# **EYEOPENER**

20 December 2017

### Sales and construction output rise fast

- Retails sales blooms fueled by durable goods
- Zloty gains thanks to strong data
- Polish bonds under pressure of higher yields abroad
- Koruna and forint stable
- Today, EC may take decision on Poland, abroad US real estate market data

Yesterday the zloty gained to the euro and the dollar thanks to the better-than-expected data on Polish construction output and retail sales. Polish debt was under pressure of sell-off observed on the core markets. Today, US tax reform may be in focus, as it may finally be enacted.

Polish industrial output rose in November by 9.1% y/y, slightly below expectations (market consensus at 9.6% y/y, our forecast at 10.1% y/y). Most considerable growth was recorded in exportoriented sectors as strong momentum in industry is driven by strong demand from Germany and European Union in general and we expect it to continue its upward trend in the months to come, given positive economic outlook for Europe. Construction rose by 19.8% y/y in November, strongly beating the consensus at 14.1% y/y and our forecast at 11.2% y/y. Strong rebound in civil engineering (24.6% y/y) may be a proof of a further rebound in investments in 4Q17. Retail sales rose in November by 8.8% y/y, way above market expectations (6.4% y/y) and our forecast (7.1% y/y). The upward surprise was delivered by a spike in sales of durables: cars (15.9% y/y) and electronic home appliances and furniture (14.8% y/y). These numbers support our forecast that the economic growth will remain rapid in the quarters to come, at c4.8% y/y in 4Q17 and 4.0% in 2018, driven by strong consumption, exports and recovering investment. Data support also our forecast of accelerating consumption of durable goods.

If the last week's information is confirmed, the European Commission may trigger the Article 7 of the EU Treaty against Poland today. In our view, its impact on the financial market should be temporary, as the risk of financial sanctions is still remote

On Tuesday we observed some rapid changes in the core bonds market. The US and Germany yields rose by 1-6bp, stronger on the long end of the curve (on the German market we observed bigger moves). Simultaneously, we have seen the asset swap spread increases on the German markets as well as yield rises of the Eurozone periphery bonds. It was a consequence of

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hawkish remarks of ECB members (Jozef Makuch, Jens Weidmann, Ardo Hansson) and the US tax reform procss accelerating. Today in the morning the US Senate approved the tax reform bill but due to procedural reasons it should be voted again in the House of Representatives.

In case of Polish bonds, the curve shifted by 8bp on the long end (more than on the core markets) and 5-6bp on the short end and the belly. IRS rates took the cue from bonds, so the asset swap spread moved only by 2-3bp. Bond sell-off took place after positive data on retail sales and construction output but it seems that the trend on the core markets was more important.

Yields of Czech, Hungarian and Russian 10Y bonds remained fairly stable throughout Tuesday.

Today we expect the domestic yield curve to continue rising, but less than yesterday. This should be supported by low end-of-theyear liquidity and the final vote on the US tax reform. We think that by the end of the year the recent weakness will be corrected.

On Tuesday EURUSD continued to march higher, after opening around 1.178. Weaker-than-expected lfo temporarily halted this move. At the end of the day the exchange rate was at 1.181. The euro was supprted by hawkish comments of three ECB members.

Yesterday, EURPLN continued the down trend that started this Monday which was supported by great results of retail sales along with construction and assembly production. As a result, EURPLN went below 4.20 and this is also the level of today's opening. By the end of the week/year, we do not expect any further drops of EURPLN and we assume that the exchange rate will remain close to 4.20.

During the first part of the day, EURCZK dropped to 25.60, the level from the first half of the previous week. However, during the second part of the day the morning move was reversed.

EURHUF dropped from 313.50 to 312.90 during the day. The meeting of Hungarian Cenral Bank had no significant impact on the forint.

USDRUB rose from 58.60 to 58.80 following weaker retail sales data (2.7% y/y vs. consensnus at 3.3%). Information about faster growth of wages did not prevent the decreasing trend.

This week, we published a special issue of MACROscope: <u>Outlook for 2018</u>, where we present our 2018 projections for the economy, interest rates and FX.

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## Bank Zachodni WBK

FX market							
Today's o	pening						
EURF	PLN	4.2027	CZKPLN		0.1636		
USDF	PLN	3.5501	HUFPLN*		1.3430		
EURL	JSD	1.1838	RUE	RUBPLN			
CHFPLN		3.6033	NOKPLN		0.4247		
GBPPLN		4.7539	DKł	DKKPLN			
USDCNY		6.5926	SEKPLN		0.4226		
*for 100HUF							
Last sess	ion in the	e FX mark	et	19	9/12/2017		
	min	max	open	close	fixing		
EURPLN	4.196	4.211	4.203	4.201	4.2011		
USDPLN	3.548	3.573	3.565	3.552	3.5583		

1.183

EURUSD 1.178

Interest ra	19 ank marke	9/12/2017 et**			
Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
DS1019 (2L)	1.72	5	11/23/17	OK0720	1.846
PS0123 (5L)	2.71	6	11/23/17	PS0123	2.704
DS0727 (10L)	3.31	7	11/23/17	DS0727	3.338

