

# EYEOPENER

19 September 2017

## Radical wage acceleration

- Equities higher, bonds weaker at the start of the week
- Surprisingly strong wage growth in Poland
- EURUSD increased, emerging currencies under pressure
- Data from Poland, Germany and the US coming today, and the Hungarian central bank decision

Positive market sentiment persisted on the global market which was reflected in European stock indexes rising slightly and fresh all-time high reached by the S&P500 while core bonds weakened. On the FX market situation was rather calm and only USDJPY faced bigger changes as the yen lost vs the dollar. Emerging market currencies were still under pressure.

EURUSD rose yesterday to 1.196 from 1.192 and today in the morning the exchange rate is at 1.20. Bloomberg reported that today Donald Trump will urge the United Nations to take action on North Korea and Iran in his first UN General Assembly address. US Defense Secretary suggested that military actions exist when talking about North Korea. These comments might have weighed on the dollar and could hit the EM currencies as well. Today we will learn September German ZEW index and in the afternoon US real estate data will be released. Even if these numbers surprise, we do not expect them to trigger any sharp market reaction just one day before the FOMC decision.

Yesterday, EURPLN rate rose slightly above 4.29 while USDPLN remained stable close to 3.585. The remaining CEE currencies were also under pressure - EURHUF started its fifth week of gains and approached 310 (while in mid-August was close to 300 for a moment). USDRUB rebounded to almost 57.9 from 57.5 - to some extent, this was driven by decreasing oil prices. We expect EURPLN to remain below 4.30 pending tomorrow's FOMC decision. In our opinion, rhetoric of the Fed will be crucial for PLN in the upcoming days.

Today, the central bank of Hungary (MNB) will take a decision on interest rates. The tone for months have been very dovish and Hungarian central bankers assure they are ready to ease

the monetary policy even more. Over the recent five weeks, HUF lost c40% of its gains against EUR recorded since 2H16 which was driven by market expectations that MNB would loosen monetary policy already at today's meeting. If the bank actually decides to take such a step, then it seems that it has already been priced in to some extent. If it ends up again only with verbal intervention, then HUF can make up for some of its recent losses.

On Monday domestic yields and IRS rates moved in line with the core bond market yields, where the yields were rising. IRS and bond curves steepened briefly, the front end rose by 1-2bp, while long end by 4-5bp. Today we expect continuation of a rise of yields on the core and domestic bonds market. We think that US and Germany macro numbers scheduled for today will be the driver for today market activity (before the Wednesday's FOMC conference).

Wage growth in the enterprise sector reached 6.6% y/y in August and beat expectations by a wide margin (6.6% y/y vs 5.7% expected, up from 4.9% in July). We read this as a confirmation that the shortage of labour force is having a quicker-than-expected influence on the actual process of wage bargaining. The labour market is very tight now as reported by enterprises in business surveys. On the other hand the surprisingly strong print might have been again affected by a change in the month when bonuses were paid out in the mining sector. Real wage bill grew 9.6% y/y in August – the highest pace since September 2008. This should help private consumption maintain the c5% y/y growth rate also in 3Q.

Today at 14:00CET next Polish data will be published – August industrial and construction output together with retail sales. In all three cases our forecasts are above consensus. We think that construction output after a fine c20% y/y growth in July could possibly climb to almost 30%. This release will be watched as a proxy for investment activity.

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## FX market

## Today's opening

|        |        |         |        |
|--------|--------|---------|--------|
| EURPLN | 4.2924 | CZKPLN  | 0.1643 |
| USDPLN | 3.5768 | HUFPLN* | 1.3863 |
| EURUSD | 1.2000 | RUBPLN  | 0.0617 |
| CHFPLN | 3.7263 | NOKPLN  | 0.4584 |
| GBPPLN | 4.8458 | DKKPLN  | 0.5769 |
| USDCNY | 6.5886 | SEKPLN  | 0.4501 |

