

EYEOPENER

22 May 2018

Industrial output surprised to the upside

- **Start of the week in positive moods**
- **Polish industrial output above expectations, but outlook for the upcoming quarters unchanged**
- **Zloty and other CEE currencies follow EURUSD market**
- **Polish bonds stable, Euro zone peripheries under pressure of situation in Italy**
- **Today decision of Hungarian central bank**

Weekend information on US-China relations improvement have had a positive impact on the global market sentiment. European stock indexes were on the rise at the beginning of the week and this was the market where the impact of political relief persisted the most. Only in the first part of the session the dollar benefited from improved economic outlook and its depreciation seen later in the day had a positive impact on the EM currencies. Changes on the bond market were mixed, core euro zone market is still under pressure of political situation in Italy. No important data are on the agenda globally and in Poland we will see first business sentiment indexes for May.

MPC member Eryk Łon wrote an article on non-standard monetary policy measures, stating that in the long term the central bank should consider purchasing corporate bonds and stocks. The MPC member does not see it necessary to develop such a programme right now. Other MPC members as well as governor Glapiński said that they do not want to use the non-standard measures now, except the case of a sudden economic downturn coupled with disappearance of inflation.

Industrial output expanded in April by 9.3% y/y versus 1.8% y/y one month earlier. This result is a positive surprise (market consensus was at 8.5%, our forecast was at 8.1%). After seasonal adjustment, the pace of output growth was at 5.9% y/y, marginally below the 6.2% y/y average from 1Q18. Construction output rose 19.7% y/y, much lower than market estimates (24.8% y/y). This could be a sign of supply-side constraints in the sector, which continues to see high demand, especially considering that construction prices rose 2.1% y/y and that this measure was at its highest level since January 2009. April PPI inflation reached 1.1% y/y, slightly above our forecast (1.0% y/y) and market consensus (0.8% y/y), mostly due to rising oil prices. Overall, the output data did not lead us to revise our Polish GDP forecast, which still assumes a gradual deceleration of economic growth this year.

EURUSD started the Monday's session with a drop to almost 1.17 due to political news from the weekend. The next hours saw a correction of the morning dollar appreciation and at the end of the day the rate was near 1.177. The first attempt to breach 1.17 was unsuccessful and a rebound was rather quick. It seems that the drop of the exchange rate in the previous days to some extent reflected the positive US data, so the potential for further dollar appreciation seems to be wearing out. There will be no important data releases today, so the exchange rate should remain above the yesterday's low, in our view.

EURPLN climbed above 4.31 in the first phase of the session due to a further USD appreciation. At the end of the day the rate was below 4.30 again and this morning it is approaching 4.28. Meanwhile, **USDPLN** fell from 3.67 to 3.64. Developments on other CEE currencies were similar. We see some chances to halt the PLN depreciation, but reversal of the EURUSD downward trade is a precondition.

This week, Hungarian central bank will decide on the interest rates. Recent macro data was mixed: robust 1Q GDP but poor April PMI and industrial output. The forint is under strong negative pressure and this might encourage the central bank to adopt a somewhat less dovish stance to stabilize the currency, in our view.

On the domestic interest rate market, IRS and bond yields were hovering around Friday's closing levels for the better part of the session and only at the end of the day the 10Y benchmark gained slightly. Still, changes did not exceed 2bp. There was no big market reaction to Polish above-consensus industrial output data. No important data are on the agenda today globally and in Poland so the market should be pretty calm. The risk for that scenario is situation on the euro zone peripheries where yields are on the rise amid uncertainty related to Italian government.

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FX market

Today's opening

| | | | |
|--------|--------|---------|--------|
| EURPLN | 4.2736 | CZKPLN | 0.1666 |
| USDPLN | 3.6290 | HUFPLN* | 1.3485 |
| EURUSD | 1.1776 | RUBPLN | 0.0593 |
| CHFPLN | 3.6372 | NOKPLN | 0.4503 |
| GBPPLN | 4.8766 | DKKPLN | 0.5740 |
| USDCNY | 6.3766 | SEKPLN | 0.4180 |

*for 100HUF

Last session in the FX market

21/05/2018

| | min | max | open | close | fixing |
|--------|-------|-------|-------|-------|--------|
| EURPLN | 4.292 | 4.315 | 4.298 | 4.294 | 4.2991 |
| USDPLN | 3.639 | 3.674 | 3.651 | 3.648 | 3.6615 |
| EURUSD | 1.172 | 1.178 | 1.176 | 1.177 | - |

Interest rate market

21/05/2018

T-bonds on the interbank market**

| Benchmark (term) | % | Change (bps) | Last auction | Paper offered | Average yield |
|------------------|------|--------------|--------------|---------------|---------------|
| PS0420 (2L) | 1.60 | 0 | 10-May-18 | OK0720 | 1.580 |
| PS0123 (5L) | 2.55 | -1 | 10-May-18 | PS0123 | 2.490 |
| WS0428 (10L) | 3.30 | -2 | 10-May-18 | WS0428 | 3.242 |

