

EYEOPENER

19 July 2018

Economy refuses to slow down

- Industrial and construction output beat forecasts in June, swift acceleration of PPI
- Slightly worse consumer sentiment in July
- Zloty down a bit, profit taking on domestic bonds after Tuesday gains
- Today US labour market data

On Wednesday zloty slightly lost, similarly to domestic bonds, after very successful Tuesday. The rise of yields came amid strong local data from manufacturing and construction sectors and a higher-than-expected reading of PPI growth. The data on consumers sentiment showed a slight decline. The final data on euro zone inflation for June were in line with expectations, while the data on US housing starts and mortgage applications were quite poor. Today, European Commission is introducing restrictions on steel imports, which is a reaction to the earlier imposition of tariffs by the USA on this product. The appreciation of the dollar stopped in the afternoon, while core debt markets strengthened insignificantly, despite rising stock indices. The second speech by Jerome Powell did not influence the markets much.

In June, the **industrial production rose 6.8% y/y and construction output soared by 24.7% y/y**. Both readings were above market expectations and support our view that GDP growth in 2Q18 was again near 5% y/y. The producer's price growth jumped to 3.7% y/y reflecting growing cost pressure on firms. In the past, such strong rebound of PPI was accompanied by faster increase in consumer prices, but in the nearest months the CPI growth will be under strong influence of high base in fuel and food prices, which will be dragging it down. Meanwhile, the core inflation should gradually rising. Still, in our opinion, it will not generate a headache for the Monetary Policy Council, which – after seeing the new NBP projection still pointing to inflation getting close to 3% in 2019 – remains confident that interest rates should remain stable for a long time (in the opinion of NBP Governor even until the end of 2020).

Current and leading indicators of consumer sentiment fell in July, and both were the lowest of this year. The declines were mainly caused by a worse assessment of consumers' ability to save and to make major purchases. Despite the decline in sentiment, we are not worried about the private consumption outlook for this year because: (1) optimism, albeit a tad lower, is still close to all-time highs; (2) wages are rising

fast, and unemployment is at a record low. In the coming months we expect a further acceleration of wages, which should improve consumers' mood. We do not rule out the possibility that the worse sentiment in July was caused – at least to some extent – by the worse-than-expected performance of the Polish team at the world soccer championship (at least we felt our sentiment went down because of this).

HICP inflation accelerated in June to 1.4% y/y from 1.2% y/y. The higher reading was due to non-core elements, which saw price growth of 3.5% y/y (as compared to 3.1% y/y in May). Our estimates of core tradables went up to -0.5% y/y from -0.7% y/y and of core non-tradables to 0.6% y/y from 0.5% y/y. The latter category was historically more prone to react to accelerating wage growth, yet we still do not see any upswing this time. Price war in car insurance seems to have come to an end, as June saw a rise by 1.6% m/m after three months of declines by 3-5% m/m. This will help HICP and core inflation go further up. The core inflation went to 0.1% y/y from 0.0% y/y.

According to REAS, in 2Q18 the **six biggest cities saw sales of 15.6k flats –15.2% less than in 1Q18** and the least since 3Q16. A quite considerable slowdown in sales is in line with earlier weak signals on pre-sales in biggest developing companies. We cannot rule out that the strong price growth discouraged the demand, but on the other hand this can be a temporary effect due to depletion of MdM programme funds (financial support for young people) in 1Q18. In our view, it is too early to see a trend change on the housing market.

EURUSD was falling for the better part of the day and only in the afternoon after the release of the US real estate data it rebounded back to the opening level at c1.165. Today we expect the exchange rate to stay fairly stable.

EURPLN rebounded after several sessions of a decline fueled by profit taking and closed the session near 4.309. As regards the other CEE currencies, the forint lost while the koruna gained slightly vs the euro. The ruble depreciated vs the dollar.

On Wednesday **the domestic debt market** changed direction. Since the early morning, the bonds remained under profit-taking pressure on the 10Y segment, after the Tuesday rally. As a result, the domestic curve shifted up by 2-4 bp, mostly on the long end. The IRS curve move was marginal. Today we expect moderate downside pressure on the yield curve.

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FX market

Today's opening

EURPLN	4.3152	CZKPLN	0.1670
USDPLN	3.7117	HUFPLN*	1.3298
EURUSD	1.1626	RUBPLN	0.0589
CHFPLN	3.7102	NOKPLN	0.4529
GBPPLN	4.8437	DKKPLN	0.5789
USDCNY	6.7467	SEKPLN	0.4180

*for 100HUF

Last session in the FX market

18/07/2018

	min	max	open	close	fixing
EURPLN	4.296	4.314	4.297	4.309	4.3036
USDPLN	3.683	3.716	3.687	3.698	3.7031
EURUSD	1.160	1.167	1.165	1.165	-

Interest rate market

18/07/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0720 (2L)	1.60	1	15-Jun-18	OK0720	1.605
DS1023 (5L)	2.48	0	15-Jun-18	PS0123	2.393
WS0428 (10L)	3.12	4	15-Jun-18	WS0428	3.197

