WEEKLY ECONOMIC UPDATE

13 – 19 February 2017

After a relatively light week in terms of macro data, this week will see a lot of important releases both from Poland and abroad. Polish data on output, retail sales and balance of payments will help assess whether the economy is rebounding and at what pace. CPI is likely to gather much attention, as in our view, it will jump to 1.7%, above the NBP official rate. Data from Europe will be important in the context of the ECB monetary policy.

As regards markets, the recent political risks (elections in Europe) and Greece are becoming more concerning for investors and we guess that this situation will not change this week. Moreover, markets will still be eyeing decision of the new US president. In general, external factors may be negative for Polish assets, while data may be supportive for PLN.

Economic calendar

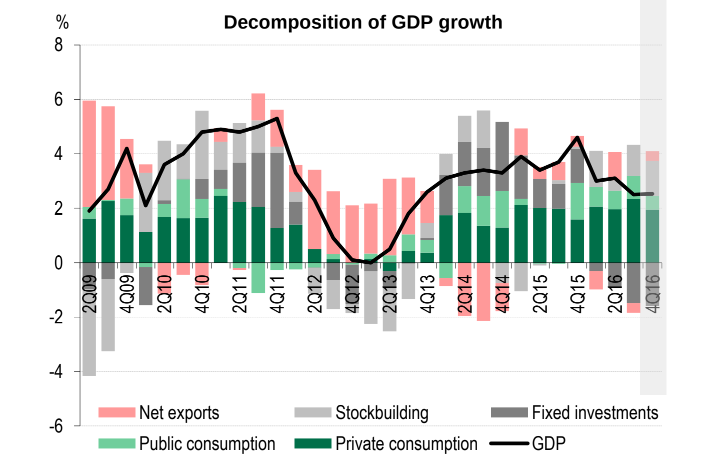
TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
		MONDAY (13 February)					
14:00	**PL**	**CPI**	**Jan**	**% y/y**	**1.7**	**1.7**	**0.8**
14:00	**PL**	**Current account**	**Dec**	**mln €**	**-644**	**-562**	**-427**
14:00	**PL**	**Exports**	**Dec**	**mln €**	**14 209**	**14 116**	**15 943**
14:00	**PL**	**Imports**	**Dec**	**mln €**	**14 503**	**14 400**	**15 841**
		TUESDAY (14 February)					
8:00	DE	Advance GDP	Q4	% y/y	1.4	-	1.5
9:00	HU	Advance GDP	Q4	% y/y	2.0	-	2.2
9:00	HU	CPI	Jan	% y/y	2.3	-	1.8
9:00	CZ	Advance GDP	Q4	% y/y	2.3	-	1.9
10:00	**PL**	**Advance GDP**	**Q4**	**% y/y**	**2.5**	**2.5**	**2.5**
11:00	EZ	Industrial output	Dec	% y/y	-1.5	-	1.5
11:00	EZ	Advance GDP	Q4	% y/y	1.8	-	1.8
11:00	DE	ZEW index	Feb	pts	77.2	-	77.3
14:00	**PL**	**Money supply**	**Feb**	**% y/y**	**9.3**	**9.5**	**9.6**
		WEDNESDAY (15 February)					
14:30	US	CPI	Jan	% m/m	0.3	-	0.3
14:30	US	Retail sales	Jan	% m/m	0.1	-	0.6
14:30	US	Industrial output	Jan	% m/m	0.0	-	0.8
		THURSDAY (16 February)					
11:00	**PL**	**Bond auction**					
14:00	**PL**	**Wages in corporate sector**	**Jan**	**% y/y**	**4.5**	**4.9**	**2.7**
14:00	**PL**	**Employment in corporate sector**	**Jan**	**% y/y**	**2.6**	**3.0**	**3.1**
14:30	US	Initial jobless claims	week	k	-	-	234
14:30	US	House starts	Jan	k	1230	-	1226
14:30	US	Building permits	Jan	k	1230	-	1228
14:30	US	Philly Fed index	Feb	pts	17.5	-	23.6
		FRIDAY (17 February)					
14:00	**PL**	**Industrial output**	**Jan**	**% y/y**	**8.2**	**8.0**	**2.3**
14:00	**PL**	**Construction and assembly output**	**Jan**	**% y/y**	**-1.0**	**-1.9**	**-8.0**
14:00	**PL**	**Real retail sales**	**Jan**	**% y/y**	**7.2**	**6.4**	**6.1**
14:00	**PL**	**PPI**	**Jan**	**% y/y**	**3.6**	**3.3**	**3.0**

