

EYEOPENER

21 August 2017

Markets in uncertainty

- **Mixed market moods, political uncertainty still holds**
- **Data about production and retail sales for July confirmed a good start of 3Q17 in Polish economy**
- **Today almost no important data releases in world markets**

Geopolitical issues remained the core market driver at the end of the week. Risk aversion persisted during most of the day but US stock indexes rose after it was announced that Donald Trump's strategic advisor, Steve Bannon, leaves the White House. However, this mood improvement proved only temporary and at the beginning of the week opening of the Asian equity market was mixed as investors are following news on military drills at the Korea Peninsula and waiting for the central bankers' meeting in Jackson Hole.

Polish industrial production in July rose 6.2% y/y, which was lower than expected but seems to be a decent result which has not been affected by calendar effects. Meanwhile, the construction output soared 19.8% y/y, much more than predicted which seems to be finally a clear sign of recovery in investments (production in engineering surged 33.7% y/y). Retail sales growth was also decent, rising 6.8% y/y in real terms and confirming that private consumption remains strong. On balance, the data show that Polish economic growth remains solid, still near 4% y/y, at the start of 3Q17.

Geopolitical worries, being the result of Barcelona and Helsinki terror attacks and news about US investigation into Chinese intellectual property theft put a shadow on the debt market on Friday. As a consequence until the afternoon we saw the downshift of the yields on the core markets and Poland. As a result yield of 10Y UST decreased to 2.16%, while 10Y Bund to 0.39% at the close of the day. Investors totally ignored high reading of US Michigan consumer confidence index, which exceeded the forecast by 3.6 pct. and reached 97.6 pct.

On Friday we observed decrease of the yield curve fueled by IRS curve drop, while in the first part of the last week the yield shift down was driven credit spread compression. The bigger downshift we saw on the long end of the curve, while rates drop by 6 bp. The middle part decreased by 4bp, while short end was pushed down by 2bp. The asset swap spread rose slightly. Market players ignored high reading of Polish construction sector, retail sales and industrial production, which suggested solid GDP growth in 3Q17. FRA and WIBOR rates remained stable.

This week we expect some yields rebound. In our opinion it will be a result of some political risk decrease and expected series of good readings of leading indicators from Europe and USA. Additionally investors will likely start to calculate influence of Jackson Hole central bankers' statements (who may send a signal about imminent winding down of ultra-easy monetary policy). In our opinion IRS curve may go up by 2-3bp already on Monday.

After the Thursday USD appreciation, on Friday we saw the euro regaining lost ground vs the US currency. The move was half-hearted because of worries that political risk would increase after the terrorist attack in Barcelona and the official launch by the USA of an investigation into Chinese intellectual property theft. Eventually EURUSD moved from 1.1730 at the opening to 1.1750 at the European close. The University of Michigan consumer sentiment reading significantly exceeding expectations (97.6 pts vs 94.0 expected) was another factor that prevented a rise of the fx rate.

Rising worries about geopolitical situation undermined the zloty. EURPLN started the day at 4.2700 and reached 4.2800 after whole-day gradual depreciation. Thus, the zloty trimmed its gains secured after the strong GDP reading. This happened despite positive data on the real activity in July, suggesting a high 3Q reading. Reactions of other CEE currencies to higher risk were mixed, as EURHUF fell to 303, EURCZK rose to 26.09. USDRUB continued to fall after a brief upward move and closed the day at 59.06 thanks to higher oil prices.

On Monday, we are expecting the Polish currency to gain and EURPLN to fall slightly below 4.27. The zloty will be supported by lower political risk and positive series of leading indicators from Europe.

This week, we will get to see flash PMI indices from Europe as well as some important data from the USA amid no important releases of domestic statistics. Jackson Hole conference starts on Thursday and in our view this will be the key event of the week. In our view, the market is expecting the conference to prove boring given last dovish signals from the ECB and FOMC. However, we would not rule out that the main central banks will send a coordinated message that the era of ultra-loose monetary policy is ending, like it happened in Sintra, sending bond yields strongly up.

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	4.2773	CZKPLN	0.1640
USDPLN	3.6421	HUFPLN*	1.4098
EURUSD	1.1744	RUBPLN	0.0616
CHFPLN	3.7699	NOKPLN	0.4593
GBPPLN	4.6835	DKKPLN	0.5752
USDCNY	6.6708	SEKPLN	0.4488

*for 100HUF

Last session in the FX market

18/08/2017

	min	max	open	close	fixing
EURPLN	4.262	4.286	4.270	4.275	4.2826
USDPLN	3.630	3.653	3.637	3.634	3.6459
EURUSD	1.171	1.177	1.174	1.176	-

Interest rate market

18/08/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.77	-5	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.63	-4	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.31	-4	23.03.2017	DS0727	3.568

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.77	-1	1.46	0	-0.26	0
2L	1.93	-2	1.58	0	-0.17	0
3L	2.06	-3	1.68	0	-0.05	1
4L	2.19	-5	1.77	0	0.08	1
5L	2.32	-4	1.84	0	0.21	1
8L	2.61	-5	2.05	0	0.61	1
10L	2.76	-6	2.15	0	0.84	1

