

# EYEOPENER

23 November 2017

## Business climate at new all-time highs

- **Consumer confidence in upward trend**
- **Business climate in construction above 2010-2011 peak**
- **Zloty and bonds gained on improved global moods**
- **Today flash PMI from Europe, bond auction and money supply data in Poland**

Polish business and sentiment indicators for November showed a continuation of good mood in the building sector, industry and among retailers. Together with the positive global market sentiment the Polish data helped the zloty to strengthen a bit more yesterday. Domestic bonds were gaining in line with the US market. According to the minutes from the last FOMC meeting majority of central bankers supports a rate hike in December. The document indicated also that there are differences in opinions on the monetary policy outlook. – some members were worried about inflation expectations and low readings of core inflation, and consequently would prefer rates to rise slowly.

First sentiment indicators for November from the stats office showed that the historically high level of business optimism has been maintained. Usually there is a pullback of optimism in November, but this time this seasonal pattern was broken in case of industry (4.6 pts, no change vs October) and retail sector (11.2 pts vs 10.3 previously). The seasonal adjustment we performed on these data revealed that employment index for industry has reached levels that were previously seen only during the 2006-2007 peak of the business cycle; assessment of current production is the highest since 1H08, but the indicators of expected level and prices of production as well as current and expected new orders have corrected lower. The adjusted indices for the retail sector about current and expected sales have exceeded the peak from 2007. The mood in the construction sector is also rising and many indicators exceeded the top levels from the years 2010-2011.

Sentiment among Polish consumers seems even more upbeat than in case of business. In November, we have seen new records in categories like expected financial situation of households and the leading indicator of consumer confidence (rising at the fastest pace in half a year). The index of expected economic situation has also improved in November (from 3.4 pts to 3.8) and is now approaching the record high from Nov-07 (4 pts, after it was reached the index embarked on a downward trend for the next 1.5 years). Details of consumer confidence survey continue to suggest that faced with a significant improvement of budgets, Poles are leaning towards higher spending rather than higher saving. The index of propensity to buy big-ticket items has risen year-to-date at triple the pace of the index of savings and of current financial situation. MPC hawks may fear that in the low rates environment households could be tempted to preserve the high pace of consumption growth at the cost of the savings rate.

Taken altogether, the business and consumer sentiment indicators from the stats office point to 4Q as another quarter of high economic growth in Poland, based to a large extent on private consumption.

US yields dropped after the Michigan survey had showed a decline in inflation expectations of consumers. The US curve descended by 2-3bp. Yields of German bonds were rising for most of the day, correcting the declines posted earlier this week. Despite the evening correction the curve went up by 1bp in total.

In the morning, we observed some downward shift of the curve on the domestic market. The investors positively reacted to MPC member Kamil Zubelewicz remarks who was worried there will be no majority to support rate hikes and interest rates may remain stable until the end of 2019. In the afternoon trading, Polish T-bond prices were supported by US Treasuries (the yield of US Treasuries decreased fueled by inflation expectations drop in Michigan survey). As a result Polish yield curve slid by 2-3 bp over the whole curve. A little smaller move was observed on the IRS curve, which dropped by 1-2 bp. As a consequence the asset swap spread has compressed, with 2Y ASW reaching -47 bp, last seen in August 2012.

Today we expect bond yields to continue to decline as we see the risk that flash PMIs in Europe could disappoint. Information about supply at the Polish auction should be positive for debt as the Ministry of Finance intends to issue bonds for PLN4bn instead of PLN4-8bn planned initially. We expect Polish debt to stay firm in the remainder of the week.

Yesterday EURUSD was rising after the data on Michigan consumer confidence index that was received by the market as a reason for slower rate hikes. As a result, EURUSD climbed to 1.179 from 1.174. Additional support for the euro was provided by easing concerns about situation in Germany. In the evening, the dollar was hit by the FOMC minutes and today in the morning the exchange rate is near 1.184.

EURPLN was falling during the yesterday's session and reached 4.20 vs 4.22 at the opening. Polish currency was supported by Polish data on business sentiment and signals from the US where investors started to price-in slower pace of rate hikes.

In case of other currencies in the region, EURCZK reached the new lowest level (since 2013) at 25.45, which was supported by a successful bond auction. In case of EURHUF there was a correction of Tuesday's increase, partly due to solid data about wage growth in September (13.6% y/y) and falling expectations for faster interest rate hikes in the USA. USDRUB was falling for the second straight day, fuelled by rising crude oil prices, and at the end of the day reached 58.6, its lowest for two weeks.

Today we expect to see a further strengthening of the zloty. It should be supported by weaker, yet still solid PMIs from Europe and expected strong demand at the domestic bond auction.

