

EYEOPENER

25 January 2018

Will strong euro affect ECB?

- **New strong data from the Polish economy**
- **NBP president supported the zloty, US treasury secretary weakened the dollar**
- **Yields in Poland and abroad went up**
- **Today ECB decision, German and US data**

Yesterday saw a correction of Tuesday's hikes in stock prices and strengthening of bonds. The currency quotes were mostly impacted by statements of the US Treasury secretary Steven Mnuchin and the president of the Polish central bank.

When interviewed by PAP yesterday, the NBP president Adam Glapiński said that the interest rates hike would be possible in 2019 if, among others, "wages will grow too fast". This statement contrasts strongly with the rather conservative rhetoric of the president presented at press conferences after the MPC meetings and therefore it impacted the zloty and the interest rate market yesterday. Nonetheless, in our opinion, the NBP president's statement was highly conditional and he still believes there is no need to hike the rates in Poland.

Steven Mnuchin said that weak dollar is good for the US economy as it boosts foreign trade. He added that the US administration target is GDP growth at or above 3%. His comment on weak dollar weighed yesterday on the US currency.

EURUSD jumped to c.1.24 from 1.232 reaching fresh this year's peak. Flash January euro zone and German manufacturing PMIs disappointed, but indexes for services beat expectations and this might have been the reason why EURUSD did not fall. Today the outcome of the ECB meeting could be key for the market. The last week's verbal attempts to stop euro appreciation make us think that the tone of the statement and remarks during the press conference would not be too hawkish. As a result, the outcome of the ECB meeting might hit the euro vs the dollar.

EURPLN fell to 4.146 breaking the Friday's low at 4.16 in reaction to the hawkish comment of the NBP governor and further rise of EURUSD. Euro's appreciation vs the dollar generated additional downside pressure on USDPLN that neared 3.35, its lowest since December 2014. As regards the other CEE currencies, the forint gained slightly vs the euro while the koruna and ruble stayed roughly flat. Tone of the minutes from the ECB December meeting was rather hawkish but this did not hit the CEE currencies and the EURPLN correlation with EURUSD proved more important. We think that the outcome of the ECB meeting might push EURUSD down which may imply upside pressure on EURPLN under the assumption that correlation holds.

On the domestic interest rate market IRS and bond yields were rising, particularly at the long end of the curves. Similar trend was observed in core and peripheral bond markets. The key factor for weakening of debt abroad could have been a quick end of the government shutdown in the USA and yesterday's comments of US treasury secretary. Today the key factor for the debt market will be the ECB decision. We think that strong euro gains over the last week may influence the tone of the ECB statement and the press conference, so they are unlikely to be hawkish. Such scenario could help bonds to trim some of earlier losses. Moreover, the domestic bond auction scheduled for Friday (PLN5-7bn) together with the redemption scheduled for today (PLN8.6bn of WZ0118) should reduce the nominal level of outstanding debt in PLN by PLN1.6-2.6bn. It should be also a positive impulse for the bond market.

In January 2018 the seasonally adjusted business climate indicators published by GUS improved in all economic sectors. Gains in manufacturing and hotels and restaurants were among the strongest in history. Index in manufacturing jumped from 9.2 to 17.5, its highest since April 2008, amid rebound in nearly all its components (including the assessment of general economic climate, production and new orders, financial situation, and employment forecasts). High employment readings point to a very strong start of 2018 in terms of economic activity, despite building problems with labour shortage. We think that it implies strong growth of production in industry and construction in January.

Detailed information on wages showed that the December results (7.3% y/y) were pushed up by one-off payments in the mining sector, which contributed 1.3pp to the wages increase - the highest since February 2013. The growth of wages in other sectors amounted, on average, to 6.5% y/y, which is less than in November (7.1% y/y). However, we believe that this slowdown does not imply a lower wage pressure, but rather is the outcome of the negative effect of business days, which has reduced wages in sectors that are more prone to apply the piecework system (e.g. industrial manufacturing). The growth of wages in trade is worth noting as it accelerated to 9.2% y/y and was the highest since mid-2008.

In December 2017, the expenditure on retirement and disability pensions was ca. PLN600m up on September, i.e. before the retirement age was decreased to 65 years for men and 60 years for women. According to ZUS data, over 313k persons have retired by December and in effect, the annual expenditure on pensions will increase by ca. PLN7.5bn this year.

