

EYEOPENER

21 November 2017

Record high industrial output in October

- Activity in industry highest in 7 years
- Retail sales grow by solid 7.1%
- MPC's Osiatyński: rate hike possible in 2018
- Zloty strengthened and bonds lost in reaction to industry data
- Today US housing market data, results of Polish companies

Industrial output grew in October at a strong pace of 12.3% y/y. Retail sales and construction output were a bit weaker than expected. The data led to appreciation of the zloty and a small increase in domestic yields in the middle and in the long end of the curve. Today we expect stable pricing of the zloty and possibly some decrease of bond yields. Good situation on the debt market should be supported further by news from European politics, as the markets await a decision about German government formation process.

Industrial output growth accelerated to 12.3% y/y (9.7% after seasonal adjustment), beating market consensus at 9.9%. Manufacturing output rose by as much as 14% y/y, which was the best result since Dec 2010. The data confirm that solid expansion of Polish industrial sector continues, driven by a strong economic growth in the euro zone. Meanwhile, construction production rose 20.3% y/y, which is a bit less than expected (market consensus 23.9%), but still a decent result. Retail sales rose 7.1% y/y in constant prices (Bloomberg consensus at 7.5% y/y). In general, the data suggest that the economic growth at the start of 4Q17 remains solid, and may be even similar to the impressive 4.7% y/y recorded in 3Q. The data should be neutral from the MPC's point of view.

Monday brought a slight rebound on the debt market, after a fall in yields at the end of the week. US bond yields have increased following the rebounding stock markets and higher-than-expected readings of the US Consumer Board leading indicator. As a consequence, the yield curve continued to flatten and moved 2bps up at the long end and 3 bps at the short end and the belly. The German Bunds remained stable, with slight fluctuations for most of the day. This was the consequence of the political crisis in Germany, after the collapse of the "Jamaica" coalition talks.

The domestic yield curve reacted to the very strong industrial output data for October with an insignificant 2bp shift upwards in the 5Y-10Y part. A similar move was seen on the IRS curve.

Today we will not learn any important data which should be supportive for Polish bonds. In our view, uncertainty related to political situation in Germany should keep Bund curve low for at least few more days which could be positive for Polish debt as well.

EURUSD was rising strongly on Monday amid expectations for more comments about chances for establishing a new government in Germany soon. Later in the day, the exchange rate trimmed morning rise after comments that earlier elections are likely as there is no progress in coalition talks. As a result, EURUSD ended the session near 1.175 vs 1.18 at the opening.

EURPLN was falling for the better part of the day. Polish currency was boosted by better-than-expected Polish industrial output data and general improvement of global market sentiment. Additional support came from MPC's Osiatyński saying that rate hike may be needed to maintain economic stability. EURPLN ended the day near 4.23 vs 4.236 at the opening.

When it comes to other currencies of the region, EURHUF increased, fuelled by expectations of another rate cut at today's or December's meeting. As a result EURHUF moved from 312.00 in the morning to 312.45 in the evening. EURCZK slipped down from 25.60 at the opening to 25.55 at the close of business. The Czech koruna was supported by suggestions of rate hikes in the near future and information about the expected continued increase in the budget surplus. USDRUB corrected Friday's falls, climbing from 59.00 to 59.30. Given the fall in oil prices (from USD 62.50 to USD 61.90 per barrel) and weak data on consumption and earnings in Russia, this reaction was very moderate in our opinion.

Today we expect the zloty to stabilise in the absence of significant data releases. The end of the week may see a reaction to the recent strengthening of the zloty.

MPC member Jerzy Osiatyński said that an interest rate hike might be needed before the end of 2018. In his view, the argument behind such a move is high growth in wages outpacing the growth in productivity, signalling thus economic instability. In our view, wage pressure will continue to grow, inducing subsequent MPC members to support a rate hike in 2H18.

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FX market

Today's opening

EURPLN	4.2358	CZKPLN	0.1659
USDPLN	3.6070	HUFPLN*	1.3556
EURUSD	1.1743	RUBPLN	0.0606
CHFPLN	3.6336	NOKPLN	0.4337
GBPPLN	4.7849	DKKPLN	0.5692
USDCNY	6.6330	SEKPLN	0.4238

*for 100HUF

Last session in the FX market

20/11/2017

	min	max	open	close	fixing
EURPLN	4.227	4.238	4.235	4.233	4.2351
USDPLN	3.587	3.611	3.594	3.603	3.5909
EURUSD	1.172	1.181	1.179	1.175	-

Interest rate market

20/11/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.59	0	11/9/17	OK0720	1.899
PS0422 (5Y)	2.63	3	11/9/17	PS0123	2.750
DS0727 (10Y)	3.43	3	11/9/17	DS0727	3.380

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.81	0	1.74	2	-0.26	0
2L	2.04	0	1.92	3	-0.19	0
3L	2.22	1	2.02	4	-0.07	1
4L	2.40	2	2.09	4	0.07	1
5L	2.55	2	2.15	4	0.20	0
8L	2.86	1	2.29	4	0.60	0
10L	3.02	2	2.37	3	0.84	1

