

EYEOPENER

24 January 2018

Today flash PMIs in Europe

- **FX market stable prior to ECB despite strong equity market**
- **Glapiński: we do not speak about interest rates at all**
- **Polish debt stable despite falling yields abroad**
- **Today unemployment rate in Poland, flash January PMIs in Europe**

Further rise of the European stock indexes and reaching a fresh all-time-high by Polish WIG index did not have much impact on currencies and bonds during the yesterday's session. German ZEW index for current situation surprised for the third month in a row and reached its new record high level. This reading had some minor positive impact on the euro while the CEE currencies did not move much yesterday.

The US Senate approved Jerome Powell for the new Fed governor. He will replace Janet Yellen whose term expires on February 3. Powell is a member of the Fed board since 2012 and investors expect he will continue the monetary policy run by his predecessor.

Yesterday EURUSD rose to 1.23 from 1.223 amid next solid German data and positive global market sentiment. Taking a broader look, since mid-January the exchange rate stays in the horizontal trend hovering around the multi-year peak and waiting for a trigger. We think the outcome of the Thursday's ECB meeting could spur volatility, in our view there are bigger chances for a correctional dollar strengthening. Today, flash January PMIs are on the agenda and we think that any market reaction to these figures could be only temporary.

Yesterday EURPLN stayed relatively stable, oscillating close to 4.17, like on Monday. USDPLN fell to the 3.39, as a reaction to EURUSD increase. Other CEE currencies did not change significantly. Today we expect EURUSD to remain in the Friday's 4.16-4.18 range. We maintain our view that in the few months' horizon zloty will be weakening.

On the domestic debt market, IRS rates and bond yields stayed near to the Monday closing. Earlier, Polish T-bonds gained, following the core market and Euro periphery bonds. However, they did not hold gains until the end of the day. This week over PLN8bn from WZ0118 buyback are flowing on the market and this will stabilise the front end of the curve. The belly and the long end will be under influence of the core markets.

Poland M3 money supply growth rose 4.6% y/y in December vs 4.5% y/y in November. Deposits continued the trend observed in the previous months i.e. a gradual slowdown. Deposits of non-monetary financial institutions were an exception growing by PLN3bn m/m. Looking at loans, it is worth to note the acceleration of consumption credits to 8% y/y and deceleration of mortgage loans to -1.5% y/y, the latter was mainly the effect of stronger zloty at the year-end. After adjusting for the FX effect, mortgages grew 3.5% y/y, in line with the trend observed in the previous months. Current corporate loans accelerated to 8.4% y/y and investments loans to 12.6% y/y.

The NBP president Adam Glapiński said at the conference in Davos that the MPC members do not discuss interest rates at all during the Council meetings. We guess it was an exaggeration, but it seems to accurately show the NBP governor's belief that there is absolutely no need to change interest rates in Poland in the coming quarters. Nevertheless, we think that accelerating wage growth and mounting core inflation will finally convince the central bank to lift interest rates at the turn of 2018 and 2019.

The EU Commissioner for Justice Věra Jourová said that the European Commission will work on the mechanism that would condition the access to the support funds on the independence of the judiciary system. This creates risk for payments for Poland, as our country is in conflict with the EU due to recent controversial changes in the judiciary system. The preliminary assumptions to the next EU medium-term budget will be released in May.

PM Mateusz Morawiecki said yesterday that VAT revenues in 2017 reached PLN157bn, which is in line with our forecast. We estimate that the central budget deficit reached cPLN25bn and the deficit of the entire public sector was below 2% of GDP.

Today at 10:00 the statistical office will release the unemployment rate for December. In our view, the jobless rate climbed to 6.6% in December. Most probably, rise in the number of the unemployed was the lowest this month since comparable data are available (early 90s) – thanks to strong labour demand and lower retirement age. Our forecasts is in line with data from the Labour Ministry, so a surprise is unlikely.

