

# EYEOPENER

19 July 2017

## Wage growth accelerating

- Deterioration of moods in the global markets
- Wage growth in Poland highest in 5 years
- EURPLN testing 4.20, EURUSD nearing 1.16
- Debt market remains strong
- Today data about production and retail sales in Poland, home construction in the USA

Most stock exchanges in Europe finished Tuesday's session in the red after the failed attempt to overhaul the Obamacare. Failure in the Congress weakens market's faith in the reforms announced by Donald Trump in the presidential campaign. As a result, the German DAX ended the session more than 1% lower, the dollar was under pressure, but the US and Asian indices avoided falls, remaining close to the record levels. The rise in risk aversion supported the bonds whose yields fell for the third day in a row.

Yesterday the data from Polish labour market were released. Employment in corporate sector reached 6 million in June after an increase of 4.3% y/y (in line with consensus and versus our estimate at 4.2% y/y). Wage growth in corporate sector accelerated sharply to 6.0% y/y in June, much above our forecast (4.6% y/y) and market consensus (5.0% y/y), and was the highest since January 2012. Real wage bill in corporate sector rose 8.9% y/y in June, the fastest pace since July 2016. Solid rise in wages should have supported private consumption in 2Q and this should work later in the year. We do not have the sufficient information yet to say to what extent one-off factors contributed to wage surge in June, but it cannot be excluded that the wage pressure is rising due to deepening shortage of skilled labourforce. Rising wage pressure was mentioned by some of the MPC members as a factor bringing the decision to hike rates forward and we think these data will be watched closely by Polish central bankers. We still expect the first rate hike in late 2018.

After yesterday's opening of EURUSD at 1.152, intraday the dollar still weakened and yesterday's closing at 1.158 was the highest since January 2015. The weaker reading of the German ZEW index only temporarily weakened the European currency. Overnight there was a slight rebound and today morning EURUSD is close to 1.154. The strengthening of the euro against the dollar by almost 2% in July and by 11% since the beginning of the year may affect the rhetoric of the ECB after Thursday's meeting. In our opinion, current high level of

EURUSD may decide that the central bank will present rather a dovish tone.

Tuesday saw a strengthening of the zloty, though its appreciation versus the euro slowed down. Since morning, EURPLN has tested 4.20 but managed to break it only temporarily and returned above this level at the end of the day. As the dollar weakened versus the euro, USDPLN fell below 3.63, the lowest level since May 2015. Yesterday GBPPLN fell below 4.73 and was at the lowest level since October 2016. We cannot rule out, however, that the rising political tension due to changes in judiciary will halt the zloty appreciation in the short term.

The forint and the ruble gained on Tuesday. The Hungarian central bank (MNB) kept its reference rate unchanged at 0.9%, in line with our expectations. The MNB confirmed its pledge to keep accommodative monetary policy and support the economy if necessary. In June, inflation in Hungary fell to 1.9% y/y and the MNB expects it to approach the inflation target at 3% in early 2019. In our view, the dovish bias of the MNB is likely to weigh on the forint.

Yesterday, core and peripheral bond market were strengthening for another session in a row. US curve flattened a bit more than the German one. The long-end UST yields fell by more than 4bp to 2.275%, while Bund gained only 2bp (0.557%). Czech and Hungarian bonds also strengthened, with 10Y bond returning to 0.93% and below 3%, respectively. Polish bond yields fell by 4bp on the belly and by 3bp on the longer end. Polish 10Y paper traded at 3.24% yesterday. IRS rate flattened on Tuesday, while 10Y rate fell to 2.77%. Asset swap spread declined below 50bp.

Today at 14:00CET output and retail sales data are due for release. We believe June's industrial output will decelerate markedly versus May and reach only 3.9% y/y, mostly due to the working-day effect. The same will weigh on real retail sales, which we expect to expand by 5.5% y/y. However, the underlying trend in both will remain intact, suggesting positive situation in consuming and producing sectors. Construction output data may prove a bit more interesting, as it is slightly less susceptible to working-day effect and it surprised to the downside in May. Situation in construction is one of the major indicators of investment, so further downward surprises would suggest the ongoing delay in investment recovery.

