

EYEOPENER

14 November 2017

NBP data confirm strong exports

- **NBP data confirm strong exports performance in September**
- **Annual CPI does not surprise, inflation to stay above 2% in the remainder of the year**
- **Bonds and zloty give up Friday's gains**
- **Today in Poland flash 3Q GDP and core CPI, abroad German ZEW, among others**

On Monday, we got data on Polish balance of payments, which surprised to the upside, and inflation, in line with expectations. The zloty and bonds lost while correcting Friday gains.

Data on balance of payments for September were better than expected, showing a current account deficit of €100mn versus market expectations at -€350mn and our forecast of -€667mn. Exports surprised to the upside while imports disappointed. Surprisingly good results of foreign trade confirm that GDP growth was considerably above 4% y/y in 3Q17. Today at 10:00CET the Statistics Office is releasing flash GDP data, and we see some upward risk after last foreign trade data.

The y/y growth of consumer prices declined from 2.2% to 2.1%. According to our calculations core CPI returned from 1% y/y to 0.8% in October. We expect that in November the CPI inflation will rise again, even to 2.3-2.4% y/y and in December we may see a drop again but probably not below 2% y/y. We wrote more on yesterday's data in [Instant comment](#).

The new inflation projection showed a higher path of CPI despite optimistic assumptions about the way the economy will adapt to its problem of tight labour market. When the first figures from the projection were released, together with the Wednesday MPC statement, one could assume that the raised inflation path in 2018, from 2% to 2.3% had to do with acceleration of wages likely pushing core inflation higher. It was not the case – the rise came from energy prices and to some extent food prices. Core inflation did see a higher-than-previous estimate, but only in 2019. Its rise to 2.7% in 2019 from 1.9% seen by NBP in 2018 would mean a return to the strongest levels seen since early years 2000.

Rafał Sura, an MPC member considered a dove and a follower of the NBP governor's view, is weighing the need to discuss policy tightening in mid-2018. He admitted moving towards a hawkish stance, but still thinks of himself as a centrist. In his view the labour market is still a main risk for monetary policy, but he personally will look at the March inflation projection – if CPI holds above the target, he may decide to change his stance.

On Monday, the core bond yields started the day with falls but returned to opening levels at the end of the day. The morning moves were fueled by worries about fiscal reform in the US, while the

afternoon rebound was triggered by expectations for US CPI. As a result, 2Y US bonds failed to keep morning gains and at the end of the day the yield went up by 2bp.

On the domestic market, the bonds lost the Friday gains. The 10Y and 2Y yields rose 4bp and 3bp respectively, while 5Y yields rose 2bp, the latter did not reach the Thursday's closing. IRS curve moved up to the levels from the beginning of last week. The yield curve move was the attempt to catch up the core markets after the local players pushed the yields of domestic down at the end of last week. The inflation projection did not affect the domestic bonds market.

Today we expect the yields rise to continue, stronger on the long end of the curve. The move should be supported by Poland and Europe flash GDP data releases. Today in the morning we saw the German GDP data, which beat the consensus and pushed the Bund yields up. In the next day's, we expect the upward pressure on the long end of the domestic yield curve to maintain.

The beginning of the week saw arresting of EURUSD rise. Initially, the dollar was supported by the Fed's Patrick Harker's comments that he expects FOMC to hike interest rates in December. In the afternoon, however, the market sentiment changed and EURUSD returned to the opening level, i.e. 1.166. Today in the morning the rate started to climb after better-than-expected data from Germany and it was close to 1.169 at the opening. Data from Europe can be a driving force of today's session.

EURPLN kept rising all day on Monday as a result of worsened sentiment on the global market. The good reading of the current account balance did not support the zloty. As a result, EURPLN closed at 4.238. The other currencies of the region were also depreciating. EURHUF closed at 312 and EURCZK at 25.57, both slightly above the Friday's close. The Czech koruna suffered given the news of difficulties in establishing a new Czech government after the elections. USDRUB climbed from 59.20 to 59.50 driven by the published GDP growth at 1.8% y/y in 3Q (0.2 pp below forecast and 0.7pp below 2Q reading).

Our forecast for Polish economic growth in 3Q is slightly below the market consensus but after the Friday's stat office foreign trade data we see a big upside risk to our estimate. Since early October, the zloty has been gaining amid decent Polish macro data that prompted foreign institutions to revise their GDP forecasts up. However, EURPLN stabilization observed for four weeks suggests that a lot of that supportive information has already been priced in and the scope for zloty's appreciation after the release may be limited.

