

EYEOPENER

19 March 2018

Slower growth of prices and wages

- **Plenty of Polish data at the end of the week**
- **EURPLN stable after a rise, EURUSD declined after the US data**
- **Polish bonds strengthened together with core debt markets**
- **Today domestic industrial and construction output**

Labour market data a bit weaker than forecasts

Employment in the corporate sector rose by 3.7% y/y. Employment growth was weaker than we expected, but rise in monthly terms was second-stronger in last 6 years, showing that demand for labour remains robust in the Polish economy. Wages rose 6.8% y/y, less than expected by us (7.5%) and the consensus (7.2%). In our view, the weaker wage growth was primarily due to shifts in timing of bonus payments in mining. We expect the wage growth will return above 7% y/y in the months to come. The real wage bill in the enterprise sector rose by 9.3% y/y in February, the same as in January. Strong growth of households' incomes will support private consumption, which will rise by c5.0% in the 1H2018, in our view.

Surprisingly big decline of HICP inflation for Poland

February HICP for Poland plunged to 0.7% from 1.6% in January. Analysis of detailed data finds that nearly half of this drop can be attributed to a strong decline (-15% y/y) in a small category "charges by banks and post offices". Owing to this factor, core inflation under HICP methodology would have been nearly zero in annual term. Data corrected for this category (HICP at 1.1% and core HICP at 0.8%) are in line with CPI trends. We have no clue what drove the decline in "charges by banks and post offices", and would not rule out the possibility of erroneous data and will be corrected.

Core inflation down in February

NBP data confirmed our estimate of February's core inflation ex food and energy falling to 0.8% y/y in February from 1.0% y/y. The two other measures fell as well in annual terms – inflation excluding administrative prices eased to 1.5% from 2.1% and 15% trimmed mean to 1.3% from 1.5%. Inflation excluding the most volatile priced moved up to 1.2% from 1.1% but yet in recent months it stood at 1.8%. The previous week saw many data easing the inflation outlook in Poland which strengthens our view that the MPC will not decide for a rate hike earlier than in 18 months. We still expect core CPI to climb towards 2% until the year end.

Jerzy Kropiwnicki satisfied with the monetary policy

MPC's Jerzy Kropiwnicki said in an interview with Bloomberg that the Council is going to react should both the NBP

projection and economic data show this is necessary. The MPC member said he is satisfied with the current monetary policy, which remained stable and did not succumb neither during inflation's temporary return to the target nor during prolonged deflation. According to Kropiwnicki, the economic slowdown amid no inflation would be an argument to cut rates. The Kropiwnicki's comment underpinned our forecast that rates will remain unchanged at least for the upcoming year (we are expecting the first hike at the end of 2019).

FX market

EURUSD fell to 1.226, the lowest since the beginning of March, due to strong industrial production and flash Michigan index. Investors ignored weak real estate market data.

EURPLN oscillated around 4.215 reached on Thursday after the inflation data publication, while USDPLN rebounded to nearly 3.44 from 3.42 due to EURUSD decline. As regards other currencies of the region, the koruna and the forint remained flat with the ruble depreciating against the dollar (USDRUB grew the fifth session in a row and was at 57.77, the highest since mid-January).

Today we will get to know important domestic data. Our forecast of industrial production is below market consensus and such reading may help EURPLN to stay above 4.20 in the coming days.

Debt market

On Friday bond yields in Poland and abroad fell by 1-5bp due to worries about global economic outlook amid the risk of a start of trade wars. Domestic yields were lower by 1-2bp and IRS by 1bp. Today's data from Poland may help in keeping domestic yields low, in our view.

What's hot this week

The event of the week abroad will be the FOMC meeting – the first one headed by the new president J. Powell. A 25bp rate hike is almost a done deal, and the key will be the Fed's communication, including the new economic forecasts and updated path of future interest rates (dot plot). Special attention should be turned on Fed's expectations about interest rates in 2019-20 and that is where we think a hawkish surprise for markets is possible.

