

# EYEOPENER

27 November 2017

## GDP, CPI and PMI are coming

- **Positive mood at the end of last week**
- **Broad acceleration of wages in October**
- **The zloty was stable after strengthening, the euro gained vs the dollar due to German-US data mix**
- **Polish and core bond yields up a bit**
- **Today US housing data**

Market moods were positive at the end of the week, letting the CEE currencies keep recent gains. The euro gained to the dollar and bonds were under pressure in reaction to better-than-expected data from Europe. German Ifo index surprised to the upside after a second increase in a row and set a new record.

EURUSD was rising since the start of the session due to better than expected data from Germany and slightly lower than forecast PMI index for US manufacturing. As a result, the rate broke through the local peak at slightly below 1.19 established in October and at the end of Polish session was close to 1.192. Amid reduced liquidity, weaker US data at the end of the week had clear impact on EURUSD. Today in the afternoon the US housing market data will be released and if they impact the rate, the influence should be smaller than on Friday. EURUSD has been rising for the last three weeks and in our view the dollar could start trimming losses if the events planned for this week (US Congress resumes work on tax reform, the hearing of Janet Yellen's successor planned on Tuesday) and looming data releases (GDP, PCE inflation, manufacturing ISM) prove to be supportive for USD. However, the EURUSD decrease may be limited by rising chances for Angela Merkel's agreement with SPD, implying lower risk of early election in Germany.

EURPLN rebounded on Friday to 4.21 from its lowest since July at c4.205. Much bigger changes were recorded in the case of USDPLN that plummeted to 3.53 (its lowest since September) owing to higher EURUSD. In the case of the other CEE currencies, the forint was recovering after losses suffered earlier in the previous week (after the Hungarian central bank decision) with EURHUF falling to 312 from above 313. Koruna and ruble did not move much on Friday. For the Russian currency, the Thursday's meeting of OPEC and Russia may be crucial. The market expects that agreement on lower oil production will be prolonged. Oil market expressed some optimism ahead of that meeting. CEE currencies proved resilient to weakening seen in the case of other emerging market currencies (Turkish lira was under pressure in the first part of the past week, South African rand after Friday's S&P downgrade).

On Friday on the domestic debt market IRS rates and yields increased by 2 bp driven by bonds prices drop on the core markets. The main reason for this move was the German data.

GDP, CPI and PMI data are due for release this week. As regards economic growth, we will see not only its breakdown in 3Q17 but also revisions of the quarterly figures for the two previous years. We guess that the strong private consumption and positive net exports played important role in fueling GDP growth, but the most interesting will be data about investments. Last week's releases showed that local governments accelerated investment outlays but big companies are still delaying spending. We think that total investment growth could be slightly above 4% y/y. Flash CPI inflation is likely to show a jump to 2.4% y/y in November, nearing the official target, and driven mainly by higher prices of food and fuels. As regards the PMI, we see arguments that the Polish indicator should finally start converging with the corresponding measures for Germany and euro zone, which already hit 60 pts., so our forecast is 54.6. But we should mention that we had similar intuition in the previous months and this theory did not really work well.

Strong rise in November's flash CPI and improvement in PMI can surprise market, but we think the zloty has priced-in already many positive news about Polish economy, so the room for further strengthening is limited. Moreover, the uncertainty about government reshuffle and changes in judiciary system is in the air. Strong PMI and GDP should be positive for credit risk; yet, we do not expect bond yields to drop further – they may rather increase to smaller degree than swap rates.

Detailed data on wages in the corporate sector showed that the acceleration from 6.0% y/y to 7.4% y/y in October was not due to one-off bonus payments in one sector. Stronger wage growth was broad-based: manufacturing saw 7.8% y/y growth rate, construction over 8% including civil engineering at 11.7% y/y. Retail sales recorded almost 10% y/y growth. In our view, the data confirms our claim that tight labour market will translate into stronger wage pressure. In our view, the upcoming months will show a further acceleration. Wage dynamics is an important factor for some MPC members, so further acceleration should be encouraging central bankers to join the hawkish camp.

Poland LFS data for 3Q showed a deceleration in number of working population (to 1.5% y/y from 1.9% y/y in 2Q, that is well below 4.5% y/y recorded for the sole corporate sector). Number of unemployed continued to fall in 3Q – by 45k q/q and by 200k y/y leading to unemployment rate fall to 4.7% from 5%. Labour activity ratio did not change vs 2Q (it stayed near 56.7%), unlike what we have seen in the last five year.

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## FX market

## Today's opening

EURPLN	4.2067	CZKPLN	0.1655
USDPLN	3.5265	HUFPLN*	1.3497
EURUSD	1.1929	RUBPLN	0.0606
CHFPLN	3.5994	NOKPLN	0.4329
GBPPLN	4.7001	DKKPLN	0.5653
USDCNY	6.6024	SEKPLN	0.4255

\*for 100HUF

## Last session in the FX market

24/11/2017

	min	max	open	close	fixing
EURPLN	4.204	4.213	4.206	4.209	4.2116
USDPLN	3.524	3.557	3.550	3.528	3.5486
EURUSD	1.184	1.194	1.185	1.193	-

## Interest rate market

24/11/2017

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

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
DS1019 (2L)	1.53	0	11/9/17	OK0720	1.899
WS0922 (5L)	2.53	0	11/9/17	PS0123	2.750
DS0727 (10L)	3.33	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	1	1.75	1	-0.26	0
2L	2.05	2	1.92	1	-0.17	2
3L	2.21	2	2.02	1	-0.06	1
4L	2.37	2	2.08	-1	0.07	0
5L	2.51	2	2.13	1	0.22	0
8L	2.81	2	2.27	2	0.60	1
10L	2.96	2	2.34	2	0.82	1

