

# EYEOPENER

17 August 2017

## Fed to set balance reduction date in September

- Polish GDP rose faster than expected
- Zloty stronger thanks to the GDP release
- Debt yields drop slightly
- FOMC minutes interpreted as dovish
- Today Polish labour market data, important US numbers, inflation in the eur zone

Debt on core markets was appreciating, the same as PLN and bonds, which was a positive response to good GDP data and dovish minutes of FOMC. The minutes weakened the dollar. There was a clear movement in EURPLN with the zloty clearly gaining by PLN0.03.

FOMC minutes after July meeting proved that most central bankers are in favour of announcing the date of reducing the balance sheet at the next meeting (scheduled for September), while some members wanted to announce it as early as in July. A few central bankers expressed their concern with regard to slow inflation increase and pointed out that the risk of price increase tilted down. The market perceived the document as dovish which weakened the dollar and stopped the yield increase on core markets.

GDP growth in 2Q17 reached 3.9% y/y, and 1.1% q/q after seasonal adjustment, following the corresponding 4.0% y/y and 1.1% q/q in 1Q17. The result was slightly above expectations and we think it was a very good reading, confirming that economic growth momentum in Poland remains strong. The flash estimate does not show the breakdown of growth but we may suspect that the main engine was still the private consumption, rising by nearly 5% y/y and buoyed by healthy income growth, while investments have probably started picking up (we expect at least 3% y/y fixed investment rise in 2Q). While export is also booming, it has been outpaced by imports, so the net foreign trade balance deteriorated in 2Q (according to balance of payments data, the balance of goods and services in 2Q was lower by PLN6.3bn than a year ago) and thus the net exports' contribution to GDP growth was slightly negative, in our view. The GDP growth in the second quarter was almost exactly in line with the latest central bank's projection, so it should not affect the monetary policy outlook, in our view. In the coming quarters, consumption growth may decelerate slightly, but investments should continue recovering. We maintain the view that GDP growth should reach almost 4% on average this year.

Data released lately on the local governments budgets showed an increase in investment expenditures in Q2 up to PLN4.1bn. That is nearly 25% more than last year. However, given that 2016 statistical base was very low and investment in 2Q 2013-2015 was by 50% higher, these numbers cannot be viewed as signal of a significant rebound in investment.

EURUSD stopped the upward trend after major decrease at the beginning of the week which might have been caused by

surprisingly good data on consumers purchases in USA (retail sales ex. cars went up by 0.5% YoY vs. expectations at 0.3%). The slowdown in EURUSD decline is among others an outcome of weaker-than-expected data on real estate which house starts was 1155k which is below the forecast. As a result of this EURUSD went back to 1.1715 after a fall to 1.1690 vs. Tuesday closing at 1.1740. EURUSD rebound took place after the release of dovish Fed minutes. This translated to EURUSD returning back to 1.1770. In the forthcoming days we expect the US will start appreciate versus the euro thanks to good Michigan consumer confidence. We are of the opinion that this may trigger the lift towards 1.1670.

The Polish currency gained on Wednesday vs the euro. During the day EURPLN moved from 4.2905 to 4.2620 at the market close. Such behaviour was caused by the positive surprise in flash GDP for 2Q in Poland and strong readings of economic growth in the rest of the region. The move of the FX rate corrected the recent zloty weakness that was lingering since late July. The Czech koruna stuck out of the CEE pack: EURCZK declined from 26.15 to 26.05 which is its lowest level since the end of 2013, following a staggering acceleration of GDP growth in 2Q in Czechia (from 3% y/y to 4.5% vs expectations equal to 3%). In comparison, HUF had a worse day, with only a temporary strengthening to EUR from 304.3 to 303.7 (in the case of Hungary there was no support from the growth numbers). USDRUB dropped from 59.8 to 59.4 on the back of higher oil, good budget performance data and expectations that a flow of dollar sales by Russian exporters should be running through the soon. In a week's time we expect further strengthening of the zloty vs the euro, but by a smaller amount. In our view PLN will still be supported by data from the local economy. Even though we expect the US consumer confidence data to come strong we think this might not be the signal to send EURPLN below 4.2550.

Solid US consumption figures negatively affected US and German debt in the 5-10Y segment at the beginning of the week. On Wednesday, deterioration of core bonds pricing was stopped owing to weaker than expected US real estate data and dovish FOMC minutes. The domestic sovereign bond yields and asset swap spread decreased by 1bp in the 5-10Y segment, as a response for better than expected Polish Q2 GDP reading. Investors interpreted these data as growing chance for credit risk drop and at the same time ignored the possibility of interest rates risk hike. This reaction could be a result of weak perspectives for rise of inflation in Poland.