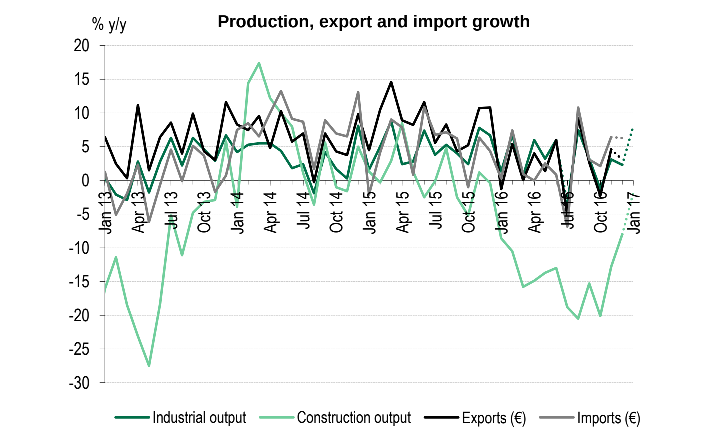
Source: BZ WBK, Reuters, Bloomberg

ECONOMIC ANALYSIS DEPARTMENT:
al. Jana Pawła II 17, 00-854 Warszawa fax +48 22 586 83 40
email: ekonomia@bzwbk.pl Web site: http://www.bzwbk.pl
Maciej Reluga (Chief Economist) +48 22 534 18 88
Piotr Bielski +48 22 534 18 87
Agnieszka Decewicz +48 22 534 18 86
Marcin Luziński +48 22 534 18 85
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

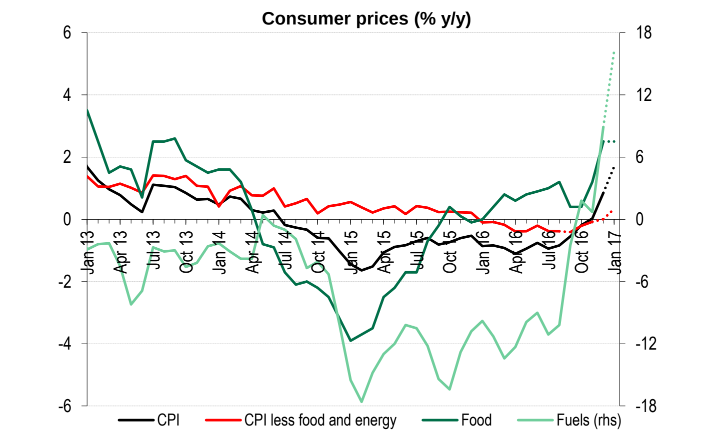
What's hot this week – Large bunch of Polish data





