

EYEOPENER

31 July 2018

Poland lower CPI may stop zloty appreciation

- Bank of Japan declares interest rates to stay low for long
- Zloty strongest vs euro since mid-June, EURUSD up
- Poland mid- and long-term yields up amid weaker core debt
- Today, Poland flash July CPI and US PCE index

The beginning of the week saw yields rising on the European sovereign bond market and slightly smaller yields move up on the US market. This was triggered by the expectations ahead of the Bank of Japan meeting (investors were expecting that BoJ could scale back its asset purchase program). Additionally, the yields increases were supported by the easing of fears related to the new tariffs on EU car import, proposed by the US administrations and European ESI index reading (that surprised on the positive side). These changes was accompanied by the stock falls, increases of oil prices and hard commodities prices stabilization. EURUSD rose driven by information about US Treasury plans to increase bonds supply. Domestic yields followed the core markets, while zloty gained against euro.

The outcome of the Bank of Japan meeting did not meet the investors concerns. BoJ said it will continue its bond purchases although it will allow prices to react more to the global factors. At the same time, the bank declared it will keep interest rates for a long period of time and so the outcome of the today's meeting sounds rather dovish instead of hawkish and global yields are falling at the beginning of the day.

Yesterday **Poland stat office release estimated harvest of main crops**. High temperature in May and June together with low rainfall have had a negative impact on some harvest. The stat office expects the grains harvest to fall 14% y/y (24mn tonnes), canola and agrimony by 16% y/y (2.2mn tonnes) and root vegetables by 8% (4.2mn tonnes). Draught did not impact fruits much. Three fruit harvest are estimated to reached a record high of 4.2mn tonnes (over 50% more than in 2017) and shrub fruit harvest should amount to 0.6mn tonnes, 25% more than in 2017. We assume that that lower harvers should not have a meaningful impact on inflation in Poland. Particularly for grains, for which prices are largely determined by global trends (where prices rise noticeably).

EURUSD rose to 1.171 from 1.166 on Monday in response to information that the US Treasury Department is planning to issue more debt and to a smaller extent to above-consensus ESI index for the euro zone. Today we expect EURUSD to rise which could be supported by the US PCE data that we expect to show weaker inflation pressure in the USA.

EURPLN fell on Monday, for the fifth session in a row thanks to better sentiment in the CEE region and rising EURUSD. As a result, the exchange rate fell to 4.271 from 4.285 reaching its lowest level since mid-June. Today we expect EURPLN down move to stop as the Poland flash July CPI could be lower than the market expects.

As regards the other CEE currencies, the forint gained vs the euro noticeably with EURHUF falling to 321.6, its new July low. EURCZK eased to 25.6 from 25.65 despite rather poor Czech ESI index reading. The ruble continued to appreciate vs the dollar owing to higher oil prices and rising EURUSD.

On the domestic debt market yields rose on Monday continuing the move started in the middle of the last week. Upside pressure on Polish yields was generated by the core markets. In the euro zone, yields rose amid slightly better ESI index reading and in-line with consensus flash German HICP. As a result, Polish bond curve moved 4-5bp in 5-10Y tenors and 1bp on the front end. IRS curve rose at a similar scale. Todayt we expect yields to ease thanks to the BoJ rhetoric.

Today at 10:00CET, Poland stat office will release flash July CPI, which we are expecting to inch down versus June. Inflation was dragged lower by food prices, in our view, which we estimate to have gone down by 1% m/m thanks to lower fruit and vegetable prices that offset the upward tendencies in butter and poultry. Fuel prices will be the main factor supporting inflation close to the June level thanks to low annual statistical base (they rose only by about 1% m/m in July). In the following months, we are expecting some more pressure from food prices due to drought effects, higher core inflation and energy prices (last Thursday, the regulator approved the higher gas tariff, raising gas prices for households by 3.6%, adding slightly below 0.1pp to headline CPI in December). However, in general, CPI will be trending down until the end of the year.

