

EYEOPENER

15 May 2018

Today domestic GDP and inflation

- **ECB drives the market at the beginning of the week**
- **March Polish current account close to consensus**
- **Zloty and CEE currencies without major changes, EURUSD slightly up thanks to the hawkish signal from ECB**
- **ECB member remarks push yields up**
- **German GDP below estimates**
- **Today: Domestic flash GDP and CPI, on the core markets important data releases**

On Monday there were no new important publications so investors focused on speeches of central bankers. Head of French central bank and ECB member Francois Villeroy said that soon the ECB could provide more precise information on when it could raise rates. He assessed together with ECB's Sabine Lautenschlaeger and Peter Praet that the last slowdown of inflation should be temporary and that the euro zone economy is developing in line with the bank's forecasts. These remarks were perceived as quite hawkish after the streak of poor data and positively affected the euro yesterday, but weighed on bonds.

This morning we had **German data on 1Q GDP**. The main reading was 0.1pp lower than expected. Chinese data were mixed – industrial output beat expectations but retail sales were weaker than expected. Investors' attention is on Middle East (Iran, Israel, Palestine) and the trade negotiations between the USA and China.

EURUSD rose yesterday for a third day in a row and approached 1.20. The pair continued to upward move that started last week after weaker US inflation data. Yesterday the euro was strengthened by ECB speakers. At night EURUSD moved back on profit taking, and at the start of today's session was at 1.1920, despite weaker German GDP. Today there is plenty of data to be released, with German ZEW index and US retail sales. We still think that in the coming days EURUSD can rise some more on profit-taking after the declines that lasted for the previous four weeks.

Yesterday, **EURPLN** remained in Friday's trading range and did not retreat from 4.26, while USDPLN approached 3.55 versus 3.57 at the start of the day. Morning data from Germany pushed EURPLN above 4.27. Polish data may be positive for

the market, but in our view the room for PLN strengthening is limited and EURPLN will stay above 4.23-4.24 in the upcoming days.

In case of **the other CEE currencies**, volatility was subdued as well before today's release of GDP data.

On **the core debt markets**, yields rose noticeably amid expectations for robust US retail sales data (pushing 10Y UST yield to 3.02%). In Europe, bonds were under pressure of comments of the ECB officials and concerns about the progress in Italian coalition talks (10Y Bund yield rose above 0.61%).

On the domestic interest rate market, bond yields and IRS went up slightly. The Polish debt was outperforming core bonds and Euro zone peripheries, where yields were under influence of hawkish comments of ECB members. In the afternoon, the Polish bonds trimmed some of their losses, but were higher than on Friday close. Still, changes did not exceed 2bps, while foreign bonds lost more than 5bps. We do not think that today's data will affect the domestic market, core trends may prove more important.

The current account in March was more or less in line with expectations, showing a deficit of €1.0bn. Exports fell 2% y/y, driven by a negative working-day effect as well as by decelerating exports of cars, similar to previous months. Imports, on the other hand, rose 1.6% y/y, driven by increasing fuel purchases and a one-off big ticket purchase of an airplane. In our view, there is downward risk for exports in the upcoming months, given weaker signals from the Euro zone and especially Germany, while imports will remain strong driven by robust domestic demand. Net exports' contribution was most likely negligible in 1Q, but in the following quarters we believe it could turn slightly negative. Read more on the matter in yesterday's [Economic comment](#).

Today at 10:00 CET the Statistics Poland is due to release **flash GDP for 1Q18**. We are expecting the GDP growth to stay at 4.9% y/y, unchanged versus 4Q17. Detailed breakdown will not be released until the end of May, but in our view it will prove similar to that observed recently, with private consumption being the main contributor. We are expecting investment to revive further, possibly reaching a double-digit growth.

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FX market

Today's opening

EURPLN	4.2777	CZKPLN	0.1676
USDPLN	3.5892	HUFPLN*	1.3521
EURUSD	1.1919	RUBPLN	0.0579
CHFPLN	3.5843	NOKPLN	0.4463
GBPPLN	4.8610	DKKPLN	0.5740
USDCNY	6.3521	SEKPLN	0.4148

*for 100HUF

Last session in the FX market

14/05/2018

	min	max	open	close	fixing
EURPLN	4.256	4.274	4.266	4.273	4.2615
USDPLN	3.553	3.573	3.572	3.568	3.5558
EURUSD	1.194	1.200	1.195	1.198	-

Interest rate market

14/05/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.52	-1	10-May-18	OK0720	1.580
PS0123 (5L)	2.49	1	10-May-18	PS0123	2.490
WS0428 (10L)	3.23	1	10-May-18	WS0428	3.242

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.75	1	2.53	-1	-0.25	0
2L	1.91	1	2.75	-1	-0.12	2
3L	2.09	1	2.85	0	0.07	2
4L	2.29	2	2.90	0	0.26	3
5L	2.47	2	2.93	1	0.43	3
8L	2.81	3	2.99	1	0.84	3
10L	2.98	2	3.02	1	1.04	4

