

EYEOPENER

11 August 2017

Focus on US CPI

- Risky assets remained under pressure
- The zloty increased losses, EURUSD stable
- Domestic IRS rates and yields moved slightly higher
- Today Polish inflation and current account, CPI in the US

A number of weaker-than-expected German readings and an increase in tension between the US and North Korea still had a clearly negative impact on risky assets. Prices of shares in Europe went down, safe haven currencies such as CHF or JPY as well as bonds on core markets strengthened. Bond yields in the Euro zone peripheries went up slightly, CEE currencies were also under a some selling pressure. Weekly data on US labour market were a bit weaker than expected and together with disappointing American PPI weighted on the US dollar.

EURUSD neared 1.17 from above again but the US data made it impossible for it to exceed this level and at the end of the day it went back to 1.175. Today the focus will be on inflation data. In the last statement after the FOMC meeting the policymakers pointed out the recent inflation slowdown which caused that the market perceived the document as dovish and had a clear impact on the dollar. Today's reading may be a make or break one for the EURUSD triggering either a correction in the following days to 1.16-1.15 or a continuation of the upward trend.

William Dudley, holding a permanent voting right in FOMC as the New York Fed president, expressed an opinion that inflation should increase only over the medium-term, and that it is not evident that it will reach the target level of 2% y/y in that time frame. PPI decreased from 2% to 1.9% y/y while the market was expecting an increase to 2.2%, which could depress market expectations ahead of today's CPI publication (Bloomberg has the median of expectations at 1.8% y/y vs the previous release of 1.6%).

Yesterday EURPLN was testing 4.27 and after closing of the European session it jumped temporarily to 4.284. Overall, Thursday was rather calm on the Polish FX market. USDPLN rose to 3.65 but at the end of the day it corrected back to slightly below 3.64. The other CEE currencies also did not move much – EURHUF stayed just above 305, EURCZK remained near 26.15 and USDRUB fell slightly below 60. Today the global market sentiment may again have a main impact on

the zloty but we do not exclude that Polish C/A might also trigger some reaction. We forecast much bigger C/A deficit than the consensus which could add at least slight pressure on the zloty.

Risk aversion dominated trading on Thursday. Commodities and stocks experienced selling pressure, while core bond yields slumped (10Y Treasuries and 10Y Bund yields were pulled down by c3bp). Simultaneously Eurozone periphery and emerging markets debt (eg in Turkey and Poland) lost ground during the day. As a result yields of Polish 10Y and 5Y papers were elevated by c2bp, the 2-year yield by c1bp. These changes were accompanied by a widening of asset swap spread.

In our opinion the debt market will likely ignore domestic CPI data which is scheduled to be released today. In the next few days we expect higher domestic asset swap spread, however the scale of decompression of spread will likely be subdued. We think that the asset swap spread escalation was fueled by correction of overoptimistic trading in July, not by a deterioration of economic performance. In the 2H of month we anticipate a bunch of solid domestic economy figures (GDP, industrial production, retail sales), which will likely stop asset swap spread widening and push the long end of IRS curve up.

CPI and C/A are scheduled to be published today. July preliminary CPI reading surprised on the upside with inflation accelerating to 1.7% from 1.5% y/y while we and the market expected 1.6%. There could have already been some impact of limited supply on retail fruit prices and future months might be even more affected (spring freeze caused massive losses in apples and stone fruit crops). Another reason for higher than expected inflation might be the ongoing large rise of pork and butter prices (the former is a EU-wide phenomenon, the latter is observed globally). Locally, the rise in the price of butter so far did not spread to all dairy products and could lead to higher demand for substitutes – causing this CPI component to ease.

In our view, C/A deficit increased in June from EUR180m to EUR1.5b – the largest gap in two years. The trade deficit most likely stayed close to zero while growth of exports and imports remained robust (we expect 10.1% y/y and 15%, respectively).

Please note that the next Eyeopener will be released on 16 August.

