened vs. the dollar while monthly consumers' expenditures in the US came out in line with expectations.

The rise in appetite for risky assets contributed to the strengthening of the zloty and other currencies in the region. EURPLN saw a decline on Friday morning, but the preliminary inflation data for

June slowed down the move, when the rate was at 4.22. The zloty strengthened against the dollar and on Friday USDPLN fell below 3.70. Before the weekend there was also a rebound on the Czech koruna and the forint. After Thursday's pre-announcement of a rate hike in 3Q17 by the Czech central bank, the koruna continued its appreciation vs the euro. The Czech Statistical Office revised up GDP growth for Q1, to 3% y/y (previously estimated at 2.9%). According to the latest data export and import were lower y/y, but there was an improvement in investment. On Friday, the Czech Ministry of Finance also reported on the holding of domestic bonds by non-residents at the end of May. Foreign investors held 46.09% of domestic bonds as of end-May, and it increased from 45.44% at the end of April.

The Ministry of Finance informed that no bond auctions will be held in July. In 3Q17 there will be held 1-2 standard auctions with supply of PLN3-10bn depending on market conditions and 1-2 switch tenders during which bonds maturing in 2017-2018 will be offered.

On Friday there was a calming mood in the debt market. Bund yield increased by 3bps on Friday and throughout the week by 21bps to 0.47%, the highest level since January this year. Polish bonds were weakening in the morning, but only until the announcement of the Ministry of Finance about lack of supply in July. At that point 10Y bond began to strengthen and at the end of the day its yield approached 3.30%.

According to the Polish Ministry of Finance, in May foreign investors sold Polish PLN marketable bonds for nearly PLN0.5bn, taking the nominal value of their holdings to PLN209.5bn. The duration of their portfolio remained at the historic high of 4.84. Foreign commercial banks sold bonds for PLN1.25bn and the nominal value of their holdings fell to PLN6.1bn, the lowest level since comparable data has been made available (April 2004). The central banks and mutual funds cut their exposure by PLN718mn and PLN465mn, respectively. The major buyers in May were public institutions that increased their holdings by PLN1.35bn.

June manufacturing PMI rose from 52.7 to just 53.1 pts which means that the negative gap between the sentiment in Poland and the Euro zone remains historically quite high. That said the report accompanying the PMI release paints a positive picture with a substantial rebound of domestic new orders (this was the component responsible for a negative surprise in the previous release). Current output and total new orders are still rising, while the negative surprise with the headline might be linked to weakness in employment sub-index (pointing to the weakest increase in almost 3 years). This confirms that the labour market is already tight in Poland, which could now be a bottle neck for further expansion, or at least could cap the local PMI.

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	4.2296	CZKPLN	0.1621
USDPLN	3.7118	HUFPLN*	1.3685
EURUSD	1.1395	RUBPLN	0.0630
CHFPLN	3.8695	NOKPLN	0.4448
GBPPLN	4.8278	DKKPLN	0.5688
USDCNY	6.7880	SEKPLN	0.4395

*for 100HUF

Last session in the FX market

30/06/2017

	min	max	open	close	fixing
EURPLN	4.220	4.245	4.242	4.232	4.2265
USDPLN	3.696	3.714	3.711	3.703	3.7062
EURUSD	1.139	1.145	1.143	1.143	-

Interest rate market

30/06/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.88	-5	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.64	-6	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.31	-3	23.03.2017	DS0727	3.568

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.78	1	1.45	0	-0.23	0
2L	1.94	-1	1.60	2	-0.13	1
3L	2.06	-1	1.73	2	0.00	2
4L	2.22	0	1.84	3	0.14	3
5L	2.37	0	1.93	3	0.27	2
8L	2.66	1	2.15	3	0.67	2
10L	2.81	1	2.26	3	0.90	3

WIBOR rates

Term	%	Change (bps)
O/N	1.52	3
T/N	1.57	11
SW	1.59	2
2W	1.62	1
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	1.73	-1
6x9	1.74	-1
9x12	1.80	-2
3x9	1.82	-2
6x12	1.85	0

Measures of fiscal risk

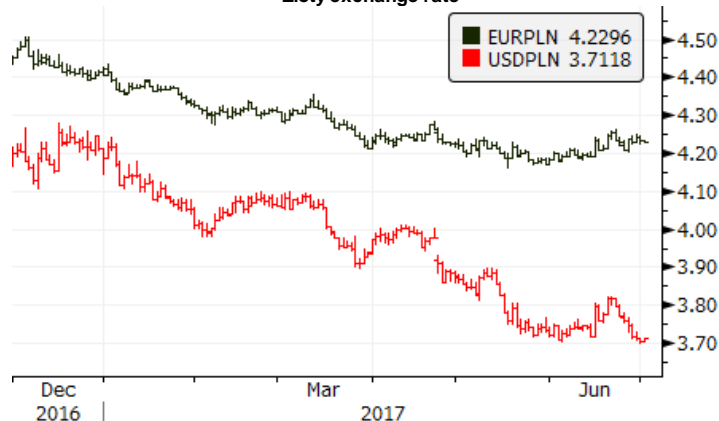
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.83	-5
France	22	0	0.35	0
Hungary	116	1	2.60	-1
Spain	65	-1	1.05	-1
Italy	146	0	1.67	-1
Portugal	186	-1	2.54	-1
Ireland	40	1	0.40	0
Germany	15	1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

