

EYEOPENER

13 March 2018

Weaker zloty ahead of the US data

- EURUSD flat, EURPLN up despite decent market sentiment
- Polish bonds stable, yields fall abroad
- Higher growth, consumption and investments in new NBP projection
- Today US inflation data

On Monday, the zloty lost versus the euro and the dollar, while domestic bonds remained stable. The new NBP projection showed improved GDP, investment and consumption outlook and a lower path of inflation.

New NBP inflation projection

The March NBP staff projection was created under the assumption of higher global growth than in the November round. The projected path of Polish GDP was raised. In particular, the forecast for investments was raised by 1pp, to 8.6%, in 2018 and by 1.3pp, to 6.3%, in 2019, which was justified by high demand, high capacity utilization and very low inventories of finished goods. The revision came in spite of a negative surprise for 2017 results (actual investments came in below the NBP's November forecast). The forecast for private consumption was increased by 0.4pp in 2018-2019 due to higher than previously estimated wage growth and strong consumer optimism. As a result, the output gap for 2018 was revised higher, from 0.7% of potential GDP to 1.2%, and in the following years the gap is forecast to grow to +1.7% and +1.8%. As for the labor market, employment is projected to grow in each year of the forecast thanks to rising labor participation rates (at least as long as the expansionary phase of the business cycle continues), and the growth of nominal wages is forecast to rise no higher than the already achieved +7% y/y. Despite the higher forecast for GDP, output gap, and wage growth, the inflation projection has been lowered vs. the November forecast. According to NBP analysts, this is due in part to the absence of an energy price hike at the beginning of 2018, which was assumed in the previous projection, but was primarily driven by the reduction of the forecast for core inflation. The authors of the analysis attribute this to a lower sensitivity of domestic prices to economic activity and by the appreciation of the zloty, which reduces import prices. The NBP directors stressed that this issue is a widely observed phenomenon among developed economies and in the CEE. The weaker response of inflation to real economic developments has yet to receive a proper diagnosis by economists. This is why we believe that the MPC, faced with the March projection,

will be willing to extend its 'wait-and-see' bias and will assess new economic data with caution.

Foreign trade – forecasts revised after stat office data

Central Statistics Office data on foreign trade in January 2018 showed exports at €16.5bn (+4.8% y/y) and imports at €17.0bn (+10.9% y/y). These numbers suggest that foreign trade was visibly weaker than we had expected. Given the recent disappointing release of January's German export data, we are cutting our forecast for NBP data on exports, imports and current account (to €1.9bn from €2.4bn). Recall that exports surprised to the downside in December as well. The positive economic climate in the Euro zone is generally supportive of demand for Polish goods, so we see the weakness in Polish exports as temporary.

FX market

At the beginning of the week, EURUSD remained rather stable, hovering close to 1.231 as no important Eurozone and the US data were published. Only after publication of budget figure (high deficit was presented), did EURUSD grow close to 1.234.

EURPLN was rising throughout most of Monday despite good situation in the stock markets. Consequently, EURPLN rose from 4.191 in the morning to 4.205 in the evening. In the case of USDPLN, the move of EURUSD and EURPLN resulted in an increase from 3.402 to 3.409, exceeding 3.413 temporarily.

Today we expect some weakening of the zloty to the euro and a decline of EURUSD, awaiting the US inflation data, where investors fear an upside surprise.

As for the other CEE currencies, the koruna rebounded a bit after its Friday losses. EURHUF rose slightly (from 311.6 to 311.8). USDRUB after a morning fall to 56.20 moved in the afternoon to c56.90, due to lower price of oil.

Debt market

On Monday the bond market improved on both sides of the Pond. The stock indexes fell in the US pulling the US yield curve down by 3-4bp in the 5-10Y segment (budget data did not stop this trend). The German yields slid by 1-3bp across the curve. The domestic bonds stayed stable (decreases of yields on the core markets did not affect POLGBs). Only the 5Y bonds yield drop by 2bp. The IRS rates curve shifted down by 2-3bp following the core IRS markets.

Today we are expecting some rise in yields prior to the US inflation data. In our view, these numbers will not surprise to the hawkish side, so we are expecting some rebound at the end of the week, making the debt stronger.