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

Konrad Soszyński +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	4.2779	CZKPLN	0.1633
USDPLN	3.6384	HUFPLN*	1.4007
EURUSD	1.1757	RUBPLN	0.0605
CHFPLN	3.7799	NOKPLN	0.4566
GBPPLN	4.7234	DKKPLN	0.5751
USDCNY	6.6691	SEKPLN	0.4465

*for 100HUF

Last session in the FX market

10/08/2017

	min	max	open	close	fixing
EURPLN	4.266	4.284	4.272	4.278	4.2709
USDPLN	3.626	3.651	3.637	3.639	3.6432
EURUSD	1.170	1.177	1.174	1.176	-

Interest rate market

10/08/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.78	-3	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.68	-1	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.38	1	23.03.2017	DS0727	3.568

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.78	0	1.46	0	-0.25	0
2L	1.96	0	1.59	-1	-0.17	-1
3L	2.11	0	1.69	-1	-0.06	-1
4L	2.25	0	1.78	-1	0.07	-1
5L	2.38	0	1.87	0	0.21	-1
8L	2.69	1	2.08	-1	0.60	-2
10L	2.85	0	2.19	-1	0.83	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.58	0
T/N	1.58	0
SW	1.59	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	1.75	0
6x9	1.77	-2
9x12	1.83	0
3x9	1.83	0
6x12	1.86	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.98	2
France	19	0	0.30	0
Hungary	116	1	2.69	2
Spain	70	3	1.03	0
Italy	140	3	1.61	0
Portugal	172	14	2.41	-1
Ireland	32	-1	0.31	0
Germany	14	2	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

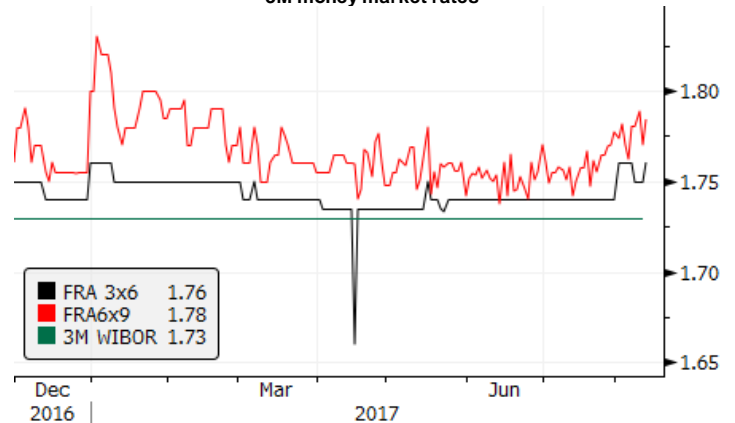
Zloty exchange rate



T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar								
TIME CET	COUNTRY	INDICATOR	PERIO D		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	BZWBK		
FRIDAY (4 August)								
08:00	DE	Factory orders	Jun	% m/m	0.5	-	1.0	1.1
14:30	US	Change in nonfarm payrolls	Jul	k	183	-		222
14:30	US	Unemployment rate	Jul	%	4.3	-		4.4
MONDAY (7 August)								
8:00	GE	Industrial output	Jun	% m/m	0.2	-	-1.1	1.2
9:00	CZ	Industrial output	Jun	% y/y	7.0	-	2.2	8.1
TUESDAY (8 August)								
8:00	GE	Exports	Jun	% m/m	0.2	-	-2.8	1.5
9:00	HU	CPI	Jul	% y/y	2.0	-	2.1	1.9
WEDNESDAY (9 August)								
9:00	CZ	CPI	Jul	% y/y	2.3	-	2.5	2.3
THURSDAY (10 August)								
14:30	US	Initial jobless claims	week	k	240	-	244	241
FRIDAY (11 August)								
14:00	PL	CPI	Jul	% y/y	1.7	1.7		1.5
14:00	PL	Current account	Jun	€m	-827	-1 496		-179
14:00	PL	Exports	Jun	€m	16 577	16 854		16257
14:00	PL	Imports	Jun	€m	16 457	16 862		16457
14:30	US	CPI	Jul	% m/m	0.2	-		0.0

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.