- There is not much uncertainty about 4Q2016 GDP growth, as we have already seen data for the entire year. According to our estimates, GDP grew by 2.5% y/y, similarly as in Q3. In our view, private consumption was the main growth driver, but also public consumption was unexpectedly strong, while investment was still in red.
- We estimate January's CPI at 1.7% y/y. The upward move of the headline figure will be mostly caused by higher fuel and electricity prices. Also hike in cigarette prices will add a bit to inflation. In the following months, pressure on vegetable prices is possible, given weak crops in South Europe. In mid-February gas prices are scheduled to go down, but in our view it cannot be ruled out they will go up again soon, as new tariff is at odds with current wholesale gas prices. In general, we are expecting inflation to be on average close to 2.0% y/y in 2017.
- In December, both export and import rose at a similar rate as in November. Trade balance most likely deteriorated, but this may be offset by better current inflows, so current account balance was similar to November.
- We are expecting quite a strong reading of industrial output in January, but this, however, will be mostly caused by the working day effect (+2 days y/y). However, last weak data on German industrial output pose some risk for this forecast. In our view, construction output will be levelling off in annual terms. Retail sales (in real terms) will grow at a similar pace as earlier, according to our forecast. We assume no major acceleration this year.
- Data on the labour market may be quite interesting, as the statistics office has been updating its pool of surveyed companies, which has strongly affected employment data. As regards wages, we are expecting a considerable acceleration.

Last week in economy – Rates unchanged



- As expected, the Monetary Policy Council kept interest rates on hold in February, with the main reference rate at 1.5%.
- The tone of the MPC's official announcement seems to have softened again. The Council stated that the inflation rate, having risen in the first months of this year, should 'stabilize' in the following quarters. Moreover, it added that factors fuelling the rise of inflation (mainly commodity prices) are of temporary nature, while the underlying pressure is non-existent. The MPC wrote that the risk of breaching the inflation target 'persistently' in the medium term is very low. It does not mean, in our view, that the central bank expects inflation to top 2.5% in the near term.
- The February's MPC statement and the press conference confirmed once again that the Council wants to maintain the status quo in monetary policy throughout 2017.

Quote of the week – Real interest rates may temporarily turn negative

Adam Glapiński, NBP president, PAP, 08.02

So far, we all agree that 'wait and see' is the best strategy. (…) Real interest rates might turn negative, but only for a short time (…) We do not know what will happen, whether CPI will go above 1.5%. In my view it will not, but even if it does, then only temporarily, for a couple of months. And then we will see stabilisation again. (…) In 2017, GDP will grow by 3.5-3.6%, close to its potential.

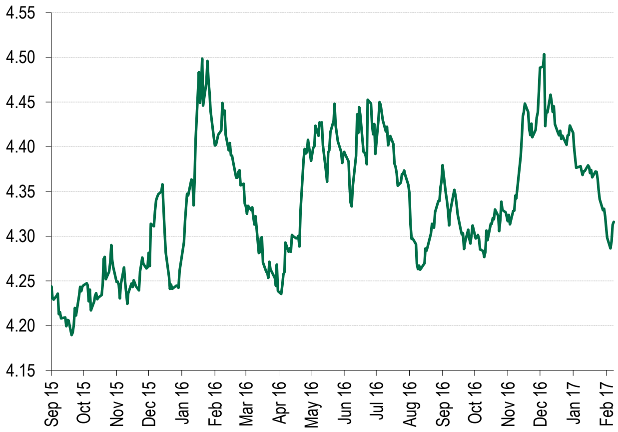
Kamil Zubelewicz, MPC member, PAP, 08.02

Only severe changes on the crude oil market, or in core inflation, would trigger a need to consider interest rate hike.

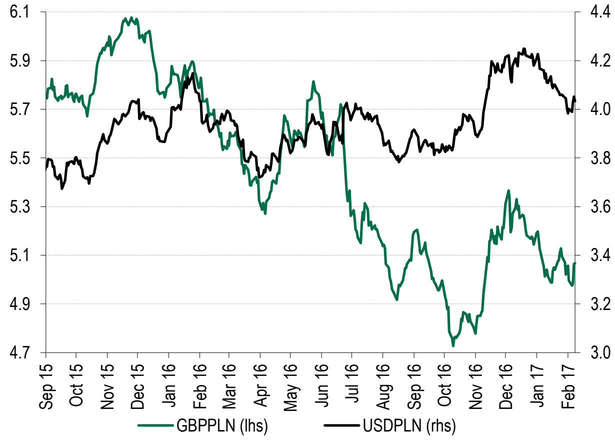
The MPC is ready to accept higher inflation in 2017, but it seems that their forecasts are below our path, as we are expecting CPI at 2.0% in 2017 on average. Adam Glapiński is also quite optimistic about the economic growth and his forecast (3.5-3.6%) is clearly above the current market consensus, but he does not want to hike rates. In our view, even materialisation of our CPI forecast will not encourage the MPC to hike rates in 2017. Maybe a strong rise in core inflation, as suggested by Kamil Zubelewicz, will do, but we are not expecting such a scenario.