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	4.2080	CZKPLN	0.1654
USDPLN	3.4151	HUFPLN*	1.3496
EURUSD	1.2322	RUBPLN	0.0600
CHFPLN	3.6009	NOKPLN	0.4399
GBPPLN	4.7422	DKKPLN	0.5649
USDCNY	6.3322	SEKPLN	0.4141

*for 100HUF

Last session in the FX market

12/03/2018

	min	max	open	close	fixing
EURPLN	4.188	4.207	4.196	4.205	4.1942
USDPLN	3.396	3.419	3.409	3.411	3.4066
EURUSD	1.229	1.234	1.231	1.233	-

Interest rate market

12/03/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.56	1	2/22/18	OK0720	1.741
PS0123 (5L)	2.50	-1	2/22/18	PS0123	2.687
WS0428 (10L)	3.29	0	2/22/18	WS0428	3.430

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.75	0	2.36	2	-0.26	0
2L	1.95	-1	2.58	2	-0.13	-1
3L	2.14	0	2.70	1	0.07	-1
4L	2.31	-1	2.76	1	0.27	-1
5L	2.46	-2	2.79	1	0.45	-1
8L	2.77	-2	2.87	0	0.86	-1
10L	2.94	-2	2.92	0	1.07	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.50	-4
T/N	1.52	-2
SW	1.55	0
2W	1.60	0
1M	1.65	0
3M	1.71	0
6M	1.79	-1
9M	1.82	0
1Y	1.84	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.71	0
3x6	1.72	0
6x9	1.75	0
9x12	1.79	-1
3x9	1.80	-1
6x12	1.82	0

Measures of fiscal risk

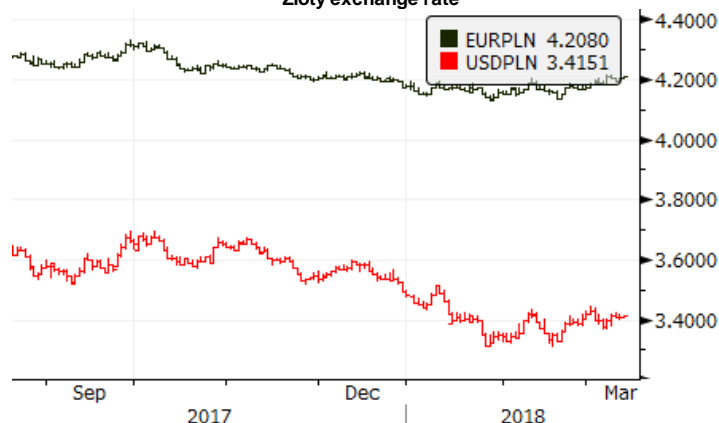
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.66	0
France	17	0	0.24	0
Hungary	116	1	2.04	0
Spain	39	0	0.75	-1
Italy	98	2	1.36	-1
Portugal	64	0	1.17	-1
Ireland	25	0	0.42	0
Germany	10	0	-	-

* 10Y treasury bonds over 10Y Bunds

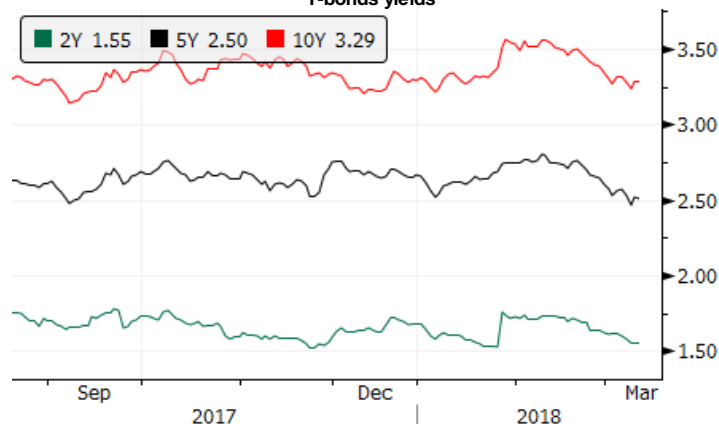
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

