

EYEOPENER

18 October 2017

Today data on output

- Party congress started in China
- Market speculating about new Fed chair
- Wage pressure in Poland still strong
- EURPLN stable amid falling EURUSD
- Polish debt lost slightly
- Today Polish data on retail sales and industrial output, US housing market

Today we will get to see domestic industrial output and retail sales data for September. We expect to see output growing 6.1% y/y (slightly above the consensus) and 6.8% y/y growth in case of retail sales (in line with the consensus). We think consumer spending remained strong in September with the help of earlier-than-last-year purchases of winter-fall clothes collection (this factor pushed up core CPI in September). With increasing impression that labour shortages have to eventually take their toll on industrial and building sector performance we expect the September output data to stay quite strong even with the working days handicap.

Housing data from the USA should in our view be market neutral. We think the zloty might appreciate somewhat today accompanied by a marginal rise of yields on the long end of the curve.

Average wages in the corporate sector rose 6.0% y/y in September, versus 6.6% y/y in August. The result was roughly consistent with our forecast (5.9% y/y) and market consensus (6.2%). In our view, the slowdown was caused mainly by the less positive calendar effect (one working day less than last year) and by the lower pay rise in mining, which has been very volatile in recent months. Overall, wage growth remains decent and, in our view, it should keep accelerating in the coming quarters. Employment increased by 4.5% y/y and 5.2k m/m, which is a bit less than we and the market expected (4.6% y/y). Despite this marginally negative surprise, the path of employment this year is similar to 2016 and is quite good. In September, the enterprise sector wage bill rose by 8.5% y/y in real terms. The fast households income growth will support strong consumption growth in 2H17 and our strong GDP growth forecasts (above 4.0% y/y).

On Tuesday the bond yield curve rose marginally, mainly on the front end of the curve, as investors were speculating that the new Fed chair will be more hawkish than Janet Yellen. The upward move was not very significant, due to the commodities prices decrease (negatively affected by interest rates hike perspectives). On the German bonds market we observed small yields decreases on the long end of the curve owing to weaker than expected ZEW

index reading. On the US and German markets the shift scale didn't exceed 1bp scale.

The marginal decrease of Polish T-bond yield was a reaction to domestic labour data release for September. The upward move of yields was not very significant (like on the US market) and didn't exceed 1bp (on the long end of the curve). The IRS rates followed a similar path. A potential for a more marked move was still limited by the upcoming principal repayments scheduled for the next week as well as limited supply of bonds.

Today we expect the yield curve could move up slightly again with the Polish data on industrial output and retail sales being the main driver for the market. However, we think that the long end might be particularly sensitive to these releases and the short end will stay strong amid high demand for short-term bonds.

EURUSD was on the downside for the better part of the yesterday's session. Only in the afternoon the exchange rate rebounded when the market stopped to talk that a more hawkish candidate could replace Janet Yellen as a Fed governor. On daily basis the dollar gained and EURUSD fell to 1.177 from 1.181.

On Tuesday the zloty remained fairly stable vs the euro. Solid Polish labour market data provided only temporary support for the zloty but the attempt to break 4.22 was not successful. USDPLN was rising amid dollar's appreciation vs the euro but the exchange rate rose by no more than PLN0.02.

Other CEE currencies appreciated as the dollar was strengthening. EURHUF fell temporarily to its fresh October low at 307.2 as Hungarian construction data boosted the forint. EURCZK reached 25.7, its lowest level since the Czech central bank started its FX interventions despite looming parliamentary elections. USDRUB rose marginally at the end of the day amid temporary drop of oil price but the exchange rate stayed near 57.3, its two-month low. The ruble did not hit by market talking about next rates cuts in Russia and the rebound of oil prices supported the Russian currency.

Today we expect the zloty to gain slightly vs the euro which could be triggered by Polish industrial output and retail sales data. No important releases on the global market should also be positive for the zloty.

