

EYEOPENER

3 October 2017

Polish PMI finally rebounded

- **Polish PMI rose sharply in September**
- **Situation in Catalonia negatively affecting market moods**
- **Zloty weaker despite positive signals from manufacturing**
- **Polish yields higher, German lower as risk aversion rose**
- **Today Czech GDP, market holiday in Germany**

Monday's PMI data for Poland and the euro zone contributed to the temporary debt weakening. Later in the day the debt strengthened yet the zloty remained weak. This was driven, inter alia, by heightened political tension in Spain.

After four months of disappointing readings, PMI for the Polish manufacturing finally started to make up for losses, given steadily improving indices for the euro zone and Germany. 53.7 points recorded in September is the highest result since April this year. It was December 2016 when such an uplift month on month was recorded the last time. The PMI report highlighted the fastest growth in new orders since February 2015, indicating at the same time the continuing problems with hiring staff. This clash of the strong demand with difficulties on the supply side triggered a clear price pressure in September. The finished goods price index showed the fastest rate of growth for more than six years. Following surprisingly high initial CPI readings on Friday, this is another signal of rising inflationary pressure which may influence the mind-set of the MPC debate this week. However, we do not think that the tone of the message should be significantly tightened, given the rise of inflation to 2.2% y/y, as it is not yet known which components fuelled that move.

Yesterday, Fitch raised Poland's GDP outlook for this year from 3.3% to 4%, while maintaining its forecast for the next two years at 3.2%. Two other rating agencies have already decided to do the same earlier - in July, S&P revised its GDP growth forecast for this year from 3.3% to 3.6%, whilst Moody's did it in early September, adjusting it from 3.2% to 4.3%. Thus the Fitch's action should not have a material impact on the market. The agency justifies the expected 2018 slowdown in GDP growth by four rate hikes next year and another two in 2019 (these are much more aggressive assumptions than the market's and our in-house view, especially that Fitch's inflation forecast is moderate, i.e. 2.3% in 2018 and 2019) and by the base effect. This publication did not include a decision on the credit rating for Poland – it was just a revision of the macroeconomic scenario. Another rating review is scheduled for December 8.

The yields on the core markets were increasing at the beginning of the week. Morning decreases of bond prices were fueled by solid PMIs in Asia, positive start of stock market session and expectations for the strong European PMIs. As a result, yields of UST and Bunds increased by 2-3bp on the belly and on the long end and by 1bp on the front end of the curves. Spanish bond yields increased substantially, fueled by the worries about the situation in Catalonia. In the afternoon the core bond markets strengthened and yields returned below the opening levels.

On the domestic bond market the yields were pulled up by higher than median forecast Polish PMI reading (close to the our forecast). As a consequence domestic yield curve shifted up by 3bp on the long end and 1bp on the front end. The IRS curve moved up slightly higher. In the second part of the day the long end and the middle part of the curve were going down, while the short end remained stable. The domestic yields and rates followed after Bunds, which were supported by the Catalonia crisis news.

Today we expect some increase of the domestic yields, amid lack of important data releases and rising of political tension in Europe. In our opinion in the coming days the market will be focused on the US labour market data, which may surprise on the positive side and push the long end of the yield curve up.

The week started with lower EURUSD, which slid to 1.1740 from 1.1820. The single currency was undermined by rising tension in Spain after the Sunday illegal referendum in Catalonia. In the morning, the euro was supported by positive Euro zone PMI, but this effect proved temporary. In the afternoon the greenback was boosted by robust US manufacturing ISM data and comments of EBC's Praet suggesting a slow tapering of QE.

The zloty was losing most of the time on Monday, in spite of the fact that the day started with a bullish PMI release. The daily change was however rather small – from 4.3130 to 4.32. In case of EURHUF we saw further increase to 312.2, the highest since May, while EURCZK dropped to 25.94, the lowest since 2013. The forint and the koruna also did not react to great PMI readings. USDRUB increased to 51.90 on lower oil prices and worse than expected PMI.

We think the zloty could remain stable in the first part of today's session and may gain in the afternoon amid no important data releases. Later in the week, Polish currency might be under pressure if the US labour market data surprise to the upside.

