

EYEOPENER

20 July 2017

Temporary slowdown in manufacturing

- Moderately positive mood on the global market
- Solida data from Polish economy
- Zloty gives up part of recent gains, EURUSD down
- Bond yields up
- Today ECB in the spotlight

After political turmoil in the US at the beginning of the week, sentiment on the global stock market improved on Wednesday. In the meantime, FX and debt markets are awaiting today's Mario Draghi's press conference after the ECB meeting. Yesterday, in attendance of the key week's event, bonds gave away part of recent gains, whereas the euro and CEE currencies depreciated slightly. Oil and gold prices continued their upward trend.

Yesterday we got to see important data from the Polish economy. In June industrial output growth slowed to 4.5% y/y and real retail sales to 5.8% y/y mainly due to the negative working days effect. However, aside from the calendar effects, trends in industry and retail trade are still positive, in our view. Construction output is also showing a gradual recovery (in June 11.6% y/y), which may signal a growing investment activity. Summing up production and sales growth for the whole 2Q17, we think that they signal a very slight slowdown in GDP growth in this quarter to 3.8-3.9% y/y. Throughout the year, the economy is likely to grow at a rate close to 4%, as long as investment growth accelerates in 2H, as expected. The data should be neutral for the monetary policy outlook.

Yesterday, Polish stat office published results of the consumer confidence survey in July. Both the current and the leading consumer sentiment indexes were lower than in the previous month. However, the assesment of the current and future economic condition in Poland and future financial standing of households improved. On the other hand, view for purchasing capability of households, future income and unemployment deteriorated. In our view, consumer confidence will support private consumption this year.

Yesterday EURUSD fell after three days of rises. The exchange rate returned to 1.15 after reaching Tuesday peak on 1.158, which may have been due to better-than-expected data from the US housing market and expectations ahead of the ECB meeting. Today, conference after the meeting will be crucial. In our view, last strengthening of the single currency may be important for continuation of dovish rhetoric by the ECB. As a result, we expected EURUSD to decline.

On Wednesday the zloty was under impact of Polish political events and warnings of the European Commission about

possible triggering of infringement procedure against Poland. This comment pushed EURPLN up to 4.217. Positive data from the Polish economy stopped the zloty depreciation but the currency failed to trim its morning losses. Eventually, at the end of the day the euro was worth 4.21 zloty. The Polish currency lost also to other currencies, most considerably to the Swiss franc (CHFPLN oscillated around 3.83). USDPLN climbed to 3.65. Today in the morning EURPLN is close to 4.21. In our view, the ECB rhetoric may deliver an impulse to trim yesterday losses, as the central bank is likely to be dovish.

The Czech koruna was appreciating and EURCZK was testing 26.0, the lowest level since the abandoning of the currency floor by the central bank. The koruna has been supported by the hawkish tone of the central bank, which signalled a possible interest rate hike in 3Q17. Meanwhile, the forint depreciated slightly yesterday, approaching 306.5 per euro. Dovish rhetoric of the Hungarian central bank is weighing on the currency and we expect the EURHUF to approach 312 this quarter.

After three days' long strengthening of bonds, on Wednesday most of the debt markets were under pressure. Yields in Hungary, USA or Italy were rising since the very morning, but at the end of the day bonds managed to trim some losses. Similar situation was observed in Poland, where during the day the debt was clearly underperforming foreign markets (probably due to European Commission's warning). Finally, Polish yield curve moved up yesterday by c.2bp (the long end temporarily was up even 5bp). Meanwhile, in the IRS market the short end increased slightly and the long end decreased a little. The 2-10Y spread remains above 85bp, i.e. 7bp higher than on average in June.

Yesterday, Hungary announced issuance of new Panda bonds, denominated in yuan. It will be second issuance, after Hungary placed bonds valued CNY1bn in April last year. Poland also issued CNY bonds in August 2016 of the value of CNY3bn. The Ministry of Finance informed that in 2H17 another series of Panda bonds may be issued.