\*for 100HUF

## Last session in the FX market

18/09/2017

|        | min   | max   | open  | close | fixing |
|--------|-------|-------|-------|-------|--------|
| EURPLN | 4.274 | 4.293 | 4.275 | 4.291 | 4.2835 |
| USDPLN | 3.577 | 3.599 | 3.581 | 3.595 | 3.5881 |
| EURUSD | 1.192 | 1.197 | 1.195 | 1.193 | -      |

## Interest rate market

18/09/2017

## 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)  | 2.59 | -1           | 23.03.2017   | PS0422        | 2.945         |
| DS0727 (10Y) | 3.26 | 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            | 1.51 | 2            | -0.26 | 0            |
| 2L   | 1.92 | 1            | 1.65 | 2            | -0.17 | 0            |
| 3L   | 2.04 | 1            | 1.76 | 2            | -0.05 | 1            |
| 4L   | 2.17 | 2            | 1.84 | 2            | 0.09  | 1            |
| 5L   | 2.29 | 2            | 1.91 | 3            | 0.23  | 1            |
| 8L   | 2.57 | 2            | 2.10 | 3            | 0.65  | 2            |
| 10L  | 2.75 | 3            | 2.20 | 3            | 0.89  | 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 | 1            |
| 6x9  | 1.78 | 2            |
| 9x12 | 1.80 | 1            |
| 3x9  | 1.82 | 1            |
| 6x12 | 1.84 | 2            |

## Measures of fiscal risk

| Country  | CDS 5Y USD |              | 10Y spread* |              |
|----------|------------|--------------|-------------|--------------|
|          | Level      | Change (bps) | Level       | Change (bps) |
| Poland   | 71         | -1           | 2.81        | 0            |
| France   | 18         | -2           | 0.28        | 0            |
| Hungary  | 116        | 1            | 2.38        | 0            |
| Spain    | 57         | -2           | 1.13        | 0            |
| Italy    | 132        | -5           | 1.61        | 0            |
| Portugal | 141        | -5           | 1.93        | -3           |
| Ireland  | 32         | -1           | 0.26        | 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

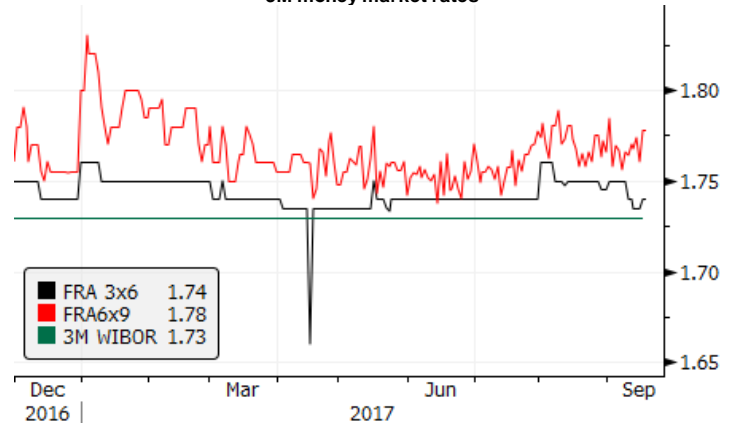
## Zloty exchange rate



## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic calendar

| Economic calendar        |         |                                  |        |       |           |           |                 |                |
|--------------------------|---------|----------------------------------|--------|-------|-----------|-----------|-----------------|----------------|
| TIME<br>CET              | COUNTRY | INDICATOR                        | PERIOD |       | FORECAST  |           | ACTUAL<br>VALUE | LAST<br>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       | -         | 1.5             | 1.3            |
| 14:00                    | PL      | Wages in corporate sector        | Aug    | % y/y | 5.7       | 5.9       | 6.6             | 4.9            |
| 14:00                    | PL      | Employment in corporate sector   | Aug    | % y/y | 4.6       | 4.7       | 4.6             | 4.5            |
| TUESDAY (19 September)   |         |                                  |        |       |           |           |                 |                |
| 11:00                    | DE      | ZEW index                        | Sep    | pts   | 86.0      | -         |                 | 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     | 1.7       | -         |                 | -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

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