

EYEOPENER

20 February 2018

Today industrial production and retail sales data

- Zloty gained thanks to Gnatnar hawkish comments
- Polish IRS and yields go up following the core markets No today
- Ministry of finance sees lower borrowing needs
- Today: domestic industrial production data and German ZEW

On European stock indexes did not manage to keep their morning gains until the end of the day but this did not prevent CEE currencies from gaining during the first session of the new week. The dollar remained strong after Friday's appreciation while yields on the global market rose on Monday.

Gatnar considers a rate hike this year

MPC member Eugeniusz Gatnar, told Bloomberg yesterday that MPC should think about a rate hike if CPI in 2H18 breaks above 2.5% y/y on the back of fast growing wages. In his view the tight labour market, strong domestic demand and GDP growing above potential will eventually lead to higher inflation. This is why one should stay cautious despite the recent data. In his view what is important for monetary policy is to move away from negative real rates – as they weigh on growth and discourage saving when Poland needs to build its local capital base.

MPC's Łukasz Hardt also spoke yesterday, expanding the thoughts he expressed during the last MPC press conference. He thinks disinflationary factors gained strength which decreases the need for quick monetary tightening – probability, that it will be implemented went down in his view. At the same time he named factors that could make him more hawkish again: rise of inflation expectations, high and lasting wage growth, significant acceleration of services inflation, acting ECB and another turn in PPI growth (January reading to be released today, possibly declining below zero).

We get an impression that remarks from both members stress the necessity to see some phenomena in the data first and then reacting with possibly more hawkish rhetoric. This fits our expectations that it will take the Council about a year to deliver the first rate hike.

FX market

EURUSD fluctuated quite long in the horizontal trend slightly above 1.24, but in the afternoon the gradually deteriorating sentiment on the European stock exchanges pushed it below that level. EURUSD fluctuations were minor though, as yesterday no important data were published and the US market was closed. This morning we expect first summary (from Germany) of investors/ entrepreneurs moods in February. The German ZEW index may trigger clearer changes on the EURUSD market.

EURPLN fell below 4.14 yesterday, with other CEE currencies also gaining against the euro. USDPLN remained close to 3.34. The domestic currency may have been supported by the hawkish words of

Gatnar from the Monetary Policy Council, which outweighed the negative impact of the morning stock hikes. Today, the Stats Office will publish data on domestic industrial production for January. Our forecast is slightly above consensus, so the data could be favorable for the zloty. On the other hand, the ultimate force of response will depend on the sentiment prevailing in the global market

Debt market

On the domestic debt market the start of the week saw a rise of IRS rates and bond yields, following the euro zone core and peripheral markets. IRS curve moved up by 1-3bp and bond curve by 2-4bp. We think that today's Polish data will confirm continuation of fast economic growth at the start of the year. However, taking into account the MPC's decisive stance as regards keeping monetary policy unchanged, we do not think it could have a meaningful negative impact on the domestic debt. Bonds should be supported by yesterday's comments from the Ministry of Finance about lower debt supply in the coming months.

Today: January's industrial production and PPI

Today, we will get data on economic activity in the first month of 1Q. As we wrote in our February [MACROscope](#) we expect the pace of growth of industrial output, construction output and retail sales data to go back to the levels seen in October and November (December figures were dragged down by the negative effect of number of working days). Our industrial production forecast for January falls between 9.1% and 12.3% readings of the mentioned months, while construction output may have risen by 22.8% y/y. Retail sales y/y growth may be however somewhat smaller due to an adverse base effect, but we are still above consensus with our 7.7% call as consumers in January might have made up for poor car purchases in December, and maintained extremely high level of optimism.

Strong housing market

Building permits were at 20.8k in January (+38.6% y/y) – the highest level in that month since 2001 (i.e. since comparable data are available). 12-month rolling sum of permits amounted to 256k, also at all-time high. New flats hit 13.6k (-11.7% y/y) in January and 176.5k in 12-month rolling sum (the second best result).

Lower borrowing needs

The Finance Minister Teresa Czerwińska assessed it will be difficult to maintain a 5% growth in the quarters to come due to development of the business cycle. However, in the whole 2018 the GDP growth may be higher than 3.8% y/y assessed in the budget. According to Czerwińska, the budget deficit may also be lower than assumed in the budget act, but deficit reduction is not a goal in itself. Czerwińska said that when choosing between investment and deficit reduction, the government would choose investment, so as to address long-term challenges, but bearing in mind that deficit reduction is a long-term goal. The Finance Minister said also that debt supply will be reduced in the quarters to come and gross borrowing needs may be lower than PLN181.7bn assumed in the budget act.

