

EYEOPENER

18 September 2017

FOMC as the main event of the week

- Friday US data mostly below expectations
- MPC's Jerzy Kropiwnicki would want to freeze interest rates for two years
- PLN appreciation at the end of the week, EURUSD higher
- Domestic bonds stable, core global markets weaker
- Today data on Polish labour market and final August inflation in the Euro zone

Another North Korean missile test in the recent weeks did not have such a notable impact on quotations as the previous ones. After the growth in stock indices in Europe and the US in the first part of the last week, the beginning of the Friday trading session was quiet. Awaiting important US data, bond yields in the core debt markets kept rising whilst the peripheries of the Euro zone were stable. The readings of US data on retail sales and industrial output for August were worse than forecasts. In the case of the US retail sales, the data for July were also revised downwards. In effect, US dollar continued to weaken, whilst bonds started to make up for earlier losses. These trends have lost momentum after slightly better than expected readings of the Michigan Consumer Sentiment Index.

MPC member Jerzy Kropiwnicki, belonging to the dovish camp, said in his interview for Polish Press Agency that given the currently available data there should be no reason to change rates in the next 24 months. In his view, this should be warranted by inflation remaining within 1.5-3.5% allowable fluctuation range. At the same time, Kropiwnicki expects quite robust economic performance with GDP growing 4.0-4.1% this year and in 2018 while the market consensus is at 3.8% and 3.3%, respectively. We think his bias could become clearly less dovish when the wage pressure strengthens pushing salaries up (already today we will learn Polish August labour market data).

Peter Praet from the ECB said that the Euro zone economy still needs highly accommodative monetary policy and within the central bank there is a consensus that phasing out current monetary stimulus should be carried in a manner that would prevent shocks. He confirmed that rate hikes should take place only after the asset purchases program ends.

From the beginning of the Friday session, EURUSD rate continued its upward movement that started after the close of business on Thursday. As a result, just before the publication of

the US data, the exchange rate was close to 1.197. Poor readings had a negative impact on the US dollar and the rate peaked to c1.198 after the publications.

Both EURPLN and USDPLN corrected after Thursday's rise. The next missile probe in North Korea did not have much negative impact on the market while the "dovish" US data supported the zloty. As a result, EURPLN fell below 4.27 and USDPLN broke below 3.57. At the end of the week the zloty was outperforming its CEE peers. The forint continued to depreciate vs the euro (EURHUF was testing 309), EURCZK rose to nearly 26.09 from 26.06 and USDRUB stayed near 57.62. On Friday, Russian central bank cut interest rates by 50bp with the main refi rate now at 8.50% while S&P confirmed country's credit rating at "BB+" with positive outlook. Last week, EURPLN did not break important support at 4.23 and is still in a 4.23-4.30 range. Wednesday's FOMC decision is the key event of the week and may set a direction for the market at last in the short term.

Domestic bonds market remained stable despite elevated level of volatility on the core bonds market (US and German yields of 10Y bonds rose temporarily by 2-3bp). The core market yields decreased slightly as a reaction to the US data (retail sales and industrial production), however its influence on the domestic market was limited. Lack of important data in today's core markets calendar (flash estimate of Euro zone inflation is usually more important than the final print) as well as domestic labour market will likely not influence the domestic bonds market. We expect market to be stable waiting for Wednesday's FOMC decision.

The release of wages and employment data in enterprise sector in August in Poland are scheduled at 2 pm today. Our forecasts are above the market consensus. We assume that the report will not undermine the upward trend in wage growth.

This week, there will be plenty of domestic data releases. In most cases our forecasts are above the market median, so they may be slightly supportive for investors' moods. We think the data should confirm that GDP growth in Poland remains close to 4% y/y in 3Q17. Nevertheless, we believe that the direction on the market will continue to be determined by external factors. The FOMC meeting will be probably the key event, with Fed likely to present lower expected path of future interest rates, but at the same time signaling the start of balance sheet reduction.

