

EYEOPENER

22 January 2018

Government shutdown in USA

- **Positive moods at the end of the week, government shutdown in the USA**
- **Polish December data on output and sales below forecasts.**
- **Zloty and other CEE currencies lost, dollar gained versus euro**
- **Yields in Poland and core markets stable at the end of the week**
- **No important data releases today**

The market sentiment was quite positive during the Friday session. Stock exchange indices across Europe kept growing, thus slightly burdening bonds on the core markets. The CEE currencies did not benefit from the persistent risk appetite and depreciated slightly on Friday. The Polish Senate adopted the 2018 budget act with a deficit limit of PLN41.5bn.

Today, the US Senate will vote on the government shutdown, which began on 20 January 2018 in effect of the failure to adopt the budget act. The US House of Representatives had previously adopted a provisional budget bill, but it was rejected by the Senate on Friday.

Retail sales rose by 5.2% y/y in December, markedly slower than expected by us (10.0% y/y and the market 7.7% y/y). In our view, sales growth slowed down versus November (8.8% y/y) mostly due to a negative working day effect (-2 days y/y). A visible slowdown in durable goods makes us think that many consumers advanced purchases (sell-offs in November). The strong November positive contribution of car sales (+1.8 pp) has vanished completely in December. In our view the underlying trend remains strong and results of the entire 4Q (6.9% y/y) suggest a robust growth of private consumption. Industrial output came in December at 2.7% y/y, lower than the market expected (3.5%) but slightly above our forecast (2.2%). Seasonally and working day adjusted output growth was 7.3% y/y, in line with 2H average confirming solid pace of expansion. Construction output surprised on the upside with 12.7% y/y vs 11.6% market consensus and our 10.2% call. It is a confirmation of accelerating investments in 4Q. The December data support our 4.8% y/y forecast of 4Q GDP growth.

On Friday, EURUSD leveled half of Thursday's rise and the dollar appreciation resulted mainly from profit-taking before the end of the week. The rate remains below this year's peak at

just over 1.23 and it seems that until Thursday's ECB decision, EURUSD will remain below this level.

On Friday EURPLN rose sharply to 4.1760 from 4.1600, USDPLN rebounded to 3.4050 from 3.3900. In our view, this development was driven by the dollar appreciation as well as moves on the Czech koruna market, which began to lose against the euro, as a reaction to remarks of the member of the central bank board. Tomas Nidetzky said that Czech economy might not need more than two interest rates hikes this year, which was interpreted by investors as a dovish signal. At the end of the week, the Hungarian forint also weakened, while the ruble did not change significantly. Today we do not expect any important data, the ECB's decision is scheduled for Thursday. In our opinion, until then the EURPLN will fluctuate between 4.14-4.19.

On the domestic interest rate market the last session of the week saw no significant changes and bond yields and IRS rates ended the session near Thursday's close. The reaction to worse than expected domestic data was small and not persistent. The intra-day fluctuations on the core markets were stronger but overall the changes were not very significant. On the euro zone peripheral debt markets yields decreased by 1-3bp.

The public sector balance in 3Q17 reached PLN630m, which was the best result since the comparable data are available (1999). In 2013-2016 the average result in this period was -cPLN10bn. The sum for the last four quarters reached -PLN25bn, i.e. -1.3% of GDP, which is the lowest annual deficit since the data are available. We expect that at the end of 2017 the public sector deficit will be clearly below 2% of GDP and in 2018 it may be near 2% of GDP.

This week, the market attention could turn to Europe: flash January PMIs and the ECB meeting, in particular. Minutes from the previous meeting sounded hawkish, signalling a possible introduction of a change in the bank's forward guidance already in early 2018, despite the fact that the ECB QE programme is to run until September, and this has been indirectly confirmed in many ECB members' remarks since then. The ECB meeting can increase market volatility this week. Poland's macro calendar is rather light, most likely not providing any triggers for Polish assets and currency.