WIBOR rates

Term	%	Change (bps)
O/N	1.59	1
T/N	1.59	1
SW	1.60	1
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	1.76	-1
9x12	1.82	-1
3x9	1.83	0
6x12	1.85	-1

Measures of fiscal risk

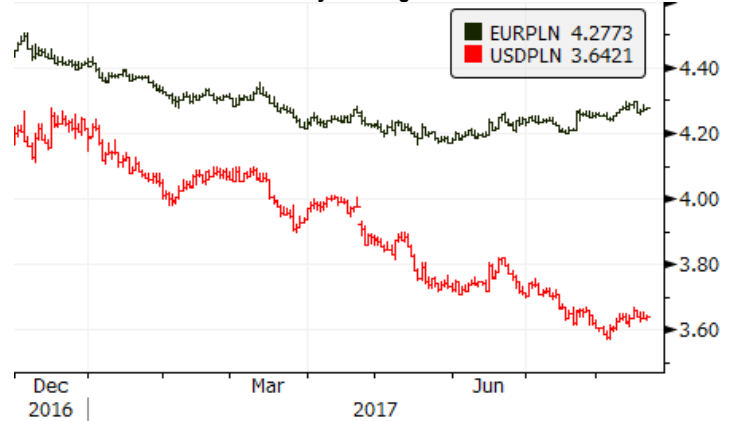
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.89	-5
France	20	1	0.30	0
Hungary	116	1	2.63	-1
Spain	69	2	1.13	0
Italy	138	2	1.61	0
Portugal	166	2	2.32	-1
Ireland	32	-1	0.33	0
Germany	14	2	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

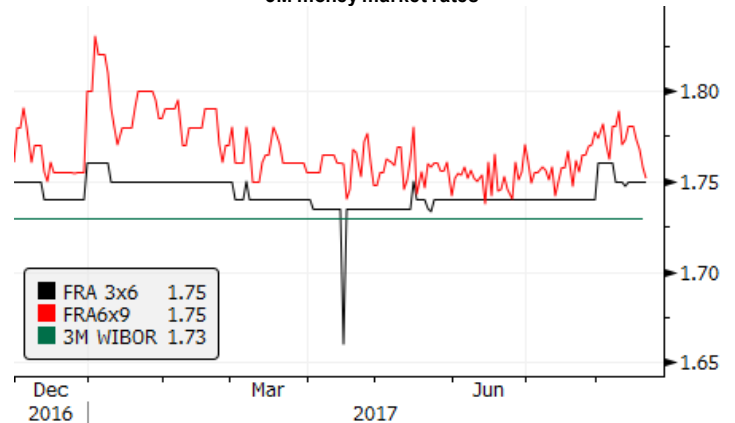
Zloty exchange rate



T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	BZWBK		
FRIDAY (18 August)								
14:00	PL	Industrial output	Jul	% y/y	8.4	8.5	6.2	4.5
14:00	PL	Construction and assembly output	Jul	% y/y	13.7	13.3	19.8	11.6
14:00	PL	Retail sales	Jul	% y/y	7.4	7.0	6.8	5.8
14:00	PL	PPI	Jul	% y/y	2.0	1.9	2.2	1.8
16:00	US	Flash Michigan	Aug	pts.	94.0	-	97.6	93.4
MONDAY (21 August)								
14:30	US	Chicago Fed index	Jul	pts	0.10	-		0.13
TUESDAY (22 August)								
11:00	DE	ZEW indeks	Aug	pts	85.3	-		86.4
14:00	HU	Central bank rate decision	Aug	%	0.90	-		0.90
WEDNESDAY (23 August)								
9:30	DE	Flash PMI - manufacturing	Aug	pts	57.7	-		58.1
9:30	DE	Flash PMI - services	Aug	pts	53.3	-		53.1
10:00	EC	Flash PMI - manufacturing	Aug	pts	56.3	-		56.6
10:00	EC	Flash PMI - services	Aug	pts	55.4	-		55.4
14:00	PL	Money supply	Jul	% y/y	5.1	5.0		5.0
15:45	US	Flash PMI - manufacturing	Aug	pts	53.4	-		53.3
15:45	US	Flash PMI - services	Aug	pts	54.9	-		54.7
16:00	US	New home sales	Jul	% m/m	0.0	-		0.8
THURSDAY (24 August)								
10:00	PL	Unemployment rate	Jul	%	7.1	7.1		7.1
14:00	PL	MPC minutes						
14:30	US	Initial jobless claims	Aug	k	236	-		232
16:00	US	Existing home sales	Jul	% m/m	0.7	-		-1.8
FRIDAY (25 August)								
8:00	DE	GDP SA	2Q	% q/q	0.6	-		0.6
10:00	DE	Ifo index	Aug	pts	115.5	-		116.0
10:00	PL	LFS unemployment rate	2Q	%	4.8	4.8		5.4
14:30	US	Durable goods orders	Jul	% m/m	-6.0	-		6.4

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 Pawla II 17. 00-854 Warsaw, Poland. phone +48 22 534 18 87. email ekonomia@bzwbk.pl. http://www.bzwbk.pl.