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## FX market

## Today's opening

EURPLN	4.2162	CZKPLN	0.1655
USDPLN	3.5636	HUFPLN*	1.3450
EURUSD	1.1831	RUBPLN	0.0610
CHFPLN	3.6298	NOKPLN	0.4372
GBPPLN	4.7448	DKKPLN	0.5666
USDCNY	6.5927	SEKPLN	0.4277

\*for 100HUF

## Last session in the FX market

22/11/2017

	min	max	open	close	fixing
EURPLN	4.205	4.223	4.220	4.212	4.2183
USDPLN	3.566	3.598	3.594	3.571	3.5881
EURUSD	1.173	1.180	1.174	1.180	-

## Interest rate market

22/11/2017

## T-bonds on the interbank market\*\*

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
DS1019 (2L)	1.55	-2	11/9/17	OK0720	1.899
WS0922 (5L)	2.60	-2	11/9/17	PS0123	2.750
DS0727 (10L)	3.38	-3	11/9/17	DS0727	3.380

## IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.82	1	1.75	-1	-0.26	0
2L	2.03	-1	1.92	-2	-0.19	0
3L	2.21	-2	2.02	-3	-0.07	0
4L	2.37	-2	2.08	-4	0.07	1
5L	2.52	-2	2.13	-4	0.21	2
8L	2.84	-2	2.26	-4	0.59	0
10L	2.99	-3	2.33	-3	0.81	0

## WIBOR rates

Term	%	Change (bps)
O/N	1.50	29
T/N	1.50	25
SW	1.58	1
2W	1.62	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	1.81	-1
9x12	1.91	0
3x9	1.84	0
6x12	1.88	0

## Measures of fiscal risk

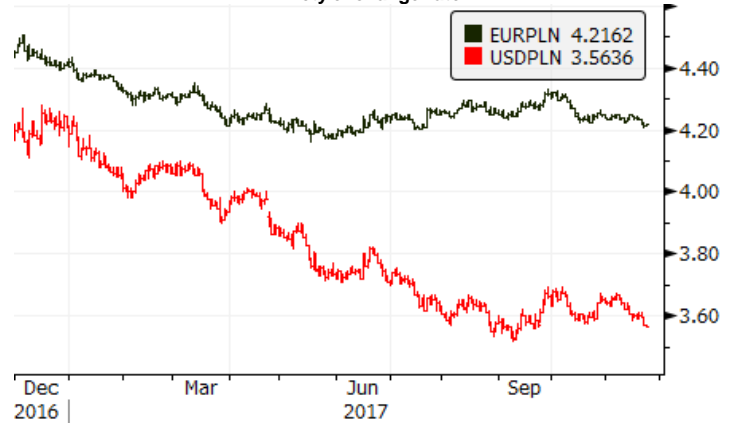
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			3.04	-3
France	17	1	0.32	0
Hungary	116	1	1.77	1
Spain	60	-2	1.10	0
Italy	118	-2	1.41	0
Portugal	105	1	1.55	0
Ireland	26	-5	0.21	0
Germany	9	1	-	-

\* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

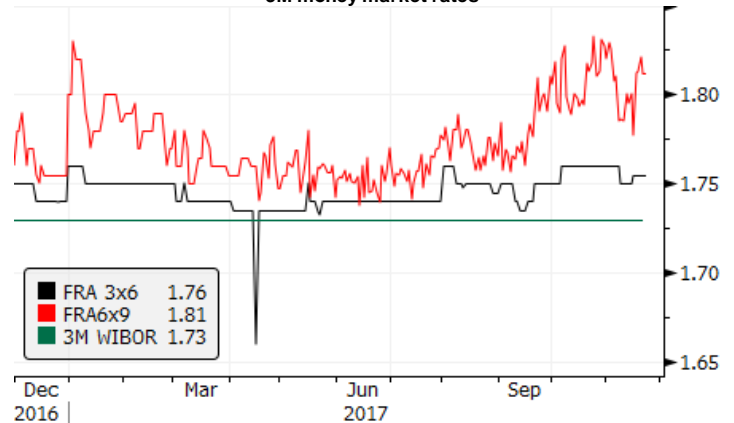
## Zloty exchange rate



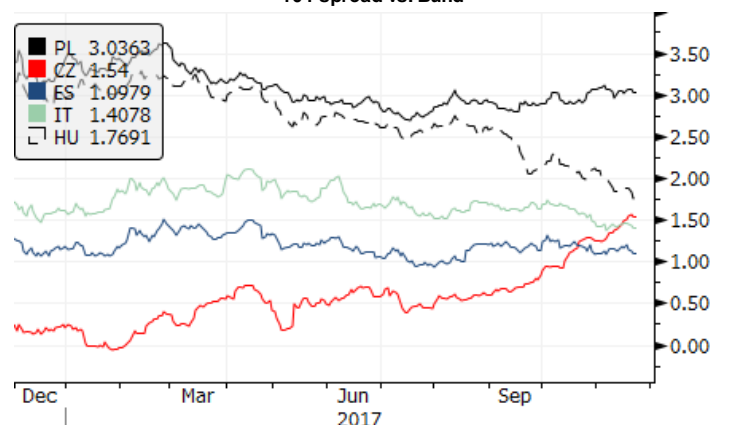
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic calendar

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	0.3	-	-1.2	2.0
14:30	US	Initial jobless claims	week	k	240	-	239	249
16:00	US	Michigan index	Nov	pts	98.0	-	98.5	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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