

EYEOPENER

1 December 2017

Inflation on target, GDP growth close to 5%

- Polish GDP near 5%, inflation on target, PMI goes up
- Zloty with no major changes, dollar slightly weaker to euro despite new positive data from the US
- Polish IRS and yields slightly up, bonds gain abroad
- Today activity indices in manufacturing

GDP growth in 3Q17 reached 4.9% y/y, above the flash estimate released two weeks ago (4.7%). The private consumption remained the main engine of expansion, rising 4.8% y/y, and the net exports surprised positively, adding 1.1pp to GDP growth. Meanwhile, fixed investments picked up only slightly (3.3% y/y), showing that the long-awaited recovery in this area is materializing at slower pace than expected. However, the good news is that the extremely supportive external environment (recovery in the euro zone) should boost Polish exports, while consumption growth should remain strong as well. As a result, we expect that GDP growth in Poland should remain decent in the coming quarters. 4Q17 could be well above 4% as well. We wrote more on these numbers in yesterday's [Instant comment](#).

From the central bank's point of view, strong GDP print is not necessarily a factor that may change the balance of votes for a rate hike due to persisting investment weakness. On the other hand, some MPC members may be impressed by the strong November inflation..

The data is a clear surprise for the market (Bloomberg consensus was 2.3%) and probably also for the central bank, as the last inflation projection predicted the 2.5% target will not be touched until late 2018. We expect CPI growth to drop to 2.0% in December due to high base effect, but it should rise again in the next months, probably exceeding the official target and approaching 3.0% in mid-2018. We wrote more on these numbers in yesterday's [Instant comment](#).

The data seem to confirm our view that the differences of views in the Monetary Policy Council may intensify, and it cannot be ruled out that a motion to hike interest rates will be submitted and voted in 1Q18. Still, we expect it will take time until the advocates of monetary tightening gather majority and the first rate hike likely in 2H18.

Polish PMI rose to 54.2pts in November from 53.4pts, beating consensus (54.2). The upward move was driven by output subindex, highest since March, while new orders and employment subindices went a bit down. PMI confirms that economic activity remained strong in 4Q17 after surprisingly high GDP growth in 3Q17. In our view, PMI index may be climbing further in the months to come, yet it is unlikely to fully close the gap to Euro zone and German indices, given the rising tensions on the Polish labour market.

EURUSD snapped a down move observed since the beginning of the week and rose to 1.192 yesterday. Most of the US data were better than expected and the core factor yesterday might have been signals from the US political scene suggesting that there is still no final decision on the tax reform. Today in the afternoon we will learn the US ISM manufacturing index and this release could determine where EURUSD will end the week.

EURPLN was hovering yesterday around 4.20 and data from Poland did not have a persistent market impact. USDPLN fell below 3.52 due to higher EURUSD. Forint was weakening against euro for the second straight day and EURCZK increased slightly. We assume that at the end of the week the EURPLN will not change significantly and the rate should remain close to 4.20.

On the domestic interest rate market asset swap spread narrowed, as we expected, due to faster rise of the IRS rates than bond yields in reaction to the domestic data releases. As a result, the 2Y ASW spread fell to -49bp (returning to the last week's record low) and 10Y spread to 31bp (lowest since October 2015).

Yesterday the Ministry of Finance released data showing that October was fourth month in a row when foreign investors were selling Polish bonds. The outflow reached almost PLN3.2bn and was only slightly lower than in September (PLN3.45). As a result, non-residents' holdings of Polish zloty-denominated bonds fell to c. PLN202bn, the lowest level since February. The biggest sellers of Polish bonds among non-residents were commercial banks (-PLN6.8bn) and the biggest buyers were central banks (+PLN7.5bn). Polish commercial banks reduced bond portfolios by PLN1.15bn.

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FX market

Today's opening

EURPLN	4.2054	CZKPLN	0.1648
USDPLN	3.5288	HUFPLN*	1.3425
EURUSD	1.1917	RUBPLN	0.0603
CHFPLN	3.5870	NOKPLN	0.4252
GBPPLN	4.7701	DKKPLN	0.5651
USDCNY	6.6064	SEKPLN	0.4225

*for 100HUF

Last session in the FX market

30/11/2017

	min	max	open	close	fixing
EURPLN	4.195	4.209	4.201	4.204	4.2055
USDPLN	3.519	3.562	3.545	3.535	3.5543
EURUSD	1.181	1.193	1.185	1.189	-

Interest rate market

30/11/2017

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
DS1019 (2L)	1.59	4	11/23/17	OK0720	1.846
PS0123 (5L)	2.75	4	11/23/17	PS0123	2.704
DS0727 (10L)	3.34	1	11/23/17	DS0727	3.338

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.82	1	1.78	2	-0.25	1
2L	2.08	3	1.97	2	-0.16	2
3L	2.28	5	2.07	3	-0.04	1
4L	2.44	6	2.14	3	0.10	1
5L	2.57	5	2.20	3	0.24	1
8L	2.88	5	2.34	4	0.62	0
10L	3.03	5	2.41	3	0.83	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.50	1
T/N	1.55	7
SW	1.59	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	1.77	1
6x9	1.83	2
9x12	1.94	3
3x9	1.85	2
6x12	1.91	3