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FX market

Today's opening

EURPLN	4.2336	CZKPLN	0.1656
USDPLN	3.6206	HUFPLN*	1.3585
EURUSD	1.1693	RUBPLN	0.0609
CHFPLN	3.6328	NOKPLN	0.4437
GBPPLN	4.7434	DKKPLN	0.5690
USDCNY	6.6398	SEKPLN	0.4323

*for 100HUF

Last session in the FX market

13/11/2017

	min	max	open	close	fixing
EURPLN	4.224	4.239	4.229	4.238	4.2352
USDPLN	3.619	3.641	3.624	3.634	3.6382
EURUSD	1.164	1.168	1.167	1.166	-

Interest rate market

13/11/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.60	2	10/25/17	OK0720	2.000
PS0422 (5Y)	2.60	4	10/25/17	PS0123	2.813
DS0727 (10Y)	3.42	5	10/25/17	DS0727	3.375

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.80	1	1.70	1	-0.27	0
2L	2.04	3	1.88	2	-0.20	0
3L	2.21	3	1.99	2	-0.07	0
4L	2.38	4	2.07	2	0.08	1
5L	2.53	5	2.13	1	0.22	1
8L	2.85	6	2.29	0	0.64	0
10L	3.01	7	2.38	0	0.88	0

WIBOR rates

Term	%	Change (bps)
O/N	1.58	0
T/N	1.58	0
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	1.75	0
6x9	1.80	1
9x12	1.90	2
3x9	1.83	2
6x12	1.88	1

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	3.00	4
France	18	0	0.36	0
Hungary	116	1	1.84	-1
Spain	70	0	1.11	0
Italy	118	1	1.41	0
Portugal	114	-1	1.55	-1
Ireland	32	-1	0.22	0
Germany	9	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

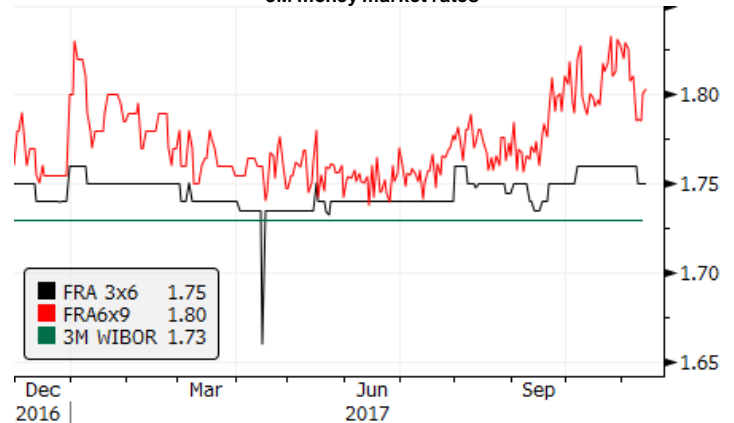
Zloty exchange rate



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 (10 November)								
16:00	US	Flash Michigan	Nov	pts	100.8	-	97.8	100.7
MONDAY (13 November)								
14:00	PL	CPI	Oct	% y/y	2.1	2.1	2.1	2.2
14:00	PL	Current account	Sep	€m	-350	-667	-100	-100
14:00	PL	Exports	Sep	€m	17 050	16 892	17 207	15 661
14:00	PL	Imports	Sep	€m	16 686	16 939	16 443	15 383
TUESDAY (14 November)								
8:00	GE	Flash GDP	Q3	% y/y	2.3	-	2.8	2.3
9:00	CZ	Flash GDP	Q3	% y/y	4.8	-	5.0	4.7
9:00	HU	Flash GDP	Q3	% y/y	3.7	-	3.6	3.3
10:00	PL	Flash GDP	Q3	% y/y	4.5	4.3		3.9
11:00	EZ	Flash GDP	Q3	% y/y	2.5	-		2.5
11:00	EZ	Industrial output	Sep	% y/y	3.3	-		3.8
11:00	GE	ZEW index	Nov	pts	88.0	-		87.0
14:00	PL	Core inflation	Oct	% y/y	0.9	0.8		1.0
WEDNESDAY (15 November)								
14:30	US	CPI	Oct	% m/m	0.1	-	0.5	14:30
14:30	US	Retail sales	Oct	% m/m	0.1	-	1.6	14:30
THURSDAY (16 November)								
11:00	EZ	CPI	Oct	% y/y	1.4	-		1.5
14:30	US	Initial jobless claims	week	k	-	-		239
14:30	US	Philly Fed index	Nov	pts	24.0	-		27.9
15:15	US	Industrial output	Oct	% m/m	0.4	-		0.3
FRIDAY (10 November)								
14:00	PL	Wages in corporate sector	Oct	% y/y	6.5	6.4		6.0
14:00	PL	Employment in corporate sector	Oct	% y/y	4.5	4.5		4.5
14:30	US	House starts	Nov	% m/m	5.4	-		-4.7
14:30	US	Building permits	Nov	% m/m	1.4	-		-3.7

Source: BZ WBK. Reuters. Bloomberg

* in case of the revision the data is updated

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