

EYEOPENER

11 July 2017

What is behind June fall in CPI?

- **Calm session on the global markets**
- **MPC's Łon supported keeping rates on hold, Hardt not accepting negative real rates**
- **Zloty stable, EURUSD close to 1.14**
- **Recovery on the debt market**
- **Today inflation data from Poland and Hungary**

Global stock exchanges started the week in black after the pretty good Friday's US monthly job report. Probability for a next Fed rate hike this year rose slightly but this did not prevent bonds from gaining after the Friday's sell-off. On the FX market, lower demand for the risky assets outweighed higher chance for rate hikes in the US and the dollar lost slightly at the beginning of the week.

EURUSD remained pretty stable near 1.14. Volatility was low as investors were waiting for Janet Yellen speech in the US Congress amid lack of important macro data releases.

Both EURPLN and USDPLN did not move much yesterday and stayed near 4.23 and 3.72, respectively. The ruble lost slightly vs the dollar while the forint and Czech koruna remained stable vs the euro.

On Monday bond yields on the core and euro zone peripheries were falling. Investors were buying Bunds again and the 10Y yield fell by 3bp vs Friday's closing. Improved sentiment on the global debt market proved supportive also for Polish debt – the 10Y bond yield declined by 5bp and fell below 3.30%. The 10Y Bund spread narrowed below 280bp. Czech and Hungarian bonds also gained but somewhat less than Polish debt. Polish IRS curve flattened amid falling mid- and long-term rates. The asset swap spread eased below 50bp.

Yesterday the NBP released its new 'Inflation report' showing central bank's CPI and GDP forecasts for 2017-2019. NBP revised its GDP path up to 4% from 3.7% in 2017, to 3.5% from 3.3% in 2018 and to 3.3% from 3.2% in 2019. More optimistic forecasts stemmed from: (1) stronger than expected economic activity in Poland's main trading partners, (2) lower energy commodity prices, (3) higher private consumption as in 1Q17 consumption grew 4% y/y, its highest pace since 2008. Private consumption is expected to remain the main driver of the economic growth in Poland rising

4.4% in 2017, 3.6% in 2018 and 3.4% in 2019. Investments are assumed to be recovering gradually to reach 14.4% y/y in 4Q17. Currently, the NBP estimates total investment at 5.7% in 2017 (vs 6% expected in March), 6.6% in 2018 (5.4%) and 4.3% in 2019 (3.9%). NBP estimates that the demand gap will close in 2H17. Inflation forecasts were revised down only for this year and now is expected to reach 1.9% on average, slightly above our estimate at 1.8%. Central bank expects inflation to average 2% in 2018 and 2.5% in 2019 (vs 2.3% forecasted in March).

Eryk Łon, member of the Polish MPC, said yesterday in the interview for the Polish Press Agency that the recent NBP projection and current economic conditions confirm that there is no need to change interest rates. Łon stressed that low interest rates should help investments (both domestic and foreign) to recover this year. In his view, inflation will decelerate amid falling oil prices and he expects this trend to continue. Łon said that it is optimal situation or at least close to optimal when acceleration of an economic growth is accompanied by weakening inflation pressure. At the same time, MPC's Łukasz Hardt said for Bloomberg that there may be attempts to hike rates in early 2018 if next central bank's projections show that real interest rates will remain negative. For him, keeping real interest rates in the forecasts horizon would be hard to accept. Hardt added that he would consider rate hikes if forecasts showed inflation above the target but for the time being this is not the case. We assume interest rates will remain stable until 4Q18.

Registered unemployment rate fell in June to 7.2%, according to flash data from the Ministry of Labour. Our estimate of seasonally adjusted numbers points to 7.5% and we have actually seen this print unchanged since March. Let us remind that data on employment in the corporate sector were quite disappointing and in our view the slowdown on the Polish labour market has begun.

Today we will learn what stood behind the strong decline in Poland's CPI in June (flash reading surprised with a deep decline to 1.5% y/y from 1/9% y/y in May). Food, fuel and roaming prices are natural suspects, but it seems to us that the low CPI headline could not have been achieved without core inflation moving down. Decline of CPI in June may move the whole inflation path for 2017 down (December at 1.2% is possible), yet the new fuel tax may push it up by 0.3-0.4pp.

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FX market

Today's opening

EURPLN	4.2392	CZKPLN	0.1624
USDPLN	3.7222	HUFPLN*	1.3758
EURUSD	1.1389	RUBPLN	0.0617
CHFPLN	3.8489	NOKPLN	0.4460
GBPPLN	4.7929	DKKPLN	0.5700
USDCNY	6.8057	SEKPLN	0.4413

*for 100HUF

Last session in the FX market 10/07/2017

	min	max	open	close	fixing
EURPLN	4.230	4.242	4.237	4.239	4.2348
USDPLN	3.707	3.729	3.721	3.720	3.716
EURUSD	1.138	1.142	1.140	1.140	-

Interest rate market 10/07/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.82	-2	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.68	-4	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.31	-5	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	1.46	0	-0.24	0
2L	1.94	-2	1.64	0	-0.12	0
3L	2.08	-2	1.79	-1	0.02	0
4L	2.24	-2	1.91	-1	0.17	0
5L	2.40	-3	2.01	-1	0.32	-2
8L	2.71	-2	2.24	-1	0.73	-2
10L	2.86	-3	2.34	-1	0.96	-3

WIBOR rates

Term	%	Change (bps)
O/N	1.61	-1
T/N	1.61	-1
SW	1.60	0
2W	1.62	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	1.81	-1
3x9	1.81	0
6x12	1.84	-1