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FX market

Today's opening

| | | | |
|--------|--------|---------|--------|
| EURPLN | 4.3066 | CZKPLN | 0.1660 |
| USDPLN | 3.6749 | HUFPLN* | 1.3807 |
| EURUSD | 1.1719 | RUBPLN | 0.0634 |
| CHFPLN | 3.7624 | NOKPLN | 0.4592 |
| GBPPLN | 4.8741 | DKKPLN | 0.5787 |
| USDCNY | 6.6528 | SEKPLN | 0.4495 |

*for 100HUF

Last session in the FX market

02/10/2017

| | min | max | open | close | fixing |
|--------|-------|-------|-------|-------|--------|
| EURPLN | 4.299 | 4.322 | 4.313 | 4.320 | 4.3137 |
| USDPLN | 3.632 | 3.682 | 3.632 | 3.679 | 3.6726 |
| EURUSD | 1.173 | 1.182 | 1.182 | 1.174 | - |

Interest rate market

02/10/2017

T-bonds on the interbank market**

| Bond (term) | % | Change (bps) | Last auction | Paper offered | Average yield |
|--------------|------|--------------|--------------|---------------|---------------|
| OK0419 (2Y) | 1.73 | 0 | 23.03.2017 | OK0419 | 2.049 |
| PS0422 (5Y) | 2.67 | -1 | 23.03.2017 | PS0422 | 2.945 |
| DS0727 (10Y) | 3.35 | -1 | 23.03.2017 | DS0727 | 3.568 |

IRS on the interbank market**

| Term | PL | | US | | EZ | |
|------|------|--------------|------|--------------|-------|--------------|
| | % | Change (bps) | % | Change (bps) | % | Change (bps) |
| 1L | 1.80 | 0 | 1.57 | 1 | -0.26 | 0 |
| 2L | 1.99 | 1 | 1.75 | 2 | -0.17 | 0 |
| 3L | 2.15 | 1 | 1.86 | 3 | -0.04 | 0 |
| 4L | 2.31 | 1 | 1.94 | 2 | 0.10 | -1 |
| 5L | 2.45 | 1 | 2.02 | 2 | 0.24 | -1 |
| 8L | 2.77 | 0 | 2.20 | 2 | 0.67 | 0 |
| 10L | 2.94 | 0 | 2.30 | 2 | 0.91 | 0 |

WIBOR rates

| Term | % | Change (bps) |
|------|------|--------------|
| O/N | 1.62 | -4 |
| T/N | 1.62 | -5 |
| SW | 1.60 | -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 | 1.73 | 0 |
| 3x6 | 1.75 | 0 |
| 6x9 | 1.81 | 0 |
| 9x12 | 1.86 | -1 |
| 3x9 | 1.83 | -2 |
| 6x12 | 1.88 | -2 |

Measures of fiscal risk

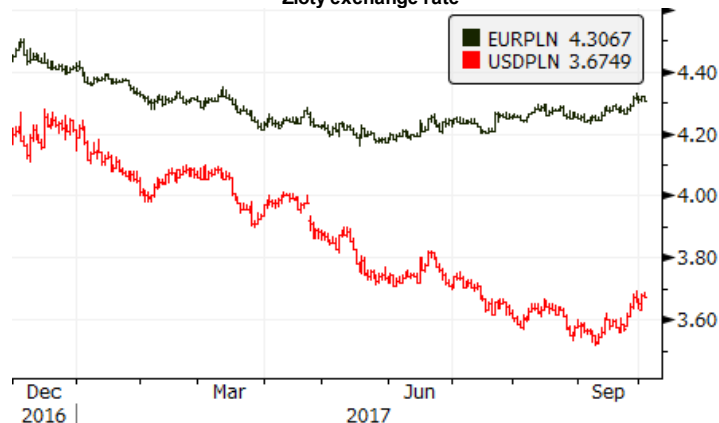
| Country | CDS 5Y USD | | 10Y spread* | |
|----------|------------|-----------------|-------------|-----------------|
| | Level | Change (bps) | Level | Change (bps) |
| Poland | 71 | -1 | 2.90 | -2 |
| France | 21 | 0 | 0.29 | 0 |
| Hungary | 116 | 1 | 2.15 | -2 |
| Spain | 68 | 4 | 1.24 | 0 |
| Italy | 141 | 3 | 1.70 | 0 |
| Portugal | 130 | 3 | 1.96 | 1 |
| Ireland | 32 | -1 | 0.27 | 0 |
| Germany | 13 | 1 | - | - |

