

# EYEOPENER

20 September 2017

## Significant improvement in output

- Another set of strong economic activity data from Poland
- German ZEW above forecasts, mixed US data
- The zloty gained vs the euro and the dollar, EURUSD little changed
- This evening FOMC decision and press conference

The Tuesday session on the global market was quiet. European stock indices fluctuated near Monday's close, with even smaller changes on the fx market than on Monday. Bonds on the core markets and in the peripheries of the Euro zone were making up for the losses from the beginning of the week. Data from Germany were a positive surprise, but did not trigger any sustainable reaction, just like the mixed data from the US real estate market. Anonymous reports from the ECB that there was no consensus among central bankers as to the possibility of announcing the date of closing the asset purchase program already at the October meeting exerted only a short-lived pressure on euro. This possibility was already indicated at the ECB's previous press conference by its President Mario Draghi. The slight chance of QE extension or only very slow phase-out of the program somewhat weakened the common currency yesterday. Donald Trump's UN speech did not provide any new information to the markets on the potential escalation of the conflict with North Korea.

In August, pace of industrial output growth accelerated to 8.8% y/y from 6.2 y/y. Market consensus was at 5.9% and our forecast at 6.1% y/y, that is slightly below July's 6.2% y/y. This time the figure was not distorted by the number of working days. After seasonal adjustment output rose 8.1% y/y which is the highest since December 2011. Construction output rose 23.5% y/y, somewhat below consensus (24% y/y) and our forecast (27.9% y/y) but this was still quite strong and it does not put into question the assumed rebound of investments in 3Q. Retail sales grew 6.9% y/y in real terms, similar result to what we have seen in 1H17 and confirms our view of private consumption growth staying around 5% in 3Q. Although these numbers could trigger upward revisions of GDP forecasts and proved supportive for the zloty, the majority of the MPC

members will likely keep their view that interest rates should remain unchanged until 2018 or longer.

EURUSD fell yesterday temporarily to 1.195 from 1.20 but at the end of the Polish session the exchange rate was slightly above daily low. Potential for bigger changes was limited probably by the today's evening FOMC decision that will be accompanied by Fed's Janet Yellen press conference. The market is not pricing any more rate hikes this year in the US and if today's meeting does not boost chances for such move in December, the market reaction could be limited. We could face higher volatility when FOMC surprises on the "hawkish" side.

Yesterday EURPLN retreated from the resistance at 4.30 both thanks to dovish signals from the ECB and strong data from Poland. At the end of the day the pair was close to 4.28. USDPLN slid from 3.59 to 3.57. The ruble and the Czech koruna did not move much. The FOMC decision is the key event today. In our view, repeat of the not-too-hawkish tone from the earlier meetings should not affect the market. More important changes can happen if the rhetoric becomes more hawkish, and this may push the zloty towards 4.30 per euro.

The Hungarian central bank cut its one-day deposit rate by 10bp to -0.15% and the reference rate was left unchanged at 0.90%. The bank maintained its declaration that further monetary easing is possible if necessary. As we suggested yesterday, the slight easing did not affect the forint as the market has already priced in such a move. After the decision the forint even gained to the euro, EURHUF fell below 308 temporarily.

On the domestic debt market IRS and sovereign bonds yields rose at approximately the same pace as on Monday: 1bp on the front end and 7bp on the long end). Polish sovereign debt lost more than core market bonds and Eurozone periphery bonds. It was likely a consequence of surprisingly high readings of Polish data for August. Today we expect stabilization of domestic assets ahead of the FOMC conference. Another rate hike in the US is still far from being priced and this is why we expect that a hawkish message from Fed would bring a stronger market response than a neutral or dovish tone.

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## FX market

## Today's opening

EURPLN	4.2788	CZKPLN	0.1639
USDPLN	3.5658	HUFPLN*	1.3892
EURUSD	1.2000	RUBPLN	0.0613
CHFPLN	3.7070	NOKPLN	0.4570
GBPPLN	4.8189	DKKPLN	0.5750
USDCNY	6.5687	SEKPLN	0.4485

\*for 100HUF

## Last session in the FX market

19/09/2017

	min	max	open	close	fixing
EURPLN	4.275	4.296	4.291	4.279	4.293
USDPLN	3.568	3.600	3.595	3.574	3.5821
EURUSD	1.193	1.201	1.193	1.197	-

## Interest rate market

19/09/2017

## T-bonds on the interbank market\*\*

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.76	2	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.67	8	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.34	9	23.03.2017	DS0727	3.568

## IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.78	1	1.52	0	-0.26	0
2L	1.94	2	1.66	1	-0.17	0
3L	2.07	3	1.76	0	-0.05	-1
4L	2.23	6	1.84	0	0.08	-1
5L	2.36	7	1.92	1	0.23	-1
8L	2.66	9	2.11	0	0.64	-1
10L	2.83	9	2.20	0	0.88	-1

## 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	1.78	1
9x12	1.81	1
3x9	1.82	0
6x12	1.85	0

## Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.89	8
France	19	1	0.28	0
Hungary	116	1	2.30	0
Spain	55	-2	1.10	1
Italy	129	-3	1.60	1
Portugal	118	-23	1.95	0
Ireland	32	-1	0.27	0
Germany	11	-1	-	-

\* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

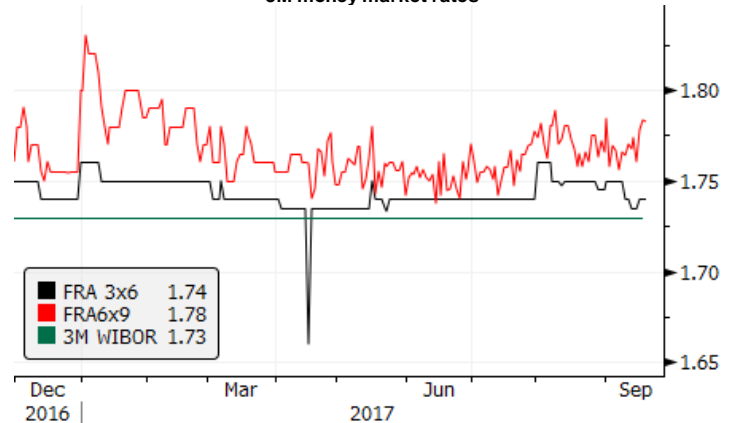
## Zloty exchange rate



## 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 (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	-	87.9	86.7
14:00	HU	Central bank decision		%	0.90	-	0.90	0.90
14:00	PL	Industrial output	Aug	% y/y	5.9	6.1	8.8	6.2
14:00	PL	Construction and assembly output	Aug	% y/y	24.0	27.9	23.5	19.8
14:00	PL	Real retail sales	Aug	% y/y	6.7	7.5	6.9	6.8
14:00	PL	PPI	Aug	% y/y	3.0	3.2	3.0	2.2
14:30	US	House starts	Aug	k	1.7	-	-0.8	-2.2
14:30	US	Building permits	Aug	k	-0.8	-	5.7	-3.5
WEDNESDAY (20 September)								
16:00	US	Home sales	Aug	mn	0.4	-		-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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