Measures of fiscal risk

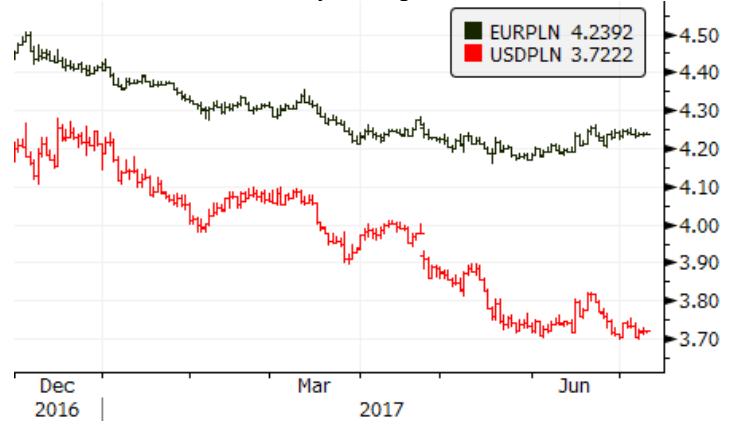
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.76	-6
France	22	1	0.37	0
Hungary	116	1	2.61	-1
Spain	68	-2	1.13	1
Italy	147	-3	1.74	1
Portugal	183	-2	2.56	1
Ireland	34	-6	0.37	-5
Germany	15	-1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

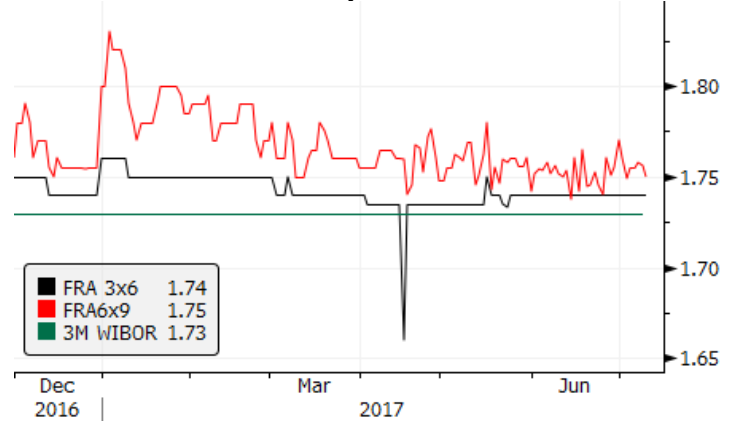
Zloty exchange rate



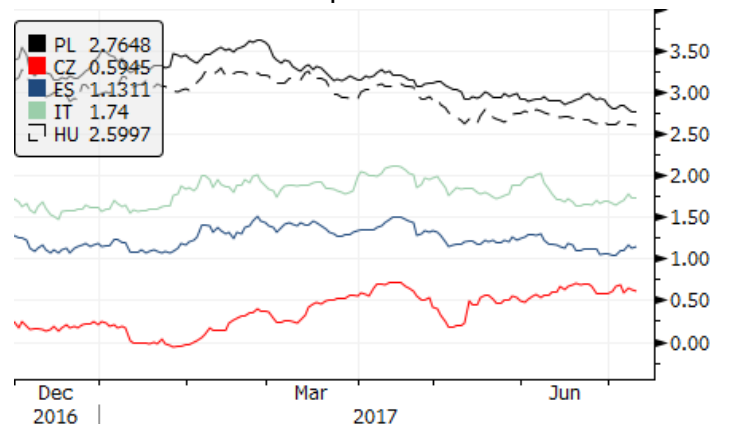
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	BZWBK			
FRIDAY (7 July)								
08:00	DE	Industrial output	May	% m/m	0.2	-	1,2	0.70
09:00	CZ	Industrial output	May	% y/y	3.50	-	8.10	-2.50
14:30	US	Change in nonfarm payrolls	Jun	k	180	-	222	152
14:30	US	Unemployment rate	Jun	%	4.30	-	4.40	4.30
	HU	Rating review by Moody's				-		
	PL	Rating review by Fitch				-		
MONDAY (10 July)								
8:00	GE	Exports	May	% m/m	0.3	-	1.4	0.9
TUESDAY (11 July)								
9:00	HU	CPI	Jun	% y/y	2.0	-		2.1
14:00	PL	CPI	Jun	% y/y	1.5	1.5		1.9
WEDNESDAY (12 July)								
9:00	CZ	CPI	Jun	% y/y	2.3	-		2.4
11:00	EZ	Industrial output	May	% m/m	-	-		0.5
14:00	PL	Core inflation	Jun	% y/y	0.8	0.6		0.8
20:00	US	Fed Beige Book						
THURSDAY (13 July)								
14:30	US	Initial jobless claims	week	k	-	-		
FRIDAY (14 July)								
14:00	PL	Current account	May	€m	247	609		-275
14:00	PL	Exports	May	€m	16 083	16 449		15 176
14:00	PL	Imports	May	€m	16 182	16 397		15 090
14:30	US	CPI	Jun	% m/m	0.1	-		-0.1
14:30	US	Retail sales	Jun	% m/m	0.1	-		-0.3
15:15	US	Industrial output	Jun	% m/m	0.3	-		0.0
16:00	US	Flash Michigan	Jul	pts	-	-		95.1

Source: BZ WBK. Reuters. Bloomberg

* in case of the revision. the data is updated

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