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.74	0	2.65	0	-0.26	0
2L	1.91	0	2.83	0	-0.17	0
3L	2.09	0	2.88	0	-0.03	0
4L	2.27	1	2.90	0	0.12	0
5L	2.42	1	2.90	0	0.27	0
8L	2.73	2	2.91	1	0.65	0
10L	2.89	1	2.93	1	0.86	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.59	0
T/N	1.59	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	1.71	0
6x9	1.73	0
9x12	1.77	0
3x9	1.79	0
6x12	1.81	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.77	3
France	26	0	0.29	0
Hungary	116	1	2.92	0
Spain	67	-1	0.93	0
Italy	229	-3	2.15	-1
Portugal	64	0	1.41	0
Ireland	25	0	0.46	0
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

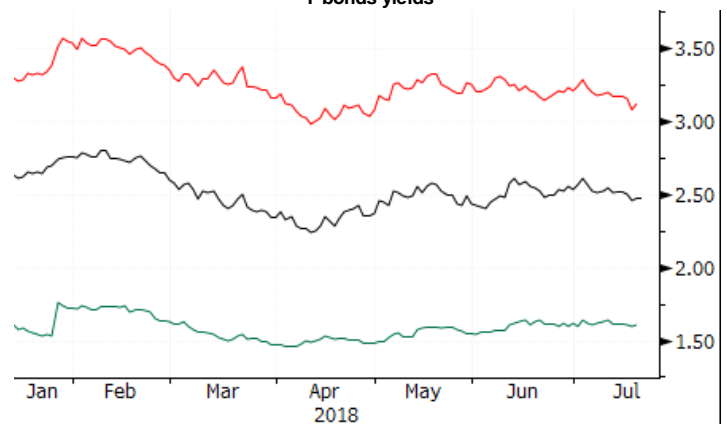
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

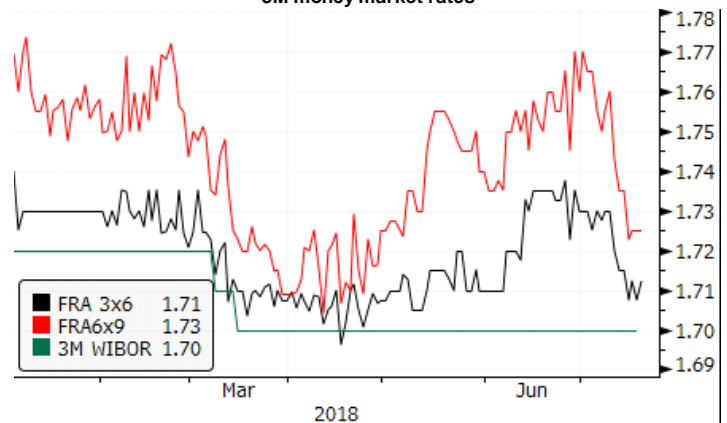
Zloty exchange rate



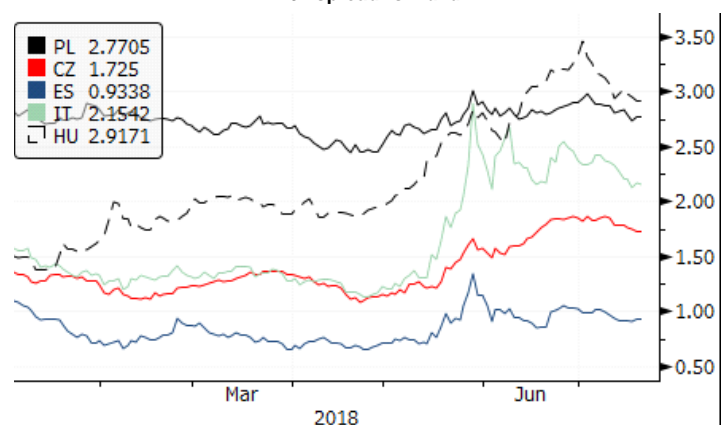
T-bonds yields



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	0.6	0.5	
14:00	PL	Current Account Balance	May	€mn	-153.0	-563.3	42	-21.0	
14:00	PL	Trade Balance	May	€mn	-25.0	-272.0	98	314.0	
14:00	PL	Exports	May	€mn	17325.0	17148.0	17251	17176.0	
14:00	PL	Imports	May	€mn	17410.0	17420.0	17153	16862.0	
14:30	US	Retail Sales Advance	Jun	% m/m	0.5	-	0.5	0.8	
TUESDAY (17 July)									
10:00	PL	Employment in corporate sector	Jun	% y/y	3.7	3.62	3.7	3.7	
10:00	PL	Average Gross Wages	Jun	% y/y	7.0	7.7	7.5	7.0	
15:15	US	Industrial Production	Jun	% m/m	0.55		0.6	-0.09	
WEDNESDAY (18 July)									
10:00	PL	Sold Industrial Output	Jun	% y/y	5.95	7.0	6.8	5.4	
10:00	PL	Construction Output	Jun	% y/y	20.35	19.5	24.7	20.8	
10:00	PL	PPI	Jun	% y/y	3.6	3.5	3.7	2.8	
10:00	PL	Consumer Confidence	Mar-01						
11:00	EZ	HICP	Jun	% y/y	2.0		2.0	2.0	
14:30	US	Housing Starts	Jun	% m/m	-2.2		12.3	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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