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FX market

Today's opening

EURPLN	4.1399	CZKPLN	0.1636
USDPLN	3.3485	HUFPLN*	1.3299
EURUSD	1.2364	RUBPLN	0.0593
CHFPLN	3.5928	NOKPLN	0.4288
GBPPLN	4.6717	DKKPLN	0.5560
USDCNY	6.3415	SEKPLN	0.4175

*for 100HUF

Last session in the FX market

19/02/2018

	min	max	open	close	fixing
EURPLN	4.132	4.163	4.157	4.135	4.1467
USDPLN	3.329	3.356	3.350	3.331	3.3411
EURUSD	1.237	1.244	1.241	1.241	-

Interest rate market

19/02/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.71	2	2/8/18	OK0720	1.813
PS0123 (5L)	2.75	4	2/8/18	PS0123	2.772
WS0428 (10L)	3.49	3	2/8/18	WS0428	3.515

IRS on the interbank market**

Term	PL %	PL Change (bps)	US %	US Change (bps)	EZ %	EZ Change (bps)
1L	1.78	0	2.23	0	-0.26	0
2L	2.04	2	2.48	2	-0.12	1
3L	2.28	3	2.62	2	0.09	1
4L	2.49	4	2.69	2	0.30	1
5L	2.65	4	2.73	1	0.50	2
8L	2.97	4	2.84	1	0.94	3
10L	3.13	4	2.89	1	1.15	2

WIBOR rates

Term	%	Change (bps)
O/N	1.59	-3
T/N	1.59	-3
SW	1.59	0
2W	1.60	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	1.72	0
3x6	1.74	1
6x9	1.76	-1
9x12	1.85	1
3x9	1.82	0
6x12	1.85	1

Measures of fiscal risk

Country	CDS 5Y USD Level	Change (bps)	10Y spread* Level	Change (bps)
Poland			2.73	1
France	16	0	0.26	0
Hungary	116	1	1.86	0
Spain	48	1	0.77	0
Italy	100	4	1.30	0
Portugal	68	1	1.28	0
Ireland	25	-1	0.42	0
Germany	10	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

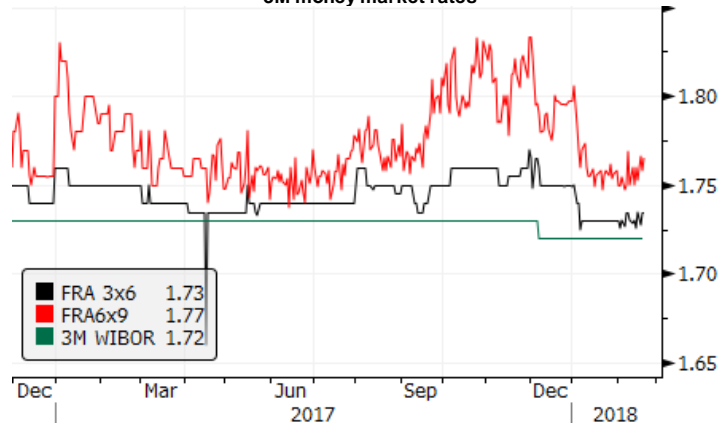
Zloty exchange rate



T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME	INDICATOR		PERIOD		FORECAST		ACTUAL	LAST
CET					MARKET	BZWBK	VALUE	VALUE
FRIDAY (16 February)								
09:00	CZ	GDP SA	4Q	% y/y	5.3	-	5.1	5.0
10:00	PL	Employment in corporate sector	Jan	% y/y	3.4	3.8	3.8	4.6
10:00	PL	Average Gross Wages	Jan	% y/y	6.9	7.3	7.3	7.3
14:30	US	Housing Starts	Jan	% m/m	4.52	-	9.7	-8.2
16:00	US	Michigan index	Feb	pts	96.4	-	99.9	95.7
MONDAY (19 February)								
No important events								
TUESDAY (20 February)								
10:00	PL	Sold Industrial Output	Jan	% y/y	8.5	9.3	-	2.7
10:00	PL	Construction Output	Jan	% y/y	20.35	22.8	-	12.7
10:00	PL	PPI	Jan	% y/y	0.1	-0.2	-	0.3
10:00	PL	Retail Sales Real	Jan	% y/y	6.45	7.1	-	5.2
11:00	DE	ZEW Survey Current Situation	Feb	pts	94.0	-	-	95.2
WEDNESDAY (21 February)								
09:30	DE	Flash Manufacturing PMI	Feb	pts	60.6	-	-	61.1
09:30	DE	Flash Services PMI	Feb	pts	57.0	-	-	57.3
10:00	EZ	Flash Manufacturing PMI	Feb	pts	59.3	-	-	59.6
10:00	EZ	Flash Services PMI	Feb	pts	57.6	-	-	58.0
16:00	US	Existing Home Sales	Jan	% m/m	0.72	-	-	-3.6
20:00	US	FOMC Meeting Minutes			-	-	-	0.0
THURSDAY (22 February)								
10:00	DE	IFO Business Climate	Feb	pts	117.0	-	-	117.6
14:00	PL	Money Supply M3	Jan	% y/y	4.9	4.8	-	4.6
14:30	US	Initial Jobless Claims	week	k	230	-	-	230
FRIDAY (23 February)								
10:00	PL	Unemployment Rate	Jan	%	6.9	6.9	-	6.6
11:00	EZ	HICP	Jan	% y/y	1.3	-	-	1.3

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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