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FX market

Today's opening

EURPLN	4.1706	CZKPLN	0.1643
USDPLN	3.4095	HUFPLN*	1.3490
EURUSD	1.2232	RUBPLN	0.0602
CHFPLN	3.5455	NOKPLN	0.4343
GBPPLN	4.7337	DKKPLN	0.5604
USDCNY	6.4089	SEKPLN	0.4244

*for 100HUF

Last session in the FX market

19/01/2018

	min	max	open	close	fixing
EURPLN	4.160	4.177	4.163	4.173	4.175
USDPLN	3.391	3.417	3.405	3.414	3.3994
EURUSD	1.222	1.230	1.223	1.222	-

Interest rate market

19/01/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
DS1019 (2L)	1.55	-1	1/4/18	OK0720	1.863
PS0123 (5L)	2.63	-2	1/4/18	PS0123	2.561
DS0727 (10L)	3.31	-1	12/15/17	DS0727	3.209

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.77	0	2.04	0	-0.26	0
2L	1.98	0	2.25	0	-0.14	-1
3L	2.16	0	2.37	1	0.04	0
4L	2.34	0	2.44	2	0.21	-1
5L	2.48	0	2.49	3	0.37	-1
8L	2.76	-1	2.61	4	0.76	0
10L	2.91	0	2.66	5	0.97	1

WIBOR rates

Term	%	Change (bps)
O/N	1.51	12
T/N	1.51	0
SW	1.56	0
2W	1.59	0
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	1.73	0
6x9	1.76	0
9x12	1.83	0
3x9	1.81	0
6x12	1.82	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.74	-2
France	16	0	0.27	0
Hungary	116	1	1.61	0
Spain	41	-1	0.83	-4
Italy	104	1	1.37	-2
Portugal	71	-1	1.37	-3
Ireland	25	-1	0.40	0
Germany	8	1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

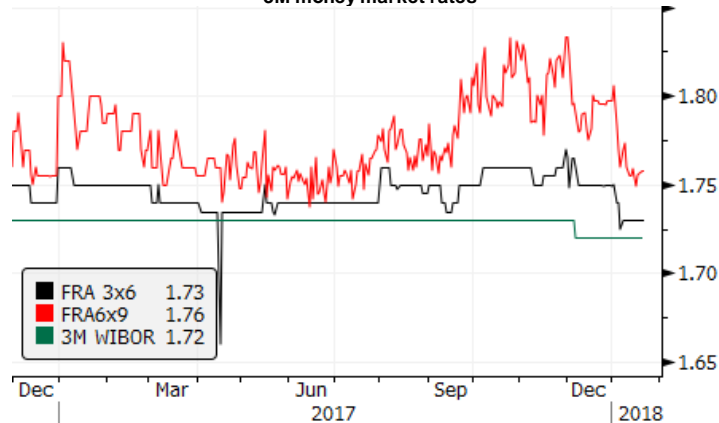
Zloty exchange rate



T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar								
TIME		INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST
CET	MARKET				BZWBK	VALUE		
FRIDAY (19 January)								
14:00	PL	Sold Industrial Output	Dec	% y/y	3.5	2.2	2.7	9.1
14:00	PL	Construction Output	Dec	% y/y	11.6	10.2	12.7	19.8
14:00	PL	PPI	Dec	% y/y	0.6	0.6	0.3	1.8
14:00	PL	Retail Sales Real	Dec	% y/y	7.7	10.0	5.2	8.8
16:00	US	Michigan index	Jan	pts	97.0	-	94.4	95.9
MONDAY (22 January)								
No important data releases								
TUESDAY (23 January)								
11:00	DE	ZEW Survey Current Situation	Jan	pts	89.9			89.3
14:00	PL	Money Supply M3	Dec	% y/y	4.4	4.2		4.5
WEDNESDAY (24 January)								
09:30	DE	Flash Germany Manufacturing PMI	Jan	pts	63.0			63.3
09:30	DE	Flash Markit Germany Services PMI	Jan	pts	55.6			55.8
10:00	EZ	Flash Eurozone Manufacturing PMI	Jan	pts	60.3			60.6
10:00	EZ	Flash Eurozone Services PMI	Jan	pts	56.4			56.6
10:00	PL	Unemployment Rate	Dec	%	6.5	6.6		6.5
14:00	PL	Stats Office business sentiment	Jan	pts				
16:00	US	Existing Home Sales	Dec	% m/m	-2.32			5.6
THURSDAY (25 January)								
10:00	DE	IFO Business Climate	Jan	pts	117.0			117.2
13:45	EZ	ECB Main Refinancing Rate	Jan-18	%	0.0			0.0
16:00	US	New Home Sales	Dec	% m/m	-7.9			17.5
FRIDAY (26 January)								
11:30	PL	Bond Auction			-			
14:30	US	Durable Goods Orders	Dec	% m/m	0.9			1.3
14:30	US	Advance GDP	4Q	% Q/Q	3.0			3.2

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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