

# WEEKLY ECONOMIC UPDATE

## 11 – 17 September 2017

First meeting of Polish MPC after summer holidays did not bring any surprises – tone of the statement remained dovish and the central bank governor still thinks that interest rates might stay unchanged until the end of 2018. We have a similar view, while the market postponed its pricing of a first hike to spring 2019.

Yet at the end of this week Moody's might release a revision of Polish credit rating. The statement may be published in the evening, after closing of the session. Earlier this week the agency revised its GDP forecasts for Poland significantly up which by many was interpreted as a sign that today it could upgrade the outlook or even the rating. In our view, there will be no change and better economic outlook is balanced by the earlier Moody's warning related to changes in judiciary system and conflict with EC.

Next week few Polish data is on the agenda. Inflation – as the flash estimate showed – likely rose to 1.8% y/y, probably on higher fuel prices. Inflation pressure in the remaining categories remains subdued which could be confirmed in lower core CPI reading. Gradual strengthening of inflation pressure is likely when tensions on the labour market finally lead to higher wages but this may still take some time. Foreign trade data may show a two-digit exports and imports growth and lower C/A deficit, which could be supportive for the zloty. Abroad, the US data could attract attention – inflation, retail sales and industrial output.

The dovish change in the rhetoric of main central bankers and the risks to the outlook for economic growth (in Europe – the euro's strength, in the USA – the hurricanes) support lower global yields. On the domestic market this trend is strengthened further by very low bond supply and positive fiscal outlook. The low yields environment may hold for now, but as the end of the year will be approaching debt markets may again be under pressure, if it becomes clear that the Fed is not scrapping its plans to raise rates again in December. (which is currently not priced in). When it comes to PLN, the next weeks could bring some appreciation on good macro data and dovish rhetoric of major central banks. As in the case of Polish bonds the currency may also see some weakening because of Fed close to the end of the year.

### Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE	
				MARKET	BZWBK		
<b>MONDAY (11 September)</b>							
9:00	CZ	CPI	Aug	% y/y	2.6	-	2.5
14:00	PL	CPI	Aug	% y/y	1.8	1.8	1.7
<b>TUESDAY (12 September)</b>							
14:00	PL	Core inflation	Aug	% y/y	0.8	0.7	0.8
<b>WEDNESDAY (13 September)</b>							
11:00	EZ	Industrial output	Jul	% m/m	0.2	-	-0.6
14:00	PL	Current account	Jul	€m	-853	-532	-932
14:00	PL	Exports	Jul	€m	15 222	14 900	16 627
14:00	PL	Imports	Jul	€m	15 788	15 300	16 854
<b>THURSDAY (14 September)</b>							
14:30	US	CPI	Aug	% m/m	0.3	-	0.1
14:30	US	Initial jobless claims	week	k	-	-	298
<b>FRIDAY (15 September)</b>							
14:30	US	Retail sales	Aug	% m/m	0.1	-	0.6
15:15	US	Industrial output	Aug	% m/m	0.1	-	0.2
16:00	US	Flash Michigan	Sep	pts	96.5	-	96.8

Source: BZ WBK, Reuters, Bloomberg

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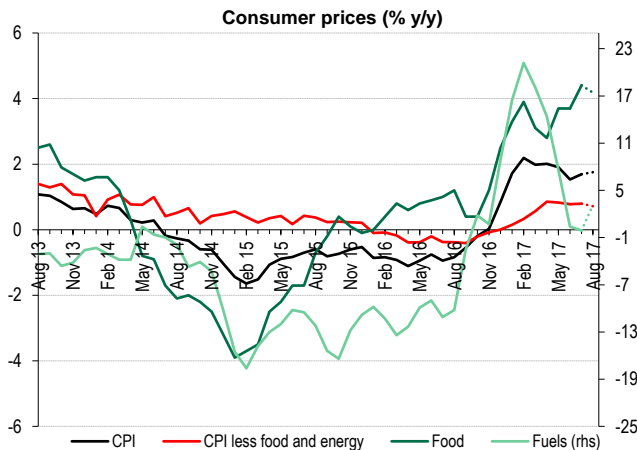
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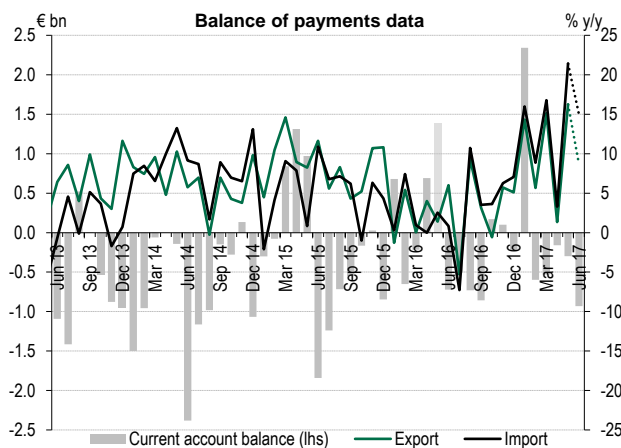
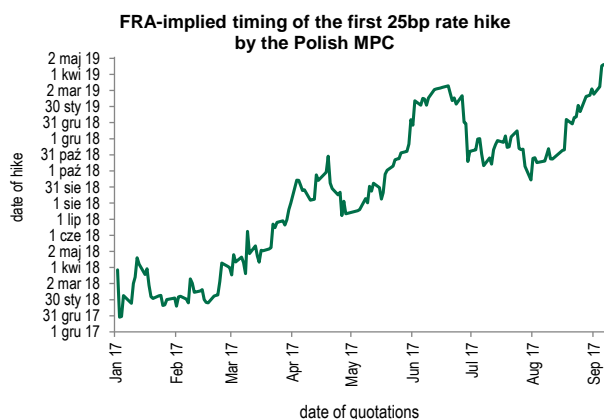
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**What's hot next week – Balance of payments and Moody's decision**