IRS on the interbank market**

| Term | PL | | US | | EZ | |
|------|------|--------------|------|--------------|-------|--------------|
| | % | Change (bps) | % | Change (bps) | % | Change (bps) |
| 1L | 1.75 | 0 | 2.57 | 2 | -0.25 | 0 |
| 2L | 1.96 | 0 | 2.80 | 2 | -0.13 | 0 |
| 3L | 2.16 | 0 | 2.91 | 2 | 0.05 | -1 |
| 4L | 2.37 | -1 | 2.97 | 2 | 0.23 | -1 |
| 5L | 2.56 | 0 | 3.00 | 2 | 0.40 | -2 |
| 8L | 2.93 | 1 | 3.07 | 1 | 0.81 | -2 |
| 10L | 3.09 | 1 | 3.11 | 1 | 1.02 | -2 |

WIBOR rates

| Term | % | Change (bps) |
|------|------|--------------|
| O/N | 1.56 | 0 |
| T/N | 1.56 | 0 |
| SW | 1.56 | 0 |
| 2W | 1.59 | 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 | 0 |
| 9x12 | 1.81 | 1 |
| 3x9 | 1.80 | 0 |
| 6x12 | 1.83 | 0 |

Measures of fiscal risk

| Country | CDS 5Y USD | | 10Y spread* | |
|----------|------------|--------------|-------------|--------------|
| | Level | Change (bps) | Level | Change (bps) |
| Poland | | | 2.75 | -5 |
| France | 20 | 1 | 0.27 | -2 |
| Hungary | 116 | 1 | 2.66 | 6 |
| Spain | 55 | 3 | 0.93 | -5 |
| Italy | 135 | 11 | 1.80 | -6 |
| Portugal | 64 | 0 | 1.41 | -6 |
| Ireland | 25 | 0 | 0.46 | -2 |
| Germany | 11 | 0 | - | - |

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

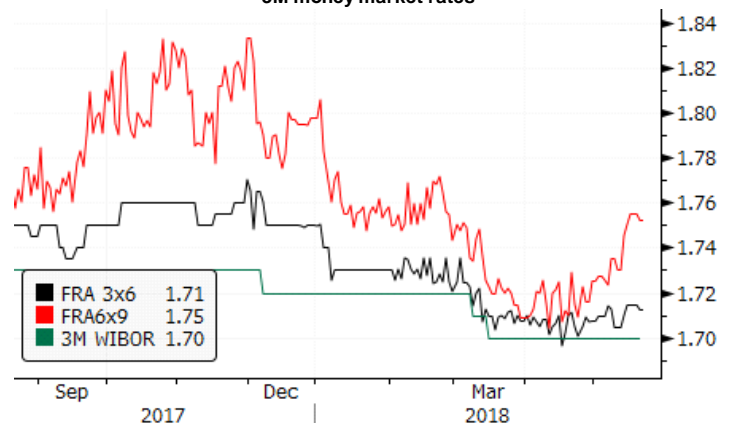
Zloty exchange rate



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 (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 | 7.2 | 7.4 | 7.8 |
| MONDAY (21 May) | | | | | | | |
| 10:00 | PL | Sold Industrial Output | Apr | % y/y | 8.5 | 8.1 | 9.3 |
| 10:00 | PL | Construction Output | Apr | % y/y | 24.5 | 22.2 | 19.7 |
| 10:00 | PL | PPI | Apr | % y/y | 0.9 | 1.0 | 1.1 |
| TUESDAY (22 May) | | | | | | | |
| 10:00 | PL | Stats Office business sentiment | May | pts | | | |
| 14:00 | HU | Central Bank Rate Decision | | % | 0.90 | - | 0.90 |
| WEDNESDAY (23 May) | | | | | | | |
| 09:30 | DE | Germany Manufacturing PMI | May | pts | 57.9 | - | 58.1 |
| 09:30 | DE | Markit Germany Services PMI | May | pts | 53.2 | - | 53.0 |
| 10:00 | EZ | Eurozone Manufacturing PMI | May | pts | 56.1 | - | 56.2 |
| 10:00 | EZ | Eurozone Services PMI | May | pts | 54.5 | - | 54.7 |
| 10:00 | PL | Retail Sales Real | Apr | % y/y | 7.6 | 7.7 | 8.8 |
| 10:00 | PL | Enterprises Financial Results | 1Q | | | | |
| 10:00 | PL | Consumer Confidence | May | | | | |
| 16:00 | US | New Home Sales | Apr | % m/m | -2.0 | - | 4.0 |
| 20:00 | US | FOMC Meeting Minutes | | | - | - | 0.0 |
| THURSDAY (24 May) | | | | | | | |
| 08:00 | DE | GDP WDA | 1Q | % y/y | 2.3 | - | 2.3 |
| 11:30 | PL | Bond Auction | | | - | | |
| 14:00 | PL | Money Supply M3 | Apr | % y/y | 5.8 | 5.9 | 5.8 |
| 14:30 | US | Initial Jobless Claims | week | k | 215 | - | 222 |
| 16:00 | US | Existing Home Sales | Apr | % m/m | -0.5 | - | 1.1 |
| FRIDAY (25 May) | | | | | | | |
| 10:00 | DE | IFO Business Climate | May | pts | 101.9 | - | 102.1 |
| 10:00 | PL | Unemployment Rate | Apr | % | 6.3 | 6.3 | 6.6 |
| 14:30 | US | Durable Goods Orders | Apr | % m/m | -1.5 | - | 2.6 |
| 16:00 | US | Michigan index | May | pts | 98.8 | - | 98.8 |

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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