

EYEOPENER

16 August 2017

Today Polish 2Q GDP data

- Lower tension between USA and North Korea, rising demand for risk
- Zloty slightly weaker, EURPLN above 4.29
- Bond yields stable
- Today Polish GDP for 2Q, GDP data from Europe and FOMC minutes

Monday saw a reversal in the negative tendencies seen at the end of the last week. European stocks, most of the CEE currencies and bonds as well as Eurozone periphery bonds rebounded, fuelled by the decreasing geopolitical tension. The risk appetite has been supported by the comment of North Korea's leader Kim Jong-un, who postponed his earlier plan to fire missiles on Guam. The hawkish comment of the Fed's William Dudley sent the dollar and core yields higher. Yesterday the German Constitutional Court said the ECB's programme of asset purchases may be violating laws on monetary financing and may go beyond the central bank's mandate. The court informed it would ask the European Court of Justice to review the programme.

According to 'Dziennik Gazeta Prawna' daily, President Andrzej Duda is not going to give up his plans to introduce CHF loan spread act forcing banks to return the spreads to customers incurring FX mortgage loans. Further work on the bill may raise further doubts on the results of the banking sector in Poland and exercise pressure on PLN. However, it is worth to remind statement by Adam Glapiński, the President of NBP who thinks that existing solutions (higher capital requirements and borrowers' support fund) 'deal with the issue' of the FX loans in Poland. This might imply that President's bill may face lack of political support.

EURUSD stayed relatively stable on Friday morning. However, the US July inflation data (0.2% y/y and 0.1% m/m) raised new doubts about the Fed's plans to hike interest rates once again this year and pushed EURUSD up to 1.183 at the end of Friday. This move was partly offset on Monday thanks to the Fed member William Dudley who said that he expected a balance sheet reduction and another rate rise later this year. It pushed EURUSD below 1.18 on Monday afternoon. Further decline of the pair happened on solid consumption data from the US (retail sales released on Tuesday, Michigan consumer survey is due Friday) which pulled EURUSD down to 1.17.

EURPLN rose on Friday owing to the gloomy mood in the stock market and the upward shift of EURUSD. This move was partly offset on Monday and resulted in EURPLN sliding from the local high of 4.288 (a level last seen in March) to 4.283. This morning the zloty has stayed above 4.28 vs the euro. USDPLN weakened on Friday following the weakening of USD. On Monday USDPLN recovered and ended at 3.624 and starts the day above 3.65. Other CEE currencies strengthened: EURCZK went to 26.12, EURHUF dropped from 306 to 304 as the forint was supported by robust Hungarian industrial data. USDRUB rose on Monday, partly due to the strengthening of USD

against EUR, partly owing to cheaper oil. By the end of the week we expect EURPLN to drop some more, thanks to the strengthening of USD against EUR, thanks to the better-than-expected US consumption data.

Weaker-than-expected US inflation as well as inflation data in Europe (in line with the expectations allowed) core market yields to settle on low levels. Domestic rates and yields remained unaffected after the inflation data release in Poland in July. However, the persisting pressure to the risky assets (stemming from geopolitical risk) kept pushing upwards asset swap spreads in the belly and the long end of the curve. As a result of this 10Y asset swap spread settled at 57 bp, level seen last time at the end of June. 5Y spread climbed to 35bp and 2Y remained at 10bp. This mirrored bond yield growth to 3.44%, 2.75% and 1.86% respectively with IRS rates remaining stable. FRA and WIBOR rates remained unchanged.

In the second half of the week we expect the pressure on the asset swap rates will be stopped and bond yields will climb thanks to higher IRS rates. This scenario will be supported by sound Polish data. We are of the opinion that this scenario will be supported by good US consumption data (due this week), which should temporarily cause rebound of the long end of IRS on core markets and as a result negatively impact debt on the domestic market.

CPI inflation amounted to 1.7% y/y in July. Rise versus June (1.5% y/y) was mostly due to changes in food prices, which fell by 0.2% m/m – the least since 2000. Main culprits were: butter prices, which went up by 7.8% m/m, meat prices (1.0% m/m), especially poultry (3.1% m/m). Fruit and vegetable prices fell in July, in line with the seasonal pattern, but less than in the previous years. We estimate core inflation excluding food and energy prices stayed unchanged at 0.8% y/y. We expect stabilization of inflation in the next months and we think that CPI will slightly decrease at the end of the year. The risk for our forecast is on the upside due to the probability of rising of food prices.

Polish C/A balance declined in June to €-932m. The data left us a bit disappointed due to weaker-than-estimated exports. While working day issues are responsible for much of the export slowdown, from 16.2% y/y to 8.7%, we expected that the current level of activity and the ongoing economic rebound among main trading would warrant an outcome closer to 10% y/y. That said, we think average export growth in 2H will be around 12%, compared to c10% in 1H. In general, import remained strong in June, scoring +15% y/y which confirms that domestic demand is elevated. What was also surprising in the June data, was the scale of outflows in the primary income category, which should be linked to limited dividend payments (smaller by c€1bn vs June 2016).

This week will be quite interesting in regard to foreign data, with many numbers from the US and important statistics from Germany (GDP). In Poland, we will get to see crucial economic data, including 2Q GDP and first numbers from 3Q. In our view Polish statistics will be positive.

