

EYEOPENER

27 August 2018

No rate hike threats in Jackson Hole

- Relatively dovish speeches of Fed officials in Jackson Hole
- High and stable wage growth, unemployment rate at 5.9%
- Very high investment activity of local governments
- Domestic debt and zloty gained
- Today German Ifo index

On Friday, core markets saw rising bond yields and weakening of the dollar. The dollar weakened as investors awaited the Jackson Hole conference and a speech to be given there by the Fed Chair Jerome Powell. The speech itself was perceived as dovish as Powell announced the continuation of only gradual further rate hikes in order to balance the risk of exaggerated and insufficient tightening of monetary policy. James Bullard assessed the current level of interest rates as close to the target, while Loretta Mester noted that there was no need to overreact if inflation only slightly exceeds the target. Even hawkish-minded Robert Kaplan mentioned cooling of the companies' investment plans and expressed concern about the economic outlook for 2020-2021. The zloty kept growing against both major currencies, while bonds gained. The zloty appreciation was driven by the Jackson Hole conference news, while the bonds rebounded after Thursday's sale. The published data on GDP in Germany showed a slowdown in investment activity and higher consumption. On the other hand, data on new orders in the US indicated lower consumer activity and larger investment orders. Their publication did not cause major market response.

Registered unemployment rate in July reached 5.9%, in line with our forecast and Labour Ministry's estimate. After seasonal adjustment the jobless rate reached 6.1%, unchanged versus June. We expect that in the coming months the unemployment rate will remain close to July's level.

Detailed information about **wages in corporate sector** confirmed our hypothesis that the slowdown of wage growth to 7.2% y/y in July from 7.5% in June resulted mainly from lower wage growth in mining. Salaries in other sectors continued rising at 7.0% y/y, similarly as in June.

After 2Q18 the **local governments recorded a surplus** of PLN13.4bn, i.e. similar as last year (PLN13.5bn). We think that at the end of this year the local governments' budgets could be nearly balanced. Local governments' investments rose by 89.2% y/y in

nominal terms, showing that the pre-election spending spree continues. According to our estimate, local governments could add c.5 pct. points to total investment growth in 2Q18, so we see a substantial upside risk for our forecast of investments in the second quarter (8% y/y).

On Friday **EURUSD** was rising over the day (it started from 1.1540) waiting for the speech by Fed chairman Jerome Powell at the Jackson Hole conference. As a reaction to the speech (read as a relative dovish) EURUSD climbed to 1.1640. Today we expect that EURUSD stays in the Friday range. Ifo data release will likely be neutral for the exchange rate.

EURPLN and USDPLN were decreasing on Friday, waiting for the Jackson Hole conference, reaching 4.2750 and 3.6800 respectively. The Fed chairman's speech helped the zloty to appreciate against USD and was neutral for EURPLN. Today we expect a slight bounce of EURPLN and a march to 4.29. The risk for the zloty could be the Turkish fx market re-opening after the week-long holiday.

Among **other CEE currencies**, EURHUF and USDRUB declined to 323.70 (from 324.50) and 67.20 (from 68.50) respectively, as investors awaited the conference, the speakers' remarks were also supportive for regional currencies. EURCZK grew from 25.70 to 25.75 even though Czech business climate index got better.

On the **domestic interest rate market**, yields dropped (2-3 bp in 5-10Y segment) undisturbed by the Thursday publication of 2019 budget draft, with low deficit but higher issuance plans for PLN bonds. On the domestic market, investors ignored the rise of yields on core markets which occurred ahead of the conference.

This week we will see some important data from the USA. In our opinion, these releases should be viewed in the context of the Fed's Powell speech at the Jackson Hole symposium. We think Polish data should be of a secondary importance. Final 2Q GDP is likely to be close to the flash estimate and the breakdown that will be published shall not be a meaningful impulse for the market at the end of the week. Flash August CPI will show a decline vs July, in our view. Our forecasts is below market consensus. In our opinion, EURPLN could stay close to 4.30 in the coming days while domestic bond yields can move slightly higher assuming that in the September, expected supply of bonds on regular auctions should be greater than in previous weeks.

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FX market

Today's opening

EURPLN	4.2759	CZKPLN	0.1660
USDPLN	3.6862	HUFPLN*	1.3211
EURUSD	1.1600	RUBPLN	0.0547
CHFPLN	3.7449	NOKPLN	0.4408
GBPPLN	4.7312	DKKPLN	0.5733
USDCNY	6.8190	SEKPLN	0.4030

*for 100HUF

Last session in the FX market

24/08/2018

	min	max	open	close	fixing
EURPLN	4.273	4.291	4.282	4.277	4.2801
USDPLN	3.673	3.721	3.706	3.683	3.7014
EURUSD	1.153	1.164	1.156	1.162	-

Interest rate market

24/08/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0720 (2L)	1.59	0	23-Aug-18	OK0720	1.578
DS1023 (5L)	2.48	-2	23-Aug-18	PS0123	2.335
WS0428 (10L)	3.16	-2	23-Aug-18	WS0428	3.156

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.77	0	2.64	1	-0.25	0
2L	1.92	0	2.80	1	-0.15	0
3L	2.10	0	2.84	1	-0.02	0
4L	2.27	0	2.85	1	0.14	0
5L	2.42	0	2.85	1	0.28	0
8L	2.72	0	2.87	0	0.67	0
10L	2.89	0	2.90	0	0.88	0