On Friday evening Moody's is about to review Poland's rating. We think that both the rating and its outlook will remain unchanged, as strong economic fundamentals are neutralised by worries about the rule of law issue and the next EU budget.

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FX market

Today's opening

EURPLN	4.2188	CZKPLN	0.1659
USDPLN	3.4381	HUFPLN*	1.3567
EURUSD	1.2271	RUBPLN	0.0598
CHFPLN	3.6032	NOKPLN	0.4446
GBPPLN	4.7887	DKKPLN	0.5664
USDCNY	6.3297	SEKPLN	0.4187

*for 100HUF

Last session in the FX market

16/03/2018

	min	max	open	close	fixing
EURPLN	4.211	4.219	4.214	4.217	4.2162
USDPLN	3.416	3.439	3.416	3.432	3.4214
EURUSD	1.226	1.234	1.234	1.229	-

Interest rate market

16/03/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.49	-1	2/22/18	OK0720	1.741
PS0123 (5L)	2.40	-1	2/22/18	PS0123	2.687
WS0428 (10L)	3.25	-1	2/22/18	WS0428	3.430

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.72	0	2.41	3	-0.26	0
2L	1.88	-1	2.61	4	-0.14	1
3L	2.06	-2	2.72	5	0.04	-1
4L	2.25	-1	2.77	5	0.23	0
5L	2.40	-1	2.80	5	0.40	0
8L	2.72	-1	2.86	4	0.81	0
10L	2.89	-1	2.89	4	1.01	0

WIBOR rates

Term	%	Change (bps)
O/N	1.55	2
T/N	1.55	0
SW	1.55	0
2W	1.60	0
1M	1.64	0
3M	1.70	0
6M	1.78	0
9M	1.80	0
1Y	1.83	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.69	0
3x6	1.71	0
6x9	1.72	0
9x12	1.73	0
3x9	1.79	0
6x12	1.80	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.67	-2
France	17	0	0.25	0
Hungary	116	1	2.01	-1
Spain	39	-1	0.79	0
Italy	100	-2	1.40	-1
Portugal	64	0	1.17	-1
Ireland	25	0	0.43	1
Germany	10	0	-	-

* 10Y treasury bonds over 10Y Bunds

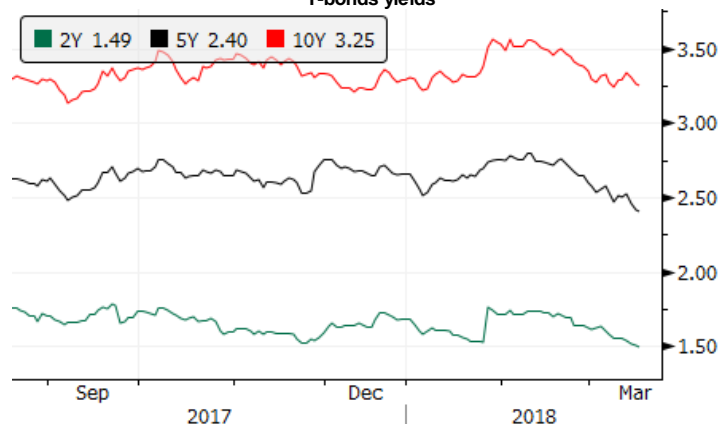
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