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	4.2127	CZKPLN	0.1615
USDPLN	3.6573	HUFPLN*	1.3757
EURUSD	1.1519	RUBPLN	0.0620
CHFPLN	3.8295	NOKPLN	0.4529
GBPPLN	4.7611	DKKPLN	0.5665
USDCNY	6.7641	SEKPLN	0.4406

*for 100HUF

Last session in the FX market

19/07/2017

	min	max	open	close	fixing
EURPLN	4.197	4.217	4.202	4.207	4.2057
USDPLN	3.633	3.660	3.634	3.652	3.6486
EURUSD	1.151	1.157	1.156	1.152	-

Interest rate market

19/07/2017

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)	2.63	3	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.26	3	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	1.45	1	-0.25	0
2L	1.94	2	1.59	0	-0.15	-1
3L	2.07	2	1.71	1	-0.01	-2
4L	2.20	2	1.80	1	0.14	-1
5L	2.33	2	1.89	1	0.28	-2
8L	2.62	1	2.11	1	0.68	-2
10L	2.79	2	2.22	1	0.91	-3

WIBOR rates

Term	%	Change (bps)
O/N	1.61	0
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	1.77	1
9x12	1.80	0
3x9	1.81	1
6x12	1.83	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.72	2
France	19	-1	0.26	0
Hungary	116	1	2.51	-1
Spain	65	-1	1.01	0
Italy	140	0	1.65	0
Portugal	174	-3	2.51	1
Ireland	32	-1	0.29	-2
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

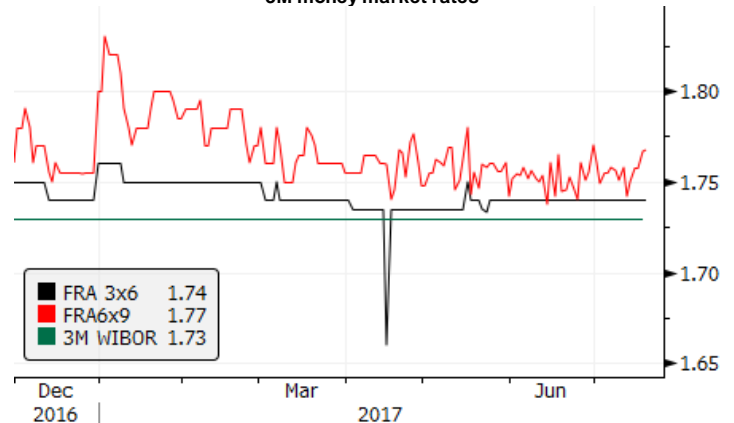
Zloty exchange rate



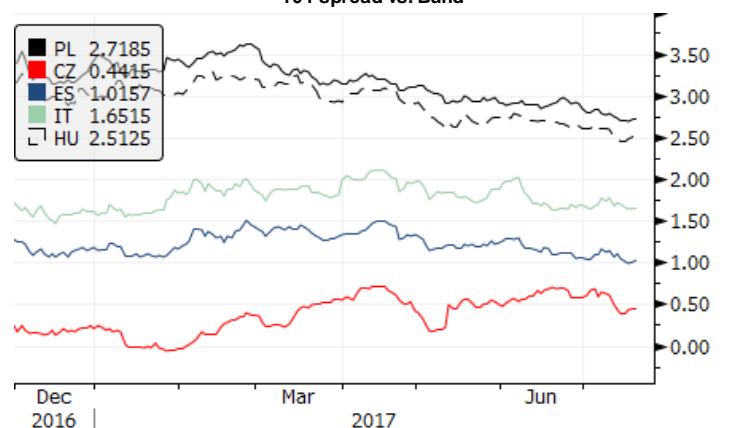
T-bonds yields



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 (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	4.5	9.1
14:00	PL	Construction and assembly output	Jun	% y/y	9.8	9.5	11.6	8.4
14:00	PL	PPI	Jun	% y/y	2.1	2.1	1.8	2.4
14:00	PL	Real retail sales	Jun	% y/y	6.0	5.5	5.8	7.4
14:30	US	House starts	Jun	% m/m	5.8	-	8.3	-2.8
14:30	US	Building permits	Jun	% m/m	3.0	-	7.4	-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

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.