WIBOR rates

Term	%	Change (bps)
O/N	1.44	3
T/N	1.50	-1
SW	1.55	0
2W	1.60	0
1M	1.64	0
3M	1.71	0
6M	1.79	0
9M	1.82	0
1Y	1.87	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.72	0
3x6	1.74	1
6x9	1.77	0
9x12	1.80	0
3x9	1.82	1
6x12	1.86	1

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.83	0
France	26	-1	0.34	0
Hungary	116	1	3.02	2
Spain	72	0	1.06	1
Italy	253	1	2.81	0
Portugal	64	0	1.48	1
Ireland	25	0	0.52	0
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

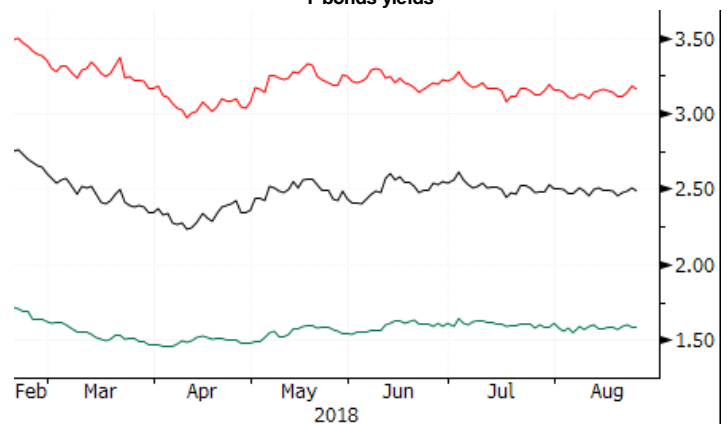
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

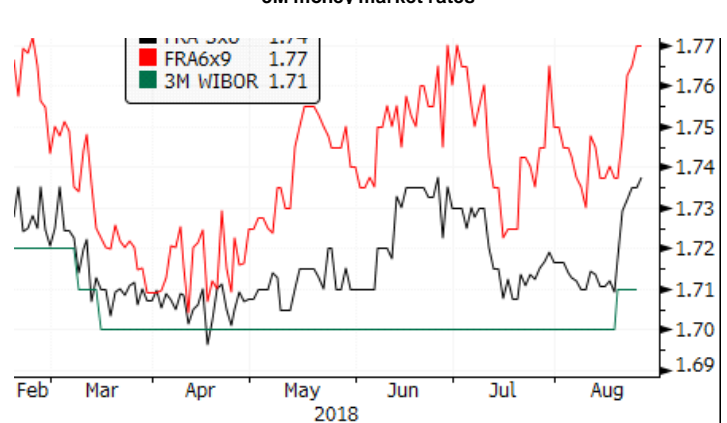
Zloty exchange rate



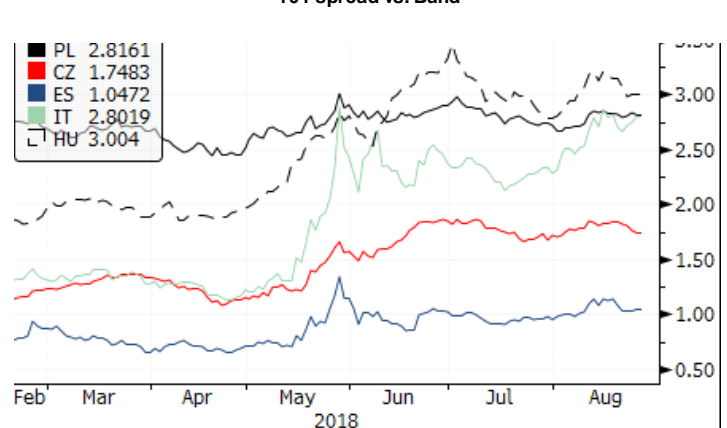
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar							
TIME		INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE
CET				MARKET	BZWBK		
MONDAY (27 August)							
08:00	DE	Retail Sales	Jul	% m/m	-0.2	-	0.9
	PL	Central Budget Cumul.	Jul	mn PLN	-	-	9535.47
10:00	DE	IFO Business Climate	Aug	pts	101.8	-	101.7
TUESDAY (28 August)							
16:00	US	Consumer Conference Board	Aug	pts	126.5	-	127.4
WEDNESDAY (29 August)							
14:30	US	GDP Annualized	2Q	% Q/Q	4.0	-	4.1
16:00	US	Pending Home Sales	Jul	% m/m	0.5	-	0.9
THURSDAY (30 August)							
11:00	EZ	ESI	Aug	pct.	112.0	-	112.1
14:00	DE	HICP	Aug	% m/m	0.2	-	0.4
14:30	US	Initial Jobless Claims	Aug-18	k	215.0	-	210.0
14:30	US	Personal Spending	Jul	% m/m	0.4	-	0.4
14:30	US	Personal Income	Jul	% m/m	0.4	-	0.4
14:30	US	PCE Deflator SA	Jul	% m/m	0.2	-	0.1
FRIDAY (31 August)							
09:00	CZ	GDP SA	2Q	% y/y	2.3	-	2.3
10:00	PL	CPI	Aug	% y/y	2.0	1.8	2.0
10:00	PL	GDP	2Q	% y/y	5.1	5.1	5.1
10:00	PL	Private Consumption	2Q	% y/y		5.0	4.8
10:00	PL	Investments	2Q	% y/y		7.9	8.1
11:00	EZ	Flash HICP	Aug	% y/y	2.1	-	2.1
11:00	EZ	Unemployment Rate	Jul	%	8.2	-	8.3
16:00	US	Michigan index	Aug	pts	95.7	-	95.3

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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