

EYEOPENER

15 November 2017

GDP surprises to the upside

- **Poland 3Q GDP growth at 4.7% y/y, beating expectations**
- **Bonds and zloty under pressure despite solid Polish data**
- **Euro gains on strong European macro releases**
- **Today, important data from the US**

On Tuesday we were surprised by strong GDP print for Poland and a slightly lower than expected reading of core inflation. These data did not translate directly to the pricing of debt (which already lost after the publication of European GDP) or the zloty, which was losing along other CEE currencies and due to a light deterioration of sentiment on the global market.

According to the flash estimate, GDP growth in 3Q17 reached 4.7% y/y. Seasonally adjusted growth was 1.1% q/q. The y/y growth rates for the previous six quarters were revised up. The structure of GDP is not known yet but we assume that private consumption was still among the main engines of growth, rising around 5% y/y (the stat office official confirmed that consumption growth in 3Q could have been even stronger than in 2Q). The net export contribution turned positive, in our view (after -1.5pp in 2Q). The biggest question mark is investment growth. We think that there was a modest revival in 3Q17 (near 4% y/y), which was suggested by rising construction output, and the next quarters should see a further recovery. While the final quarter of 2017 may see a slight deceleration in economic growth, the entire year may end up with GDP growth at 4.3% (versus 2.9% in 2016).

After a high opening, the US yields in the 5Y-10Y segment were gradually decreasing during the day, with 2Y being quite stable. As a result, the belly and the long end of the US yield curve declined by 4bp. The German curve followed that pattern, going down by 3bp with the exception of the stable 2Y segment. The yields rise after the European data did not last long. In the second part of the day investors focused more on information coming from the US, where the issue of tax reform is still far from closed, and on the situation on the stock market.

The Polish debt market reacted strongly to positive German GDP, but Polish data failed to make investors sell domestic bonds. Lower core inflation was ignored by the market. As a result, the longer end of the curve was hit more heavily, with yields rising by 2bp to 3.45%, the belly went up by 1bp amid stable situation on the front end. In the afternoon, IRS and yield curves did not post major changes.

In the upcoming days, we are expecting a stabilisation of the short end, some rebound in the middle and slow increase of

long end yields. The IRS curve is likely to go up stronger than the yield curve, supported by Polish data.

Yesterday in the morning EURUSD was quoted at 1.167 but soon started an upward march, bringing it to 1.18 at the end of the day. The euro gained thanks to positive data on GDP in Europe, given high headline and expectations for strong internal demand. Additionally, the single currency was gaining in face of uncertainty about fiscal reforms in the US. Today US data are due for release (inflation and retail sales). The market is pricing-in almost 100% chance for a rate hike in December, so it seems the market reaction could be bigger in the case of a disappointment rather when figures beat expectations.

Yesterday EURPLN climbed to 4.248 from 4.235 as the positive reaction to high GDP growth in Poland proved short-lived, just as we expected. The weaker zloty is partially due to worries about faster ECB's tapering after positive data on European economic growth. EURCZK and EURHUF climbed after the GDP data and this effect maintained in case of the koruna but the forint offset the weakening in the afternoon. These reaction took place despite positive surprise in Czech GDP and negative in Hungarian. USDRUB went up strongly to over 60 (the highest level since August), which was due to falling oil prices and worse economic prospects.

Today we are expecting a further weakening of the zloty amid the retreat from European emerging markets. At the end of the week, we may see this trend to lose strength given strong data on wages and employment.

The zloty may also be supported by comments of MPC members. Earlier this week, Rafał Sura surprised with a hawkish comment and today Łukasz Hardt suggested in an interview with Rzeczpospolita daily that the MPC should consider rate hike at the start of 2018. In his view, rising wages will translate finally into higher prices. We think that such comments of MPC members may overshadow the dovish message of the last press conference and help rebuild expectations for hike in 2018.

