

EYEOPENER

16 October 2017

Week of politics and central banks

- End of the week in positive moods, US data mostly below forecasts
- Zloty kept on gaining versus euro, strong koruna, forint losing under impact of deputy central bank governor comment
- Polish core inflation up to 1%
- Today Polish data on August current account

The end of the week on the global market saw a fairly good sentiment, both in the case of stocks and bonds. European stock indices grew along with core and peripheries' debt markets. The bond market was supported by stronger US data, where retail sales and inflation (incl. core) were only slightly below the forecasts, though at the end of the week they pushed down the yields. These readings also had a negative impact on the dollar. At the very end of the week, the indicative Michigan Consumer Sentiment Index was released, surprising on the upside though without any major impact on the market. On Sunday, Fed's Janet Yellen said that in her opinion low CPI readings will not be sustainable and inflation will increase next year, which justifies slow rates hikes.

The US President Donald Trump says he is ready to pull out of a deal freezing and reversing Iran's nuclear programme in a "short time" despite the fact that the International Atomic Energy Agency (IAEA) says that Tehran is abiding by the terms of the deal. Such a decision can heighten the assessment of the geopolitical risk.

EURUSD recorded a sharp increase to 1.187 from 1.180 in response to the US data. This movement was short-lived as at close of the Friday's session it slid to 1.180, being quoted slightly below this level today in the morning. There will be no releases of important data today so the exchange rate should remain quite stable.

EURPLN continued the downward move on Friday, breaching the local resistance at 4.26 and reaching 4.25. The currency was supported by the positive global market sentiment and a significant strengthening of Polish bonds. USDPLN has been stable near 3.60 for quite a long time, but finally dropped below 3.59 due to higher EURUSD. We think that after the EURPLN breached the support level, the door for further decline towards 4.23 is open. This week we will get to know important domestic data releases (in most cases our forecasts are above market consensus), which should be positive for the zloty. Last week confirmed that the EURUSD is currently an important factor affecting the EURPLN. This week several US data releases are scheduled, which may have important influence on the EURUSD rate.

Other currencies in the region also reacted positively to US data. USDRUB fell from 57.7 to 57.3. Forint also gained, but the EURHUF drop to 308 just trimmed losses incurred earlier during the session. The deputy president of the Hungarian central bank Marton Nagy said that the main interest rate could remain at 0.90% even until 2020. As a result EURHUF rebounded to c.309.5. EURCZK dropped temporarily below 25.8, setting the new week's low.

On the domestic interest rates market IRS rates and yields continued to decline, the yield as well as IRS curves decreased by 1-6bp, mainly on the long end. The Polish rates followed by core bonds markets, which gained fueled by lower than expected inflation reading from US. As a result Polish 10Y t-bonds surged to 3.30%, while IRS 10Y rates to 2.90%.

Ministry of Labour Elzbieta Rafalska said that 250k people have applied to retirement (as a consequences of lower retirement age). Public Pension Fund (ZUS) estimated that total of 330k people will apply, out of 410k entitled.

In September, the core inflation indices increased. CPI excluding food and energy prices rose to 1.0% y/y, the higher level since June 2014. However the inflation increase was mainly a result of base effect in health prices (introduction of the free medicine program for older people in September 2016) as well as an introduction of new clothing collections. Inflation excluding the most volatile prices climbed to 1.5% (the higher level since 2013), CPI excluding administrative prices to 2.3% y/y (second higher reading this year), while 15% trimmed mean to 1.9% y/y (the higher level since 2012). In the next months we expect a further inflation increase.

The current account for August data is scheduled to be released today at 2.00 pm. We expect that import and export rose by c14% y/y, in the fastest pace since this May, which means higher level of Polish economy activity in August. The Germany export, industrial production and new orders surprised on the positive side, which is a good predictor of Polish international trade. The Central Statistical Office trade data suggest some chance for the trade surplus.

This week will be full of domestic data releases that may verify expectations regarding Polish economic growth in 3Q17. We have just revised up our GDP forecast to 4.3% y/y in 3Q and 4.4% in 4Q and we hope to see the data that would confirm such an optimistic picture – industrial production rising 6.1% y/y, construction output by 16.6% y/y and retail sales growth at 6.8% y/y. The growth rates will be slightly weaker than in August, yet mainly due to working days effect.

More important than data releases may be comments of central bankers and political events abroad. The EU leaders' summit is scheduled for Thursday-Friday while on Wednesday the 19th National Congress of the Communist Party of China will start. Investors will be also watching the situation in Spain and in the UK, as well as the progress in work on US tax reform.

On Friday evening the S&P rating agency will update Poland's rating. We do not expect to see any change in the rating or outlook as the improvement in economic and fiscal outlook should be outweighed by the agency's concerns about institutional changes in Poland.

