

EYEOPENER

31 October 2017

Flash October CPI reading is expected to be lower

- A quiet start to the week on the global market
- Zloty stays unchanged, EURUSD close 1.16
- Domestic and core market yields decreased slightly
- Today: domestic flash CPI for October, auction schedule for November, US Conference Board Consumer confidence index

The beginning of the week on the global market did not bring about any major changes in the currency or stock markets, but the bonds gained slightly. The US data on personal income and consumer spending were close to expectations and did not trigger any clear response from investors awaiting the outcome of Wednesday's FOMC meeting, President Trump's decision on the new Fed's chair and the Friday labour market report. Yesterday, there were signals from the White House suggesting that the President could pick the name of the new Fed's chair nominee this Thursday.

EURUSD stabilised yesterday after strong falls on Thursday and Friday in response to the ECB decision and during the day it oscillated close to 1.16. Today, only the US consumer sentiment index for October will be released, so the day before the outcome of the FOMC meeting we do not expect any strong market response. In our opinion, the potential announcement of Janet Yellen successor as Fed's chair by Donald Trump already this week might be more important than the outcome of the US central bankers' meeting. Last week the EURUSD broke the lower end of the 1.166-1.188 band, which in our opinion opens the way for further falls down to 1.15 in the upcoming weeks.

EURPLN and USDPLN did not change much yesterday, and stuck close to 4.245 and 3.65 respectively. The other CEE currencies were also quite stable, with the forint, losing vs. the euro, being the only exception. We assume that EURPLN will be stable today. In the horizon of this week we expect a nomination of the next US Federal Reserve head. Friday Non-Farm Payrolls data in the US may also be important for the valuation of the zloty.

On the domestic interest rate market we had noticeable intraday changes. In the first part of the session IRS rates and

bond yields declined visibly, but in the end the first session of this week closed at similar levels to Friday. The domestic debt performed worse than core market bonds and Euro zone peripheral debt. Today the Ministry of Finance publishes the supply schedule for November and data on the structure holders of PLN-denominated government debt. We think that the announcement of planned amounts to be seen at auctions in November should not have a lasting effect on the pricing of Polish bonds. The upcoming naming by US president Donald Trump of the successor of Janet Yellen and the Friday date about the US labour market may have a higher impact on Polish debt.

Key According to Polish Press Agency, after September central budget recorded a PLN3bn surplus. After August, there was a PLN4.9bn surplus.

Today at 14:00CET Poland flash October CPI will be released. Inflation unexpectedly reached 2.2% y/y in September and it now looks much more likely than a month ago that the 2.5% target might be reached somewhere in the middle of 2018. We expect the flash CPI reading for October will show 2.1% y/y. On one hand, further aggressive price hikes in some narrow food categories continue – eggs (c5% m/m) and tomatoes in October while butter, which boosted last three readings, saw a c3% m/m rise of price. On the other hand c0.06% of September CPI came from earlier shopping for warm clothes and shoes and this effect needs to be deducted from October's print.

Yesterday the government approved a draft of the bill that cancels the limit on tax base for charging pension contributions, currently equal to 30 monthly average pays. According to the government's estimates, this should bring additional PLN5.5bn in the first year after implementation. The bill is expected to come into force in 2018.

China PMI released by the government agency fell in October to 51.6pts from 52.4pts (this year's high) and vs consensus at 52.0pts. Relatively low readings for the Chinese manufacturing could be the result of recently introduced measures limiting the activity of sectors that have a particularly high negative impact on environment and tightening of credit growth. Still, these data do not impair the outlook for Chinese GDP growth at 6.5% this year.

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FX market

Today's opening

EURPLN	4.2420	CZKPLN	0.1653
USDPLN	3.6437	HUFPLN*	1.3633
EURUSD	1.1641	RUBPLN	0.0627
CHFPLN	3.6585	NOKPLN	0.4459
GBPPLN	4.8154	DKKPLN	0.5700
USDCNY	6.6295	SEKPLN	0.4361

*for 100HUF

Last session in the FX market 30/10/2017

	min	max	open	close	fixing
EURPLN	4.239	4.250	4.248	4.249	4.2403
USDPLN	3.641	3.665	3.660	3.654	3.643
EURUSD	1.159	1.165	1.160	1.163	-

Interest rate market 30/10/2017**T-bonds on the interbank market****

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.59	-1	09.06.2017	OK0419	1.859
PS0422 (5Y)	2.64	-1	09.06.2017	PS0422	2.587
DS0727 (10Y)	3.43	-1	09.06.2017	DS0727	3.128

