

EYEOPENER

4 December 2017

Strong PMI just before the MPC decision

- **PMI rose to 54.2 in November, above market expectations**
- **Zloty and short-term bonds losing amid profit taking**
- **Today, US factory orders and durable goods orders**

Polish PMI rose to 54.2pts in November from 53.4pts, beating consensus (54.0) and confirming that economic activity in manufacturing remained strong in 4Q17 after surprisingly high GDP growth in 3Q17. The upward move of manufacturing PMI was driven by the output sub-index, the highest since March, while new orders and employment sub-indices went down a bit. In our view, the PMI index may be climbing further in the months to come, yet it is unlikely to fully close the gap to the Euro zone and German indices, given the rising tensions in the Polish labor market. It is puzzling that while Poland and Germany both face record low unemployment, broad labor shortages and strong momentum in economic activity, their respective employment components are diverging (the German one is rising the Polish one is relatively low), leaving the headline business sentiment indices with no other option but to diverge as well.

At the end of the week, we observed an increase of the volatility on the debt market. The yields of US Treasuries and German bunds were dropping in reaction to news about next US political crisis, after the announcement that former US president advisor Michael Flynn was ready to testify against US president. As a result, the US yield curve decreased by 9-10 bp in the 5Y-10Y segment and by 6 bp on the front end. However, later rebound and morning increases translated into 1-3 bp downshift across the day, stronger in the long end of the curve. The German debt reaction was weaker yet more durable, and caused 5-6 bp downshift in the 5Y-10Y segment and 2 bp downshift in the 2Y segment.

Higher than expected domestic PMI data pushed down the yields in the 5Y-10Y segment on Friday morning. In the afternoon the yields went up in reaction to the news about the next US political crisis. Rising risk aversion helped to push the yields up close to the opening level. Only the short end was rising sustainably across the Friday. In the rest of CEE region bond yields decreased on Friday. Today we expect the yields to increase awaiting for the MPC meeting. However, we think that

the increase in the nearest days should be small and will concentrate on the short end of the curve.

On Friday, EURUSD was mostly fueled by information about the looming political crisis in the USA. This pushed EURUSD down to 1.890 from 1.930, temporarily reaching 1.1850. Today the rate is close to 1.1840.

EURPLN was on the rise since the beginning of the day amid profit taking and despite decent Polish manufacturing PMI. In the afternoon the zloty gained temporarily with EURPLN falling to 4.204 but the rise of EURUSD pushed the exchange rate up back to 4.214, PLN0.01 higher than at the opening. In the case of the other CEE currencies, we observed somewhat higher volatility – EURHUF continued to rise reaching 313.9, its highest since April (vs 313.1 at the opening) and USDRUB moved to 59.1 from 58.6 as the political scandal is about to break out in the US with Russia being involved. EURCZK closed at 25.52, near the opening level. We think the zloty could gain slightly today but later in the week EURPLN may rise.

Today the Dziennik Gazeta Prawna daily wrote that the Finance Ministry plans to repeat the trick with frontloading VAT returns at the year-end (PLN5bn) in order to support 2018 budget. Earlier the newspapers reported that it will not repeat this move due to reservations from the Eurostat.

The Economic event of the week will be the MPC meeting (with the decision coming on Tuesday, not on Wednesday as usual). The recent news flow has definitely given the Council much to talk about (3Q GDP growth at almost 5% y/y, CPI unexpectedly hitting the 2.5% y/y target in November and PMI rising above 54 pts for the first time since April). However, the long-awaited recovery of fixed investments materialized at slower pace than expected, most likely with stagnation outside local governments. MPC hawks could get some tailwind and manage to tweak the statement a bit, but still they remain a minority. We might get the ultra-dovish E.Łon and one of the most hawkish members (K.Zubelewicz or E.Gatnar) accompanying the governor during the press conference. Apart from that, Fitch may release a rating review of Poland on Friday, most likely just to confirm the current A-/stable grade.

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FX market

Today's opening

EURPLN	4.2047	CZKPLN	0.1646
USDPLN	3.5478	HUFPLN*	1.3398
EURUSD	1.1852	RUBPLN	0.0601
CHFPLN	3.6060	NOKPLN	0.4271
GBPPLN	4.7693	DKKPLN	0.5650
USDCNY	6.6173	SEKPLN	0.4227

*for 100HUF

Last session in the FX market

01/12/2017

	min	max	open	close	fixing
EURPLN	4.200	4.216	4.204	4.214	4.2078
USDPLN	3.524	3.551	3.535	3.543	3.5352
EURUSD	1.185	1.194	1.189	1.190	-

Interest rate market

01/12/2017

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
DS1019 (2L)	1.63	4	11/23/17	OK0720	1.846
PS0123 (5L)	2.75	0	11/23/17	PS0123	2.704
DS0727 (10L)	3.33	-1	11/23/17	DS0727	3.338

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.81	-1	1.77	-1	-0.26	-1
2L	2.07	-1	1.95	-1	-0.19	-3
3L	2.25	-3	2.05	-2	-0.06	-2
4L	2.41	-3	2.12	-3	0.07	-3
5L	2.54	-3	2.16	-3	0.20	-4
8L	2.85	-2	2.29	-5	0.57	-5
10L	3.00	-4	2.36	-6	0.79	-4