Foreign exchange market – Market correction began

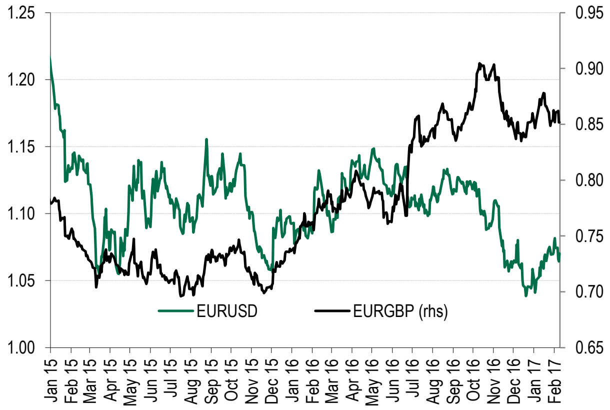
EUR/PLN



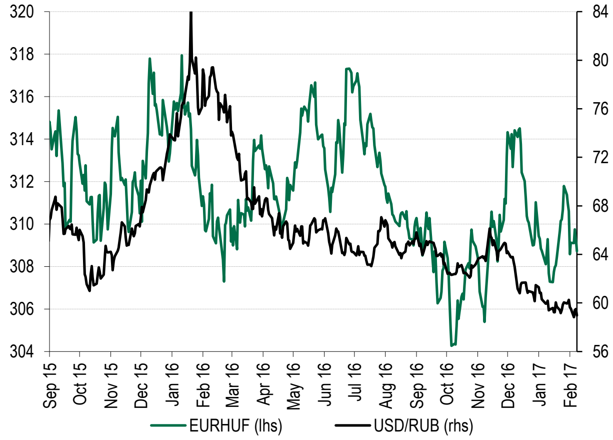
GBP/PLN and USD/PLN



EUR/USD and EUR/GBP



EUR/HUF and USD/RUB



High volatility on EURPLN

- Last week was quite vulnerable on the Polish FX market. The zloty gained markedly against the main currencies at the beginning of the week, with EURPLN reaching temporarily 4.27, its lowest since October, and USDPLN falling to 3.98 for a while. However, global sentiment changes caused some profit taking and PLN trimmed nearly all earlier gains, with EURPLN growing to 4.32 and USDPLN increasing towards 4.06. The end of the week brought some decline slightly below 4.30 for EURPLN and to c4.04 for USDPLN. In the meantime, the zloty's response to the MPC's decision and rhetoric was muted.
- Technical situation on EURPLN changed visibly after last week. Our scenario presented in the previous weekly report materialized; investors took profit on EURPLN after the rate reached this year's minimum. Consequently, the downward trend on EURPLN lost steam and gradually waned. Technical signals indirectly point out to very limited room for further strengthening and correction after the recent strengthening is a more probable scenario for the upcoming weeks.
- This week the domestic macro calendar is very heavy. In our view, the upcoming data should reflect quite strong economic activity at the start of the year. This should be supportive for the Polish zloty. However, some deterioration in global sentiment due to concerns about Greece and growing political risk in Europe ahead of elections in the Netherlands, France and Germany may push EURPLN towards resistance level at 4.36 in the upcoming weeks.

