

EYEOPENER

18 July 2017

Zubelewicz for cautious interest rate hike in 2017

- Mixed moods on the global equity market
- Euro zone inflation in line with expectations
- EURPLN still close to 4.20, EURUSD at a year's high
- Bond yields continue the decline
- Today Polish labour market data and German ZEW index

Better-than-expected data on Chinese GDP which grew 6.9% y/y Q2 spurred demand for risky assets at the beginning of session. In the following hours, however, willingness to take profit after Friday gains emerged, which in turn, positively affected the bond market. Oil prices stabilized.

Yesterday, MPC's Kamil Zubelewicz commented for Bloomberg that cautious interest rates hike should occur yet this year. In his view, the decision on hike would pose less burden for economy now than in the future. The MPC member would not like to keep the current "wait-and-see" approach until inflation reaches the target (2.5% y/y), which he considers too high. Zubelewicz stressed that his arguments for hike do not stem from adverse effects of negative real interest rates, but his anticipation of the risk of the prices of food and fuel rising faster than expected in the July's inflation projection. Yesterday's Zubelewicz remark is yet another sign that the discussion within the MPC that we expected regarding the interest rates hike has already commenced. We forecast the first hike in Q4 2018.

According to the IMF, the economic growth rate in Poland this year will reach 3.6% (below our forecast of 3.8%), whereas inflation will get close to the target yet at the beginning of the next year. In IMF's opinion, the inflation pressure will start to grow at the end of this year due to adverse effect of demographic and structural factors on the increase in investments and labour productivity.

Markets are awaiting the Thursday's ECB meeting, which may be an impulse for EURUSD. Yesterday's data about inflation in the euro zone (1.3% y/y in June) and core inflation (1.1% y/y) did not affect the currency significantly. The rate declined last morning to the session's low at 1.144 but it rebounded very quickly and euro started appreciating vs dollar, reaching 1.152 at today's opening (new this year's high). Last clear strengthening of the euro could – in our view – make the ECB

less willing to turn towards more hawkish rhetoric at the tomorrow's meeting.

EURPLN was hovering on Monday in a narrow range 4.20-4.21 and at the end of the day the exchange rate was testing the lower end. Weakness of the US dollar pushed the USDPLN further down, below 3.65. CHFPLN remained near 3.80 and the zloty was still the strongest versus the franc since January 2015, when the Swiss central bank floated the currency. Today in the morning EURPLN is close to 4.20 and the market mood is slightly worse than yesterday.

Both the forint and the Czech koruna were stable to the euro yesterday. Today in the afternoon the Hungarian national bank (MNB) is taking decision on rates. We expect the bank to keep monetary policy parameters unchanged. The central bank rhetoric will remain dovish, in our view, as inflation fell to 1.9% from 2.1% in May and 2.2% in April. MNB expects inflation to return to the 3% target in 1H18. Dovish bias of the central bank may put a pressure on the Hungarian currency.

Debt markets continued the strengthening started on Friday. Bullish steepener was seen on the German bond curve and Bunds performed similarly to their US peers. Downward move of yields was observed also on the euro zone peripheries and in the CEE region. The Polish curve, on the other hand, saw a bullish flattener as 10Y papers gained. 10Y benchmark yield was oscillating close to 3.27%, while spread to Bund fell to 270bp.

Yesterday the PiS president Jarosław Kaczyński said that the bill introducing the "road fee" (new tax on fuels) of PLN0.20 per liter will be abandoned. Thus, our year-end CPI forecast sits at 1.2% y/y.

Today at 14:00CET Polish stat office will release data on wages and employment. We expect wage growth to be considerably lower in June, dropping from 5.4% y/y in May to 4.6%. Let us remind that May's results went up due to one-offs. We will surely eye employment data as recent statistics suggested that the positive tendencies on the labour market are losing steam.

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FX market

Today's opening

EURPLN	4.2026	CZKPLN	0.1612
USDPLN	3.6477	HUFPLN*	1.3696
EURUSD	1.1521	RUBPLN	0.0616
CHFPLN	3.7993	NOKPLN	0.4490
GBPPLN	4.7795	DKKPLN	0.5651
USDCNY	6.7580	SEKPLN	0.4415

*for 100HUF

Last session in the FX market

17/07/2017

	min	max	open	close	fixing
EURPLN	4.202	4.213	4.208	4.207	4.2091
USDPLN	3.658	3.680	3.670	3.667	3.6767
EURUSD	1.144	1.149	1.146	1.147	-

Interest rate market

17/07/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.82	1	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.65	-1	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.28	-2	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	1.44	0	-0.24	0
2L	1.93	1	1.59	0	-0.13	-1
3L	2.05	0	1.72	0	0.01	-1
4L	2.20	0	1.82	-1	0.16	0
5L	2.34	0	1.91	-1	0.31	-1
8L	2.64	0	2.14	-1	0.71	-1
10L	2.79	0	2.26	-1	0.95	0

WIBOR rates

Term	%	Change (bps)
O/N	1.61	0
T/N	1.61	0
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	1
9x12	1.81	0
3x9	1.81	0
6x12	1.84	1

