

EYEOPENER

01 September 2017

GDP growth still strong

- GDP growth close to 4%, but with disappointing structure
- Inflation rose in August to 1.8% y/y
- Zloty stronger after leaks from the ECB
- Information about low bond supply in September supported the debt market
- Today European PMIs, US non-farm payrolls

Polish GDP growth in 2Q17 was confirmed at 3.9% y/y, in line with flash estimate. Private consumption remained the main engine of growth, rising by nearly 5% y/y, while investments remained subdued (only 0.8% y/y). Inventories also proved supportive for GDP growth. Net exports was negative for GDP growth with contribution of -1.5pp, mainly due to significant slowdown of real export growth (to 2.8% y/y from 8.3% y/y in 1Q). The latter seems to be odd given the apparent recovery in the euro zone, Poland's main trading partner but deceleration in German exports could be an explanation. We think that economic growth in Poland should remain decent in the coming quarters, only slightly below 4% y/y, and investments will rebound. We will release our revised GDP forecasts next week in our monthly report MACROscope.

CPI inflation rose in August to 1.8% y/y from 1.7% y/y in July, in line with our estimate. The flash reading does not reveal the details but we suspect that that CPI rise was driven mainly by prices of fuels and food. The CPI growth is likely to continue climbing in the coming months, to 2% in November, before dropping to 1.5% in Dec due to base effect. Meanwhile, core CPI should remain near 1%. Such environment would allow the Polish central bank to maintain its dovish rhetoric, in our view.

Polish PMI disappointed again, reaching 52.5 in August (vs 52.3 in July). The activity indicator for Polish manufacturing has clearly diverged from the corresponding index for the euro zone, which is quite surprising, as the euro area is Poland's biggest trading partner (with c50% share in exports). Perhaps one of explanations is the fact that recovery in Europe is increasingly driven by domestic demand, while Polish producers benefit the most from European export expansion. The report confirmed that domestic orders rose faster than external ones, which is in contrast to situation from the recent past. However, we also see the growing evidence of supply-side constraints affecting Polish economy, resulting from the tightening labour market. PMI report says that Polish firms reported a rise in backlogs of work for the first time since February 2015, with the shortages of labour and supply constraints as potential causes. This suggests some caution regarding the GDP growth outlook for the coming quarters.

The core bonds yields increased on Thursday morning, however they were decreasing later during the day. As a result 10Y UST closed at 2.12%, while German 10Y at 0.36%. The German yields move was fueled by unofficial information about that the euro's rapid gains are worrying a growing number of ECB policymakers. It was interpreted by investors as raising the chance that asset purchases will be phased out slowly. The yield drop was additionally fueled by PCE number release. The PCE y/y decreased to 1.4% in July from 1.5% in June.

Domestic bonds followed the core markets. The yields rose overnight, however the intraday drop pushed the yield curve to the level from Wednesday close. Positive global mood for bonds helped to push domestic yield curve down as well Ministry of Finance (MoF) information about debt supply. MoF announced one switch auction in September. It was a consequence budget surplus and high level of budget liquidity. According to Piotr Nowak, deputy minister of finance, Poland has already financed 72% of borrowing needs (or even 85% if we take into account the likely lower-than planned realization of budget deficit). The IRS market followed the bond market.

Today we expect Polish mid- and long-term bonds could be under slight pressure while the short end is likely to remain stable. We think that likely solid European PMIs and US nonfarm payrolls favour such scenario. However, we do not expect any sharp changes given the recent signals from the ECB and plans for a low bond supply in September.

EURUSD was falling for the better part of the session neutralizing the upside move seen in the first part of the week. The dollar was supported by anonymous comments from the ECB saying that strong euro is worrying central bankers. Lower chances for an immediate tapering of the accommodative monetary policy in the euro zone pushed EURUSD down to below 1.184 vs 1.192 seen on Wednesday's evening. At the end of the day the exchange rate rebounded to 1.188.