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## FX market

## Today's opening

EURPLN	4.2010	CZKPLN	0.1610
USDPLN	3.6432	HUFPLN*	1.3729
EURUSD	1.1531	RUBPLN	0.0614
CHFPLN	3.8127	NOKPLN	0.4501
GBPPLN	4.7499	DKKPLN	0.5649
USDCNY	6.7569	SEKPLN	0.4387

\*for 100HUF

## Last session in the FX market

18/07/2017

	min	max	open	close	fixing
EURPLN	4.197	4.208	4.207	4.202	2.1016
USDPLN	3.624	3.667	3.667	3.634	3.6469
EURUSD	1.147	1.158	1.147	1.156	-

## Interest rate market

18/07/2017

## T-bonds on the interbank market\*\*

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.80	-2	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.60	-5	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.23	-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	-1	1.44	0	-0.25	0
2L	1.92	-1	1.58	-1	-0.14	-1
3L	2.04	-1	1.70	-2	0.00	0
4L	2.18	-3	1.80	-2	0.15	-1
5L	2.31	-3	1.88	-3	0.30	-1
8L	2.61	-3	2.10	-4	0.70	-1
10L	2.77	-3	2.21	-4	0.93	-1

## WIBOR rates

Term	%	Change (bps)
O/N	1.61	0
T/N	1.60	-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	1.80	-1
3x9	1.81	0
6x12	1.83	-1

## Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.68	-5
France	21	0	0.26	0
Hungary	116	1	2.47	0
Spain	66	-1	0.98	0
Italy	140	-3	1.63	0
Portugal	177	-2	2.48	-1
Ireland	32	-1	0.29	0
Germany	14	-1	-	-

\* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

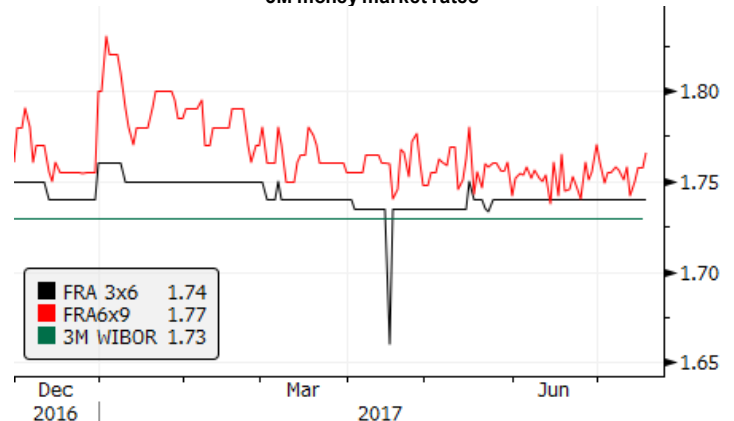
## Zloty exchange rate



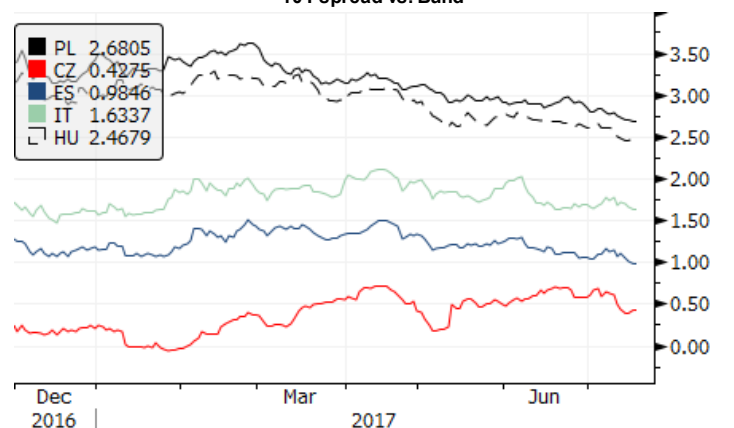
## T-bonds yields



## 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 (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	-	86.4	88.0
14:00	HU	Central bank decision		%	0.9	-	0.9	0.9
14:00	PL	Wages in corporate sector	Jun	% y/y	5.0	4.6	6.0	5.4
14:00	PL	Employment in corporate sector	Jun	% y/y	4.3	4.2	4.3	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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