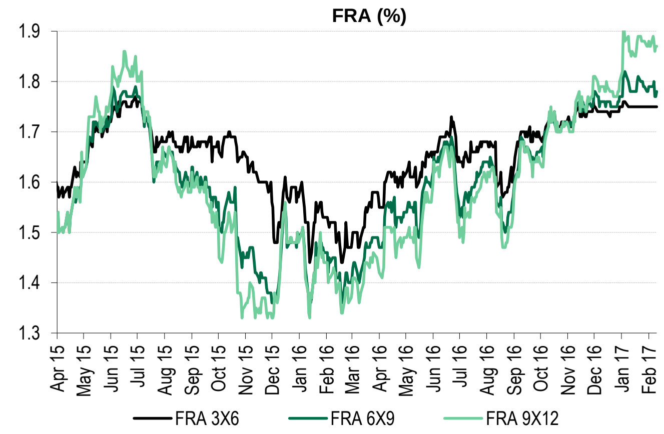
EURUSD gradually falls

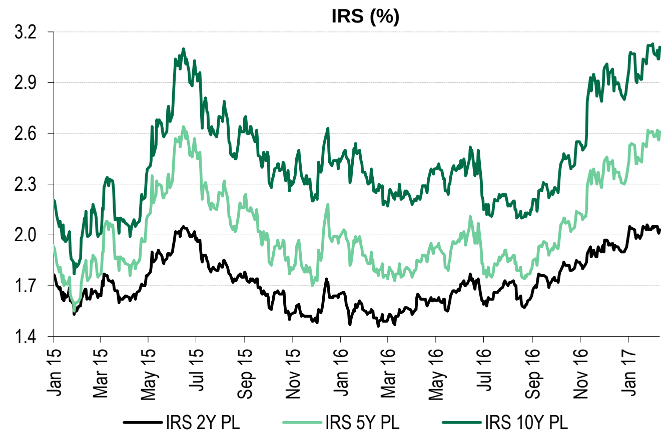
- Last week brought gradual decline of EURUSD as there were no important news flowing from Europe or the USA. However, growing political risk in Europe and uncertainty about Greece weighted on the euro. Consequently, EURUSD fell to 1.062, down from 1.08 reached last Friday following the mixed labour market data for January in the USA. At the same time, the British pound somewhat gained over the past week, with EURGBP stabilising around 0.85 at the end of the week.
- This week is heavy with macro data releases in Europe and the USA. This, together with speeches from the Fed, including Fed Chair Janet Yellen testimony before Congress will influence market direction. We think that only strong signals (triggered by data or FOMC's members) that Fed would hike rates faster may push EURUSD lower towards support at 1.06. Otherwise, the rate should move sideways between 1.062-1.08.

