

EYEOPENER

17 April 2018

Poland core CPI down to 0.7% y/y

- **Core CPI falls to 0.7% y/y**
- **Zloty and its CEE peers gain**
- **Bonds in Poland and abroad under pressure of profit taking**
- **Today, German ZEW and US industrial output data**

On Monday, the zloty was strengthening together with its CEE peers, taking advantage of the better global market sentiment. Domestic bonds weakened following core markets amid lower geopolitical pressure. Poland core inflation decreased to 0.7% y/y while the head of the cabinet's standing committee informed about a budget surplus after 1Q18.

Core inflation ex food and energy decreased in March to 0.7% y/y from 0.8%, in line with our estimates based on the full CPI release. Other measures of core inflation also fell. We think that this decline was temporary and the coming months we will see a rise due to higher labour costs and the main measure of core CPI will approach 2% by the end of the year.

Jacek Sasin, head of the cabinet's standing committee said that there was a budget surplus after March. It means there has been further positive deviation from the path of expected monthly revenues and expenditures prepared by the Ministry of Finance (according to the schedule, the budget result was to worsen in March by PLN6.7bn vs February). After February, the central budget balance was +PLN4.5bn while we assumed that during 1Q the surplus will come down to slightly less than PLN0.5bn. At the same time, the Ministry of Finance informed that its fx holdings equaled EUR5.25bn at the end of March vs EUR7.43bn in February.

On Monday EURUSD rose to 1.237 from 1.233 setting up the session peak at c1.239. The weakening of the dollar was driven by lower demand for safe assets and US retail sales reading, where the data structure disappointed. EURUSD is gradually approaching the upper end of 1.22-1.255 horizontal trend, in which the exchange rate has been oscillating since the beginning of the year. Today, important US and German data will be released and head of San Francisco Fed will speak. We do not believe that these events could a trigger higher market volatility.

EURPLN was sliding for the fifth session in a row and reached 4.15 at the end of the session, the lowest level since late February. The zloty was supported by S&P decision to upgrade Polish rating outlook and good mood on the global markets. Moreover, the zloty was supported by information

about the budget surplus after the 1Q18. The balance of domestic factors is zloty-positive and it looks like that market's attention would have to turn to the impact of trade wars on global growth or risk aversion would have to reemerge after some weak economic data in order to push EURPLN up.

In case of the other CEE currencies, the koruna and forint gained vs the euro – EURCZK fell from 25.31 to 25.26 and EURHUF from 310.8 to 310.2 (in both cases these were the lowest levels since early February), benefiting from improvement in sentiment towards regional currencies. The Russian ruble this time also slightly gained from the decrease in geopolitical tension. USDRUB climbed to 63.1 overnight but during the day it fell to 62.3, i.e. near Friday's close.

On the global debt markets yields were rising in the morning in a relief from the geopolitical tension. As a result, the US yield curve moved 1-3bp up and German curve by 2-3bp. In the afternoon, the large part of the move in the long ends of the curves has been reversed. The short end of the US curve rose to 2.38% (its highest level since 2008 crisis).

On the domestic interest rate market yields rose by 5-6bp in the long end and the middle of the curve and by 2bp in the short end, in line with core markets. In the afternoon, a part of this move was reversed due to a change of global trend.

We think the domestic debt will remain sensitive to trends abroad. Significant strengthening from the recent weeks may mean that when core markets start to weaken, the domestic yields will be rising faster than the US ones.

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	4.1534	CZKPLN	0.1644
USDPLN	3.3502	HUFPLN*	1.3386
EURUSD	1.2398	RUBPLN	0.0548
CHFPLN	3.4921	NOKPLN	0.4315
GBPPLN	4.8117	DKKPLN	0.5576
USDCNY	6.2785	SEKPLN	0.3983

*for 100HUF

Last session in the FX market

16/04/2018

	min	max	open	close	fixing
EURPLN	4.152	4.182	4.167	4.154	4.1628
USDPLN	3.354	3.391	3.383	3.355	3.3666
EURUSD	1.232	1.240	1.232	1.238	-

Interest rate market

16/04/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.53	1	05-Apr-18	OK0720	1.495
PS0123 (5L)	2.34	6	05-Apr-18	PS0123	2.335
WS0428 (10L)	3.08	6	05-Apr-18	WS0428	3.123

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.73	0	2.51	0	-0.26	0
2L	1.87	1	2.69	1	-0.14	0
3L	2.02	0	2.77	1	0.03	0
4L	2.19	2	2.80	1	0.21	0
5L	2.34	3	2.81	1	0.38	1
8L	2.65	4	2.84	0	0.77	1
10L	2.81	4	2.87	0	0.97	1