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

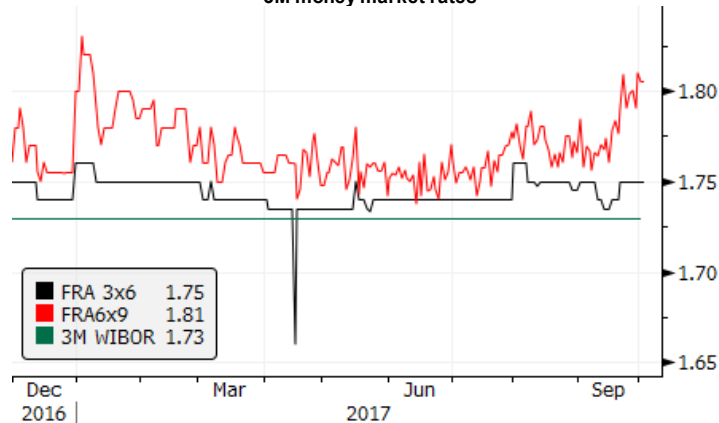
Zloty exchange rate



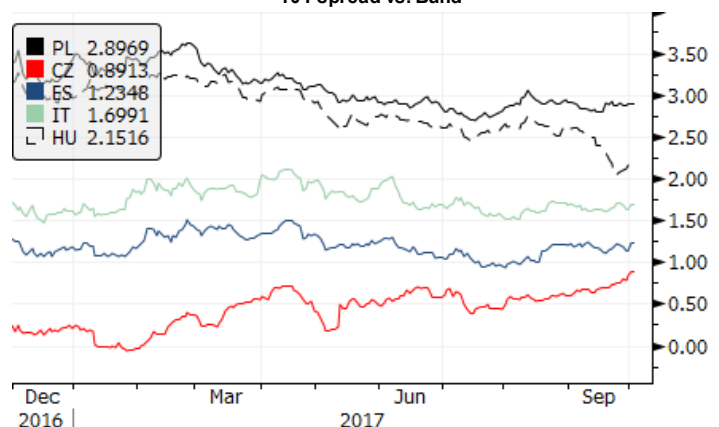
T-bonds yields



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 (29 September) | | | | | | | | |
| 11:00 | EZ | Flash CPI | Sep | % y/y | 1.6 | - | 1.5 | 1.5 |
| 14:00 | PL | Flash CPI | Sep | % y/y | 2.0 | 1.9 | 2.2 | 1.8 |
| 14:30 | US | Consumer spending | Aug | % m/m | 0.1 | - | 0.1 | 0.3 |
| 14:30 | US | Personal income | Aug | % m/m | 0.3 | - | 0.2 | 0.4 |
| 15:45 | US | Chicago PMI index | Sep | pts | 57.5 | - | 65.2 | 58.9 |
| 16:00 | US | Michigan index | Sep | pts | 95.2 | - | 95.1 | 95.3 |
| MONDAY (2 October) | | | | | | | | |
| 9:00 | PL | PMI – manufacturing | Sep | pts | 53.2 | 54.0 | 53.7 | 52.5 |
| 9:55 | DE | PMI – manufacturing | Sep | pts | 60.6 | - | 60.6 | 59.3 |
| 10:00 | EZ | PMI – manufacturing | Sep | pts | 58.2 | - | 58.1 | 57.4 |
| 16:00 | US | ISM – manufacturing | Sep | pts | 57.5 | - | 60.8 | 58.8 |
| TUESDAY (3 October) | | | | | | | | |
| 9:00 | CZ | GDP | Q2 | % y/y | 4.7 | - | | 3.0 |
| WEDNESDAY (4 October) | | | | | | | | |
| | PL | MPC decision | Oct | % | 1.50 | 1.50 | | 1.50 |
| 9:55 | DE | PMI – services | Sep | pts | 55.6 | - | | 53.5 |
| 10:00 | EZ | PMI – services | Sep | pts | 55.6 | - | | 54.7 |
| 11:00 | EZ | Retail sales | Aug | % m/m | 0.3 | - | | -0.3 |
| 14:15 | US | ADP report | Sep | k | 160 | - | | 237 |
| 16:00 | US | ISM – services | Sep | pts | 55.1 | - | | 55.3 |
| THURSDAY (5 October) | | | | | | | | |
| 14:30 | US | Initial jobless claims | week | k | - | - | | 260 |
| 16:00 | US | Industrial orders | Aug | % m/m | 0.7 | - | | -3.3 |
| FRIDAY (6 October) | | | | | | | | |
| 8:00 | DE | Industrial orders | Aug | % m/m | 0.7 | - | | -0.7 |
| 14:30 | US | Non-farm payrolls | Sep | k | 70 | - | | 156 |
| 14:30 | US | Unemployment rate | Sep | % | 4.4 | - | | 4.4 |

Source: BZ WBK, Reuters, Bloomberg

* in case of the revision the data is updated

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