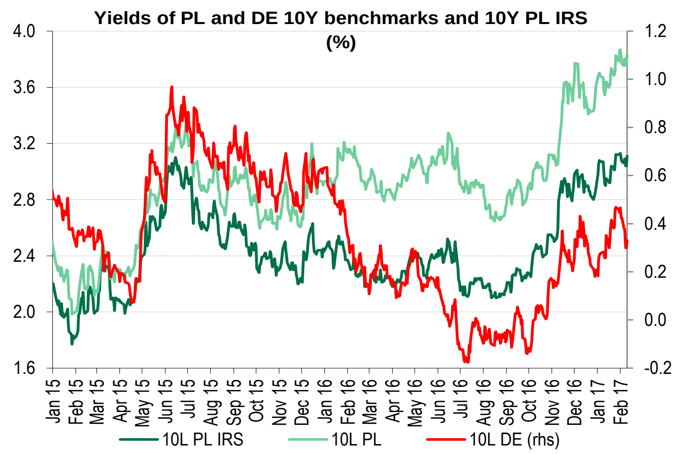
Favourable week for forint and ruble

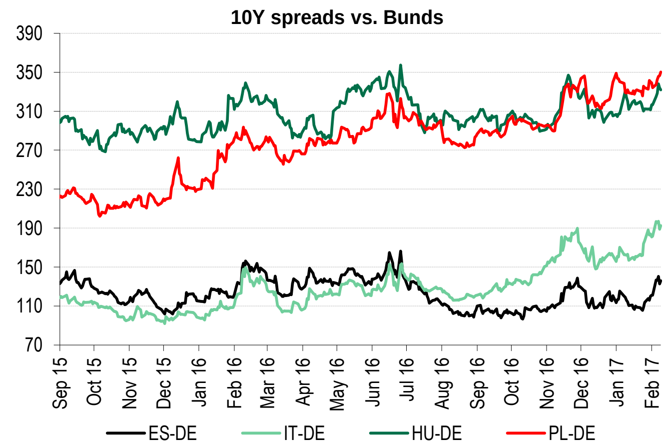
- Last week was favourable for the Hungarian forint and the Russian ruble. Both currencies gained visibly and higher oil prices supported the ruble stronger . On the other hand, the Czech koruna was under pressure of the weaker-than-expected macro data and higher CPI reading for January (CPI exceeded the CNB's target at 2.00%), which renewed expectations for an earlier exit from the FX cap.
- This week both global and domestic factors are key for CEE currencies. A series of economic data releases for Hungary, Czechia and Russia, including the 4Q16 GDP data for the first two countries, will prove influential. In our view, confirmation of solid economic activity from the upcoming data should be supportive for all currencies. Global sentiment is an additional factor for HUF valuation, and we think that some hawkish signals from Fed's members would result in profit taking on EURHUF.

Interest rate market – Polish bonds looking at their core peers









Rates slightly up

- IRS and bond yields rose last week but the scale was limited and the pace was slower than in the previous week. The 10Y IRS ended the week near 3.11% (+4bp since last Friday), the 5Y rate moved 3bp up to c.2.60% and the 2Y fell by 2bp to 2.03%.
- FRAs followed the opposite direction and the whole curve eased 1-2bp. The intraweek volatility was pretty high, however, as longer rates plummeted 5-7bp in response to the much more dovish rhetoric of the Polish MPC.

Polish bonds looking at their core peers

- This week's calendar is full of an important data releases and numerous FOMC members will give a speech.
- Short end of the Polish curve should be impacted by domestic economic activity data. We think that given the MPC's rhetoric (playing down the recent rise in inflation), market pricing and NBP rate hikes observed at the Jan/Feb turn, investors' response to this week's figures could be asymmetric – stronger to lower than expected figures. Taking into account February's MPC comment that the Council will accept negative rates in real terms rates, we think that inflation exceeding 1.5% y/y in January should not be an important event for the monetary policy outlook. Our forecasts for January real retail sales, industrial output and PPI are pretty close to the market consensus. The headline numbers will look robust and may limit the room for lower FRAs.
- The belly and long end of the IRS and bond curves should be driven by the external factors. The 1-month correlation of the Polish and German 10Y benchmarks has held near 0.80 since the beginning of the month while the respective PL-US correlation jumped noticeably to +0.6 from -0.6 in early January. Both US and German important data are on the agenda this week and numerous FOMC members are to speak, which could add volatility to the global bond market.
- The two last Fed rate hikes were delivered on the meeting that was accompanied by Janet Yellen's press conference. The next such meeting is planned for March and, according to Bloomberg, the market sees 70% chances of rates staying unchanged next month and 46% chances of hike in June when the next press conference will take place. If the coming US data are strong and FOMC members sound hawkish, the market could become less confident that Fed rates will stay flat in March which could push IRS/yields up worldwide.
- Also, the issue of European elections has recently caused some tension on the market and resurfacing problems with Greece might put some pressure on European peripheral bonds.

Second February's auction

- In late January, the Ministry of Finance announced that this week it will offer OK0419/PS0422/WZ1122/WZ0126/DS0727 bonds for PLN3-7bn. The last two auctions attracted strong demand and we expect the second February's bond issuance may also be successful. After the last dovish signals from the MPC demand for the 2Y benchmark could rise somewhat, in our view.

Additional information is available on request. Please contact Bank Zachodni WBK S.A., Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 88, email ekonomia@bzwbk.pl