ECONOMIC ANALYSIS DEPARTMENT:

al. Jana Pawła II 17, 00-854 Warsaw fax +48 22 586 83 40

email: ekonomia@bzwbk.pl

Web site: skarb.bzwbk.pl

Piotr Bielski +48 22 534 18 87

Marcin Luziński +48 22 534 18 85

Grzegorz Ogonek +48 22 534 19 23

Konrad Soszyński +48 22 534 18 86

Marcin Sulewski +48 22 534 18 84

TREASURY SERVICES:

Poznań +48 61 856 5814/30

Warszawa +48 22 586 8320/38

Wrocław +48 71 369 9400

FX market

Today's opening

EURPLN	4.1693	CZKPLN	0.1642
USDPLN	3.3868	HUFPLN*	1.3476
EURUSD	1.2310	RUBPLN	0.0600
CHFPLN	3.5449	NOKPLN	0.4333
GBPPLN	4.7504	DKKPLN	0.5601
USDCNY	6.3920	SEKPLN	0.4235

*for 100HUF

Last session in the FX market

23/01/2018

	min	max	open	close	fixing
EURPLN	4.165	4.174	4.167	4.172	4.1712
USDPLN	3.389	3.413	3.403	3.397	3.4084
EURUSD	1.222	1.231	1.224	1.228	-

Interest rate market

23/01/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
DS1019 (2L)	1.53	0	1/4/18	OK0720	1.863
PS0123 (5L)	2.64	-1	1/4/18	PS0123	2.561
DS0727 (10L)	3.31	0	12/15/17	DS0727	3.209

IRS on the interbank market**

Term	PL %	Change (bps)	US %	Change (bps)	EZ %	Change (bps)
1L	1.78	1	2.03	-1	-0.26	0
2L	1.99	1	2.25	-2	-0.14	0
3L	2.17	1	2.37	-3	0.04	0
4L	2.35	1	2.44	-3	0.22	0
5L	2.48	0	2.49	-3	0.38	0
8L	2.76	0	2.60	-4	0.76	-1
10L	2.92	0	2.65	-4	0.97	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.48	24
T/N	1.50	17
SW	1.55	1
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	1
9x12	1.84	0
3x9	1.81	0
6x12	1.83	0

Measures of fiscal risk

Country	CDS 5Y USD Level	Change (bps)	10Y spread* Level	Change (bps)
Poland			2.74	-1
France	16	0	0.28	0
Hungary	116	1	1.56	-1
Spain	41	0	0.80	0
Italy	101	-4	1.33	1
Portugal	68	-4	1.34	0
Ireland	25	-1	0.41	0
Germany	9	1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

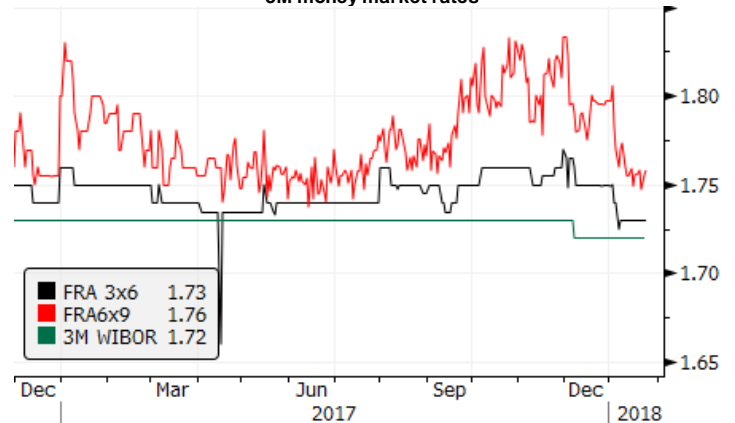
Zloty exchange rate



T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar								
TIME		INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE
CET					MARKET	BZWBK		
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		95.2	89.3
14:00	PL	Money Supply M3	Dec	% y/y	4.4	4.2	4.6	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	55.5			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	-1.9			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

This publication has been prepared by Bank Zachodni WBK S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Bank Zachodni WBK S.A., its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Bank Zachodni WBK S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Bank Zachodni WBK S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

Additional information is available on request. Please contact Bank Zachodni WBK S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawla II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@bzwbk.pl, http://www.bzwbk.pl.