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FX market

Today's opening

EURPLN	4.2731	CZKPLN	0.1670
USDPLN	3.6487	HUFPLN*	1.3283
EURUSD	1.1711	RUBPLN	0.0586
CHFPLN	3.6921	NOKPLN	0.4486
GBPPLN	4.7904	DKKPLN	0.5736
USDCNY	6.8277	SEKPLN	0.4169

*for 100HUF

Last session in the FX market

30/07/2018

	min	max	open	close	fixing
EURPLN	4.269	4.291	4.287	4.270	4.2836
USDPLN	3.644	3.681	3.674	3.645	3.6684
EURUSD	1.165	1.172	1.166	1.172	-

Interest rate market

30/07/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0720 (2L)	1.59	-1	27-Jul-18	OK0720	1.592
DS1023 (5L)	2.53	0	27-Jul-18	PS0123	2.335
WS0428 (10L)	3.19	4	27-Jul-18	WS0428	3.144

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.76	1	2.67	0	-0.25	0
2L	1.96	1	2.88	0	-0.14	1
3L	2.15	2	2.94	1	0.01	1
4L	2.33	3	2.96	1	0.17	2
5L	2.49	4	2.97	1	0.32	2
8L	2.79	4	3.00	1	0.73	2
10L	2.97	5	3.03	1	0.94	2

WIBOR rates

Term	%	Change (bps)
O/N	1.50	1
T/N	1.50	0
SW	1.55	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	1.72	0
6x9	1.77	2
9x12	1.81	2
3x9	1.80	1
6x12	1.86	2

Measures of fiscal risk

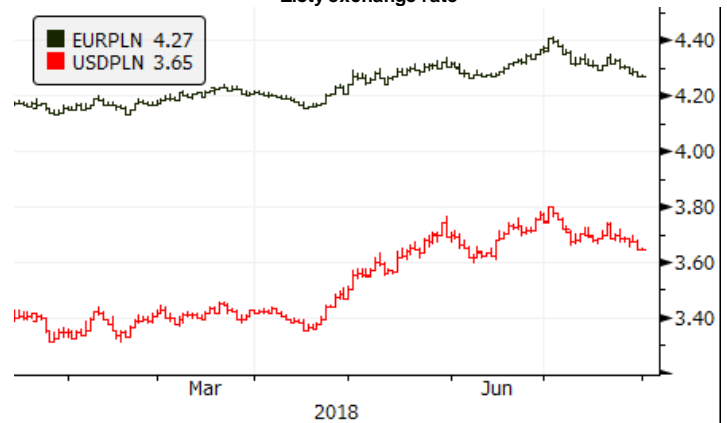
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.76	5
France	26	0	0.29	-1
Hungary	116	1	2.81	2
Spain	67	0	0.98	0
Italy	213	0	2.33	0
Portugal	64	0	1.32	0
Ireland	25	0	0.46	-1
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

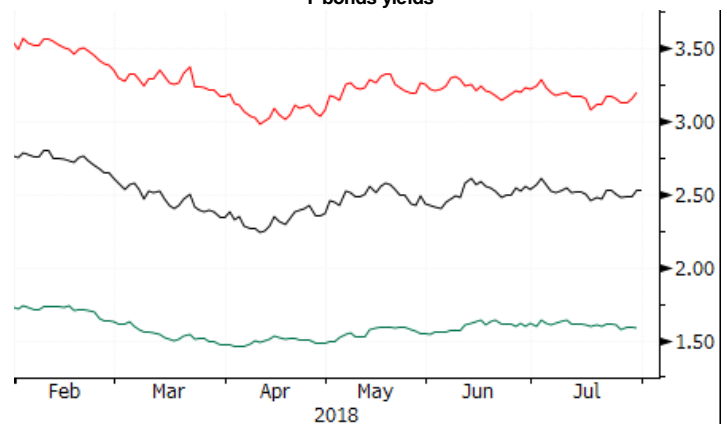
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

