

EYEOPENER

2 November 2017

Fed confirms path of hikes

- **PLN 3.8bn budget surplus in January-September**
- **Debt and zloty stable**
- **One regular debt auction in November**
- **Powell is likely to new Fed chairman, FOMC confirms the path of hikes**
- **Today: Manufacturing PMI, Czech central bank decision**

Tuesday's session did not bring any significant changes. Stock rose slightly while bond yields and exchange rates remained fairly stable. Better-than-expected US data did not trigger any market reaction as investors were waiting for the outcome of the FOMC meeting. Also, the perspective of closed markets on Wednesday in some European countries limited investors activity.

On Wednesday the FOMC left interest rates unchanged. According to the Federal Reserve, the US economy is growing at a solid rate despite hurricanes. The Fed expects inflation to stay below its 2% target in the medium-term. The statement underlined that normalization of the balance sheet is in progress and that next rate hike this year is likely. The Wall Street Journal cited sources close to the White House saying that Jerome Powell will be nominated for the next Fed governor. This decision is expected to be announced today later in the day.

EURUSD stayed near 1.164 on Tuesday and is close to this level today in the morning.

EURPLN and USDPOLN stayed stable on Tuesday at 4.425 and 3.65, respectively. The other CEE currencies lost slightly. Today in the morning EURPLN is close to 4.23.

On the domestic interest rate market IRS and bond yields did not change much on Tuesday, foreign markets were pretty stable as well.

October PMI reading (53.4 pts) came below market expectations (54 pts) and our forecast (54.4 pts), but the report stresses further positive developments when it comes to new orders and the job creation index was the strongest since May. It seems that some of the pressure generated by continued strong demand goes to price increases and producers are now less hesitant about transferring higher costs to output prices. The Polish index did not narrow the gap to German and Euro zone counterparts, but it suggests that the economy maintained the momentum and will be able to post a 4%/y+ growth in 4Q.

According to data released by the Ministry of Finance, in September the nominal value of Polish PLN marketable bonds held by nonresidents fell by PLN3.5bn to PLN205.1bn, its lowest since March. This was already third month of foreign investors selling

domestic debt. Hard to figure out which group contributed most to this outflow as the biggest negative change was recorded for omnibus accounts. Foreign commercial banks purchased Polish debt for PLN22.2bn. Under the geographical criteria, the biggest selling was recorded in entities from the euro zone – monthly outflow of PLN3.7bn was the biggest since April 2016 (- PLN7.2bn). On the other hand, investors from Asia (excluding Middle East) purchased bonds for PLN3.9bn which was the biggest monthly buying since the comparable data is available. Domestic investors bought bonds for PLN3.9bn, which was mainly owing to commercial banks and mutual funds purchasing PLN2.5bn each. "Others" sold debt for PLN1.3bn.

Polish consumer prices grew 2.1% y/y in October, according to a flash estimate of the Stats office. vs 2.2% in September, in line with market consensus. The m/m measure of inflation in October beat forecasts (0.5% vs. 0.4% market median and our estimate). In our view food prices were still a strong contributor to CPI with reports of several food products (eggs, tomatoes, butter) quickly getting more expensive. We do not think this reading could cause a change of stance of the MPC as a whole, but the fact that inflation is now moving above 2%, and a touch/breach of the 2.5% target in the coming quarters looks likely serve as arguments for the hawkish wing of the Council rather than for the dovish members gathered around the governor Adam Glapinski.

Polish central budget remained in surplus after September. The surplus decreased from PLN4.9bn to PLN3.8bn but the release is still a big positive surprise. The year-to-date deficit was PLN32.6bn better than planned already after August and this difference only increased to PLN35.6bn after September. Theoretically, the central budget position is expected to worsen by PLN27bn in the course of 4Q according to the MinFin schedule - suggesting a full-year result of cPLN-23bn, but recent comments from the ministry point to around PLN30bn deficit. The sound fiscal position has already prompted an amendment to the 2017 budget law (now worked on in the parliament) to allow for more expenditures on one-off payments to miners and healthcare and there are reports in the local press that another amendment is coming. Apart from that the ministry may increase the scale of VAT refunds in the final months of this year, like it did in late 2016, to relieve 2018 budget of these expenditures at the cost of this year's budget.

Ministry of finance (MF) announced one regular debt auction (23-Nov-17) and one switch tender in November (09-Nov-17). On the regular tender Ministry decided to offer PLN4-8bn bonds (fix - OK0720, PS0123, DS0727 and float- WZ1122, WZ0528). In our opinion the shortest OK0720 bond will likely be minority of planned supply due to the maturity extension plan, declared in debt strategy.

