

EYEOPENER

16 July 2018

Markets more stable, inflation slightly higher

- Zloty and CEE fx slowly appreciating
- Polish bonds strengthened a bit, in line declining yields on core markets
- Polish inflation surprised to the upside
- Today Polish core CPI and C/A, NBP inflation report

On Friday EURUSD held in a narrow range, the zloty also remained fairly stable. Domestic and core bond yields fell. Poland inflation data surprised to the upside while the US Michigan consumer confidence index disappointed. The Fed released a report saying the interest rate hikes will be gradual. Market sentiment deteriorated slightly during the Asian session after the below-consensus China industrial output data (while data showing 2Q GDP growth at 6.7% were in line with expectations). The weekend comment of Donald Trump saying that the EU is a "foe" for the US could undermine the market sentiment at the beginning of the week. Today the US president meets the president of Russia.

In June, CPI accelerated to 2.0% y/y from 1.7% y/y in May after a monthly rise of prices by 0.1%. The earlier flash estimate pointed to 1.9%, while market consensus ahead of that release was 2.0%. So far, the CPI rise is driven mainly by food and fuels. According to our estimate, core inflation remained at 0.5% y/y in June, the lowest level since February 2017. We expect the headline CPI to stay near 2% in July and ease towards 1.5% in December later in the year owing to the high base effect.

President Duda approved the introduction of **the new fuel charge**. The change is effective since January 2019 and assumes that PLN0.10 (PLN0.08+VAT) will be added to each liter of fuel. Earlier, before the bill was prepared, the government had been underlining that domestic refineries declared they will not pass the charge onto the consumers. In our view, the effect of this charge on inflation will be spread over time. If fuel prices rise by PLN0.10 per liter (c2%) it will add c0.1pp to headline CPI, according to our estimates.

The Institute of Soil Science and Plant Cultivation issued report covering sixty days up to the first decade of July, in which they confirmed that **the drought in agriculture** persists in all 14 monitored crops. However, in many cases the magnitude of the phenomenon has diminished, which includes spring and winter cereals and fruit shrubs. In parts of Poland the monthly rainfall

is still lower than the multi-year average. In our view, the risk of strong impact of summer drought on fruit and vegetable prices has been decreasing and in total it should not increase the headline CPI inflation by more than 0.1-0.2pp.

EURUSD was hovering on Friday between 1.1620 and 1.1670 (at the beginning and at the end of the day). The dollar weakening in the afternoon was supported by weaker data from the University of Michigan and Fed's report lowering chances for more aggressive rate hikes. Today in the morning EURUSD was testing 1.17 despite hostile rhetoric of US president against the EU. We expect to see quite stable exchange rate today.

EURPLN started declining after morning increase and ended the day at 4.3140. Strengthening of the zloty was the result of global moods improvement. Today we expect the zloty to continue appreciating.

In case of **other currencies in the region**, koruna and forint weakened, while ruble remained relatively stable against dollar.

On the domestic debt market yields of debt remained in the downward trend following the core markets yields, while the IRS rates rose slightly. The domestic debt market reacted for the Polish CPI release to a limited degree and only temporarily. Today we expect the decrease of yields to continue, which should be fueled by the expected improvement of the global market mood.

Today at 14:00 the central bank will release **final core CPI and current account**. Foreign trade data released earlier by the stat office suggested an upside risk to our forecasts of balance of payments data. The risk looks bigger for exports and so the trade balance and current account could be above our expectations.

This week, numerous US data are on the agenda, including industrial output and retail sales. US June inflation rose to its highest since early 2012 and the economic activity data could verify if the scenario of two more rate hikes this year is likely. In Poland, NBP inflation report with details behind the new iprojections (today) and June industrial output and retail sales will be published. Industry will be supported by positive working-day effect, but also by strong data on German industry. Sales should revive after weaker May due to combination of holidays. Our forecasts are above market consensus and should confirm that 2Q GDP could be near 5% again.

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FX market

Today's opening

EURPLN	4.3074	CZKPLN	0.1664
USDPLN	3.6813	HUFPLN*	1.3352
EURUSD	1.1701	RUBPLN	0.0590
CHFPLN	3.6791	NOKPLN	0.4542
GBPPLN	4.8778	DKKPLN	0.5778
USDCNY	6.6878	SEKPLN	0.4151

*for 100HUF

Last session in the FX market

13/07/2018

	min	max	open	close	fixing
EURPLN	4.311	4.332	4.317	4.314	4.3302
USDPLN	3.689	3.728	3.696	3.693	3.7244
EURUSD	1.161	1.169	1.168	1.169	-

Interest rate market

13/07/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0720 (2L)	1.61	-1	15-Jun-18	OK0720	1.605
DS1023 (5L)	2.52	0	15-Jun-18	PS0123	2.393
WS0428 (10L)	3.17	-1	15-Jun-18	WS0428	3.197

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.75	0	2.63	-1	-0.26	0
2L	1.95	1	2.81	-2	-0.17	0
3L	2.14	0	2.86	-2	-0.03	0
4L	2.32	0	2.87	-2	0.12	-1
5L	2.48	0	2.87	-3	0.26	-1
8L	2.80	0	2.88	-3	0.65	-1
10L	2.96	0	2.90	-3	0.87	0

WIBOR rates

Term	%	Change (bps)
O/N	1.60	0
T/N	1.60	0
SW	1.56	0
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	1.71	0
3x6	1.72	0
6x9	1.74	0
9x12	1.80	0
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			2.82	-1
France	26	0	0.28	0
Hungary	116	1	3.01	-1
Spain	67	-1	0.93	0
Italy	229	-3	2.23	2
Portugal	64	0	1.39	1
Ireland	25	0	0.47	0
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