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.81	1	1.63	-1	-0.27	0
2L	2.03	1	1.81	-2	-0.20	0
3L	2.21	0	1.92	-3	-0.08	0
4L	2.37	0	2.01	-4	0.06	0
5L	2.52	0	2.08	-4	0.20	-1
8L	2.84	1	2.26	-5	0.61	-2
10L	3.00	1	2.35	-5	0.85	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.53	24
T/N	1.49	-4
SW	1.59	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	1.83	2
9x12	1.91	-1
3x9	1.83	0
6x12	1.90	-1

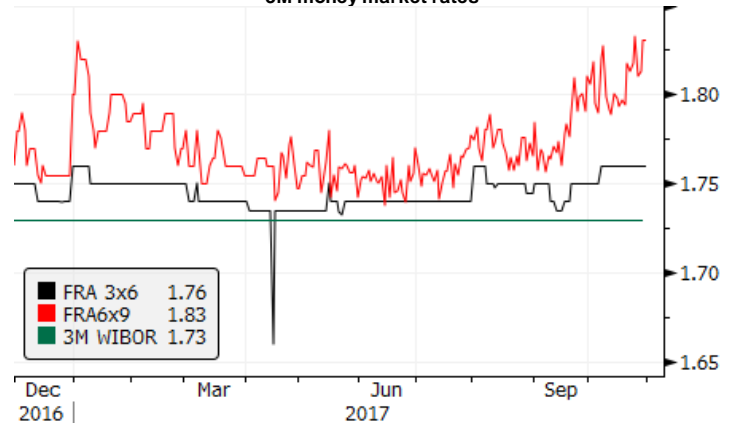
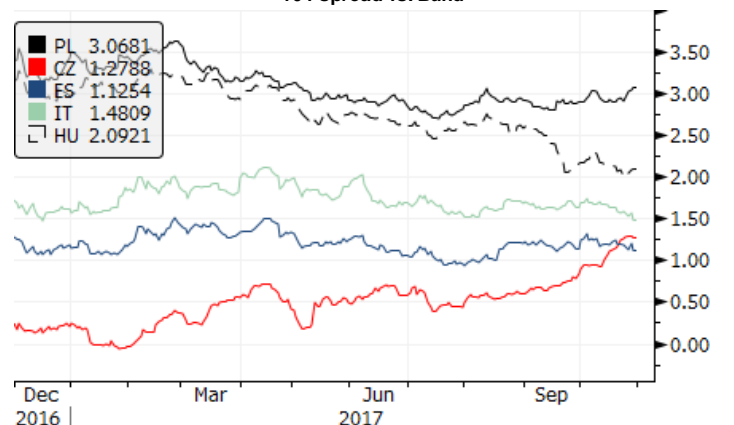
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	3.07	0
France	20	-1	0.40	0
Hungary	116	1	2.10	1
Spain	67	-3	1.11	-1
Italy	126	-4	1.48	0
Portugal	119	0	1.71	1
Ireland	32	-1	0.21	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 (27 October)								
14:30	US	Advance GDP	Q3	q/q	2.6	-	3.0	3.1
16:00	US	Michigan index	Oct	pts	100.7	-	100.7	95.1
MONDAY (30 October)								
13:30	US	Personal income	Sep	% m/m	0.4	-	0.4	0.2
13:30	US	Consumer spending	Sep	% m/m	0.8	-	1.0	0.1
TUESDAY (31 October)								
11:00	EZ	Flash GDP	Q3	% y/y	2.4	-		2.3
11:00	EZ	Flash CPI	Oct	% y/y	1.5	-		1.5
14:00	PL	Flash CPI	Oct	% y/y	2.1	2.1		2.2
15:00	US	Consumer confidence index	Oct	pts	121.0	-		119.8
WEDNESDAY (1 November)								
	PL	Market holiday						
2:45	CN	PMI – manufacturing	Oct	pts	51.0	-		51.0
13:15	US	ADP report	Oct	k	190	-		135
15:00	US	ISM – manufacturing	Oct	pts	59.1	-		60.8
19:00	US	FOMC decision		%	1.0-1.25	-		1.0-1.25
THURSDAY (2 November)								
9:00	PL	PMI – manufacturing	Oct	pts	54.0	54.4		53.7
9:55	DE	PMI – manufacturing	Oct	pts	60.5	-		60.6
10:00	EZ	PMI – manufacturing	Oct	pts	58.6	-		58.1
13:00	CZ	Central bank decision		%	0.50	0.50		0.25
13:30	US	Initial jobless claims	week	k	-	-		233
FRIDAY (3 November)								
13:30	US	Non-farm payrolls	Oct	k	310	-		-33
13:30	US	Unemployment rate	Oct	%	4.2	-		4.2
15:00	US	ISM – services	Oct	pts	58.0	-		59.8
15:00	US	Industrial orders	Sep	% m/m	1.0	-		1.2

Source: BZ WBK, Reuters, Bloomberg

* in case of the revision the data is updated

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