

EYEOPENER

23 February 2018

Entrepreneurs in a better mood

- **Global mood a little less unstable**
- **RPP minutes more dovish, the business confidence still strong**
- **Zloty stable after depreciation, the dollar gave back profits**
- **Domestic debt rose owing to global trend and successful auction**
- **Today: in Poland unemployment rate, abroad Eurozone CPI and German GDP**

The global market sentiment has recently been unstable and the situation has not changed on Thursday. European equities fell at the opening of the session but later in the day managed to recover slightly. Still, this did not prevent the zloty and forint from depreciation. Core bond yields fell while the euro zone peripheries saw debt weakening. Hawkish tone of the FOMC minutes had only temporary effect also on the FX market where the dollar gave up its Wednesday's gains. The data on lower US weekly initial jobless claims did not help the greenback. Today's morning German 4Q17 GDP data were in line with expectations (2.9% y/y).

M3 money supply

In Poland, M3 growth accelerated to 4.8% y/y in January, in line with our forecast. Total deposits rose by 4.5% y/y and loans by 3.9% y/y. Household deposits kept on decelerating (3.9% y/y in January, the lowest in 12 years) and the tendency of switching term deposits into current deposits held on. Data corrected for FX changes suggest some acceleration of loans for private persons (4.8% y/y) and for companies (7.6% y/y). Interestingly, the higher growth of loans for firms was mostly due to a revival in real estate loans (9.1% y/y) amid some acceleration in current loans (7.3% y/y) and investment loans (10.3% y/y).

Minutes RPP – hawkish fell back

Yesterday, the NBP released the minutes from the February MPC meeting. The Council's main message was unchanged – stable rates this year are what the economy needs. This document is a bit more dovish than the previous one.

The paragraph with alternative, minority views is now only half as long, and does not specify the conditions that would warrant a rate hike (apart from a quite general reference to a potential rapid rise of inflationary pressure), but instead simply points to the next projection (due in March). The members stated that core inflation in 4Q was lower than envisaged in the NBP projections (0.87% y/y average vs. just above 1% in the November projection) despite stronger-than-expected GDP growth, which suggests that inflationary pressure is still limited. The majority expect the GDP forecast to rise in the next projection. Most members still do not see significant inflationary pressure coming from the labor market

and agree that unit labor costs are only growing mildly. We think the Council will keep rates on hold at least until 1Q19, as in 2018, we expect CPI to be mostly zigzagging below the target, preventing a tilt of the Council to the hawkish side.

Growing Optimism of Entrepreneurs

The business sentiment has improved even further in February. The Stat's Office business tendency indicators increased from 113.2 pts to 114.1 pts - the highest level since mid-2008. During the month, all four sectoral indicators improved, with the tendency in retail trade having already exceeded the peak recorded in 2007-2008. The improvement in the industry tendency indicator was based on a record-high data on portfolio of orders and a further decline in inventories of finished goods. New orders in construction and sales of goods for the last three months are also record high. There was a big correction of expectations of future industrial production - occurring just when the business tendency indicators for the euro zone ceased to positively surprise and the January production data were below expectations. Still, the expected production indicator stays highest in seven years.

In our opinion, such data should not incline towards assuming that Q1 will trigger a significant slowdown in GDP growth, although the turn of the year data are likely to mark the peak in the current business cycle.

FX market

EURUSD offset the Wednesday decline and rose to 1.233 from 1.226 yesterday despite deteriorating sentiment on the global market and better than expected data from the USA. This morning the fx pair made another swing and is heading for the yesterday low. Final euro zone inflation will be published today, but we do not think this figure could make EURUSD escape from 1.22-1.25 range at the end of the week.

EURPLN stabilised close to 4.18 after two days of rises, while USDPLN fell below 3.39 thanks to a rebound in EURUSD. The forint lost versus the euro, but the Czech koruna gained against the single currency. The ruble gained a bit to the dollar. In our view, EURPLN will remain elevated this week.

Debt market

Polish bonds and IRS rates were following core markets again on Wednesday. Strengthening of Bunds and Treasuries, together with a very successful domestic bond auction (details below) caused a decline of yields by 1-3bp.

The Ministry of Finance sold bonds worth PLN4.9bn (including PLN4bn at the primary auction) amid demand at PLN15.5bn (PLN13.1bn at primary auction). According to the Ministry, this year's borrowing needs are covered in 46% after the auction. It was probably the last standard auction in this quarter and in March the switching auctions will be organised.

