

EYEOPENER

16 August 2018

GDP growth above 5% y/y, CPI stable

- Lira trimming losses, yet market sentiment still unstable
- 2Q GDP growth reached 5.1% y/y, July inflation 2.0% y/y
- Zloty and bonds stable on Tuesday, weakening of EM currencies on Wednesday
- Today, Polish core inflation, US housing market data

On Tuesday the market sentiment has improved somewhat amid expectation for further developments in Turkey. The lira started trimming losses and strengthened to almost 6.5 per dollar, even though the Turkish authorities did not announce a reliable rescue plan for the economy. Instead, on Tuesday the Turkish president Erdogan called to boycott the American electronic products and on Wednesday the government imposed higher tariffs on selected US imports. Solid readings of GDP growth in 2Q in the region (only in the Czech Republic it was below forecast) and in the euro zone was theoretically supportive for the CEE currencies, but their strengthening was only marginal. On Wednesday the lira kept strengthening (it is already below 5.9 vs. the dollar), following the Turkish central bank's step to limit the offshore investors' potential to speculate against the currency and the Qatar's declaration to support Turkey with \$15bn direct investments. Nevertheless, the general risk appetite has deteriorated, partly due to mounting concerns about Chinese economy.

GDP growth in 2Q18 reached 5.1% y/y, only a notch below the first quarter's 5.2%. The seasonally adjusted growth reached 0.9% q/q (in line with our forecast), vs 1.6% in 1Q18. The breakdown of growth is unknown yet, but we think that 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. We think that the pace of economic growth in Poland will decelerate slightly in 2H18, amid slowing expansion of investments (construction sector reaching its capacity limits) and a bit more negative contribution from net exports (strong import boosted by domestic demand, export slowly feeling the impact of global trade wars). The minister of finance Teresa Czerwińska expressed a similar view, as she said that GDP growth may decelerate in 2H18 to c.4.5% and in 2019 it could drop below 4% y/y.

CPI inflation in July was 2.0% y/y, in line with the flash estimate, and at the same level as in June. The breakdown of the data did not reveal any significant surprises and according to our estimate the core inflation, excluding food and energy, remained unchanged at 0.6% y/y. We think that June-July saw the local peak for the headline inflation and in the coming months CPI growth should gradually subside due to high base effects, towards 1.6% y/y in December. Meanwhile, the underlying inflation should be moving

the opposite way (towards 1.2% y/y by year-end), as the cost pressures are mounting.

MPC member Eryk Łon said on Tuesday that he still does not exclude tabling a motion to cut interest rates this year, while the base scenario is to keep rates unchanged. Łon will decide which move to support based on growth outlook for the eurozone. In his view the zloty weakness is no concern. What is more, he praised the Turkish president on "sending, with his remarks, the exchange rate of the Turkish lira to a level that is beneficial for Turkish exports and Turkish tourism". This bold statement did not influence much the competitiveness of Polish tourism, as the zloty remained stable on Tuesday. It seems investors did not read Łon's remarks as an official signal how the Polish central bank wants to support the domestic economy.

The **European Commission** took further step against Poland as regards the breach of the EU law, maintaining the stance that the Supreme Court Act violates the EU law. The Commission requested the Polish government to amend the provisions within a month. Otherwise, the European Commission may refer the case to the EU Court of Justice.

On Tuesday **EURUSD** fluctuated between 1,143 and 1,138, slightly rising at the beginning and then going back as a result of returning fear of European banks' exposition to Turkey. On Wednesday the dollar gained further and today morning it rebounded little. The direction in the coming days is likely to be determined by the situation on emerging markets. The escalation of the crisis can support the dollar's further strengthening.

On Tuesday **EURPLN** was stable slightly below 4.30. The zloty, as other CEE currencies, was supported by improved global sentiment, rebound of the Turkish lira and positive data on GDP in 2Q18. However, the market remained choppy, and despite positive factors the CEE currencies were close to Monday level. On Wednesday the CEE markets weakened due to rising risk aversion. EURPLN reached 4.34 and USDPLN climbed above 3.83. Today in the morning we can see a rebound, but in our view the room for the stronger zloty is limited given high global market volatility.

On the **core debt markets**, yields grew slightly on Tuesday in a reaction to data confirming economic recovery on European market in 2Q while on Wednesday the rising risk aversion strengthened the US and German bonds. Domestic debt market was stable on Tuesday amid low liquidity before the market holiday on Aug 15th.

Today 2:00 pm, the National Bank of Poland will publish data about core inflation. We expect a stable reading at 0.6% y/y.