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FX market

Today's opening

EURPLN	4.2522	CZKPLN	0.1647
USDPLN	3.6059	HUFPLN*	1.3780
EURUSD	1.1792	RUBPLN	0.0631
CHFPLN	3.6941	NOKPLN	0.4563
GBPPLN	4.7909	DKKPLN	0.5713
USDCNY	6.5801	SEKPLN	0.4434

*for 100HUF

Last session in the FX market

13/10/2017

	min	max	open	close	fixing
EURPLN	4.245	4.272	4.269	4.246	4.2603
USDPLN	3.578	3.611	3.607	3.592	3.601
EURUSD	1.181	1.188	1.184	1.182	-

Interest rate market

13/10/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.68	-3	09.06.2017	OK0419	1.859
PS0422 (5Y)	2.67	-1	09.06.2017	PS0422	2.587
DS0727 (10Y)	3.30	-6	09.06.2017	DS0727	3.128

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.80	0	1.59	-1	-0.26	0
2L	1.97	-2	1.76	-2	-0.18	-1
3L	2.11	-3	1.85	-3	-0.06	-2
4L	2.26	-5	1.92	-4	0.07	-2
5L	2.42	-4	1.98	-4	0.21	-3
8L	2.73	-5	2.15	-5	0.62	-3
10L	2.88	-5	2.24	-5	0.86	-3

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	1.76	0
6x9	1.80	1
9x12	1.86	0
3x9	1.83	0
6x12	1.88	-1

Measures of fiscal risk

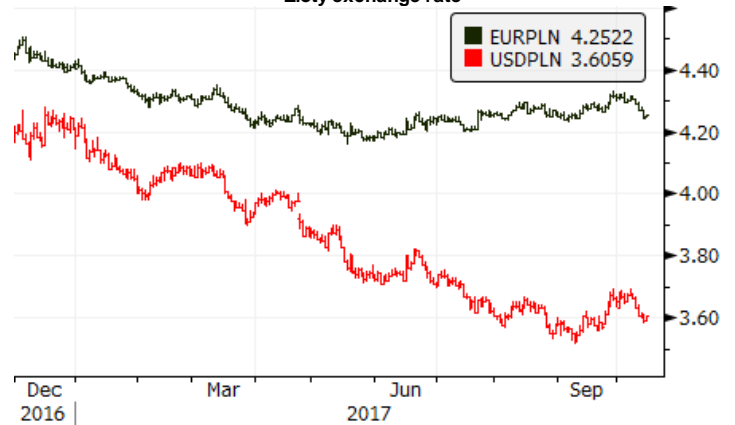
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.89	-7
France	21	0	0.42	1
Hungary	116	1	2.14	-1
Spain	68	0	1.20	-1
Italy	138	0	1.67	0
Portugal	125	5	1.91	-1
Ireland	32	-1	0.23	0
Germany	11	-1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

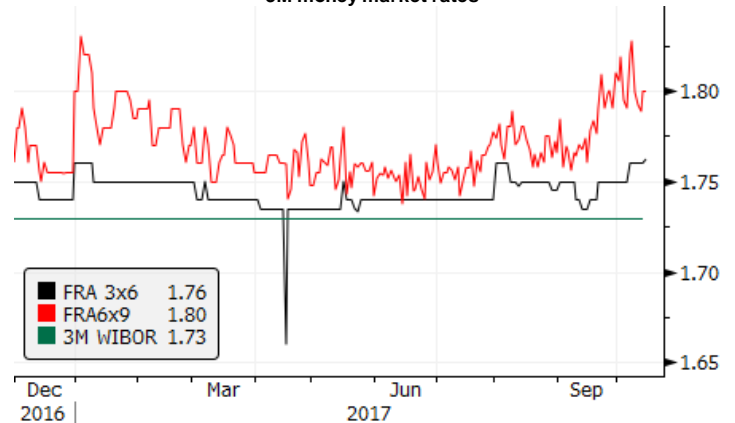
Zloty exchange rate



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 (13 October)							
14:00	PL	Core inflation	Sep	% y/y	0.9	0.9**	0.7
14:30	US	CPI	Sep	% m/m	0.6	-	0.4
14:30	US	Retail sales	Sep	% m/m	1.7	-	-0.2
16:00	US	Flash Michigan	Oct	pts	95.0	-	95.1
MONDAY (16 October)							
14:00	PL	Current account	Aug	€m	-651	-1008.7	-878
14:00	PL	Exports	Aug	€m	15 512	15 891	14 939
14:00	PL	Imports	Aug	€m	15 920	16 325	15 486
TUESDAY (17 October)							
11:00	EZ	CPI	Aug	% y/y	1.5	-	1.5
11:00	DE	ZEW index	Sep	pts	86.8	-	87.9
14:00	PL	Wages in corporate sector	Aug	% y/y	5.7	5.9	6.6
14:00	PL	Employment in corporate sector	Aug	% y/y	4.6	4.6	4.6
15:15	US	Industrial output	Aug	% m/m	0.3	-	-0.9
WEDNESDAY (18 October)							
14:00	PL	Industrial output	Aug	% y/y	5.1	6.1	8.8
14:00	PL	Construction and assembly output	Aug	% y/y	18.1	16.6	23.5
14:00	PL	Real Retail sales	Aug	% y/y	6.8	7.6	6.9
14:00	PL	PPI	Aug	% y/y	3.1	3.1	3.0
14:30	US	Housing starts	Aug	% m/m	0.0	-	-0.8
14:30	US	Building permits	Aug	% m/m	5.7	-	3.4
20:00	US	Beige Book					
THURSDAY (19 October)							
14:00	PL	MPC minutes					
14:30	US	Index Philly Fed	Sep	pts	20.3	-	23.8
14:30	US	Initial jobless claims	week	k	-	-	243
FRIDAY (20 October)							
Polish rating review by S&P							
14:30	US	Home sales	Sep	% m/m	-0.9	-	-1.7

Source: BZ WBK, Reuters, Bloomberg

* in case of the revision the data is updated

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