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FX market

Today's opening

EURPLN	4.2443	CZKPLN	0.1656
USDPLN	3.5936	HUFPLN*	1.3605
EURUSD	1.1810	RUBPLN	0.0597
CHFPLN	3.6413	NOKPLN	0.4391
GBPPLN	4.7355	DKKPLN	0.5704
USDCNY	6.6329	SEKPLN	0.4283

*for 100HUF

Last session in the FX market

14/11/2017

	min	max	open	close	fixing
EURPLN	4.228	4.250	4.238	4.248	4.2332
USDPLN	3.605	3.634	3.634	3.606	3.6126
EURUSD	1.166	1.179	1.166	1.178	-

Interest rate market

14/11/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.59	-1	10/25/17	OK0720	2.000
PS0422 (5Y)	2.61	1	10/25/17	PS0123	2.813
DS0727 (10Y)	3.44	2	10/25/17	DS0727	3.375

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.81	1	1.70	0	-0.27	0
2L	2.04	0	1.88	0	-0.20	0
3L	2.22	1	1.98	0	-0.08	-1
4L	2.39	1	2.06	-1	0.06	-1
5L	2.54	1	2.12	-1	0.21	-2
8L	2.86	1	2.28	-2	0.62	-2
10L	3.02	1	2.36	-2	0.86	-2

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	1.91	1
3x9	1.84	0
6x12	1.89	1

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	3.06	4
France	18	0	0.36	0
Hungary	116	1	1.86	3
Spain	69	-1	1.14	0
Italy	119	0	1.43	1
Portugal	146	32	1.57	1
Ireland	32	-1	0.24	-1
Germany	10	1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

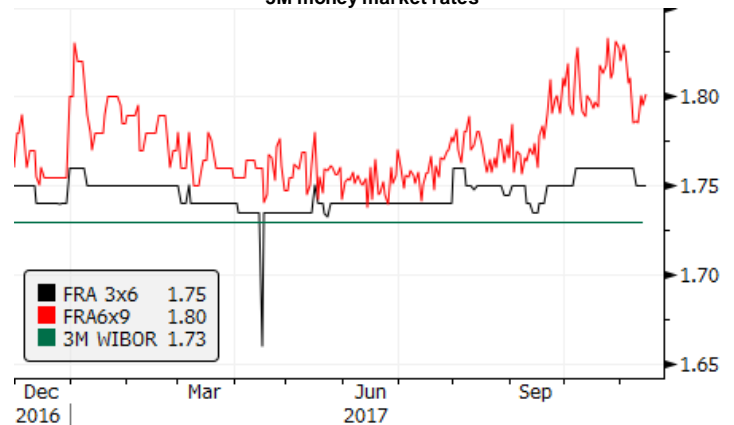
Zloty exchange rate



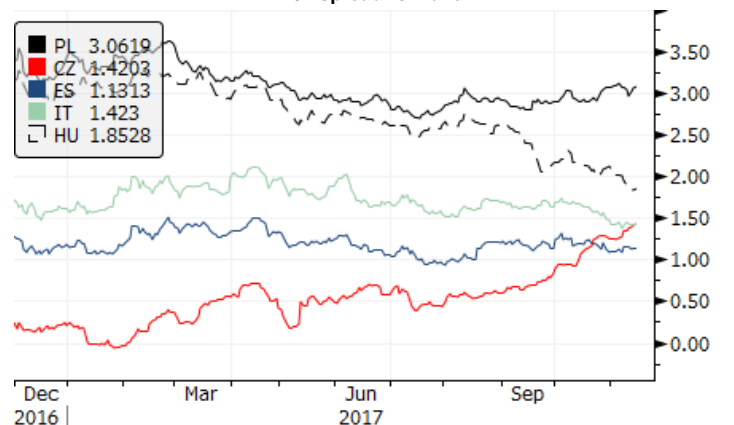
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

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	4.7	3.9
11:00	EZ	Flash GDP	Q3	% y/y	2.5	-	2.5	2.5
11:00	EZ	Industrial output	Sep	% y/y	3.3	-	3.3	3.8
11:00	GE	ZEW index	Nov	pts	88.0	-	88.8	87.0
14:00	PL	Core inflation	Oct	% y/y	0.9	0.8	0.8	1.0
WEDNESDAY (15 November)								
14:30	US	CPI	Oct	% m/m	0.1	-		0.5
14:30	US	Retail sales	Oct	% m/m	0.0	-		1.6
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 (17 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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