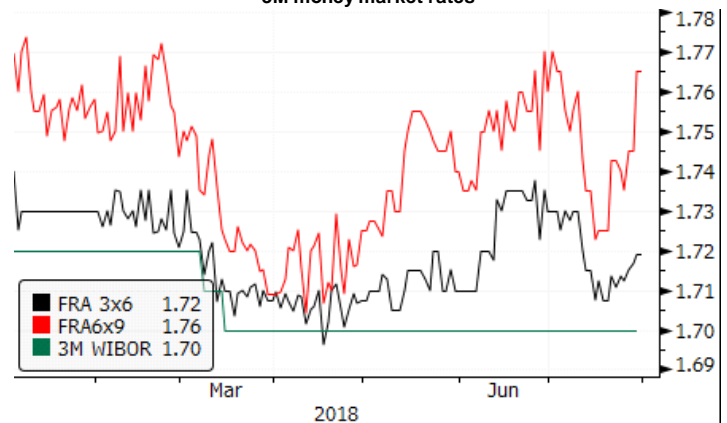
Zloty exchange rate



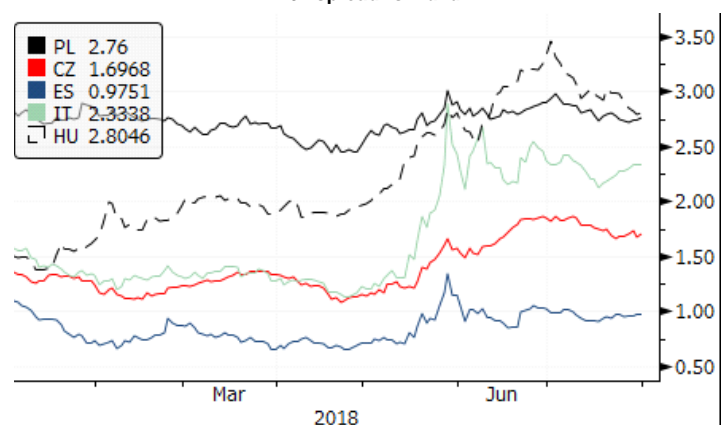
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME	INDICATOR		PERIOD		FORECAST		ACTUAL	LAST
CET					MARKET	BZWBK	VALUE	VALUE
FRIDAY (27 July)								
	PL	Central Budget Cumul.	Jun	bn PLN	9.5		9.5	9.6
11:30	PL	Bond Auction			-			
14:30	US	GDP Annualized	2Q	% Q/Q	4.2	-	4.1	2.0
16:00	US	Michigan index	Jul	pts	97.1	-	97.7	97.1
MONDAY (30 July)								
11:00	EZ	ESI	Jul	pct.	112.0	-	112.1	112.3
14:00	DE	HICP	Jul	% m/m	0.4	-	0.4	0.1
16:00	US	Pending Home Sales	Jun	% m/m	0.4	-	0.9	-0.5
TUESDAY (31 July)								
08:00	DE	Retail Sales	Jun	% m/m	1.0	-	1.2	-2.1
10:00	PL	CPI	Jul	% y/y	2.0	1.9		2.0
11:00	EZ	Flash HICP	Jul	% y/y	2.0	-		2.0
11:00	EZ	GDP SA	2Q	% y/y	2.2	-		2.5
11:00	EZ	Unemployment Rate	Jun	%	8.3	-		8.4
14:30	US	Personal Spending	Jun	% m/m	0.4	-		0.2
14:30	US	Personal Income	Jun	% m/m	0.4	-		0.4
14:30	US	PCE Deflator SA	Jun	% m/m	0.1	-		0.2
16:00	US	Consumer Conference Board	Jul	pts	126.0	-		126.4
WEDNESDAY (1 August)								
09:00	PL	Poland Manufacturing PMI	Jul	pts	54.5	54.0		54.2
09:55	DE	Germany Manufacturing PMI	Jul	pts	57.3	-		57.3
10:00	EZ	Eurozone Manufacturing PMI	Jul	pts	55.1	-		55.1
14:15	US	ADP report	Jul	k	180.0	-		177.2
16:00	US	ISM manufacturing	Jul	pts	59.2	-		60.2
20:00	US	FOMC decision		%	2.0	-		2.0
THURSDAY (2 August)								
13:00	CZ	Central Bank Rate Decision		%	1.25	-		1.0
14:30	US	Initial Jobless Claims	week	k	215	-		217
16:00	US	Durable Goods Orders	Jun	% m/m	3.0	-		1.0
16:00	US	Factory Orders	Jun	% m/m	1.7	-		0.4
FRIDAY (3 August)								
03:45	CH	Caixin China PMI Services	Jul	pts	0.0	-		53.9
09:55	DE	Markit Germany Services PMI	Jul	pts	54.4	-		54.4
10:00	EZ	Eurozone Services PMI	Jul	pts	54.4	-		54.4
11:00	EZ	Retail Sales	Jun	% m/m	0.35	-		0.0
14:30	US	Change in Nonfarm Payrolls	Jul	k	190	-		213
14:30	US	Unemployment Rate	Jul	%	3.9	-		4.0
16:00	US	ISM services	Jul	pts	58.6	-		59.1

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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