WIBOR rates

Term	%	Change (bps)
O/N	1.56	-2
T/N	1.56	-2
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	1.76	0
6x9	1.81	0
9x12	1.91	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			3.08	3
France	18	1	0.33	0
Hungary	116	1	1.89	0
Spain	68	-1	1.14	-1
Italy	122	0	1.43	-1
Portugal	106	-2	1.56	-1
Ireland	26	-5	0.21	0
Germany	10	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

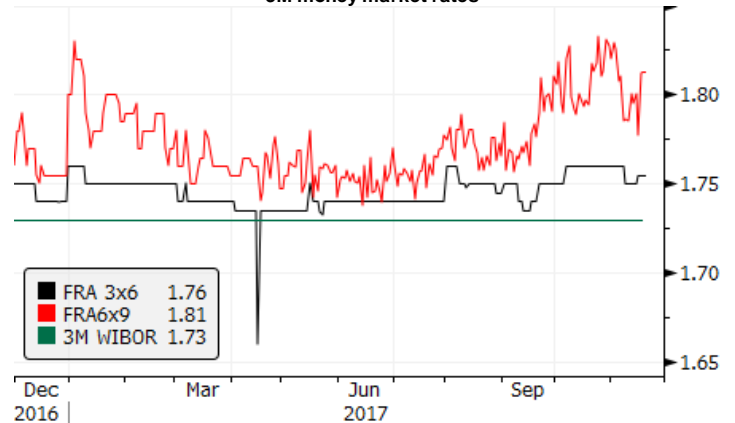
Zloty exchange rate



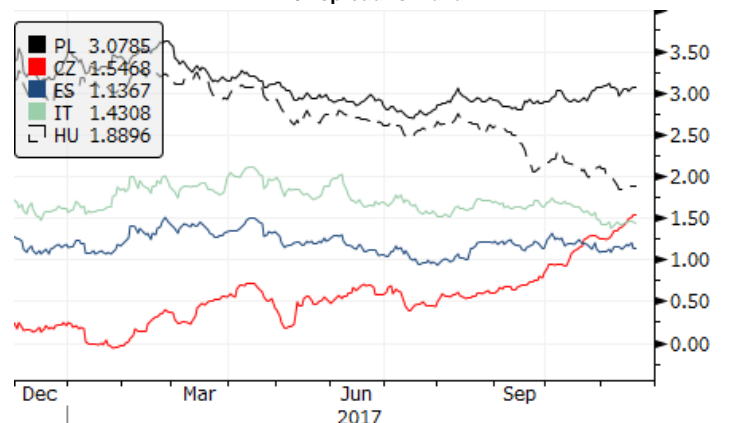
T-bonds yields



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 (17 November)								
14:00	PL	Wages in corporate sector	Oct	% y/y	6.5	6.4	7.4	6.0
14:00	PL	Employment in corporate sector	Oct	% y/y	4.5	4.5	4.4	4.5
14:30	US	Housing starts	Nov	% m/m	5.6	-	13.7	-4.7
14:30	US	Building permits	Nov	% m/m	2.0	-	5.9	-3.7
MONDAY (20 November)								
14:00	PL	Industrial output	Oct	% y/y	9.9	11.3	12.3	4.3
14:00	PL	Construction and assembly output	Oct	% y/y	23.6	25.7	20.3	15.5
14:00	PL	PPI	Oct	% y/y	2.8	2.7	3.0	3.1
14:00	PL	Real retail sales	Oct	% y/y	7.2	7.2	7.1	7.5
TUESDAY (21 November)								
14:00	HU	Central bank decision		%	0.90	-		0.90
14:00	PL	Corporate sector financial results	3Q					
16:00	US	Home sales	Oct	% m/m	0.19	-		0.75
WEDNESDAY (22 November)								
14:30	US	Durable goods orders	Oct	% m/m	0.3	-		2.0
14:30	US	Initial jobless claims	week	k	235	-		249
16:00	US	Michigan index	Nov	pts	98.2	-		97.8
20:00	US	FOMC minutes						
THURSDAY (23 November)								
9:30	DE	Flash PMI – manufacturing	Nov	pts	60.3	-		60.6
9:30	DE	Flash PMI – services	Nov	pts	55.0	-		54.7
10:00	EZ	Flash PMI – manufacturing	Nov	pts	58.2	-		58.5
10:00	EZ	Flash PMI – services	Nov	pts	55.2	-		55
10:00	EZ	Flash PMI – manufacturing	Nov	pts	58.2	-		58.5
11:00	PL	Bond auction						
14:00	PL	MPC minutes						
14:00	PL	Money supply M3	Oct	% y/y	5.5	5.6		5.4
FRIDAY (24 November)								
10:00	DE	Ifo	Nov	pts	116.5	-		116.7
10:00	PL	Unemployment rate	Oct	%	6.7	6.6		6.8

Source: BZ WBK, Reuters, Bloomberg

* in case of the revision the data is updated

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