

EYEOPENER

14 August 2018

Has GDP growth stayed above 5% y/y?

- **Weak moods at the start of the week, slightly higher optimism at the end of the day strengthened zloty and dollar**
- **Selloff in the debt markets, but Polish bonds doing quite well**
- **Current account deficit in June close to expectations despite surprisingly high imports**
- **Today, flash 2Q GDP and final July inflation in Poland, important data from Germany and euro zone**

On Monday, in the first half of session risk aversion dominated global markets, which was triggered by Turkey's problems. Sell-off affected equity and debt markets, in particular emerging markets and euro zone's peripherals (these latter due to worries about financial results of banks, exposed to the Turkish market). However, trading was relatively calm and at the end of the European session on some equity markets we observed even green shoots. FX market was relatively stable and even some rebound was seen. The Turkish lira remained near 7 vs. the dollar and 10-year Turkish bond yields increased 45bp. Investors are still waiting for more precise declarations of the Turkish authorities on how they are going to deal with the current crisis.

Current account balance in Poland reached -€240m in June, which was not far from market consensus (-€276m) or our forecast (-€174m). The 12-month rolling deficit reached virtually zero after 1H18 and while we expect it to widen in the coming months, the deterioration should not be significant, so the Poland's dependence on foreign financing should remain limited (at the end of this year the gap should be still well below 1% of GDP). Especially that at the same time the inflow of EU transfers and net FDIs are increasing. Although the current account deficit was close to expectations, trade balance in June surprised negatively, which seems to support our estimate that GDP growth in 2Q18 was close to 5% y/y but much not higher.

EURUSD halted the downward trend recorded at the end of the previous week and on Monday the exchange rate even slightly rebounded to 1.143 from 1.138. It seems that on Friday market overreacted on information from EBC (worries about European banking system) and investors took opportunity to buy the euro cheaper. Data on the German GDP growth in 2Q18 released this morning were slightly better than forecasts, confirming that the biggest euro zone's economy accelerated after a temporary

soft patch in the first quarter. So far, it did not have a significant impact on EURUSD.

On Monday, the zloty gained due to a weaker US dollar: EURPLN declined from 4.311 to almost 4.29 and USDPLN fell below 3.76 from over 3.79. However, in our opinion the sentiments for the assets in the emerging markets are still negative, therefore we do not expect any further clear gains of the Polish currency. Other CEE currencies also appreciated slightly. Today, the zloty may be affected by domestic CPI and GDP releases if the data differ considerably from the market consensus.

Global debt markets were weakening. The German Bunds and US Treasuries were the most stable and with yields increasing only insignificantly. A clear increase of yields, by over 10bp, was recorded in case of emerging markets, e.g. Turkey, Indonesia, Republic of South Africa and Romania. Bonds of the eurozone peripheral states were also weaker (by 5-8bp). Polish debt presented well against that background, going up by only 1-2bp. The IRS curve declined by 1bp, taking asset swap spreads a bit up.

Today 10:00 am, the Polish statistical office will publish the flash estimate of 2Q GDP growth and the final July CPI. Flash estimate of GDP should confirm that the domestic economy is still expanding at a c5% pace (our forecasts – 4,9% y/y, 1Q GDP was 5,2% y/y). Gradual slowdown should be seen only from 2H18, in our view. While no details will be available at this time, we assume private consumption stayed at c5% y/y and investments at c8% y/y. The surprisingly high input to growth from inventory changes in 1Q in our view almost disappeared in 2Q, to the benefit of investments and export growth. **Final inflation reading** rarely differs from the stats office flash release. The preliminary reading for July was 2.0% y/y, unchanged versus June and in line with market expectations. This most likely meant that core inflation remained at 0.6% y/y. In our view, 2.0% in June and July will be this year's peak in inflation and in the upcoming months CPI growth will be going down to 1.6% y/y at the year-end.