1.179

1.183

IRS on the interbank market**							
Term	I	PL		US	l	EZ	
	%	Change (bps)	%	% Change (bps)		Change (bps)	
1L	1.81	1	1.89	2	-0.27	0	
2L	2.04	3	2.07	3	-0.18	1	
3L	2.22	4	2.16	4	-0.03	2	
4L	2.37	5	2.23	6	0.11	4	
5L	2.50	5	2.27	7	0.26	4	
8L	2.78	5	2.39	8	0.62	5	
10L	2.94	6	2.45	8	0.85	6	

WIBOR rates					
Term	%	Change (bps)			
O/N	1.42	4			
T/N	1.46	6			
SW	1.59	0			
2W	1.60	-1			
1M	1.65	0			
3M	1.72	0			
6M	1.81	0			
9M	1.82	0			
1Y	1.85	0			

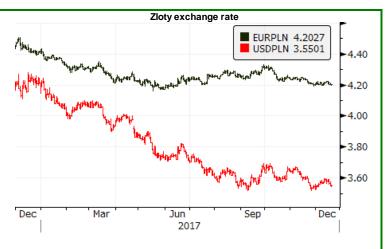
FRA rates on the interbank market**					
Term	%	Change (bps)			
1x4	1.73	0			
3x6	1.75	0			
6x9	1.80	2			
9x12	1.89	1			
3x9	1.82	0			
6x12	1.87	0			

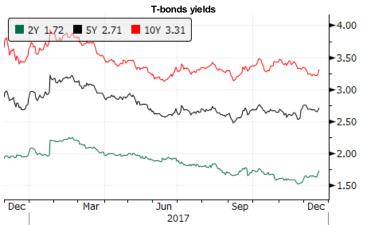
Measures of fiscal risk							
Country	CDS 5Y USD			10Y spread*			
	Level	Change		Level	Change		
		(bps)			(bps)		
Poland				2.94	8		
France	17	-1		0.33	0		
Hungary	116	1		1.64	-1		
Spain	54	-1		1.10	0		
Italy	115	0		1.53	0		
Portugal	95	2		1.42	-1		
Ireland	25	-1		0.19	7		
Germany	9	0		-	-		

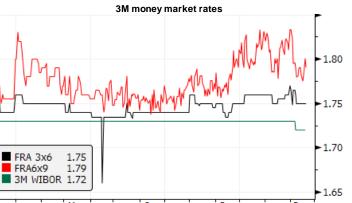
\* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg













Grupa Santander

#### Economic calendar

TIME		INDICATOR	PERIOD		FORE	CAST	ACTUAL VALUE	LAST
CET					MARKET	BZWBK		VALUE
FRIDAY (15 December)								
11:30	PL	Bond Switch Auction			-			
15:15	US	Industrial Production	Nov	% m/m	0.3	-	0.2	1.2
		MONI	DAY (18 Dece	mber)				
11:00	EZ	HICP	Nov	% y/y	1.5	-	1.5	1.5
14:00	PL	Employment in corporate sector	Nov	% y/y	4.4	4.3	4.5	4.4
14:00	PL	Average Gross Wages	Nov	% y/y	6.9	7.0	6.5	7.4
		TUES	DAY (19 Dece	mber)				
10:00	DE	IFO Business Climate	Dec	pts	-	-	117.2	117.5
14:00	HU	Central Bank Rate Decision	Dec-17	%	0.9	-	0.9	0.9
14:00	PL	Sold Industrial Output	Nov	% y/y	9.6	10.1	9.1	12.3
14:00	PL	Construction Output	Nov	% y/y	14.1	11.2	19.8	20.3
14:00	PL	PPI	Nov	% y/y	2.1	1.9	1.8	3.0
14:00	PL	Retail Sales Real	Nov	% y/y	6.4	7.2	8.8	7.1
14:30	US	Housing Starts	Nov	% m/m	-3.1	-	3.3	13.7
		WEDNE	SDAY (20 Dec	cember)				
16:00	US	Existing Home Sales	Nov	% m/m	0.91	-		2.05
		THURS	SDAY (21 Dec	ember)				
14:00	PL	MPC minutes	Dec-17		-			
14:30	US	GDP Annualized	3Q	% Q/Q	3.3	-		3.3
14:30	US	Initial Jobless Claims	Dec-17	k	236	-		225
		FRID	AY (22 Decen	,				
10:00	PL	Unemployment Rate	Nov	%	6.5	6.6		6.6
14:00	PL	Money Supply M3	Nov	% y/y	-	4.6		5.7
14:30	US	Durable Goods Orders	Nov	% m/m	1.8	-		-0.8
14:30	US	Personal Spending	Nov	% m/m	0.4	-		0.3
14:30	US	Personal Income	Nov	% m/m	0.4	-		0.4
16:00	US	Michigan index	Dec	pts	97.2	-		96.8
16:00	US	New Home Sales	Nov	% m/m	-4.96	-		6.2

Source: BZ WBK. Bloomberg, Parkiet

\* in case of the revision the data is updated

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