

EYEOPENER

22 November 2017

MPC in 'wait-and-sleep' mode

- Calm session, global moods still positive
- MPC's Zubelewicz: MPC is in 'wait-and-sleep' mode, rate hikes are necessary
- Results of Polish firms show stagnation of private investment in Q3, but local governments' data point to revival in public outlays
- EURPLN slightly lower, but with no major changes, dollar stronger to euro
- Today a lot of US data, FOMC minutes in the evening

Positive market sentiment persisted on the global market during the Tuesday's session. Gaining stocks and bonds did not manage to boost CEE currencies among which only the zloty gained. The dollar appreciated slightly vs the euro that was hit at the beginning of the week by uncertainty related to timing for establishing new German government.

EURUSD neared 1.17 but the scale of changes was much smaller than on Monday. Tomorrow the US market is closed so the volatility may decline in the coming days.

EURPLN left the trading range observed since mid-October and after the biggest daily drop since first half of October. The pair reached 4.125, its lowest since mid-July. USDPLN fell to nearly 3.59 from slightly above 3.60. Next to the positive global market sentiment, the zloty might have been boosted by the decision of Hungarian central bank (details below) that hit the forint and made the Polish currency even more attractive given the outlook for the monetary policy. Still, the zloty did not manage to keep all gains and ended the domestic session above 4.22.

Yesterday the biggest changes in the CEE region were recorded in the case of the forint which was under pressure ahead of the Hungarian central bank (MNB) decision. Yet before it was announced, EURHUF rose to nearly 313, its highest since early May. MNB did not change the interest rates, main refi rate is still at 0.90%. However, the central bank decided to take action aimed at reviving fixed rate mortgages. It decided that it will start buying fixed-income covered bonds in order to lower yields and will introduce unconditional swaps. This decision generated additional pressure on the forint and pushed EURHUF above 313 at the end of the day.

On the domestic bond market, the changes were marginal, close to the core and emerging bond markets, where the most of the yields changes did not exceed 3-4 bp (this was the scale of yield decline of 10Y bonds from Hungary, Spain, and France).

Yesterday Ministry of Finance (MoF) said that it will offer OK0720, WZ1122, DS0727 and WZ0528 for PLN4bn (PLN4bn less than announced at the beginning of the month) on the regular bond auction scheduled for tomorrow. Like on the previous auction, we expect MoF

will sell more bonds from the long end and the middle part of the curve than from the short end.

In the first three quarters of 2017 local governments recorded revenues of PLN171.6bn (76% of the FY plan), with expenditures at PLN156.9bn (66% of the plan). The budget surplus was PLN14.7bn. In our view it will decrease to cPLN5bn in the final quarter of the year, assuming that the seasonal pattern in revenues and spending will hold. So local government balance could prove neutral for the general government fiscal position in the entire year. Data about local government budgets also showed investment spending rising in 3Q17 by 45% y/y in nominal terms, which implies that they may have added c.3 pct. points to total investment growth and 0.5-0.6 pct. points to GDP growth – the most in at least four years. Local governments' investments show a clear revival, although it should be noted that last year's base was extremely low. The nominal level of investments (PLN8bn) was still lower than the corresponding period of 2012-15.

In 3Q both revenues and costs of enterprises employing at least 50 persons rose 8.9% y/y. Costs were sent higher mostly by inflation of the prices of materials (it contributed 4.4pp to the overall cost growth). External services also went up (adding 2.0pp to the growth of costs) and so did wage bill (+1.3pp). Gross financial result improved by 8.1% y/y and net result by 5.9%. The data show good financial situation of Polish enterprises but also a rising cost pressure.

Data on companies employing at least 50 people showed no revival in investment in 3Q17. According to our calculations based on YTD data from the Statistics Office, in 3Q17 real investment outlays fell by 0.8% y/y as compared to a decline of 1.6% y/y in 2Q17. Thus, companies with 50+ employees saw negative y/y investment growth for the seventh quarter in a row. In detail, the data show no improvement in machinery (-5.6% y/y versus -1.6% y/y in 2Q17). Construction investment fell by 2% y/y despite a low base from 2016, which witnessed a deep slump in construction activity. However, a strong rebound was visible in transport investment, which accelerated to 25.5% y/y from 13.5% y/y. Recall that the investment recovery in 2010 began with a major upswing in this very category.