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FX market

Today's opening

EURPLN	4.3091	CZKPLN	0.1675
USDPLN	3.7833	HUFPLN*	1.3321
EURUSD	1.1390	RUBPLN	0.0565
CHFPLN	3.8140	NOKPLN	0.4498
GBPPLN	4.8150	DKKPLN	0.5780
USDCNY	6.8975	SEKPLN	0.4128

*for 100HUF

Last session in the FX market

15/08/2018

	min	max	open	close	fixing
EURPLN	4.296	4.344	4.306	4.328	4.3001
USDPLN	3.787	3.841	3.796	3.815	3.7768
EURUSD	1.130	1.135	1.134	1.134	-

Interest rate market

15/08/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0720 (2L)	1.58	1	27-Jul-18	OK0720	1.592
DS1023 (5L)	2.50	0	27-Jul-18	PS0123	2.335
WS0428 (10L)	3.15	0	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	2.63	-1	-0.25	0
2L	1.93	0	2.80	-2	-0.16	-1
3L	2.11	0	2.84	-3	-0.03	-1
4L	2.28	0	2.86	-3	0.11	-1
5L	2.43	0	2.86	-3	0.26	-1
8L	2.74	0	2.89	-3	0.65	-2
10L	2.90	0	2.92	-3	0.86	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.55	0
T/N	1.55	0
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	1.71	0
6x9	1.74	0
9x12	1.78	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			2.84	-1
France	26	0	0.36	-1
Hungary	116	1	3.19	-1
Spain	71	3	1.12	-2
Italy	243	10	2.81	-5
Portugal	64	0	1.50	-3
Ireland	25	0	0.52	-1
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

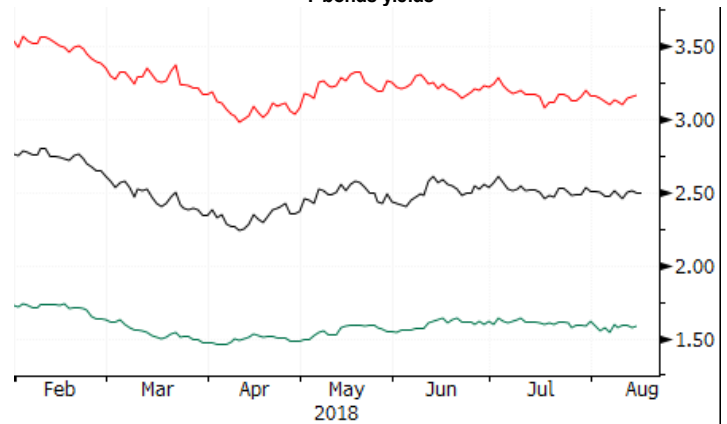
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

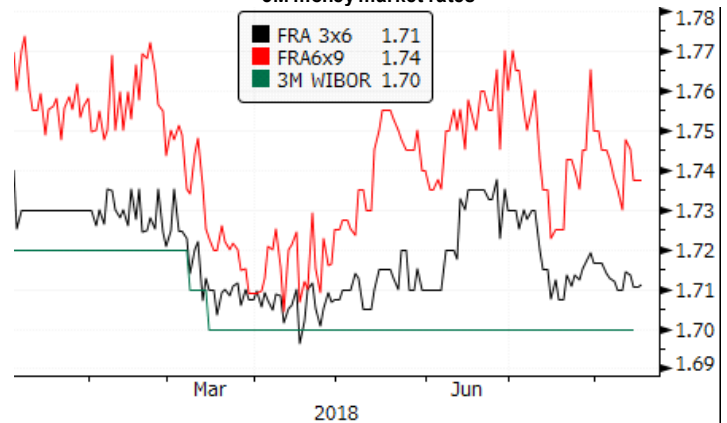
Zloty exchange rate



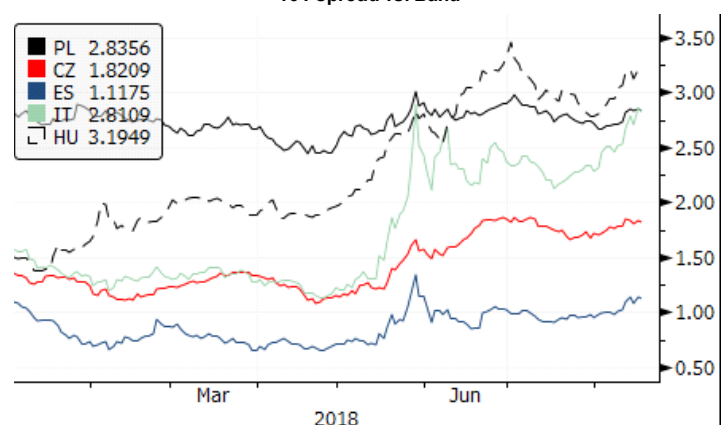
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE
				MARKET	BZWBK		
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	-	-	2.3	4.2
9:00	HU	Flash GDP	Q2 % y/y	-	-	4.6	4.4
10:00	PL	CPI	JUL % y/y	2.0	2.0	2.0	2.0
10:00	PL	Flash GDP	Q2 % y/y	5.0	4.9	5.1	5.2
11:00	EZ	Industrial output	JUN % m/m	-	-	1.4	1.3
11:00	DE	ZEW index	AUG pts	-	-	72.6	72.4
WENDSDAY (15 August)							
	PL	Market holiday					
14:30	US	Retail sales	JUL % m/m	0.2	-	0.5	0.5
15:15	US	Industrial output	JUL % m/m	0.3	-	0.1	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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