

EYEOPENER

25 August 2017

Local news strengthened the zloty

- **Calm session ahead of the major central bankers' speeches**
- **Unemployment as expected, first news on 2018 budget**
- **EURPLN lower but still within a consolidation**
- **Bond yields in Poland and abroad relatively stable**
- **Today data from Germany and the USA, remarks from Yellen and Draghi**

Since the beginning of the Thursday's session global market was rather calm. The data released did not deviate much from the consensus so investors were waiting for the first comments of global central bankers that arrived at Jackson Hole. Fed governor will speak today at 16:00CET and head of the ECB at 21:00CET.

EURUSD stayed around 1.18 as the global data did not surprise much and the market was waiting for signals from the central banks.

EURPLN plummeted to 4.26 from nearly 4.29 and USDPLN eased to 3.612 from 3.636. The zloty's recovery might have been driven by internal factors – relatively low budget deficit penciled in the next year's budget draft, some hawkish remarks in the MPC minutes from the July's meeting and GUS data confirming economic growth is on track. Also, the improvement in the global market sentiment backed risky assets. This time, the other CEE currencies underperformed the zloty. EURHUF rebounded above 304 from 302 and USDRUB rose to nearly 59.3 from 59. The Czech koruna also lost vs the euro temporarily.

On the domestic interest rate market IRS and bonds remained stable again, only at the end of the day the 10Y yield fell by c3bp. Global debt market remained fairly stable as well.

Polish MPC minutes for July did not indicate any material change of the balance of views inside the Council. And yet the hawks, who remain a minority, managed to squeeze in a sentence in the important penultimate paragraph of minutes

that further decision should take into account the impact of negative real interest rates on credit creation, asset prices and households' savings rate. The recently released NBP report on households' situation signaled that a drop of saving rate may be coming and the yesterday July money supply surprised with a m/m drop of household deposits (that was only the second time in the last 9 years that this item declined m/m in July). That said we remain of the view that rates are going to stay unchanged in Poland for at least one more year.

Unemployment rate stayed at 7.1% in line with the Ministry of Labour and stat office (GUS) estimate and the market consensus. However the LFS-based unemployment surprised on the upside with a 2Q reading for the unemployment rate of 5% instead of the expected 4.8%. That said, the number of unemployed was the lowest on record, while the employment rate (the employed-to-population ratio) was the strongest on record. The participation rate increased significantly in 2Q and at 56.7% was the highest since 2001.

The Polish cabinet discussed Thursday the draft of next year's budget. The central deficit would be PLN41.5bn, far below the almost PLN60bn planned for 2017. Which might have been expected given the favorable external environment and domestic economic performance, as well as the surprisingly strong fiscal performance in 1H of the year (however, there will not be any one-off revenues next year). In fact, the reported PLN41.5bn deficit would be close to the nominal 2013-2016 average, while the economy should be about 24% larger (in terms of nominal GDP) than in 2013. With such a central budget deficit, it seemed to us that a lower general government deficit than the 2.5% GDP it showed in this year's Convergence Programme Update would be possible, but a later statement from the government mentioned 2.7% GDP as the target set initially for the 2018 general government deficit. The result will ultimately depend greatly on how the lowering of the retirement age (effective October 1) affects the budget. Bear in mind that, at this stage, the size of the central deficit indicated by the finance minister is still just a proposal, and there is another cabinet meeting on the budget scheduled a week away.

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	4.2602	CZKPLN	0.1632
USDPLN	3.6148	HUFPLN*	1.4002
EURUSD	1.1785	RUBPLN	0.0611
CHFPLN	3.7438	NOKPLN	0.4604
GBPPLN	4.6275	DKKPLN	0.5728
USDCNY	6.6648	SEKPLN	0.4475

*for 100HUF

Last session in the FX market 24/08/2017					
	min	max	open	close	fixing
EURPLN	4.260	4.289	4.285	4.261	4.2827
USDPLN	3.608	3.637	3.631	3.610	3.6329
EURUSD	1.178	1.182	1.180	1.180	-

Interest rate market 24/08/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.72	-2	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.61	-1	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.29	-2	23.03.2017	DS0727	3.568

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.77	0	1.46	1	-0.26	0
2L	1.93	0	1.57	1	-0.18	0
3L	2.06	-1	1.66	1	-0.07	0
4L	2.18	-1	1.74	1	0.05	0
5L	2.30	-2	1.82	1	0.18	0
8L	2.58	-2	2.02	0	0.58	1
10L	2.75	-2	2.13	1	0.82	0

