

EYEOPENER

18 August 2017

Today important data from the domestic economy

- Risk aversion higher after attacks in Spain
- Employment rising at the highest rate since 2009
- Bond yields down due to dovish message of FOMC and ECB minutes
- US car industry losing momentum
- Today Polish data on output, retail sales, flash Michigan

We expect to see strengthening of core bond markets today and stable domestic papers. Increased risk aversion after an attack in Barcelona will most likely be a key factor affecting the European markets today. Polish data on production and retail sales should not have much influence on local assets given the risk-off background.

Employment in corporate sector showed the largest monthly rise since the economic downturn in 2009 (if we omit January readings, which are distorted by technical factors). This comes as a surprise in times of very tight labour market when many firms claim it is hard to get an employee. Employment growth is back at 4.5% y/y, where it stayed in 1H of the year, beating consensus that was expecting it to stick to 4.3%. Wage growth in corporate sector decelerated to 4.9% y/y, while the market expected it to move from 6% to 5.4%. The July reading was exactly in line with our forecast and even though it came below market expectations it is in our view not a sign of diminishing wage pressures. We expect wage growth to accelerate in 2H of 2017, possibly above 6% y/y which would provide further boost to consumer spending.

US industrial production rose in July slower than expected, by 0.2% m/m versus predicted 0.3%. It was influenced by weak results of car industry, where output fell in July by 14.5% y/y (it was the deepest decline since 2009). It resulted from contracting demand and was also reflected in rising inventories.

In the ECB minutes released yesterday, the central bank expressed its concern about the potentially negative impact of excessively strong euro (in the context of too low inflation). According to the ECB Board members it was the effect of the overblown expectations of market participants regarding the possibility of ECB withdrawing from its asset purchases programme.

The dovish tone of the FOMC minutes led to the dollar sell-off versus euro on Wednesday night, to 1.1740. In the morning hours on Thursday there was a correction of the EURUSD rise. The release of the ECB minutes, which included warnings about excessive euro strength (in the context of too low inflation) had not convinced investors for good to sell euro.

Eventually, EURUSD again rose towards 1.1740, which was supported by weak data about US industrial production.

Yesterday morning EURPLN was still declining, and reached 4,2530. In midday this trend reversed and EURPLN started the today session today at 4.2725. In the case of other CEE currencies, CZK was stable after a few days of appreciation, HUF gained to the euro despite rising EURUD. USDRUB went down to 59.00 last seen in July, in line with expectations. For the next few days, we are expecting the stabilisation of the zloty. We are expecting a slight pressure on depreciation in the second half of last week ahead of the Jackson Hole conference.

On Thursday we observed continuation of decreases of US Treasuries yields. Market players were more eager to believe in the substantial slowdown of US industrial production growth (dominated by lower level of automotive industry activity), than in power of US consumer activity. ECB minutes release did not have much impact on the core bonds market. As a result US and German yield curve has shifted down by c1bp in the +5Y segment. Domestic bond market has gone up on Thursday. In our opinion it was a consequence of dovish perceptions of last FOMC minutes by market participants and solid domestic numbers. As a result long end of the curve has shifted down by c4bp, middle part by c2bp and front end by c1bp. However we couldn't see asset swap spread decompression, the PLN IRS curve reacted symmetrically.

Today we expect domestic debt market to stabilise. In our opinion Polish industrial production and retail sales data will not affect the PLN yield curve. Expected high level of Michigan consumer confidence data will likely not change the pricing of Polish debt. In the next few days the most important thing for the debt market will be PMI, US new orders and Jackson Hole. We hope this bunch of events (solid PMI from Eurozone, drop of new orders and Jackson Hole news) will slightly positively affect Polish debt.

Today at 14:00pm CET the Polish stats office will release data on output, retail sales and PPI inflation. July's results of real-activity sectors will be positive, in our view. We expect industrial output to accelerate to 8.5% y/y from 4.5% y/y in June, construction to show 13.3% y/y vs 11.6% y/y in June and retail sales to grow by 7.0% y/y vs 5.8% y/y in the previous month. This will be the first month of the year with neutral working day effect, so July's readings will be closer to the 'underlying trend' than the previous months. In our view, PPI inflation inched up to 1.9% y/y in July from 1.8% y/y in June, mainly on the back of weaker PLN and higher commodity prices.

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FX market

Today's opening

EURPLN	4.2666	CZKPLN	0.1636
USDPLN	3.6349	HUFPLN*	1.4054
EURUSD	1.1738	RUBPLN	0.0613
CHFPLN	3.7788	NOKPLN	0.4571
GBPPLN	4.6838	DKKPLN	0.5737
USDCNY	6.6781	SEKPLN	0.4476

*for 100HUF

Last session in the FX market

17/08/2017

	min	max	open	close	fixing
EURPLN	4.253	4.274	4.262	4.270	4.2541
USDPLN	3.619	3.653	3.642	3.637	3.6258
EURUSD	1.166	1.179	1.170	1.174	-

Interest rate market

17/08/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.82	-1	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.68	-3	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.35	-4	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	-1	-0.25	0
2L	1.95	-1	1.58	-2	-0.17	0
3L	2.09	-1	1.68	-2	-0.06	-1
4L	2.24	-2	1.77	-3	0.07	-1
5L	2.36	-3	1.84	-4	0.20	-2
8L	2.66	-3	2.05	-4	0.60	-2
10L	2.82	-4	2.16	-5	0.84	-1

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	-1
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	2.94	-3
France	19	0	0.30	0
Hungary	116	1	2.67	2
Spain	67	-1	1.14	13
Italy	136	-1	1.61	1
Portugal	165	-5	2.34	1
Ireland	32	-1	0.34	-1
Germany	12	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

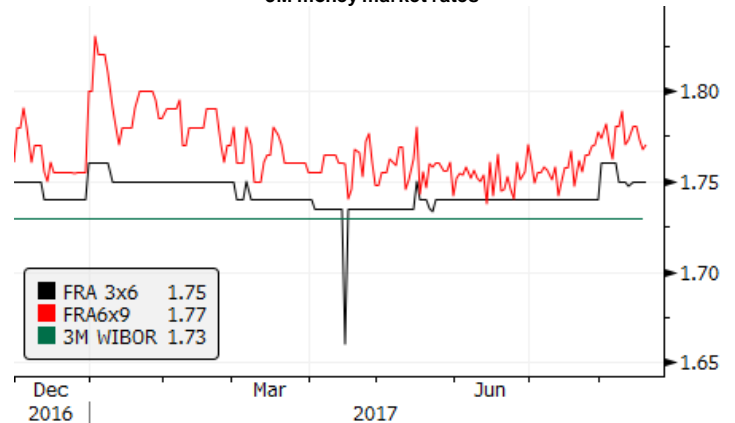
Zloty exchange rate



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	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	1.3
14:00	PL	Employment in corporate sector	Jul	% y/y	4.3	4.3	4.5	4.3
14:00	PL	Wages in corporate sector	Jul	% y/y	5.4	4.9	4.9	6.0
14:30	US	Initial jobless claims	week	k	240	-	232	244
14:30	US	Philadelphia Fed index	Aug	pts.	19.0	-	18.9	19.5
15:15	US	Industrial output	Jul	% m/m	0.3	-	0.2	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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