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FX market

Today's opening

| | | | |
|--------|--------|---------|--------|
| EURPLN | 4.2324 | CZKPLN | 0.1645 |
| USDPLN | 3.5973 | HUFPLN* | 1.3736 |
| EURUSD | 1.1765 | RUBPLN | 0.0628 |
| CHFPLN | 3.6751 | NOKPLN | 0.4530 |
| GBPPLN | 4.7397 | DKKPLN | 0.5686 |
| USDCNY | 6.6215 | SEKPLN | 0.4412 |

*for 100HUF

Last session in the FX market

17/10/2017

| | min | max | open | close | fixing |
|--------|-------|-------|-------|-------|--------|
| EURPLN | 4.221 | 4.239 | 4.234 | 4.234 | 4.2313 |
| USDPLN | 3.581 | 3.607 | 3.585 | 3.605 | 3.5964 |
| EURUSD | 1.174 | 1.181 | 1.181 | 1.175 | - |

Interest rate market

17/10/2017

T-bonds on the interbank market**

| Bond (term) | % | Change (bps) | Last auction | Paper offered | Average yield |
|--------------|------|--------------|--------------|---------------|---------------|
| OK0419 (2Y) | 1.68 | 1 | 09.06.2017 | OK0419 | 1.859 |
| PS0422 (5Y) | 2.64 | 0 | 09.06.2017 | PS0422 | 2.587 |
| DS0727 (10Y) | 3.28 | 0 | 09.06.2017 | DS0727 | 3.128 |

IRS on the interbank market**

| Term | PL | | US | | EZ | |
|------|------|--------------|------|--------------|-------|--------------|
| | % | Change (bps) | % | Change (bps) | % | Change (bps) |
| 1L | 1.79 | 0 | 1.62 | 1 | -0.26 | 0 |
| 2L | 1.97 | 0 | 1.80 | 3 | -0.19 | 0 |
| 3L | 2.11 | 1 | 1.91 | 4 | -0.07 | 0 |
| 4L | 2.27 | 2 | 1.99 | 4 | 0.06 | 0 |
| 5L | 2.42 | 1 | 2.05 | 4 | 0.20 | 0 |
| 8L | 2.73 | 2 | 2.20 | 3 | 0.59 | -1 |
| 10L | 2.88 | 1 | 2.30 | 5 | 0.83 | -1 |

WIBOR rates

| Term | % | Change (bps) |
|------|------|--------------|
| O/N | 1.77 | 14 |
| T/N | 1.76 | 13 |
| SW | 1.62 | 2 |
| 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 | 1.79 | 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 | 2.92 | 0 |
| France | 21 | 0 | 0.41 | 0 |
| Hungary | 116 | 1 | 2.15 | 0 |
| Spain | 69 | 0 | 1.18 | 0 |
| Italy | 139 | -1 | 1.63 | 0 |
| Portugal | 125 | -1 | 1.94 | 0 |
| Ireland | 32 | -1 | 0.23 | 0 |
| 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

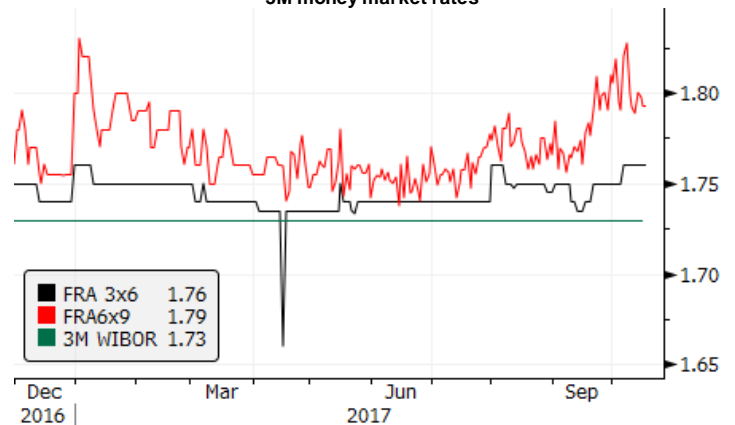
Zloty exchange rate



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 | 1.5 |
| 11:00 | DE | ZEW index | Sep | pts | 88.5 | - | 87.0 | 87.9 |
| 14:00 | PL | Wages in corporate sector | Aug | % y/y | 5.7 | 5.9 | 6.0 | 6.6 |
| 14:00 | PL | Employment in corporate sector | Aug | % y/y | 4.6 | 4.6 | 4.5 | 4.6 |
| 15:15 | US | Industrial output | Aug | % m/m | 0.3 | - | 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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