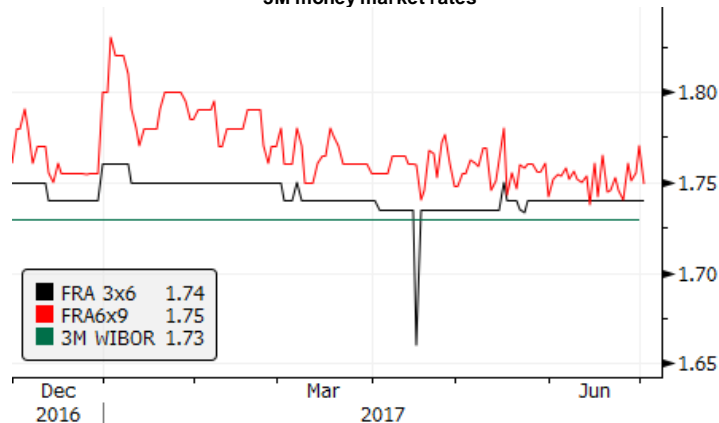
Zloty exchange rate



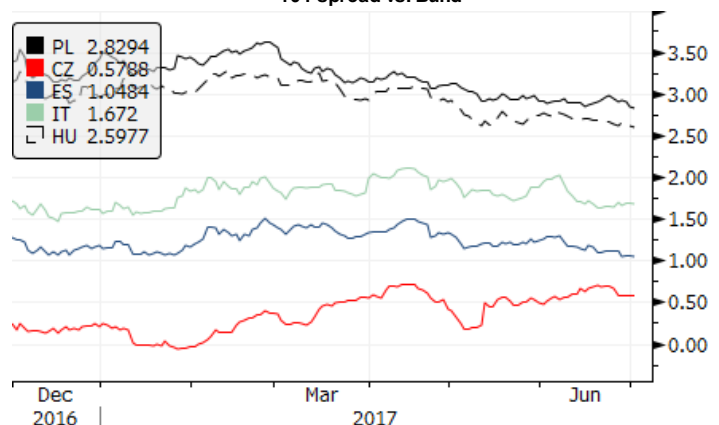
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	BZWBK		
FRIDAY (30 June)								
9:00	CZ	GDP	Q1	% y/y	2.9	-	3.0	2.9
9:00	HU	PPI	May	% y/y		-	2.7	4.4
11:00	EZ	Flash CPI	Jun	% y/y	1.3	-	1.3	1.4
14:00	PL	Flash CPI	Jun	% y/y	1.9	1.7	1.5	1.9
14:30	US	Personal income	May	% m/m	0.3	-	0.4	0.4
14:30	US	Consumer spending	May	% m/m	0.1	-	0.1	0.4
16:00	US	Michigan index	Jun	pts	95.0	-	95.1	94.5
MONDAY (3 July)								
9:00	PL	PMI – manufacturing	Jun	pts	53.7	54.2	53.1	52.7
9:00	HU	PMI – manufacturing	Jun	pts	60.0	-	57.2	61.9
9:30	CZ	PMI – manufacturing	Jun	pts	57.2	-	56.4	56.4
9:55	DE	PMI – manufacturing	Jun	pts	59.4	-		59.3
10:00	EZ	PMI – manufacturing	Jun	pts	57.0	-		57.3
16:00	US	ISM – manufacturing	Jun	pts	55.0	-		54.9
TUESDAY (4 July)								
	US	Market holiday						
WEDNESDAY (5 July)								
09:55	DE	PMI – services	Jun	pts	--			53.7
10:00	EZ	PMI – services	Jun	pts	--			54.7
11:00	EZ	Retail sales YoY	May	% y/y	--			2.50%
16:00	US	Factory orders	May	% m/m	-0.50%	-		-0.20%
16:00	US	Durable goods orders	May	% m/m	--	-		-1.10%
20:00	US	FOMC minutes	14-Jun		--	-		--
	PL	Base Rate Announcement			1.50%	1.7		1.50%
THURSDAY (6 July)								
08:00	DE	Factory orders	May	% m/m	--	--		-2.10%
13:30	EC	ECB minutes						
14:15	US	ADP report	Jun	k	183k	--		253k
16:00	US	ISM – services	Jun	pts	56.5	--		56.9
FRIDAY (7 July)								
08:00	DE	Industrial output	May	% m/m	--	-		0.80%
09:00	CZ	Industrial output	May	% y/y	--	-		-2.50%
14:30	US	Change in nonfarm payrolls	Jun	k	180k	-		138k
14:30	US	Unemployment rate	Jun	%	4.30%	-		4.30%
	HU	Rating review by Moody's				-		
	PL	Rating review by Fitch				-		

Source: BZ WBK. Reuters. Bloomberg

* in case of the revision. the data is updated

This publication has been prepared by Bank Zachodni WBK S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Bank Zachodni WBK S.A., its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Bank Zachodni WBK S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Bank Zachodni WBK S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

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.