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FX market

Today's opening

EURPLN	4.2923	CZKPLN	0.1643
USDPLN	3.6587	HUFPLN*	1.4099
EURUSD	1.1732	RUBPLN	0.0612
CHFPLN	3.7619	NOKPLN	0.4601
GBPPLN	4.7036	DKKPLN	0.5772
USDCNY	6.6937	SEKPLN	0.4529

*for 100HUF

Last session in the FX market

15/08/2017

	min	max	open	close	fixing
EURPLN	4.271	4.296	4.285	4.295	4.2823
USDPLN	3.632	3.667	3.633	3.659	3.6278
EURUSD	1.169	1.180	1.179	1.174	-

Interest rate market

15/08/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.84	1	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.71	-2	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.40	0	23.03.2017	DS0727	3.568

IRS on the interbank market**

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	1.78	1.47	-0.26
2L	1.96	1.60	-0.17
3L	2.11	1.71	-0.05
4L	2.26	1.80	0.08
5L	2.39	1.89	0.21
8L	2.70	2.10	0.63
10L	2.86	2.21	0.85

WIBOR rates

Term	%	Change (bps)
O/N	1.58	-1
T/N	1.58	-1
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	1.78	0
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	2.96 -1
France	19 0	0.29 0
Hungary	116 1	2.68 -1
Spain	69 0	1.03 0
Italy	139 1	1.61 -1
Portugal	171 0	2.38 0
Ireland	32 -1	0.33 0
Germany	13 0	- -

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

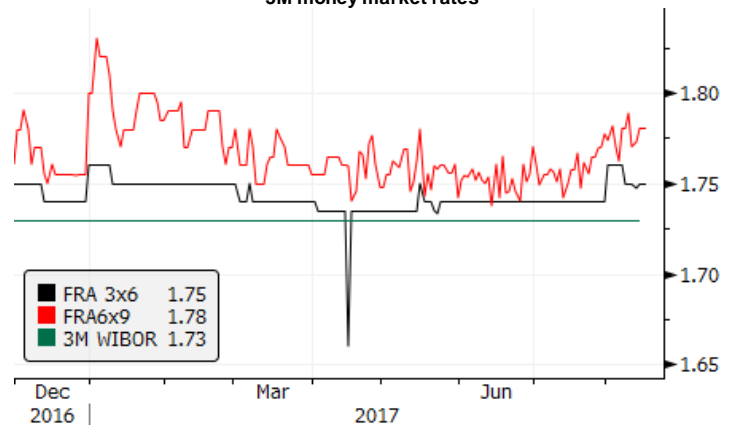
Zloty exchange rate



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 (11 August)								
14:00	PL	CPI	Jul	% y/y	1.7	1.7	1.7	1.5
14:00	PL	Current account	Jun	€m	-827	-1 496	-932	-298
14:00	PL	Exports	Jun	€m	16609	16854	16627	16501
14:00	PL	Imports	Jun	€m	16 577	16 862	16457	16457
14:30	US	CPI	Jul	% m/m	0.2	-	0.1	0.0
MONDAY (14 August)								
11:00	EZ	Industrial output	Jun	% y/y	2.8	-	2.6	3.9
14:00	PL	CPI core	Jul	% y/y	0.8	0.8	0.8	0.8
TUESDAY (15 August)								
	PL	Market holiday						
8:00	DE	Flash GDP	Q2	% y/y	1.9	-	2.1	2.0
14:30	US	Retail sales	Jul	% m/m	0.4	-	0.6	0.1
WEDNESDAY (16 August)								
9:00	CZ	Flash GDP	Q2	% y/y	3.0	-	4,5	3.0
9:00	HU	Flash GDP	Q2	% y/y	3.6	-	3,2	4.2
10:00	PL	Flash GDP	Q2	% y/y	3.8	3.8		4.0
11:00	EZ	Flash GDP	Q2	% y/y	2.1	-		1.9
14:30	US	House starts	Jul	% m/m	0.8	-		8.3
14:30	US	Building permits	Jul	% m/m	-2.0	-		9.2
20:00	US	FOMC minutes						
THURSDAY (17 August)								
11:00	EZ	CPI	Jul	% y/y	1.3	-		1.3
14:00	PL	Employment in corporate sector	Jul	% y/y	4.3	4.3		4.3
14:00	PL	Wages in corporate sector	Jul	% y/y	5.4	4.9		6.0
14:30	US	Initial jobless claims	week	k	240	-		244
14:30	US	Philadelphia Fed index	Aug	pts.	19.0	-		19.5
15:15	US	Industrial output	Jul	% m/m	0.3	-		0.4
FRIDAY (18 August)								
14:00	PL	Industrial output	Jul	% y/y	8.4	8.5		4.5
14:00	PL	Construction and assembly output	Jul	% y/y	13.7	13.3		11.6
14:00	PL	Retail sales	Jul	% y/y	7.4	7.0		5.8
14:00	PL	PPI	Jul	% y/y	2.0	1.9		1.8
16:00	US	Flash Michigan	Aug	pts.	94.0	-		93.4

Source: BZ WBK. Reuters. Bloomberg

* in case of the revision the data is updated

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