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	4.1802	CZKPLN	0.1650
USDPLN	3.4003	HUFPLN*	1.3361
EURUSD	1.2294	RUBPLN	0.0601
CHFPLN	3.6340	NOKPLN	0.4320
GBPPLN	4.7396	DKKPLN	0.5614
USDCNY	6.3433	SEKPLN	0.4179

*for 100HUF

Last session in the FX market

22/02/2018

	min	max	open	close	fixing
EURPLN	4.167	4.188	4.173	4.178	4.1811
USDPLN	3.375	3.413	3.385	3.387	3.4009
EURUSD	1.226	1.236	1.233	1.234	-

Interest rate market

22/02/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.69	-1	2/8/18	OK0720	1.813
PS0123 (5L)	2.69	-3	2/8/18	PS0123	2.772
WS0428 (10L)	3.44	-3	2/8/18	WS0428	3.515

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.78	0	2.27	0	-0.25	0
2L	2.02	-1	2.51	0	-0.11	0
3L	2.27	0	2.65	0	0.09	0
4L	2.47	-1	2.72	0	0.30	0
5L	2.62	-2	2.77	0	0.49	0
8L	2.93	-4	2.88	1	0.92	0
10L	3.09	-3	2.93	1	1.13	0

WIBOR rates

Term	%	Change (bps)
O/N	1.41	-10
T/N	1.53	0
SW	1.56	-1
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	1.73	0
6x9	1.77	0
9x12	1.84	0
3x9	1.82	1
6x12	1.83	-2

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.74	-3
France	17	0	0.28	0
Hungary	116	1	1.84	0
Spain	49	1	0.89	8
Italy	105	2	1.37	1
Portugal	69	1	1.31	0
Ireland	25	-1	0.45	0
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

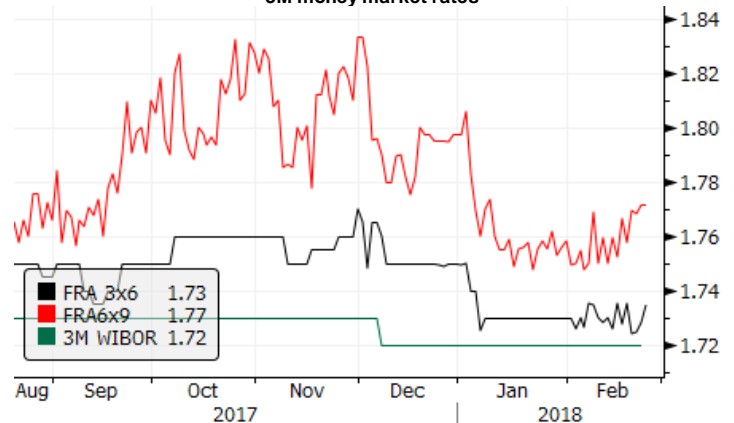
Zloty exchange rate



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 (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	8.6	2.7
10:00	PL	Construction Output	Jan	% y/y	20.35	22.8	34.7	12.7
10:00	PL	PPI	Jan	% y/y	0.1	-0.2	0.2	0.3
10:00	PL	Retail Sales Real	Jan	% y/y	6.45	7.2	7.7	5.2
11:00	DE	ZEW Survey Current Situation	Feb	pts	94.0		92.3	95.2
WEDNESDAY (21 February)								
09:30	DE	Flash Manufacturing PMI	Feb	pts	60.5	-	60,3	61.1
09:30	DE	Flash Services PMI	Feb	pts	57.0	-	55,3	57.3
10:00	EZ	Flash Manufacturing PMI	Feb	pts	59.2	-	58,5	59.6
10:00	EZ	Flash Services PMI	Feb	pts	57.6	-	56,7	58.0
16:00	US	Existing Home Sales	Jan	% m/m	0.9	-	-3.2	-2.8
20:00	US	FOMC Meeting Minutes						
THURSDAY (22 February)								
10:00	DE	IFO Business Climate	Feb	pts	117.0	-	115.4	117.6
14:00	PL	Money Supply M3	Jan	% y/y	4.9	4.8	4.8	4.6
14:30	US	Initial Jobless Claims	week	k	230	-	222	229
FRIDAY (23 February)								
08:00	DE	GDP WDA	4Q	%	2.9	-	2.9	2.7
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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Additional information is available on request. Please contact Bank Zachodni WBK S.A. Financial Management Division. Economic Analysis Department. al. Jana Pawła II 17. 00-854 Warsaw, Poland. phone +48 22 534 18 87. email ekonomia@bzwbk.pl. http://www.bzwbk.pl.