On Thursday EURPLN was falling and closed near 4.249 vs 4.256 seen on Wednesday evening and yesterday's intraday peak at 4.263. The exchange rate was driven by signals from the ECB and swings of EURUSD. In the case of EURHUF, it returned to 305.5 after the morning jump while EURCZK rose to 26.11 from 26.06, neutralizing Wednesday's drop. USDRUB continued to decline and ended the session at 58.1 vs 58.4 seen at the end of the Wednesday's session. The ruble was supported by rising oil prices, positive news on FX reserves, Russian economic outlook and likely large sales of agricultural commodities.

Today we expect EURPLN to fall slightly thanks to European PMIs. US data should be neutral for the zloty, in our view.

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FX market			
Today's opening			
EURPLN	4.2505	CZKPLN	0.1628
USDPLN	3.5761	HUFPLN*	1.3901
EURUSD	1.1885	RUBPLN	0.0616
CHFPLN	3.7219	NOKPLN	0.4596
GBPPLN	4.6180	DKKPLN	0.5714
USDCNY	6.5809	SEKPLN	0.4485

*for 100HUF

Last session in the FX market 31/08/2017

	min	max	open	close	fixing
EURPLN	4.246	4.264	4.254	4.252	4.2618
USDPLN	3.569	3.601	3.573	3.579	3.5822
EURUSD	1.182	1.191	1.190	1.188	-

Interest rate market 31/08/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.71	1	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.61	-1	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	0	-0.26	0
2L	1.91	-1	1.54	0	-0.19	0
3L	2.04	-2	1.63	0	-0.09	0
4L	2.17	-1	1.70	0	0.03	0
5L	2.30	-1	1.78	0	0.16	0
8L	2.59	0	1.98	0	0.56	0
10L	2.75	0	2.08	-1	0.79	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.50	-1
T/N	1.56	6
SW	1.58	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	0
3x9	1.82	0
6x12	1.84	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.93	0
France	21	0	0.30	0
Hungary	116	1	2.57	0
Spain	68	-1	1.18	-1
Italy	145	-1	1.67	-1
Portugal	165	0	2.44	-1
Ireland	32	-1	0.32	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

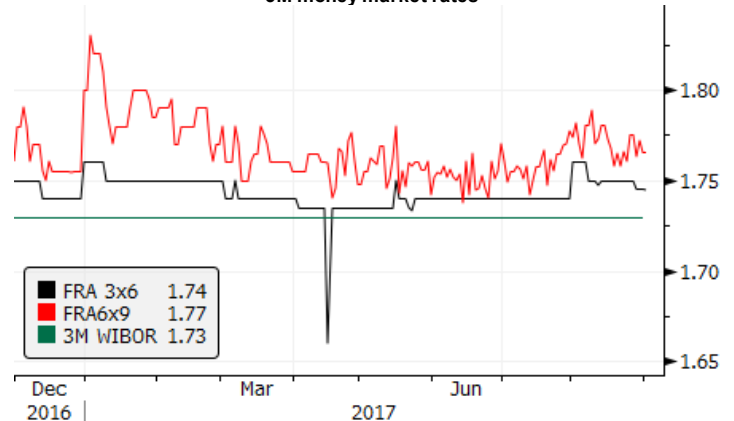
Zloty exchange rate



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	3.9	4.0
10:00	PL	Fixed investments	Q2	% y/y	2.5	2.1	0.8	-0.4
10:00	PL	Private consumption	Q2	% y/y	4.5	4.7	4.9	4.7
11:00	EZ	Flash CPI	Aug	% y/y	1.4	-	1.5	1.3
14:00	PL	Flash CPI	Aug	% y/y	-	1.8	1.8	1.7
14:30	US	Consumer spending	Jul	% m/m	0.4	-	0.3	0.1
14:30	US	Personal income	Jul	% m/m	0.3	-	0.4	0.0
14:30	US	Initial jobless claims	week	k	237	-	236	234
16:00	US	Pending home sales	Jul	% m/m	0.3	-	-0.8	1.5
FRIDAY (1 September)								
3:45	CN	PMI – manufacturing	Aug	pts	51.0	-	51.6	51.1
9:00	PL	PMI – manufacturing	Aug	pts	53.0	54.0	52.5	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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