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	4.2761	CZKPLN	0.1639
USDPLN	3.5819	HUFPLN*	1.3813
EURUSD	1.1938	RUBPLN	0.0622
CHFPLN	3.7278	NOKPLN	0.4565
GBPPLN	4.8631	DKKPLN	0.5747
USDCNY	6.5558	SEKPLN	0.4496

*for 100HUF

Last session in the FX market 15/09/2017

	min	max	open	close	fixing
EURPLN	4.266	4.283	4.278	4.276	4.2781
USDPLN	3.563	3.600	3.599	3.580	3.5863
EURUSD	1.188	1.199	1.188	1.195	-

Interest rate market 15/09/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.73	1	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.58	1	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.23	1	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	1.50	0	-0.26	0
2L	1.91	1	1.63	1	-0.17	0
3L	2.03	2	1.73	1	-0.05	1
4L	2.15	2	1.81	1	0.08	2
5L	2.27	1	1.88	1	0.22	2
8L	2.55	2	2.07	0	0.63	2
10L	2.72	2	2.17	-1	0.88	2

WIBOR rates

Term	%	Change (bps)
O/N	1.60	0
T/N	1.60	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	1.73	0
3x6	1.74	0
6x9	1.76	-1
9x12	1.79	0
3x9	1.81	0
6x12	1.83	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.79	-1
France	20	0	0.28	0
Hungary	116	1	2.38	-1
Spain	59	-1	1.15	-2
Italy	137	-1	1.62	-2
Portugal	146	-2	2.24	-11
Ireland	32	-1	0.28	0
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

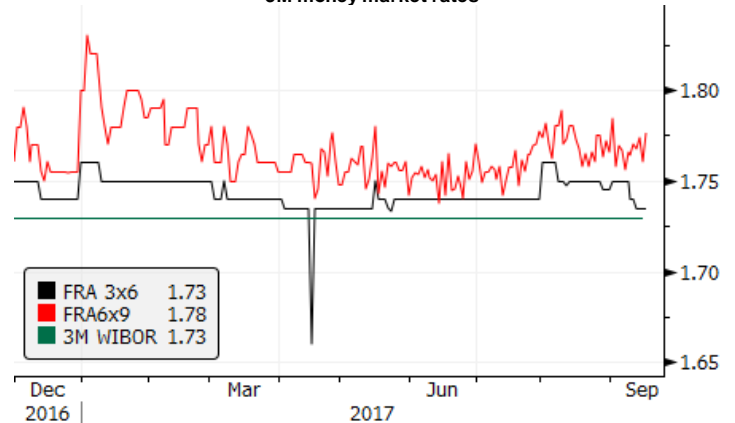
Zloty exchange rate



T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	BZWBK		
FRIDAY (15 September)								
14:30	US	Retail sales	Aug	% m/m	0.1	-	-0.2	0.3
15:15	US	Industrial output	Aug	% m/m	0.1	-	-0.4	0.4
16:00	US	Flash Michigan	Sep	pts	96.5	-	95.3	96.8
MONDAY (18 September)								
11:00	EZ	CPI	Aug	% y/y	1.5	-		1.3
14:00	PL	Wages in corporate sector	Aug	% y/y	5.7	5.9		4.9
14:00	PL	Employment in corporate sector	Aug	% y/y	4.6	4.7		4.5
TUESDAY (19 September)								
11:00	DE	ZEW index	Sep	pts	86.8	-		86.7
14:00	HU	Central bank decision		%	0.90	-		0.90
14:00	PL	Industrial output	Aug	% y/y	5.9	6.1		6.2
14:00	PL	Construction and assembly output	Aug	% y/y	24.0	27.9		19.8
14:00	PL	Real retail sales	Aug	% y/y	6.7	7.5		6.8
14:00	PL	PPI	Aug	% y/y	3.0	3.2		2.2
14:30	US	House starts	Aug	k	2.2	-		-4.8
14:30	US	Building permits	Aug	k	-0.8	-		-3.5
WEDNESDAY (20 September)								
16:00	US	Home sales	Aug	mn	0.6	-		-1.3
20:00	US	FOMC decision		%	1.00-1.25	1.00-1.25		1.00-1.25
THURSDAY (21 September)								
14:00	PL	MPC minutes						
14:30	US	Philly Fed index	Sep	pts	17.0	-		18.9
14:30	US	Initial jobless claims	week	k	-	-		284
FRIDAY (22 September)								
9:30	DE	Flash PMI – manufacturing	Sep	pts	59.1	-		59.3
9:30	DE	Flash PMI – services	Sep	pts	53.7	-		53.5
10:00	EZ	Flash PMI – manufacturing	Sep	pts	57.3	-		57.4
10:00	EZ	Flash PMI – services	Sep	pts	54.8	-		54.7
10:00	PL	Unemployment rate	Aug	%	7.0	7.0		7.1
14:00	PL	Money supply	Aug	% y/y	5.2	5.3		5.0

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.