WIBOR rates

Term	%	Change (bps)
O/N	1.56	6
T/N	1.57	2
SW	1.59	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	1.77	0
6x9	1.83	0
9x12	1.94	0
3x9	1.85	0
6x12	1.91	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.99	-5
France	16	0	0.31	1
Hungary	116	1	1.75	-1
Spain	57	1	1.09	-2
Italy	115	1	1.40	-1
Portugal	101	1	1.54	-2
Ireland	25	-1	0.21	0
Germany	9	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

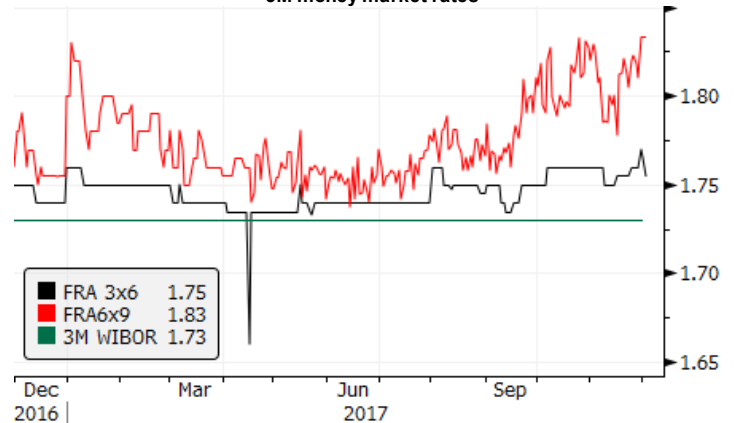
Zloty exchange rate



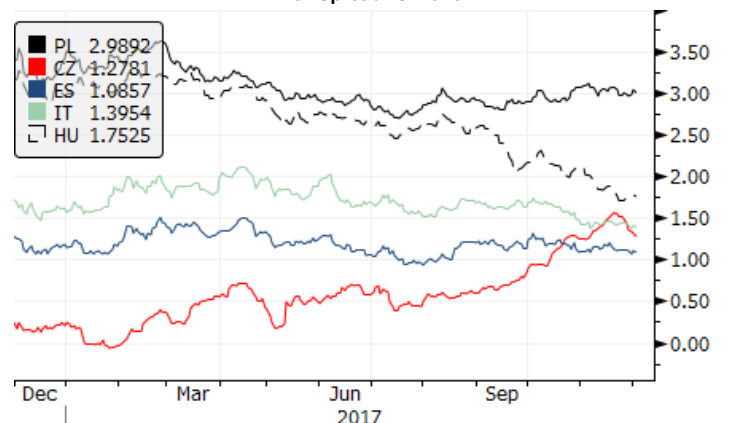
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL	LAST
CET					MARKET	BZWBK	VALUE	VALUE*
FRIDAY (1 December)								
09:00	CZ	GDP SA	3Q	% y/y	5,0		5,0	5,0
09:00	PL	Poland Manufacturing PMI	Nov	pts	54,0	54.6	54.2	53.4
09:55	DE	Germany Manufacturing PMI	Nov	pts	62.5		62.5	62.5
10:00	EZ	Eurozone Manufacturing PMI	Nov	pts	60,0		60.1	60,0
16:00	US	ISM manufacturing	Nov	pts	58.3		58.2	58.7
MONDAY (4 December)								
16:00	US	Durable Goods Orders	Oct	% m/m	-1,0		-	-1.2
16:00	US	Factory Orders	Oct	% m/m	-0.4		-	1.4
TUESDAY (5 December)								
	PL	Poland Base Rate Announcement		%	1.5	1.5	-	1.5
02:45	CH	Caixin China PMI Services	Nov	pts	-		-	51.2
09:55	DE	Markit Germany Services PMI	Nov	pts	54.9		-	54.9
10:00	EZ	Eurozone Services PMI	Nov	pts	56.2		-	56.2
11:00	EZ	Retail Sales	Oct	% m/m	-0.7		-	0.7
16:00	US	ISM services	Nov	pts	59.0		-	60.1
WEDNESDAY (6 December)								
08:00	DE	Factory Orders	Oct	% m/m	-0.2		-	1.0
14:15	US	ADP report	Nov	k	190,0		-	234.9
THURSDAY (7 December)								
08:00	DE	Industrial Production SA	Oct	% m/m	0.95		-	-1.6
11:00	EZ	GDP SA	3Q	% y/y	2.5		-	2.5
14:30	US	Initial Jobless Claims	Dec-17	k	240		-	238
FRIDAY (8 December)								
	PL	Rating Review						
08:00	DE	Exports SA	Oct	% m/m	1.0		-	-0.4
14:30	US	Change in Nonfarm Payrolls	Nov	k	200		-	261
14:30	US	Unemployment Rate	Nov	%	4.1		-	4.1
16:00	US	Michigan index	Dec	pts	99.0		-	98.5

Source: BZ WBK, Reuters, Bloomberg

* in case of the revision the data is updated

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