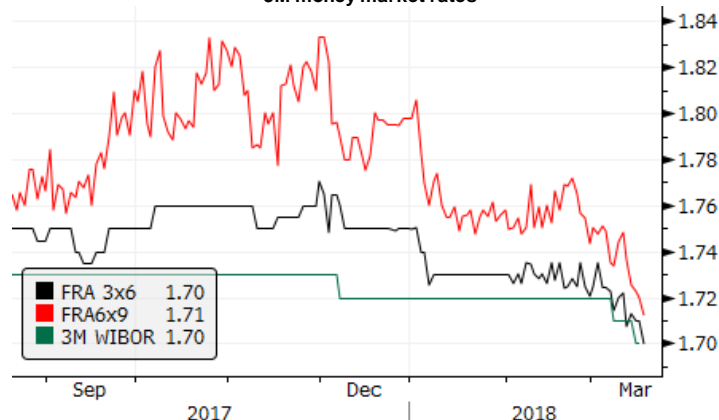
Zloty exchange rate



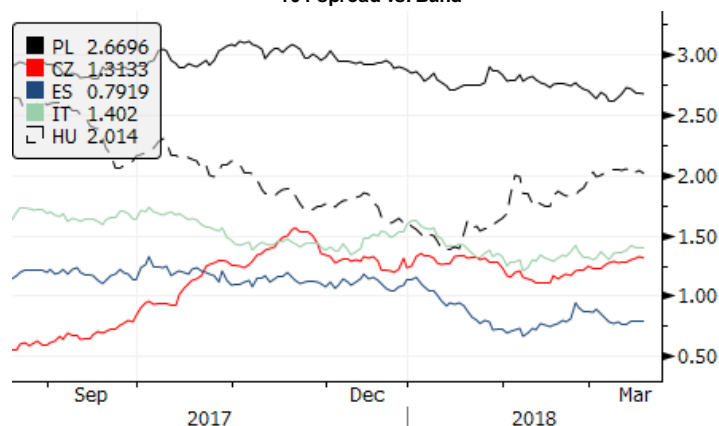
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar								
TIME		INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE
CET					MARKET	BZWBK		
FRIDAY (16 March)								
10:00	PL	Employment in corporate sector	Feb	% y/y	3.7	3.8	3.7	3.8
10:00	PL	Average Gross Wages	Feb	% y/y	7.3	7.5	6.8	7.5
11:00	EZ	HICP	Feb	% y/y	1.2	-	1.1	1.3
13:30	US	Housing Starts	Feb	% m/m	-2.71	-	-7.0	10.1
14:00	PL	CPI Core	Feb	% y/y	1.0	0.8	0.8	0.9
14:00	PL	Current Account Balance	Jan	€mn	965	1889	2005	-1152
14:00	PL	Trade Balance	Jan	€mn	-35	-330	-204	-1268
14:00	PL	Exports	Jan	€mn	16986	16238	16 685	15232
14:00	PL	Imports	Jan	€mn	17184	16568	17 057	16500
14:15	US	Industrial Production	Feb	% m/m	0.4	-	1.1	-0.3
15:00	US	Michigan index	Mar	pts	99.3	-	102.0	99.7
MONDAY (19 March)								
10:00	PL	Sold Industrial Output	Feb	% y/y	8.4	6.7		8.6
10:00	PL	Construction Output	Feb	% y/y	28.7	28.1		34.7
10:00	PL	PPI	Feb	% y/y	0.1	0.2		0.2
TUESDAY (20 March)								
11:00	DE	ZEW Survey Current Situation	Mar	pts	90.9	-		92.3
WEDNESDAY (21 March)								
10:00	PL	Retail Sales Real	Feb	% y/y	7.7	7.4		7.7
10:00	PL	Enterprises Financial Results						
15:00	US	Existing Home Sales	Feb	% m/m	0.93	-		-3.24
19:00	US	FOMC decision	Mar-18		1.75	-		1.5
THURSDAY (22 March)								
09:30	DE	Germany Manufacturing PMI	Mar	pts	59.8	-		60.6
09:30	DE	Markit Germany Services PMI	Mar	pts	55.2	-		55.3
10:00	DE	IFO Business Climate	Mar	pts	114.6	-		115.4
10:00	EZ	Eurozone Manufacturing PMI	Mar	pts	58.2	-		58.6
10:00	EZ	Eurozone Services PMI	Mar	pts	56.0	-		56.2
13:30	US	Initial Jobless Claims	week	k	227.5	-		226.0
14:00	PL	Money Supply M3	Feb	% y/y	5.0	5.1		4.8
FRIDAY (23 March)								
	PL	Rating Review Moodys						
10:00	PL	Unemployment Rate	Feb	%	6.8	6.8		6.9
13:30	US	Durable Goods Orders	Feb	% m/m	1.6	-		-3.6
15:00	US	New Home Sales	Feb	% m/m	4.55	-		-7.8

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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