## WIBOR rates

Term	%	Change (bps)
O/N	1.49	-5
T/N	1.51	-3
SW	1.58	-1
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	1
6x9	1.82	2
9x12	1.91	2
3x9	1.84	1
6x12	1.89	1

## Measures of fiscal risk

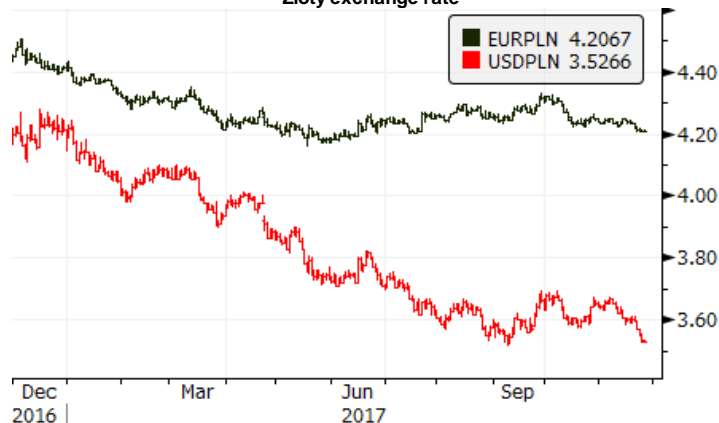
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.97	2
France	16	-1	0.33	0
Hungary	116	1	1.69	-3
Spain	58	-2	1.11	-1
Italy	117	-1	1.44	-1
Portugal	103	-2	1.56	-1
Ireland	25	-1	0.23	0
Germany	11	1	-	-

\* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

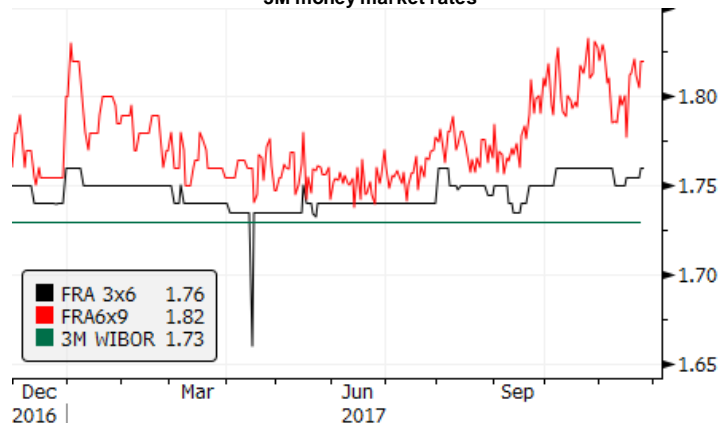
## Zloty exchange rate



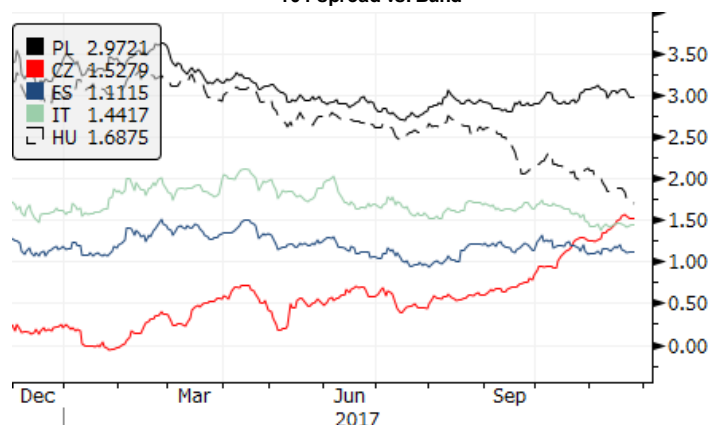
## T-bonds yields



## 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 (24 November)								
10:00	DE	Ifo	Nov	pts	116.5	-	117.5	116.8
10:00	PL	Unemployment rate	Oct	%	6.7	6.6	6.6	6.8
MONDAY (27 November)								
16:00	US	New home sales	Oct	% m/m	-6.53	-		18.9
TUESDAY (28 November)								
16:00	US	Conference Board index	Nov	pts	123.5	-		125.9
WEDNESDAY (29 November)								
14:30	US	Preliminary GDP	Q3	% q/q	3.2	-		3.0
16:00	US	Pending home sales	Oct	% m/m	1.1	-		0.0
20:00	US	Fed Beige Book						
THURSDAY (30 November)								
10:00	PL	GDP	Q3	% y/y	4.7	4.7		4.0
10:00	PL	Investments	Q3	% y/y	-	4.4		0.8
10:00	PL	Private consumption	Q3	% y/y	-	5.1		4.9
11:00	EC	Flash CPI	Nov	% y/y	-	-		1.4
11:00	EC	Unemployment rate	Oct	%	-	-		8.9
14:00	PL	Flash CPI	Nov	% y/y	-	2.4		2.1
14:30	US	Initial jobless claims	week	k	240	-		239
14:30	US	Personal spending	Oct	% m/m	0.2	-		1.0
14:30	US	Personal income	Oct	% m/m	0.3	-		0.4
FRIDAY (1 December)								
09:00	PL	PMI manufacturing	Nov	pts	-	54.6		53.4
09:00	CZ	GDP	Q3	% y/y	-	-		5.0
9:55	DE	PMI – manufacturing	Nov	pts	60.6	-		60.6
10:00	EZ	PMI – manufacturing	Nov	pts	58.5	-		58.5
16:00	US	ISM manufacturing	Nov	pts	58.3	-		58.7

Source: BZ WBK, Reuters, Bloomberg

\* in case of the revision the data is updated

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