WIBOR rates

Term	%	Change (bps)
O/N	1.55	-3
T/N	1.55	-3
SW	1.56	-1
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	1.75	2
9x12	1.78	1
3x9	1.80	0
6x12	1.82	1

Measures of fiscal risk

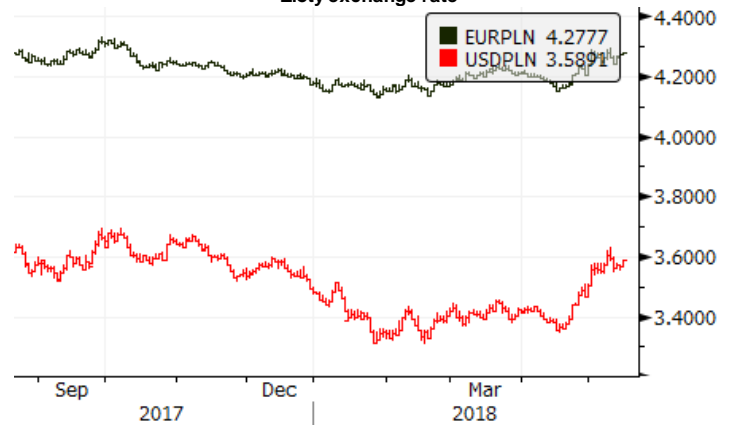
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.61	0
France	17	0	0.22	0
Hungary	116	1	2.25	4
Spain	43	2	0.71	-1
Italy	98	2	1.31	0
Portugal	64	0	1.09	-1
Ireland	25	0	0.38	4
Germany	10	0	-	-

* 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



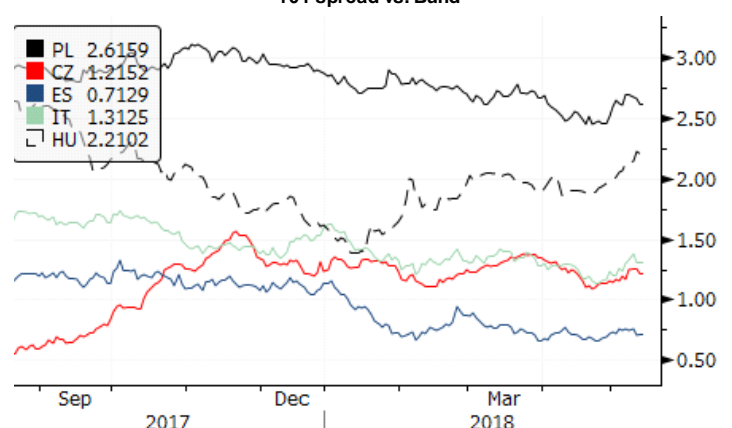
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME		INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE	
CET				MARKET	BZWBK			
FRIDAY (11 May)								
16:00	US	Michigan index	May	pts	98.3	-	98.8	98.8
MONDAY (14 May)								
14:00	PL	Current Account Balance	Mar	€mn	-1 088	-1 184	-982	-972
14:00	PL	Trade Balance	Mar	€mn	-502	-625	-317	-573
14:00	PL	Exports	Mar	€mn	18 075	18 230	18 117	16 239
14:00	PL	Imports	Mar	€mn	18 522	18 855	18 434	16 840
TUESDAY (15 May)								
08:00	DE	GDP WDA	1Q	% y/y	2.4	-	2.3	2.9
09:00	CZ	GDP SA	1Q	% y/y	4.8	-	4.5	5.5
09:00	HU	GDP	1Q	% y/y	4.2	-		4.4
10:00	PL	CPI	Apr	% y/y	1.6	1.6		1.4
10:00	PL	GDP	1Q	% y/y	4.8	4.9		4.9
11:00	EZ	GDP SA	1Q	% y/y	2.5	-		2.5
11:00	EZ	Industrial Production SA	Mar	% m/m	0.7	-		-0.8
11:00	DE	ZEW Survey Current Situation	May	pts	85.5	-		87.9
14:30	US	Retail Sales Advance	Apr	% m/m	0.3	-		0.6
WEDNESDAY (16 May)								
	PL	Poland Base Rate Announcement		%	1.5	1.5		1.5
08:00	DE	HICP	Apr	% m/m	-0.1			-0.1
11:00	EZ	HICP	Apr	% y/y	1.2			1.2
14:00	PL	CPI Core	Apr	% y/y	0.6	0.67		0.7
14:30	US	Housing Starts	Apr	% m/m	0.08			1.9
15:15	US	Industrial Production	Apr	% m/m	0.55			0.51
THURSDAY (17 May)								
14:30	US	Index Philly Fed	May	pts	21.7	-		23.2
14:30	US	Initial Jobless Claims	week	k	219	-		211
FRIDAY (18 May)								
10:00	PL	Employment in corporate sector	Apr	% y/y	3.7	3.7		3.7
10:00	PL	Average Gross Wages	Apr	% y/y	7.1	7.4		6.7

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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