Measures of fiscal risk

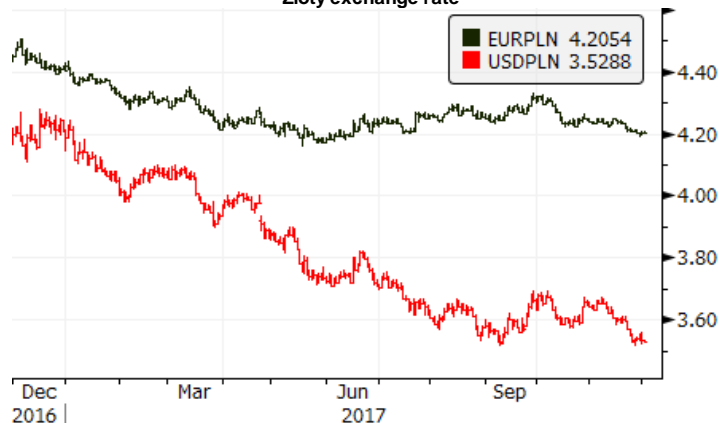
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.98	1
France	16	0	0.31	0
Hungary	116	1	1.75	0
Spain	56	0	1.08	0
Italy	115	0	1.38	0
Portugal	100	-1	1.50	1
Ireland	25	-1	0.21	0
Germany	10	1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

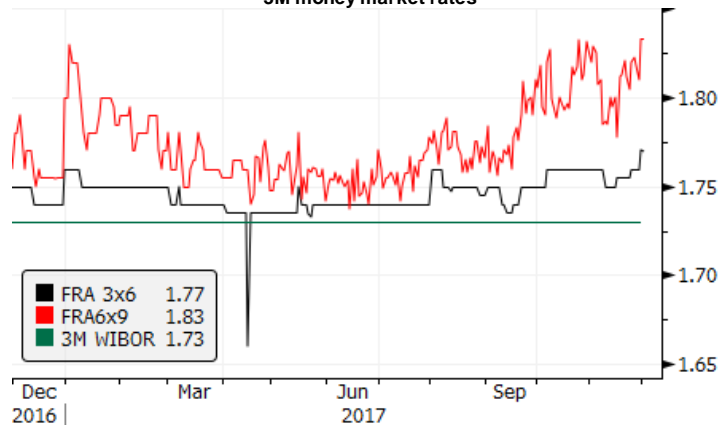
Zloty exchange rate



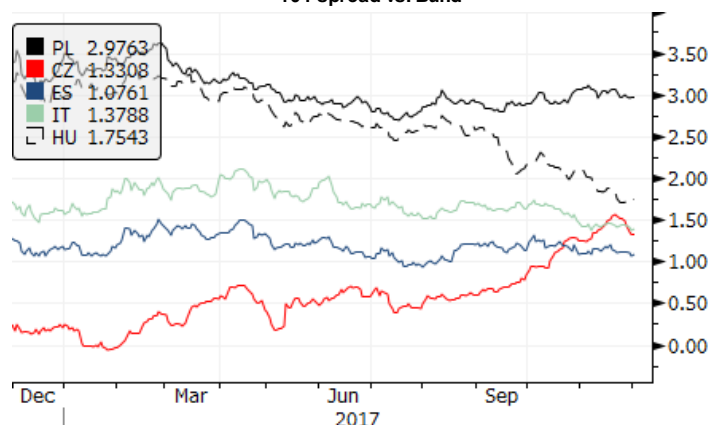
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

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	-	6.2	14.2
TUESDAY (28 November)								
16:00	US	Conference Board index	Nov	pts	124.0	-	129.5	126.2
WEDNESDAY (29 November)								
14:30	US	Preliminary GDP	Q3	% q/q	3.2	-	3.3	3.1
16:00	US	Pending home sales	Oct	% m/m	1.1	-	3.5	-0.4
20:00	US	Fed Beige Book						
THURSDAY (30 November)								
10:00	PL	GDP	Q3	% y/y	4.7	4.7	4.9	4.0
10:00	PL	Investments	Q3	% y/y	4.5	4.4	3.3	0.8
10:00	PL	Private consumption	Q3	% y/y	4.9	5.1	4.8	4.9
11:00	EC	Flash CPI	Nov	% y/y	1.6	-	1.5	1.4
11:00	EC	Unemployment rate	Oct	%	8.9	-	8.8	8.9
14:00	PL	Flash CPI	Nov	% y/y	2.3	2.4	2.5	2.1
14:30	US	Initial jobless claims	week	k	240	-	238	240
14:30	US	Personal spending	Oct	% m/m	0.3	-	0.3	0.9
14:30	US	Personal income	Oct	% m/m	0.3	-	0.4	0.4
FRIDAY (1 December)								
09:00	PL	PMI manufacturing	Nov	pts	54.0	54.6		53.4
09:00	CZ	GDP	Q3	% y/y	5.0	-		5.0
9:55	DE	PMI – manufacturing	Nov	pts	62.5	-		60.6
10:00	EZ	PMI – manufacturing	Nov	pts	60.0	-		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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