▪ This week, we will get to see detailed August CPI data as well as core CPI reading. In our view, the flash CPI at 1.8% y/y will remain unchanged and the uptick versus July's 1.7% was caused only by higher fuel prices, with no major upward tendencies in other categories. At the same time, core inflation excluding food and energy went down to 0.7% y/y, according to our estimates.

▪ In our view, in July the current account deficit will be lower than in June, mainly thanks to improved income balance, especially lower dividend payments and a bit higher inflows of EU funds. We expect both exports and imports to show double-digit growth rates.

▪ On 8 September after market close, the Moody's rating agency is to present its rating review for Poland. Shortly before this event, the agency revised its forecasts for Poland. GDP growth forecast for 2017 has been moved from 3.2% to 4.3% and expected fiscal deficit has been reduced to 2.5% this year. Agency said that the forecast revision is rating positive. However, we think that upward revision of the rating or its outlook is unlikely. When Moody's decided to change outlook from negative to stable in May, it was justified by the government's declaration to keep fiscal deficit below 3% of GDP and the good performance of the budget in the first months of the year, accompanied by strong economic growth. However, in the note released at the end of July, the agency was pointing out the risk for the rating stemming from the building conflict with the European Commission (EC) and the planned changes in judiciary. We doubt that the faster economic growth and slightly lower expected fiscal gap would be enough to improve the rating outlook to positive.

**Last week in economy – Rates still on hold**

▪ The Monetary Policy Council kept the main interest rates unchanged at 1.5% in September, as expected. The post-meeting statement was very concise, signalling no changes in monetary policy bias. The NBP Governor Adam Glapiński repeated at the press conference his claim that there is absolutely no reason to discuss interest rate hikes, as the economic growth is well balanced and inflation remains low. In his view, the main interest rates could remain on hold until the very late 2018, although he did not rule out that a discussion about monetary tightening may intensify in mid-2018.

▪ To sum up, there is nothing new as regards the monetary policy outlook in Poland. We keep the view that the NBP interest rates will remain unchanged at least until the last quarter of 2018.

**Quote of the week – No reasons to discuss changes in interest rates****Adam Glapiński, NBP president, press conference, 6 September**

We do not see any major imbalances in the Polish economy. (...) There are no reasons to discuss changes in interest rates. (...) Some MPC members are hawkish, some are dovish, but the centre is the strongest camp. (...) Labour market is a potential barrier in the future. Currently it is not, there are still high reserves in the economy.

**Jerzy Kropiwnicki, MPC member, press conference, 6 September**

As long as there is no wage-price spiral in the economy, there are no reasons to worry.