ECONOMIC ANALYSIS DEPARTMENT:

al. Jana Pawła II 17, 00-854 Warsaw fax +48 22 586 83 40
 email: ekonomia@bzwbk.pl Web site: skarb.bzwbk.pl
 Piotr Bielski +48 22 534 18 87
 Marcin Luźniński +48 22 534 18 85
 Grzegorz Ogonek +48 22 534 19 23
 Konrad Soszyński +48 22 534 18 86
 Marcin Sulewski +48 22 534 18 84

TREASURY SERVICES:

Poznań +48 61 856 5814/30
 Warszawa +48 22 586 8320/38
 Wrocław +48 71 369 9400

FX market

Today's opening

EURPLN	4.2959	CZKPLN	0.1671
USDPLN	3.7611	HUFPLN*	1.3322
EURUSD	1.1421	RUBPLN	0.0561
CHFPLN	3.7849	NOKPLN	0.4502
GBPPLN	4.8082	DKKPLN	0.5763
USDCNY	6.8819	SEKPLN	0.4133

*for 100HUF

Last session in the FX market

13/08/2018

	min	max	open	close	fixing
EURPLN	4.283	4.319	4.293	4.319	4.3094
USDPLN	3.751	3.795	3.763	3.791	3.7862
EURUSD	1.137	1.143	1.139	1.139	-

Interest rate market

13/08/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0720 (2L)	1.57	-2	27-Jul-18	OK0720	1.592
DS1023 (5L)	2.50	0	27-Jul-18	PS0123	2.335
WS0428 (10L)	3.15	1	27-Jul-18	WS0428	3.144

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.75	0	2.62	-1	-0.24	0
2L	1.94	0	2.79	-1	-0.15	0
3L	2.13	0	2.84	-1	-0.02	0
4L	2.31	0	2.86	-1	0.12	-1
5L	2.46	0	2.87	-1	0.26	-1
8L	2.76	0	2.90	-1	0.66	-1
10L	2.93	0	2.93	-1	0.87	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.55	-1
T/N	1.55	-1
SW	1.55	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	1.70	0
3x6	1.72	0
6x9	1.75	0
9x12	1.79	0
3x9	1.80	0
6x12	1.84	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.82	-1
France	26	0	0.36	-1
Hungary	116	1	3.18	-3
Spain	71	3	1.11	-3
Italy	243	10	2.70	-8
Portugal	64	0	1.49	-3
Ireland	25	0	0.51	0
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

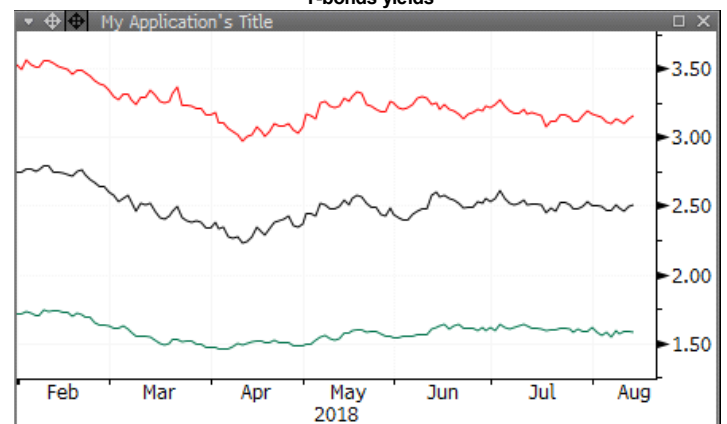
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