MPC member Kamil Zubelewicz told Bloomberg that in his opinion the last inflation projection shows a clear acceleration of price growth, which will be generated by labour market pressure and election cycle. He thinks that a rate hike is needed before inflation rises and GDP growth slows. Moreover, Zubelewicz said that he was worried there will be no majority in the MPC to pass the rate hike motion and the interest rates may remain stable until the end of 2019, as the other central bankers' tolerance toward inflation is quite high and the Council is in the 'wait-and-sleep' mode. Zubelewicz believes the MPC's argument that the stable interest rates are supportive for maintaining economic stability is wrong – in his view, the weakness of investments, rise of inflation and forecasts of weaker GDP growth show the economy is not well-balanced.

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FX market

Today's opening

EURPLN	4.2156	CZKPLN	0.1655
USDPLN	3.5854	HUFPLN*	1.3446
EURUSD	1.1758	RUBPLN	0.0607
CHFPLN	3.6237	NOKPLN	0.4378
GBPPLN	4.7518	DKKPLN	0.5665
USDCNY	6.6166	SEKPLN	0.4251

*for 100HUF

Last session in the FX market

21/11/2017

	min	max	open	close	fixing
EURPLN	4.216	4.236	4.233	4.220	4.2296
USDPLN	3.590	3.610	3.603	3.594	3.606
EURUSD	1.171	1.176	1.175	1.174	-

Interest rate market

21/11/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.57	-2	11/9/17	OK0720	1.899
PS0422 (5Y)	2.62	-1	11/9/17	PS0123	2.750
DS0727 (10Y)	3.41	-2	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	1.76	2	-0.26	0
2L	2.05	0	1.95	3	-0.19	0
3L	2.23	0	2.05	3	-0.07	0
4L	2.39	-1	2.12	3	0.06	0
5L	2.54	-1	2.17	2	0.20	-1
8L	2.86	0	2.30	1	0.58	-2
10L	3.01	0	2.37	0	0.82	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.21	-35
T/N	1.25	-31
SW	1.57	-3
2W	1.61	-1
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	1.91	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			3.07	-2
France	17	-1	0.32	0
Hungary	116	1	1.84	1
Spain	62	-6	1.13	0
Italy	120	-2	1.43	1
Portugal	104	-1	1.56	0
Ireland	26	-5	0.21	-1
Germany	8	-2	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

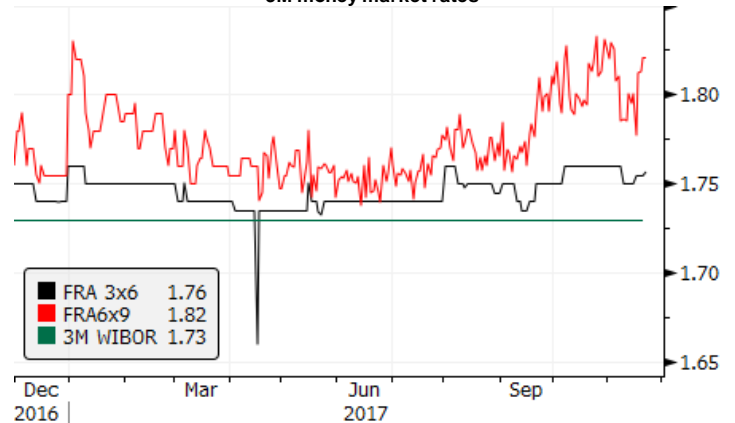
Zloty exchange rate



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 (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	0.90
14:00	PL	Corporate sector financial results	3Q					
16:00	US	Home sales	Oct	% m/m	0.2	-	2.0	0.4
WEDNESDAY (22 November)								
14:30	US	Durable goods orders	Oct	% m/m	0.4	-		2.0
14:30	US	Initial jobless claims	week	k	240	-		249
16:00	US	Michigan index	Nov	pts	98.1	-		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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