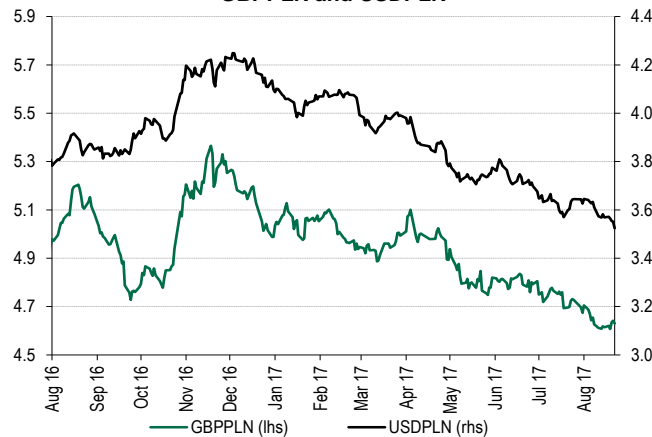
Comments of Adam Glapiński confirmed our claims that there is a growing diversity within the MPC, with a clear camp of hawks (Zubelewicz, Gatnar, Hardt). However, Glapiński also stressed they are in minority and the rest of the MPC members do not share their views. The market assessed this conference as dovish and shifted its pricing of the first hike until April/May 2019. Interestingly, the MPC members downplayed the risks stemming from the reported labour shortage. In our view, this will be the main bottleneck for the Polish economy in the upcoming years. However, if wage pressure builds up in the future, and this is our baseline scenario, the discussion about hikes is likely to start in the MPC.

## Foreign exchange market – Calm week ahead

### EUR/PLN



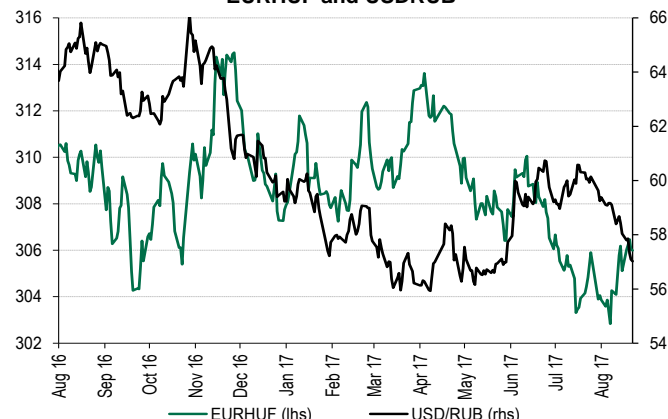
### GBPPLN and USDPLN



### EUR/USD



### EURHUF and USDRUB



### Zloty temporarily stronger vs euro

▪ Last week, we pointed that the zloty could gain in the coming weeks and the last few days saw EURPLN falling temporarily to 4.23, its lowest since mid-July. The biggest support for the Polish currency came from the positive Moody's report. Still, the zloty did not manage to keep its gains and at the end of the week EURPLN was back near 4.25 despite the dovish tone of the ECB statement. At the same time, USDPLN continued the down trend amid rising EURUSD and neared 3.51, its lowest since late 2014. CHFPLN stayed flat around 3.72 and GBPPLN rose to 4.66 from 4.60.

▪ EURPLN broke the August bottom at c4.235 and this opens door for further decline. We still expect the zloty might gain in the weeks to come amid positive global market sentiment. The waves of risk aversion triggered by situation in North Korea tend to be rather short and the recent global macro data still look decent.

▪ The coming week should be rather calm as there are no big events on the agenda. We do not expect Moody's to change neither the rating nor the outlook and this should be neutral for the Polish FX market.

### Euro gains despite dovish ECB

▪ The outcome of the ECB meeting had the biggest impact on EURUSD last week. The tone of the statement and comments of Mario Draghi during the press conference were dovish but it seems that changes in CPI and GDP forecasts were more important for the market. Since June, EURUSD rose above 1.20 from 1.12 while the ECB cut inflation forecasts by only 0.1pp while expectations regarding the economic growth did not deteriorate. This suggested that the euro's level might not be that important for the ECB than the market had thought so far and the central bank may not be that determined to halt the EURUSD upside trend. As a result, the exchange rate set a fresh 2017 high at nearly 1.21.

▪ This week, the economic calendar is rather light with only US data that could attract attention. We still think that the current euro's appreciation looks overdone. EURUSD up trend has started in early 2017 and the 36-week percentage change is highest since April 2011 when the exchange rate ended the rally observed in 2010-2011.