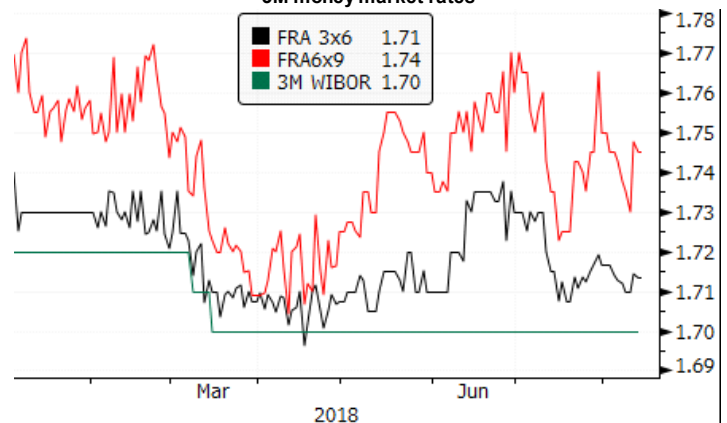
Zloty exchange rate



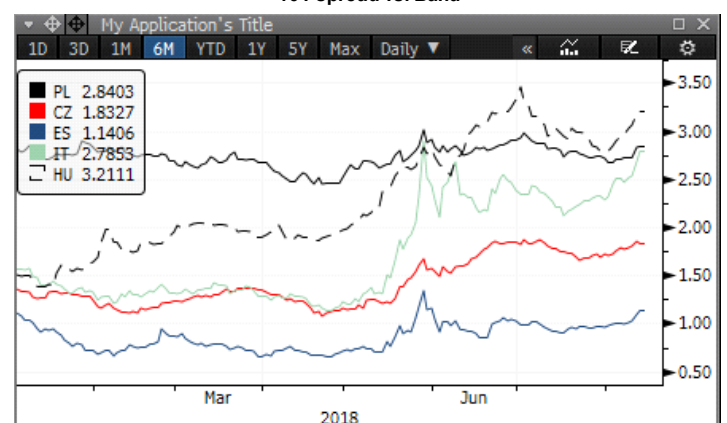
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar								
TIME	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL	LAST
CET					MARKET	BZWBK	VALUE	VALUE
FRIDAY (10 August)								
14:30	US	CPI	JUL	% m/m	0.2	-	0,2	0.1
MONDAY (13 August)								
14:00	PL	Current account	JUN	€m	-476	-174	-240	42
14:00	PL	Exports	JUN	€m	17 810	17 787	18071	17 251
14:00	PL	Imports	JUN	€m	17 827	17 736	18484	17 153
TUESDAY (14 August)								
9:00	CZ	Flash GDP	Q2	% y/y	-	-	-	4.2
9:00	HU	Flash GDP	Q2	% y/y	-	-	-	4.4
10:00	PL	CPI	JUL	% y/y	2.0	2.0	-	2.0
10:00	PL	Flash GDP	Q2	% y/y	5.0	4.9	-	5.2
11:00	EZ	Industrial output	JUN	% m/m	-	-	-	1.3
11:00	DE	ZEW index	AUG	pts	-	-	-	72.4
WENDSDAY (15 August)								
	PL	Market holiday						
14:30	US	Retail sales	JUL	% m/m	0.2	-	-	0.5
15:15	US	Industrial output	JUL	% m/m	0.3	-	-	0.6
THURSDAY (16 August)								
14:00	PL	Core inflation	JUL	% y/y	0.6	0.6	-	0.6
14:30	US	House starts	JUN	k	1270	-	-	1173
14:30	US	Building permits	JUN	k	1310	-	-	1292
14:30	US	Initial jobless claims	week	k	-	-	-	213
14:30	US	Philly Fed index	AUG	pts	22.3	-	-	25.7
FRIDAY (17 August)								
10:00	PL	Wages in corporate sector	JUL	% y/y	7.7	7.3	-	7.5
10:00	PL	Employment in corporate sector	JUL	% y/y	3.6	3.5	-	3.7
11:00	EZ	CPI	JUL	% y/y	2.0	-	-	2.0
16:00	US	Flash Michigan	JUL	pts	98.0	-	-	97.9

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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Additional information is available on request. Please contact Bank Zachodni WBK S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@bzwbk.pl, http://www.bzwbk.pl.