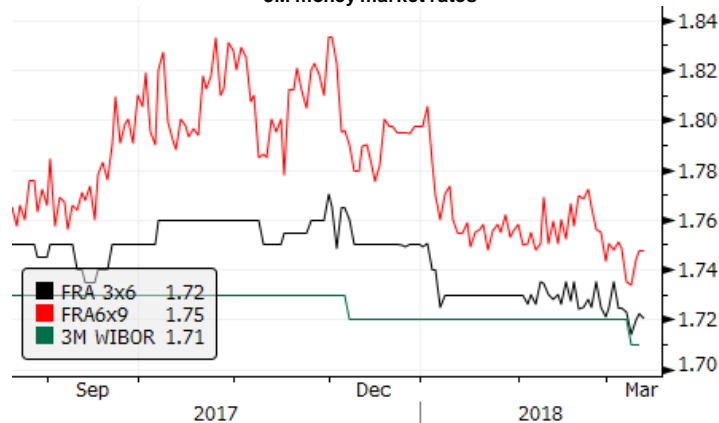
Zloty exchange rate



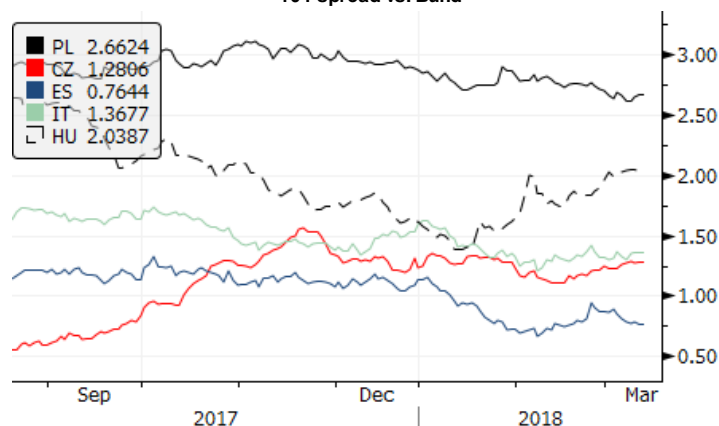
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar									
TIME		INDICATOR		PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE
CET	MARKET					BZWBK			
FRIDAY (9 March)									
08:00	DE	Exports SA	Jan	% m/m	0.3	-	-0.5	0.3	
08:00	DE	Industrial Production SA	Jan	% m/m	0.6	-	-0.1	-0.6	
09:00	CZ	CPI	Feb	% y/y	2.0	-	1.8	2.2	
14:30	US	Change in Nonfarm Payrolls	Feb	k	205	-	313	200	
14:30	US	Unemployment Rate	Feb	%	4.0	-	4.1	4.1	
MONDAY (12 March)									
No important events									
TUESDAY (13 March)									
13:30	US	CPI	Feb	% m/m	0.2	-	-	0.5	
WEDNESDAY (14 March)									
11:00	EZ	Industrial Production SA	Jan	% m/m	-0.4	-	-	0.4	
13:30	US	Retail Sales Advance	Feb	% m/m	0.3	-	-	-0.3	
THURSDAY (15 March)									
09:00	CZ	Industrial Production	Jan	% y/y	5.4	-	-	2.7	
10:00	PL	CPI	Feb	% y/y	1.8	1.6	-	1.9	
11:30	PL	Bond Switch Auction			-				
13:30	US	Initial Jobless Claims	Mar-18	k	228	-	-	231	
FRIDAY (16 March)									
10:00	PL	Employment in corporate sector	Feb	% y/y	3.7	3.8	-	3.8	
10:00	PL	Average Gross Wages	Feb	% y/y	7.3	7.5	-	7.3	
11:00	EZ	HICP	Feb	% y/y	1.2	-	-	1.2	
13:30	US	Housing Starts	Feb	% m/m	-2.71	-	-	9.7	
14:00	PL	CPI Core	Feb	% y/y	1.0	1.0	-	0.9	
14:00	PL	Current Account Balance	Jan	€mn	980	1 889	-	-1 152	
14:00	PL	Trade Balance	Jan	€mn	-47	-330	-	-1 268	
14:00	PL	Exports	Jan	€mn	16 986	16 238	-	15 232	
14:00	PL	Imports	Jan	€mn	17 184	16 568	-	16 500	
14:15	US	Industrial Production	Feb	% m/m	0.3	-	-	-0.1	
15:00	US	Michigan index	Mar	pts	99.5	-	-	99.7	

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 Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@bzwbk.pl, <http://www.bzwbk.pl>.