In the coming days we anticipate a slight increase of domestic bonds yields. In our opinion it will be a result of market acceptance for perspectives for Fed balance reduction and solid domestic numbers. The range of this move will be likely limited and may reach 2-3 bp for the +5Y segment and will be reflected in asset swap spread.

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## FX market

## Today's opening

EURPLN	4.2665	CZKPLN	0.1637
USDPLN	3.6231	HUFPLN*	1.4022
EURUSD	1.1776	RUBPLN	0.0610
CHFPLN	3.7524	NOKPLN	0.4583
GBPPLN	4.6707	DKKPLN	0.5737
USDCNY	6.6697	SEKPLN	0.4489

\*for 100HUF

## Last session in the FX market

16/08/2017

	min	max	open	close	fixing
EURPLN	4.260	4.295	4.295	4.262	4.2724
USDPLN	3.638	3.661	3.659	3.642	3.6435
EURUSD	1.168	1.176	1.174	1.170	-

## Interest rate market

16/08/2017

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

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.83	-1	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.70	-1	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.39	-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	-1	1.48	0	-0.26	0
2L	1.96	0	1.60	0	-0.17	0
3L	2.10	0	1.70	-1	-0.06	0
4L	2.26	0	1.79	-1	0.08	0
5L	2.39	0	1.88	-1	0.22	1
8L	2.70	0	2.10	-1	0.62	-1
10L	2.86	0	2.20	-1	0.85	0

## 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	-1
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	0
France	19	0	0.29	0
Hungary	116	1	2.67	1
Spain	68	-1	1.01	0
Italy	138	-1	1.60	0
Portugal	169	-2	2.36	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

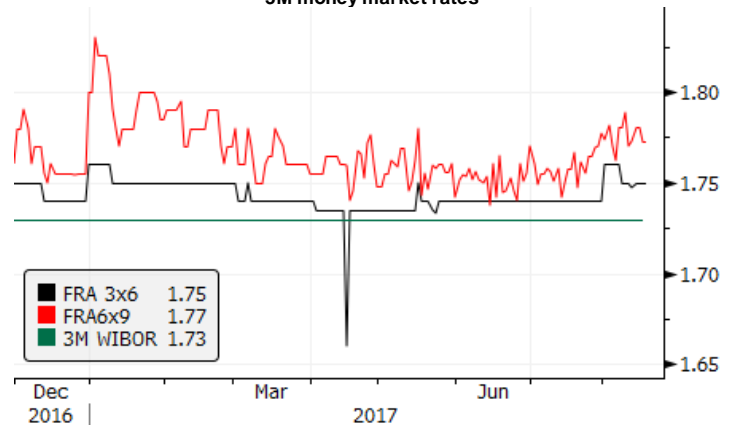
## Zloty exchange rate



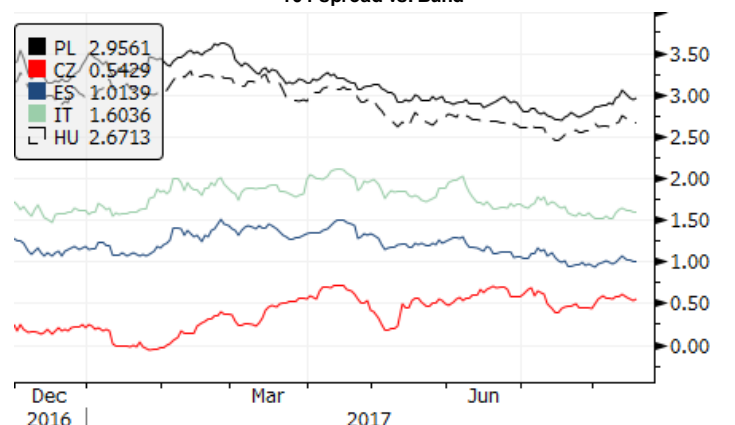
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic calendar

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	3.9	4.0
11:00	EZ	Flash GDP	Q2	% y/y	2.1	-	2.2	1.9
14:30	US	House starts	Jul	% m/m	0.8	-	-4.8	8.3
14:30	US	Building permits	Jul	% m/m	-2.0	-	-4.1	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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