WIBOR rates

Term	%	Change (bps)
O/N	1.58	-1
T/N	1.59	0
SW	1.60	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	1.76	-1
9x12	1.82	0
3x9	1.83	0
6x12	1.85	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.91	-3
France	21	0	0.31	-1
Hungary	116	1	2.53	0
Spain	70	-2	1.21	0
Italy	147	0	1.73	0
Portugal	166	0	2.47	0
Ireland	32	-1	0.34	0
Germany	13	-1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

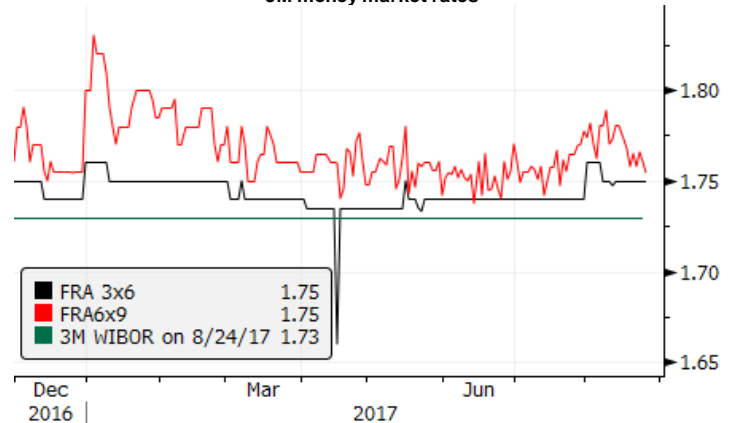
Zloty exchange rate



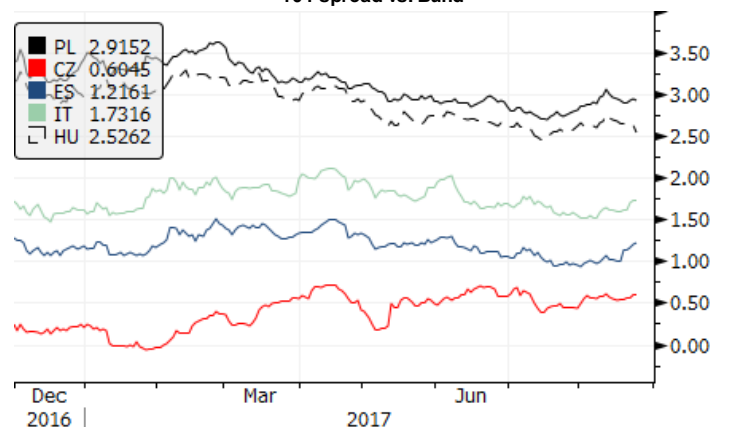
T-bonds yields



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 (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	-	-0.01	0.16
TUESDAY (22 August)								
11:00	DE	ZEW indeks	Aug	pts	85.3	-	86.7	86.4
14:00	HU	Central bank rate decision	Aug	%	0.90	-	0.90	0.90
WEDNESDAY (23 August)								
9:30	DE	Flash PMI - manufacturing	Aug	pts	57.6	-	59,4	58.1
9:30	DE	Flash PMI - services	Aug	pts	53.3	-	53,4	53.1
10:00	EC	Flash PMI - manufacturing	Aug	pts	56.3	-	57,4	56.6
10:00	EC	Flash PMI - services	Aug	pts	55.4	-	54,9	55.4
14:00	PL	Money supply	Jul	% y/y	5.1	5.0	5,0	5.0
15:45	US	Flash PMI - manufacturing	Aug	pts	53.5	-	52,5	53.3
15:45	US	Flash PMI - services	Aug	pts	54.9	-	56,9	54.7
16:00	US	New home sales	Jul	% m/m	0.0	-	-9,4	1.9
THURSDAY (24 August)								
10:00	PL	Unemployment rate	Jul	%	7.1	7.1	7.1	7.1
14:00	PL	MPC minutes						
14:30	US	Initial jobless claims	Aug	k	236	238	234	232
16:00	US	Existing home sales	Jul	% m/m	0.5	-	-1.3	-2.0
FRIDAY (25 August)								
8:00	DE	GDP SA	2Q	% q/q	0.6	-	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

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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.