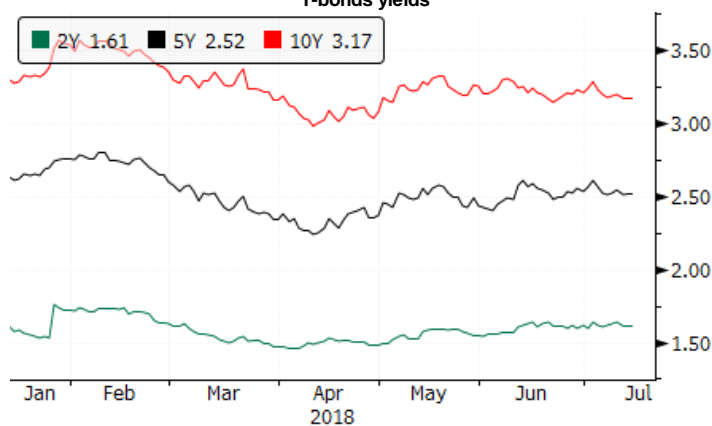
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

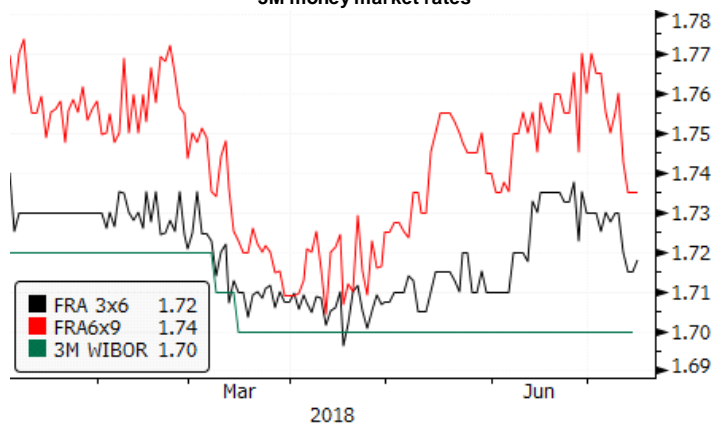
Zloty exchange rate



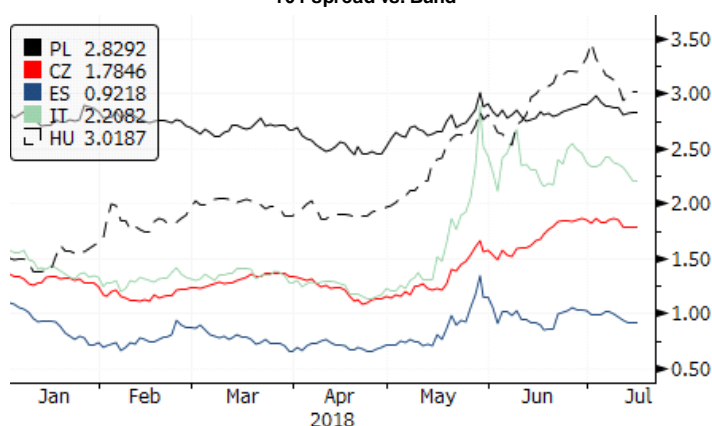
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar

TIME		INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE	
CET				MARKET	BZWBK			
FRIDAY (13 July)								
09:00	CZ	CNB minutes	Mar-01		-			
10:00	PL	CPI	Jun	% y/y	-	1.9	2.0	1.9
16:00	US	Michigan index	Jul	pts	98.0	97.1	-	98.2
MONDAY (16 July)								
14:00	PL	CPI Core	Jun	% y/y	0.6	0.5	-	0.5
14:00	PL	Current Account Balance	May	€mn	52.0	-563.3	-	-21.0
14:00	PL	Trade Balance	May	€mn	-129.0	-272.0	-	314.0
14:00	PL	Exports	May	€mn	17325.0	17148.0	-	17176.0
14:00	PL	Imports	May	€mn	17410.0	17420.0	-	16862.0
14:30	US	Retail Sales Advance	Jun	% m/m	0.6		-	0.8
TUESDAY (17 July)								
10:00	PL	Employment in corporate sector	Jun	% y/y	3.7	3.62	-	3.7
10:00	PL	Average Gross Wages	Jun	% y/y	7.0	7.7	-	7.0
15:15	US	Industrial Production	Jun	% m/m	0.55		-	-0.09
WEDNESDAY (18 July)								
10:00	PL	Sold Industrial Output	Jun	% y/y	5.95	7.0	-	5.4
10:00	PL	Construction Output	Jun	% y/y	20.35	19.5	-	20.8
10:00	PL	PPI	Jun	% y/y	3.6	3.5	-	2.8
10:00	PL	Consumer Confidence	Mar-01					
11:00	EZ	HICP	Jun	% y/y	2.0		-	2.0
14:30	US	Housing Starts	Jun	% m/m	-1.7		-	5.0
20:00	US	Beige Book						
THURSDAY (19 July)								
14:30	US	Initial Jobless Claims		k	225.0		-	214.0
14:30	US	Index Philly Fed	Jul		20.5		-	19.9
FRIDAY (20 July)								
10:00	PL	Retail Sales Real	Jun	% y/y	6.8	7.3	-	6.1
10:00	PL	Stats Poland business sentiment	Jul-18	pts				

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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