

EYEOPENER

17 October 2017

Current account deficit lower than expected

- C/A deficit below expectations in August
- Positive Polish data supported the zloty, EURUSD stable
- Further decline of yields globally
- Today Polish data on labour market, industrial output in the US, Euro zone inflation

Today Polish labour market data are to be released. We expect a wage growth of 5.9% y/y (slightly less than consensus) and employment going up by 4.7% y/y (this is a bit more than the market expects). What is more, we think German ZEW and US industrial output will be neutral for the domestic assets. In our view Polish assets will appreciate somewhat today.

The quarterly NBP business climate survey indicated that the lack of staff is becoming a real issue, driving up the labour costs. More often than a quarter ago, enterprises pointed to raw material costs as a growth barrier. Moreover, the survey disclosed a real decline in the labour productivity of services ex trade and manufacturing, which is deemed to be triggered by problems in finding qualified staff. A surprising release is the weakness of foreign demand. The percentage of companies that recorded a y/y increase in foreign sales declined significantly in Q3, from c63% to 55%. The share of companies admitting they have recently raised prices has stayed flat at c20% and the report states that companies find it difficult to reflect the growing production costs in their prices given the strong competition. As for investments, H2 has not brought yet any strong revival signals across the enterprise segment, though the report notes very high dynamics of imported machinery and equipment purchases along with a surge in purchases of imported vehicles as compared to the a minor y/y decline in domestic outlays on fixed assets.

MPC member Eryk Łon once again mentioned a possibility of interest rate cut in Poland in case of a downturn on the US stock exchange, which has become more likely in his view. He also said that a regular mentioning about a possibility of a rate cut should be the duty of the central bank regardless of the current business climate, as it would give the economic agents more security. Łon's earlier comments allowed investors to categorise him as an extreme dove, who does not represent the majority in the Council, so his yesterday's statements did not affect the zloty nor bonds.

The current account deficit in August proved to be much lower than expected and reached €100m vs. market consensus at €660mn and our forecast of €602mn. The reason for the surprise was a disappointment in imports, which slowed from 12.8% y/y to 7.6% y/y amid consensus at 11% y/y and average growth in January-July at 14% y/y. Export growth was solid at 12.3% y/y, similar to July. Exports rose faster than imports on the y/y basis, for the first time since September 2016. The weak import result is likely only a temporary phenomenon, if we take into account the strong private consumption and the expected

increase in investment activity. The data supported our forecast that GDP growth was stronger than 4% y/y in Q3.

On Monday the US bonds lost at the short end and the belly of the yield curve (yields increased by 1-2bp) with long-end remaining stable. In the case of German Bunds, yields were falling throughout the day in response to the election results in Austria and slightly worse than expected foreign trade data in the Euro zone. As a result, the German yield curve witnessed 2-3bp slide across its length.

The domestic market continued to witness yield declines. This was fuelled by falling yields in the Euro zone and the surprisingly good data on the current account deficit. As a result, there was 2-3bps slide across the curve. The downward shift of the yield curve was more pronounced than that of the IRS curve which decreased by 1bp. As a result, asset swap spreads narrowed to the levels witnessed last autumn 2015 (5-10Y) and at the turn of 2012 (2Y). In our opinion, such a strong reduction in ASW is in part a follow up of reaction to current data and in part a consequence of expectations for buyouts at the end of October and the expected low supply of securities by the end of the year.

Today we expect that a moderate pressure on bond yields will continue. It might be withheld by the good news from the domestic labour market and the potential rebound after the yesterday's decline in German bunds. In our opinion, next week's Treasury securities buyouts (ca. PLN 13bn) will continue to support domestic debt.

EURUSD stayed in the narrow range 1.1780-1.1810, ignoring the data releases and political tension in Europe. Today we expect some correction and a small decrease of EURUSD.

On Monday EURPLN was decreasing, positively reacting to the strong Polish current account reading. As a result, EURPLN shifted down to 4.23, from 4.2520, to the level last time seen in mid-July. The rest of CEE currencies slightly appreciated during the day (EURCZK reached the lowest level since the start of CNB interventions, while EURHUF touched the monthly low) and returned to the morning levels late evening. USDRUB stayed in a narrow range. Today we expect a modest decrease in the EURPLN, which will be fuelled by positive moods in the region.

Deputy PM Mateusz Morawiecki said yesterday that this year the budget deficit will reach slightly above PLN30bn and the deficit of the public sector c.PLN50bn, i.e. nearly 2.5% of GDP – similarly as in the two previous years. According to Dziennik Gazeta Prawna daily the state budget was still in surplus after September. In our view, it was the last month with a budget surplus this year.

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FX market

Today's opening

EURPLN	4.2362	CZKPLN	0.1642
USDPLN	3.6021	HUFPLN*	1.3753
EURUSD	1.1760	RUBPLN	0.0628
CHFPLN	3.6801	NOKPLN	0.4542
GBPPLN	4.7697	DKKPLN	0.5691
USDCNY	6.6157	SEKPLN	0.4428

*for 100HUF

Last session in the FX market

16/10/2017

	min	max	open	close	fixing
EURPLN	4.230	4.254	4.253	4.234	4.2449
USDPLN	3.580	3.608	3.593	3.585	3.6004
EURUSD	1.178	1.183	1.183	1.181	-

Interest rate market

16/10/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.67	-1	09.06.2017	OK0419	1.859
PS0422 (5Y)	2.62	-5	09.06.2017	PS0422	2.587
DS0727 (10Y)	3.27	-3	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	1.60	1	-0.26	0
2L	1.97	0	1.78	2	-0.19	-1
3L	2.10	-1	1.88	2	-0.08	-1
4L	2.25	0	1.95	3	0.05	-2
5L	2.41	-1	2.01	2	0.19	-1
8L	2.71	-2	2.17	2	0.60	-3
10L	2.87	-1	2.25	1	0.84	-3

WIBOR rates

Term	%	Change (bps)
O/N	1.63	4
T/N	1.63	4
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	0
9x12	1.86	0
3x9	1.83	0
6x12	1.88	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.89	-4
France	20	0	0.41	-1
Hungary	116	1	2.14	-1
Spain	70	1	1.18	-1
Italy	140	1	1.65	-1
Portugal	126	2	1.94	0
Ireland	32	-1	0.22	-1
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

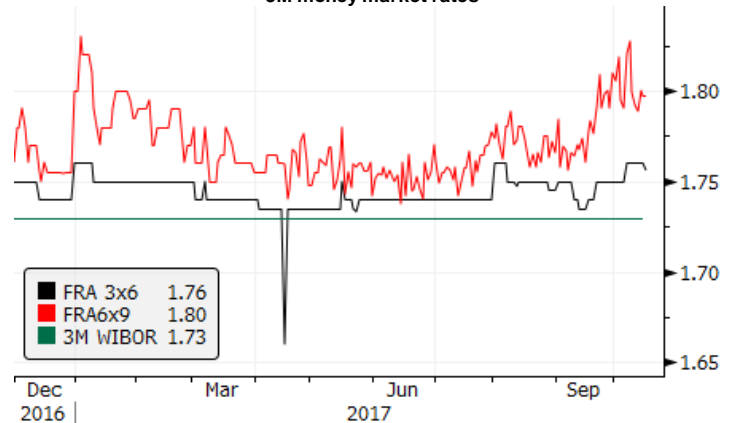
Zloty exchange rate



T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar								
TIME 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	-602	-100	-878
14:00	PL	Exports	Aug	€m	15 512	15 891	15 682	14 939
14:00	PL	Imports	Aug	€m	15 920	16 325	15 384	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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