

EYEOPENER

31 August 2017

Inflation and GDP data today

- **Easing concerns about North Korea triggered correction in debt markets**
- **Zloty slightly strengthened against euro**
- **Today GDP data for 2Q17, flash CPI inflation for August**

Today at 10:00CET the statistical office will release Polish detailed 2Q GDP data. Flash reading showed 3.9% y/y growth in the second quarter. There is little doubt that private consumption growth remained strong. At the same time it seems investments were still subdued with their contribution to GDP growth near zero, which implies their annual growth only marginally above 2%.

Today at 14:00CET we will learn the flash CPI data for August. We think the estimate could be slightly above 1.7% y/y seen in July and reach 1.8% y/y. There was an almost 2% m/m rebound of fuel prices and butter prices continued to rise, but a pressure on fruit and vegetable prices has already come off, according to our estimates. In general we still see CPI rising until November, getting to c2% y/y, before a strong negative base effect sends it 0.5pp lower.

Yesterday the European Commission released its Economic Sentiment Index (ESI). For Poland the measure eased slightly in August with the majority of components deteriorating but two – construction and consumer sentiment. Interestingly, Polish ESI has declined despite robust readings for the euro zone (just like in the case of PMIs).

The core bond prices fell on Thursday after data underscored the resilience of the economic growth in the USA (GDP release beat estimates) and the euro zone (record high ESI indicators). Additionally we observed an easing of North Korea risk tension. As a consequence US and German yield curves has shifted up by c2bp in the 5Y-10Y segment. On the front end of the curves, US yield rose by c1bp, while German has stabilized. Shares and commodities rebounded.

The global mood improvement negatively affected domestic sovereign bonds. Polish bond yield curve has shifted upward by

1bp in 5Y-10Y segment while IRS curve was pulled up by 3-4bp. It was reflected in credit risk spread drop by 1-2bp. Spreads over the 10Y UST and 10Y bund slightly increased despite global mood improvement. CEE bonds market yields increased too.

We expect that the bond market will be stable on Thursday. Second release of GDP growth in 2Q17 as well as CPI flash for August will not likely affect domestic bond. In the end of the week horizon we expect positive surprise of non-farm payrolls numbers, after the optimistic ADP report release. As a result we anticipate further 1-2pb upshift of Polish sovereign bonds yield curve in the long end and the middle part of the curve.

EURUSD has been declining throughout the day on Wednesday, trimming its Tuesday's rise caused by rising tension in the Korean Peninsula. As in the case of the debt market, the dollar strengthening has been supported by better than expected US GDP data (3.0% growth vs. expected 2.7%) and the surprisingly strong ADP report about the labour market. As a result, the EURUSD fell from 1.201 at Tuesday's close to 1.192 on Wednesday afternoon.

Polish currency gained vs the euro as well after the mood's improvement after the elevated geopolitical tensions seen at the beginning of the week. As a result, EURPLN fell to 4.255 from 4.268 with the biggest part of that move coming from dollar's appreciation vs the euro. In the case of the other CEE currencies, EURCZK fell to 26.05 from 26.1 which was driven by both global mood improvement and hawkish comment of Czech central bank member, Marek Mora. He said that rates could go up again this year if the Czech economy will maintain its solid performance. EURHUF stayed near 305.8 while USDRUB eased close to the Tuesday's closing level and reached 58.4 thanks to the better global moods.

On Thursday we expect EURPLN to remain fairly stable, Polish detailed GDP data and flash August CPI should be neutral for the zloty. Tomorrow we will learn US labour market data and consumer sentiment index which could have some positive impact on the dollar but there should be no significant market reaction on EURPLN market.