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FX market

Today's opening

| | | | |
|--------|--------|---------|--------|
| EURPLN | 4.1463 | CZKPLN | 0.1634 |
| USDPLN | 3.3397 | HUFPLN* | 1.3405 |
| EURUSD | 1.2415 | RUBPLN | 0.0598 |
| CHFPLN | 3.5419 | NOKPLN | 0.4314 |
| GBPPLN | 4.7614 | DKKPLN | 0.5570 |
| USDCNY | 6.3392 | SEKPLN | 0.4218 |

*for 100HUF

Last session in the FX market

24/01/2018

| | min | max | open | close | fixing |
|--------|-------|-------|-------|-------|--------|
| EURPLN | 4.145 | 4.172 | 4.172 | 4.153 | 4.1637 |
| USDPLN | 3.343 | 3.398 | 3.397 | 3.352 | 3.375 |
| EURUSD | 1.228 | 1.240 | 1.228 | 1.239 | - |

Interest rate market

24/01/2018

T-bonds on the interbank market**

| Benchmark (term) | % | Change (bps) | Last auction | Paper offered | Average yield |
|------------------|------|--------------|--------------|---------------|---------------|
| DS1019 (2L) | 1.54 | 1 | 1/4/18 | OK0720 | 1.863 |
| PS0123 (5L) | 2.68 | 4 | 1/4/18 | PS0123 | 2.561 |
| DS0727 (10L) | 3.34 | 2 | 12/15/17 | DS0727 | 3.209 |

IRS on the interbank market**

| Term | PL | | US | | EZ | |
|------|------|--------------|------|--------------|-------|--------------|
| | % | Change (bps) | % | Change (bps) | % | Change (bps) |
| 1L | 1.78 | 0 | 2.04 | 1 | -0.26 | 0 |
| 2L | 2.03 | 3 | 2.26 | 1 | -0.13 | 0 |
| 3L | 2.22 | 5 | 2.38 | 1 | 0.04 | -1 |
| 4L | 2.41 | 6 | 2.45 | 1 | 0.23 | 1 |
| 5L | 2.55 | 7 | 2.50 | 1 | 0.39 | 1 |
| 8L | 2.84 | 8 | 2.61 | 2 | 0.78 | 2 |
| 10L | 3.00 | 8 | 2.67 | 2 | 0.98 | 1 |

WIBOR rates

| Term | % | Change (bps) |
|------|------|--------------|
| O/N | 1.19 | -29 |
| T/N | 1.25 | -25 |
| SW | 1.54 | -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 | 0 |
| 9x12 | 1.86 | 2 |
| 3x9 | 1.82 | 1 |
| 6x12 | 1.85 | 2 |

Measures of fiscal risk

| Country | CDS 5Y USD | | 10Y spread* | |
|----------|------------|--------------|-------------|--------------|
| | Level | Change (bps) | Level | Change (bps) |
| Poland | | | 2.76 | 4 |
| France | 16 | -1 | 0.27 | 0 |
| Hungary | 116 | 1 | 1.54 | 0 |
| Spain | 42 | 0 | 0.76 | -1 |
| Italy | 97 | -3 | 1.31 | -1 |
| Portugal | 66 | -1 | 1.29 | -1 |
| Ireland | 25 | -1 | 0.42 | 0 |
| Germany | 8 | 0 | - | - |

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

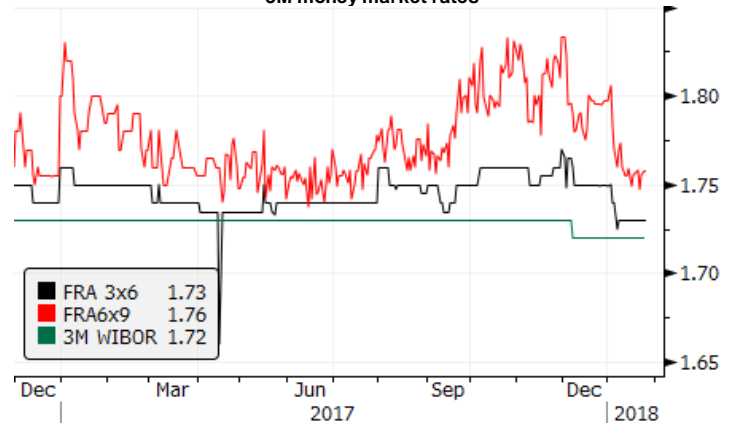
Zloty exchange rate



T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

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 | | 61.2 | 63.3 |
| 09:30 | DE | Flash Markit Germany Services PMI | Jan | pts | 55.5 | | 57.0 | 55.8 |
| 10:00 | EZ | Flash Eurozone Manufacturing PMI | Jan | pts | 60.3 | | 59.6 | 60.6 |
| 10:00 | EZ | Flash Eurozone Services PMI | Jan | pts | 56.4 | | 57.6 | 56.6 |
| 10:00 | PL | Unemployment Rate | Dec | % | 6.5 | 6.6 | 6.6 | 6.5 |
| 14:00 | PL | Stats Office business sentiment | Jan | pts | | | | |
| 16:00 | US | Existing Home Sales | Dec | % m/m | -1.9 | | -3.6 | 5.1 |
| 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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