WIBOR rates

Term	%	Change (bps)
O/N	1.77	18
T/N	1.77	18
SW	1.60	4
2W	1.60	0
1M	1.64	0
3M	1.70	0
6M	1.78	0
9M	1.79	0
1Y	1.82	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.70	0
3x6	1.71	0
6x9	1.72	0
9x12	1.74	-1
3x9	1.79	0
6x12	1.79	0

Measures of fiscal risk

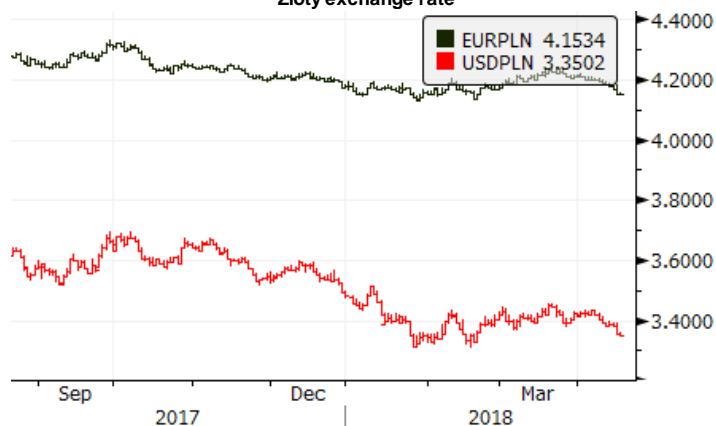
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.55	6
France	17	0	0.23	0
Hungary	116	1	1.90	0
Spain	39	-1	0.71	-1
Italy	100	-2	1.27	-1
Portugal	64	0	1.10	-1
Ireland	25	0	0.40	0
Germany	10	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

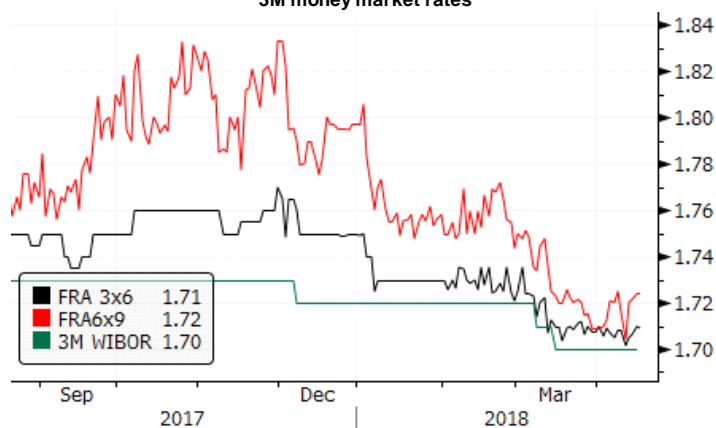
Zloty exchange rate



T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME		INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE
CET				MARKET	BZWBK		
FRIDAY (13 April)							
08:00	DE	HICP	Mar	% y/y	1.5	1.5	1.5
10:00	PL	CPI	Mar	% y/y	1.3	1.3	1.4
14:00	PL	Current Account Balance	Feb	€mn	-355.0	-544	2005
14:00	PL	Trade Balance	Feb	€mn	-515.0	-310	-204
14:00	PL	Exports	Feb	€mn	16700.0	16792.0	16853
14:00	PL	Imports	Feb	€mn	17241.0	17102.0	17057
16:00	US	Michigan index	Apr	pts	100.5	97.8	101.4
MONDAY (16 April)							
14:00	PL	CPI Core	Mar	% y/y	0.9	0.7	0.8
14:30	US	Retail Sales Advance	Mar	% m/m	0.4	-	-0.1
TUESDAY (17 April)							
11:00	DE	ZEW Survey Current Situation	Apr	pts	86.0	-	90.7
14:30	US	Housing Starts	Mar	% m/m	2.7	-	-7.0
15:15	US	Industrial Production	Mar	% m/m	0.3	-	0.95
WEDNESDAY (18 April)							
10:00	PL	Employment	Mar	% y/y	3.7	3.7	3.7
10:00	PL	Average Gross Wages	Mar	% y/y	6.5	7.0	6.8
11:00	EZ	HICP	Mar	% y/y	1.4	-	1.4
20:00	US	Beige Book					
THURSDAY (19 April)							
10:00	PL	Sold Industrial Output	Mar	% y/y	2.9	4.5	7.4
10:00	PL	Construction Output	Mar	% y/y	17.8	16.1	31.4
10:00	PL	PPI	Mar	% y/y	0.0	0.1	-0.2
14:30	US	Initial Jobless Claims	Apr-18	k	230.0	-	233.0
FRIDAY (20 April)							
No important events							

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.