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FX market			
Today's opening			
EURPLN	4.2558	CZKPLN	0.1633
USDPLN	3.5796	HUFPLN*	1.3918
EURUSD	1.1889	RUBPLN	0.0611
CHFPLN	3.7148	NOKPLN	0.4584
GBPPLN	4.6236	DKKPLN	0.5721
USDCNY	6.5960	SEKPLN	0.4488

*for 100HUF

Last session in the FX market 30/08/2017					
	min	max	open	close	fixing
EURPLN	4.253	4.268	4.268	4.254	4.261
USDPLN	3.550	3.582	3.552	3.573	3.5678
EURUSD	1.190	1.202	1.202	1.190	-

Interest rate market 30/08/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.71	0	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.61	0	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.29	0	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	1.44	1	-0.26	0
2L	1.92	1	1.54	2	-0.19	0
3L	2.06	3	1.63	2	-0.09	0
4L	2.18	3	1.70	2	0.03	0
5L	2.30	3	1.78	2	0.16	0
8L	2.59	4	1.98	2	0.56	1
10L	2.76	4	2.09	2	0.79	1

WIBOR rates

Term	%	Change (bps)
O/N	1.51	36
T/N	1.50	1
SW	1.57	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	1.77	1
9x12	1.81	2
3x9	1.82	0
6x12	1.84	1

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.93	-1
France	21	0	0.31	0
Hungary	116	1	2.60	-1
Spain	70	-1	1.20	-1
Italy	147	0	1.71	-1
Portugal	166	-1	2.46	-1
Ireland	32	-1	0.33	0
Germany	14	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

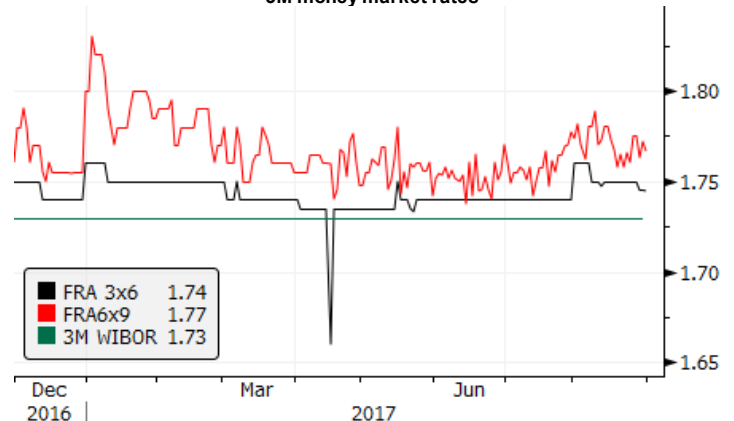
Zloty exchange rate



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 (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	-	115.9	116.0
14:30	US	Durable goods orders	Jul	% m/m	-6.0	-	-6.8	6.4
MONDAY (28 August)								
No important data releases								
TUESDAY (29 August)								
16:00	US	Consumer confidence index	Aug	pts	120	-	122.7	121.1
WEDNESDAY (30 August)								
14:15	US	ADP report	Aug	k	185	-	237	201
14:30	US	Preliminary GDP	Q2	% q/q	2.7	-	3.0	1.2
THURSDAY (31 August)								
10:00	PL	GDP	Q2	% y/y	3.9	3.9		4.0
10:00	PL	Fixed investments	Q2	% y/y	2.5	2.1		-0.4
10:00	PL	Private consumption	Q2	% y/y	4.5	4.7		4.7
11:00	EZ	Flash CPI	Aug	% y/y	1.4	-		1.3
14:00	PL	Flash CPI	Aug	% y/y	-	1.7		1.7
14:30	US	Consumer spending	Jul	% m/m	0.4	-		0.1
14:30	US	Personal income	Jul	% m/m	0.3	-		0.0
14:30	US	Initial jobless claims	week	k	237	-		234
16:00	US	Pending home sales	Jul	% m/m	0.6	-		1.5
FRIDAY (1 September)								
3:45	CN	PMI – manufacturing	Aug	pts	51.0	-		51.1
9:00	PL	PMI – manufacturing	Aug	pts	-	54.0		52.3
9:00	CZ	Preliminary GDP	Q2	% y/y	4.5	-		3.0
9:55	DE	PMI – manufacturing	Aug	pts	59.4	-		58.1
10:00	EZ	PMI – manufacturing	Aug	pts	57.4	-		56.6
14:30	US	Non-farm payrolls	Aug	k	180	-		209
14:30	US	Unemployment rate	Aug	%	4.3	-		4.3
16:00	US	ISM – manufacturing	Aug	pts	56.4	-		56.3
16:00	US	Michigan index	Aug	pts	97.3	-		93.4

Source: BZ WBK, Reuters, Bloomberg

* in case of the revision the data is updated

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