Measures of fiscal risk

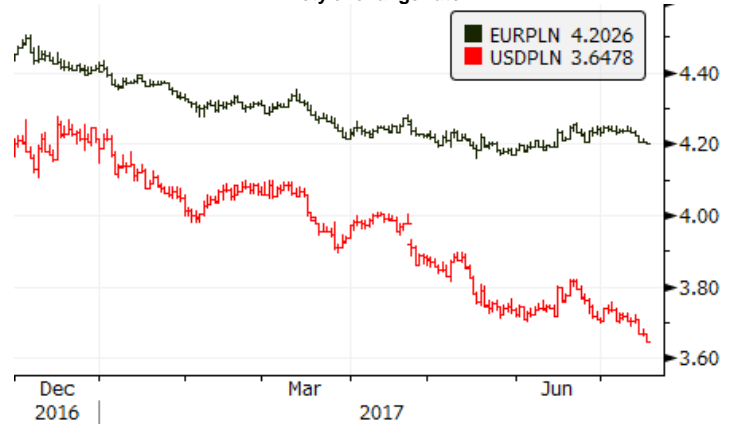
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.71	-2
France	21	0	0.26	0
Hungary	116	1	2.47	0
Spain	67	-1	1.01	0
Italy	143	-2	1.66	1
Portugal	179	-5	2.51	1
Ireland	33	-2	0.30	-1
Germany	15	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

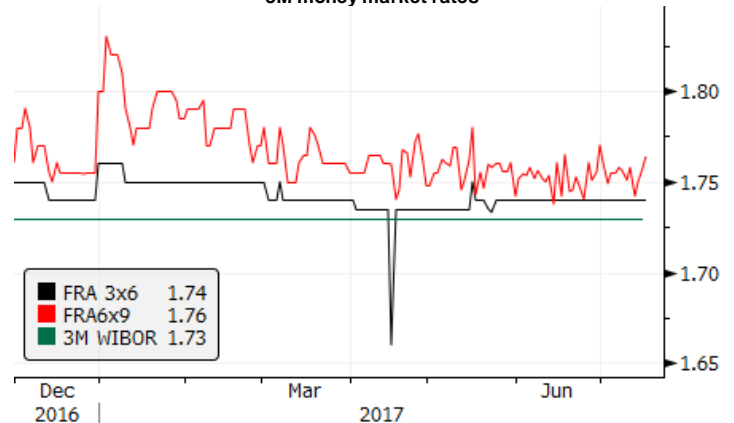
Zloty exchange rate



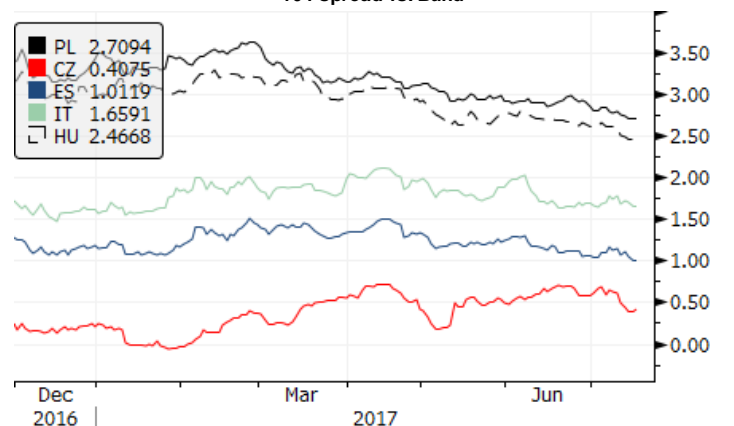
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar								
TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	BZWBK			
FRIDAY (14 July)								
14:00	PL	Current account	May	€m	247	609	-179	-275
14:00	PL	Exports	May	€m	16 083	16 449	16 257	15 283
14:00	PL	Imports	May	€m	16 182	16 397	16 457	15 072
14:30	US	CPI	Jun	% m/m	0.1	-	0.0	-0.1
14:30	US	Retail sales	Jun	% m/m	0.1	-	-0.2	-0.3
15:15	US	Industrial output	Jun	% m/m	0.3	-	0.4	0.0
16:00	US	Flash Michigan	Jul	pts	95	-	93.1	95.1
MONDAY (17 July)								
11:00	EZ	CPI	Jun	% y/y	1.3	-	1.3	1.4
TUESDAY (18 July)								
11:00	GE	ZEW index	Jul	pts	88.0	-		88.0
14:00	HU	Central bank decision		%	0.9	-		0.9
14:00	PL	Wages in corporate sector	Jun	% y/y	5.0	4.6		5.4
14:00	PL	Employment in corporate sector	Jun	% y/y	4.3	4.2		4.5
WEDNESDAY (19 July)								
14:00	PL	Industrial output	Jun	% y/y	3.9	3.9		9.1
14:00	PL	Construction and assembly output	Jun	% y/y	9.8	9.5		8.4
14:00	PL	PPI	Jun	% y/y	2.1	2.1		2.5
14:00	PL	Real retail sales	Jun	% y/y	6.0	5.5		8.4
14:30	US	House starts	Jun	% m/m	5.8	-		-5.5
14:30	US	Building permits	Jun	% m/m	3.0	-		-4.9
THURSDAY (20 July)								
13:45	EZ	ECB decision		%	0.0	-		0.0
14:30	US	Philly Fed index	Jul	pts	23.4	-		27.6
14:30	US	Initial jobless claims	week	k	245	-		247
FRIDAY (21 July)								
14:00	PL	Money supply M3	Jun	% y/y	5.9	5.7		6.2

Source: BZ WBK. Reuters. Bloomberg

* in case of the revision. the data is updated

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