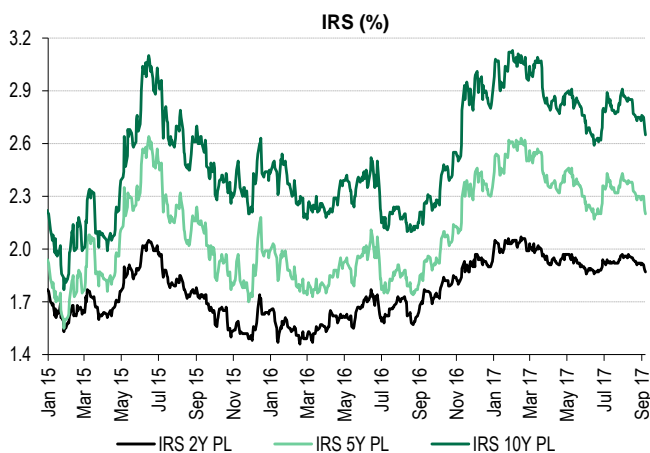
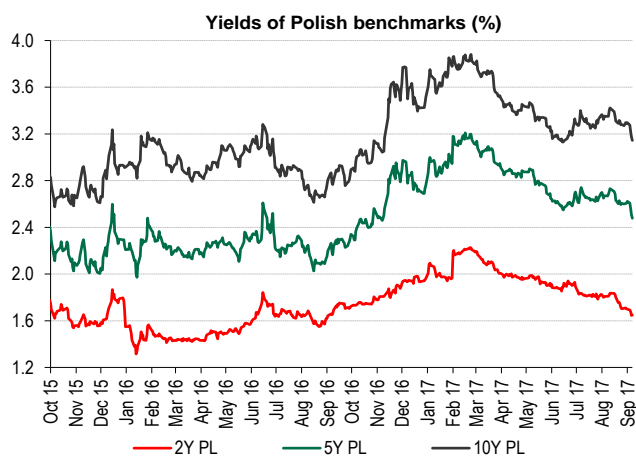
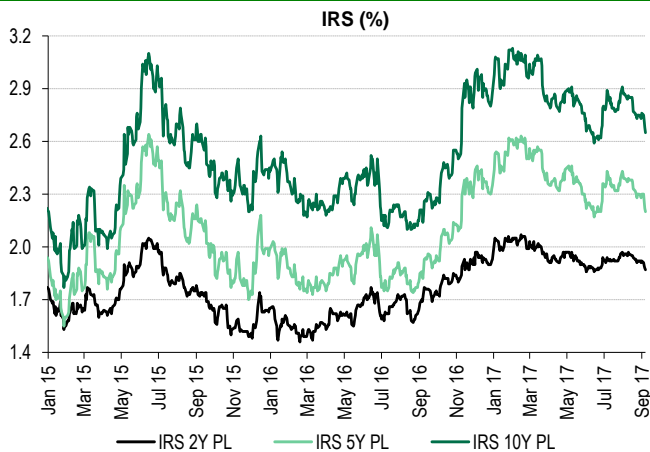
### Ruble boosted by oil prices, forint weaker, koruna stable

▪ Elsewhere in the CEE region, the Russian ruble gained vs the dollar with USDRUB falling to nearly 56.7 from 58 amid jump in oil prices. Governor of the Russian central bank said that rates could go down 25bp or 50bp in September but this comment did not have any significant impact on the ruble.

▪ The forint continued to depreciate vs the euro but the pace of EURHUF rise was clearly lower than in the previous two weeks and the weekly high-low spread was the lowest since August 2005 (according to Reuters data).

▪ EURCZK stayed in the horizontal trend just above 26.0.

## Interest rate market – Yields drop may continue



### Yields drop boosted by ECB ...

Weak macro data from US (initial jobless claims increased to 298k from 245k) and Germany (exports increased only marginally by 0.2%, while investors expected 1.3% m/m growth while industrial orders decreased by 0.7% m/m) helped sovereign bonds holders across the Europe and US. Additionally, on the Thursday's ECB press conference Mario Draghi boosted bonds by sounding dovish and refraining from comments suggesting that tightening of monetary policy will be implemented soon. Furthermore, during the conference ECB president many times referred to the risk linked with stronger euro, which was interpreted by investors as a hint that unwinding of unconventional monetary policy will be delayed. On the domestic front, Moody's published short report about Poland containing optimistic view of Polish GDP growth. The agency lifted GDP growth forecast for Polish economy to 4.3%, (which implies 4.7% growth forecast for 2H17).

As a result, Polish yield curve reached this year low in 5Y-2Y segment and the 10Y yield returned to the level last time seen in mid-July. The yields drop was concentrated in the first part of the week and could be interpreted as a reaction to the Moody's credit risk short report. Compared to the end of the previous week, Polish sovereign yield curve decreased by c15bp in the long end of curve, by c14bp in the middle part of the curve and c5bp on the short end. The downward shift of the PLN IRS curve was slightly smaller on the long and middle part of the curve.

### ... and the trend may continue

We anticipate the downward pressure on yields on domestic debt market to continue in few weeks in response to the strongly falling expectations that the ECB would start withdrawing from QE soon. The scenario of declining yields can be supported by low government borrowing needs and Ministry of Finance declaration to scheduled only switch auction for September. In the first part of the week further yield decline path may be disturbed by profit taking.

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