

EYEOPENER

21 September 2017

FOMC still expecting rate hike in 2017

- FOMC kept rates unchanged, but central bankers still expect hike in 2017
- Good results of Polish budget and consumer confidence
- Zloty gained to euro, stronger dollar
- Polish bonds trimmed losses
- Today MPC minutes and US data

Yesterday's session passed in anticipation of the FOMC decision. Changes in the FX market were insignificant and equity markets in Europe were hovering near Tuesday's close. At the core debt markets bond yields were declining after increasing earlier this week.

FOMC kept the main interest rates unchanged at its September's meeting (Fed funds rate at 1.00-1.25%) but declared it will start the balance sheet reduction in October. Moreover, the US central bankers still foresee a rate hike in December (only four Fed members expected rates to stay on hold this year), which was interpreted by the market as a hawkish tone. The Fed's "dot plot" showed some downward revisions to the expected interest rates in the long run, but they were definitely less intense than expected. The FOMC also released its updated economic forecasts, showing the bank is a bit more optimistic as regards economic growth (2.4% in 2017 vs 2.2% predicted in June) although inflation forecast has been reduced slightly (core PCE 1.5% this year vs earlier 1.7%). The Fed decided that it will stop reinvesting \$6bn/month in USTs and \$4bn/month in MBS during the next quarter, and that monthly pace of reduction will pick up gradually on a quarterly basis (by \$6bn/quarter up to \$30bn/month in case of UST and by \$4-quarter up to \$20bn/month in case of MBS). The reduction of the balance sheet will last as long as the Fed decides that the remaining portfolio of securities is adequate.

Bank of Japan kept interest rates unchanged but the decision was not unanimous as the new member of the board, Guoshi Kataoka, appeared to be in favour of more accommodative monetary policy.

EURUSD was fairly stable around 1.20 waiting for the FOMC decision. Market interpreted the outcome of the meeting as hawkish which pushed the exchange rate sharply down below 1.19.

Yesterday both EURPLN and USDPLN fell for the second day in a row and reached nearly 4.27 and 3.56, respectively. Elsewhere in the CEE region, the ruble was also performing well (USDRUB fell to 57.7 from 58.1). The forint depreciated

slightly vs the euro while EURCZK rose temporarily. There was no big reaction of EURPLN to the hawkish message from FOMC, while USDPLN jumped to 3.60.

On the domestic interest rate market bonds recovered slightly after the weakening seen earlier in the week. Yesterday Polish bonds gained more than their US and German peers. At the same time, Polish IRS continued to rise. Yields and IRS may rise today in reaction to hawkish outcome of the FOMC meeting.

Polish consumer confidence index inched lower in September. Current situation index eased to 5.0pts from a record high 5.7pts, but bear in mind that the headline figures come in seasonally unadjusted form and, in our view, the 0.7 point drop can be attributed to seasonal factors. So this is not a true correction of the huge optimism expressed by Polish consumers. In fact, a component that describes their propensity to major purchases increased from August and matched the all-time high from June this year. Just like the better-than-expected retail sales reading for August from yesterday, the consumer survey suggests that private consumption stayed at a respectable c5% y/y growth in 3Q.

The Polish central budget remained in surplus after August. A positive balance at this time of the year has never been seen before in Poland in the post-transformation era. What is more, the huge positive gap between the actual budget performance and the MinFin schedule of revenues and expenditures only grew in August — from PLN27.9bn to PLN32.6bn. However, in a press briefing, the Finance Minister and Deputy Prime Minister Mateusz Morawiecki claimed that the full-year deviation from the plan could be in the PLN10-20bn range, suggesting that the government may try to repeat the manoeuvre from last year to burden the this year's budget with some of the deficit from 2018 budget (in 2016 it happened through the accelerated return of VAT). YTD revenues improved to 9.6% y/y from 9.3%, tax revenues alone to 15.5% y/y from 16.2%, with VAT revenues easing slightly to 24.6% y/y from 25.5%. YTD personal income tax collection accelerated to 8.3% y/y from 7.8%, the fastest pace so far this year, showing that the favourable labor market situation is having a real effect on budget performance. Today Morawiecki said in the interview for TVN24 that he expects public finance deficit to reach PLN48-49bn this year, that is c2.5% of GDP. The August data extend the positive fiscal story that led two major rating agencies to recently sound more neutral on Poland instead of issuing warnings about institutional risks.

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FX market

Today's opening

EURPLN	4.2760	CZKPLN	0.1639
USDPLN	3.5949	HUFPLN*	1.3843
EURUSD	1.1894	RUBPLN	0.0617
CHFPLN	3.6948	NOKPLN	0.4572
GBPPLN	4.8561	DKKPLN	0.5746
USDCNY	6.5908	SEKPLN	0.4486

*for 100HUF

Last session in the FX market

20/09/2017

	min	max	open	close	fixing
EURPLN	4.270	4.283	4.279	4.272	4.2769
USDPLN	3.557	3.575	3.574	3.559	3.5619
EURUSD	1.197	1.202	1.197	1.200	-

Interest rate market

20/09/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.75	0	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.67	-1	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.31	-3	23.03.2017	DS0727	3.568

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.78	0	1.51	-1	-0.26	0
2L	1.94	0	1.64	-2	-0.18	0
3L	2.07	0	1.74	-2	-0.06	0
4L	2.21	-2	1.82	-2	0.08	0
5L	2.34	-2	1.90	-2	0.23	0
8L	2.64	-2	2.09	-1	0.63	-1
10L	2.80	-3	2.19	-1	0.87	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.59	-1
T/N	1.59	-1
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	0
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	2.84	-7
France	20	1	0.29	0
Hungary	116	1	2.20	-3
Spain	61	6	1.13	0
Italy	139	10	1.62	0
Portugal	130	12	1.93	1
Ireland	32	-1	0.27	0
Germany	12	1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

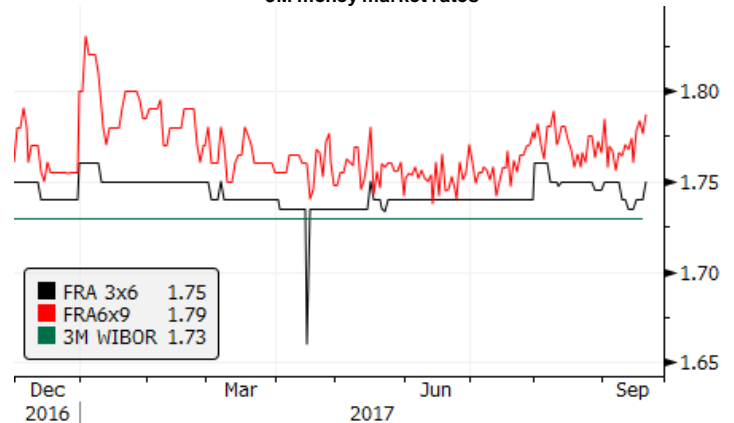
Zloty exchange rate



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	-	-1.7	-1.3
20:00	US	FOMC decision		%	1.00-1.25	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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