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FX market

Today's opening

EURPLN	4.2316	CZKPLN	0.1656
USDPLN	3.6357	HUFPLN*	1.3632
EURUSD	1.1639	RUBPLN	0.0626
CHFPLN	3.6375	NOKPLN	0.4458
GBPPLN	4.8208	DKKPLN	0.5686
USDCNY	6.6073	SEKPLN	0.4331

*for 100HUF

Last session in the FX market

01/11/2017

	min	max	open	close	fixing
EURPLN	4.231	4.242	4.241	4.236	4.2498
USDPLN	3.634	3.649	3.641	3.644	3.6529
EURUSD	1.161	1.166	1.165	1.163	-

Interest rate market

01/11/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.60	0	09.06.2017	OK0419	1.859
PS0422 (5Y)	2.68	3	09.06.2017	PS0422	2.587
DS0727 (10Y)	3.46	3	09.06.2017	DS0727	3.128

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.82	0	1.65	1	-0.26	0
2L	2.05	0	1.82	1	-0.20	0
3L	2.23	1	1.93	0	-0.08	0
4L	2.40	1	2.01	0	0.06	1
5L	2.54	1	2.08	0	0.20	2
8L	2.86	1	2.25	-1	0.62	2
10L	3.02	1	2.33	-1	0.85	1

WIBOR rates

Term	%	Change (bps)
O/N	1.51	-2
T/N	1.55	6
SW	1.59	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	1.82	-1
9x12	1.92	0
3x9	1.84	0
6x12	1.90	0

Measures of fiscal risk

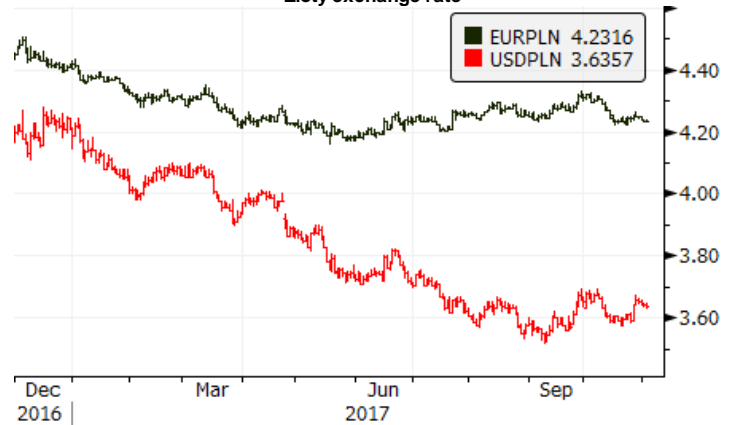
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	3.08	1
France	18	-2	0.39	0
Hungary	116	1	2.09	-2
Spain	63	-3	1.09	-1
Italy	119	-6	1.42	-1
Portugal	115	-4	1.70	-2
Ireland	32	-1	0.21	0
Germany	9	-2	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

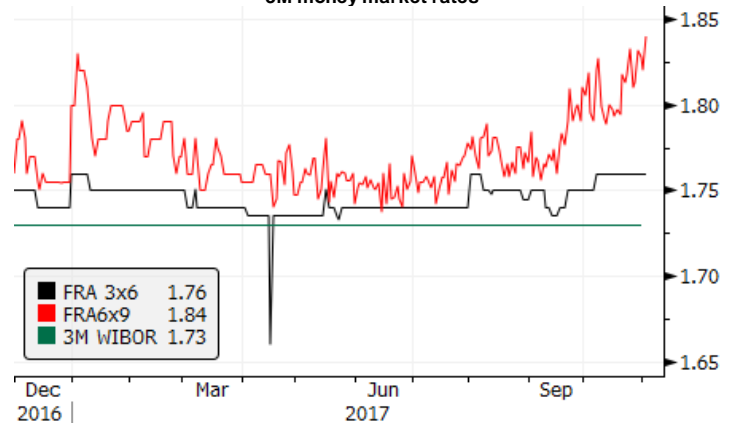
Zloty exchange rate



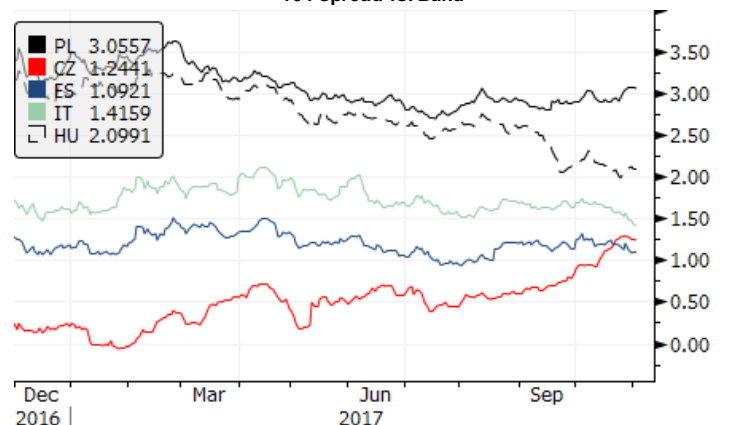
T-bonds yields



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	-	2.5	2.3
11:00	EZ	Flash CPI	Oct	% y/y	1.5	-	1.4	1.5
14:00	PL	Flash CPI	Oct	% y/y	2.1	2.1	2.1	2.2
15:00	US	Consumer confidence index	Oct	pts	121.0	-	125.9	120.6
WEDNESDAY (1 November)								
	PL	Market holiday						
2:45	CN	PMI – manufacturing	Oct	pts	51.0	-	51.0	51.0
13:15	US	ADP report	Oct	k	200	-	235	135
15:00	US	ISM – manufacturing	Oct	pts	59.5	-	58.7	60.8
19:00	US	FOMC decision		%	1.0-1.25	-	1.0-1.25	1.0-1.25
THURSDAY (2 November)								
9:00	PL	PMI – manufacturing	Oct	pts	54.0	54.4	53.4	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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