

# BI-WEEKLY ECONOMIC UPDATE

## 30 April – 13 May 2018

Passing week has been very volatile on the Polish FX and FI market. Rising yields of the US bonds with the 10Y benchmark breaking 3% weighed on the global debt market and provided support for the dollar which hit the EM currencies. As a result, EURPLN jumped to nearly 4.24, this year's peak set in March.

In the next two weeks, we will see Poland manufacturing PMI and flash April CPI. Globally, market attention may focus on the US nonfarm payrolls (that disappointed in the previous month) and FOMC decision. We see little room for the zloty to recover as the Polish PMI is likely to fall now, which in fact could be positive for domestic bonds.

### Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST			LAST VALUE
				MARKET	BZWBK		
<b>MONDAY (30 April)</b>							
14:30	US	Personal Spending	Mar	% m/m	0.4	-	0.2
14:30	US	Personal Income	Mar	% m/m	0.4	-	0.4
14:30	US	PCE Deflator SA	Mar	% m/m	0.1	-	0.2
<b>TUESDAY (1 May)</b>							
16:00	US	ISM manufacturing	Apr	pts	58.5	-	59.3
<b>WEDNESDAY (2 May)</b>							
<b>09:00</b>	<b>PL</b>	<b>Poland Manufacturing PMI</b>	<b>Apr</b>	<b>pts</b>	<b>-</b>	<b>52.9</b>	<b>53.7</b>
09:55	DE	Germany Manufacturing PMI	Apr	pts	57.5	-	58.1
<b>10:00</b>	<b>PL</b>	<b>CPI</b>	<b>Apr</b>	<b>% y/y</b>	<b>-</b>	<b>1.5</b>	<b>1.3</b>
11:00	EZ	GDP SA	1Q	% y/y	-	-	2.8
20:00	US	FOMC decision		%	1.75	-	1.75
<b>THURSDAY (3 May)</b>							
11:00	EZ	Flash HICP	Apr	% y/y	-	-	1.4
14:30	US	Durable Goods Orders		% m/m	1.6	-	3.0
16:00	US	Factory Orders	Mar	% m/m	0.9	-	1.2
<b>FRIDAY (4 May)</b>							
09:55	DE	Markit Germany Services PMI	Apr	pts	53.7	-	54.1
14:30	US	Change in Nonfarm Payrolls	Apr	k	185	-	103
14:30	US	Unemployment Rate	Apr	%	4.0	-	4.1
<b>MONDAY (7 May)</b>							
08:00	DE	Factory Orders	Mar	% m/m	-	-	0.3
<b>TUESDAY (8 May)</b>							
08:00	DE	Industrial Production SA	Mar	% m/m	-	-	-1.6
<b>WEDNESDAY (9 May)</b>							
09:00	HU	CPI	Apr	% y/y	-	-	2.0
<b>THURSDAY (10 May)</b>							
14:30	US	CPI	Apr	% m/m	-	-	-0.1
<b>FRIDAY (11 May)</b>							
16:00	US	Michigan index		pts	98.0	-	97.8

Source: BZ WBK, Reuters, Bloomberg

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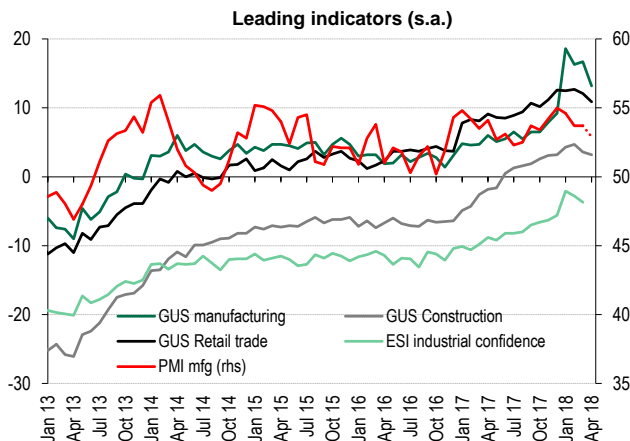
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**What's hot next two weeks – Inflation to go up, PMI to slide**

■ We are expecting CPI to rebound to 1.5% y/y in April, mostly due to rising fuel prices, with some support in food prices and higher gas prices for households. In our view, CPI will be going up in the months to come, but will surpass 2.0% only temporarily.

In our view, April's PMI went down, following other leading indicators and supporting our claim that the economy will be slowing down in 2018. April's business climate surveys by Statistics Poland showed a deterioration of economic situation assessment in manufacturing, construction and trade. The biggest drop of the main indicator has been recorded in manufacturing. All sub-indices for manufacturing and construction have declined, including those concerning new orders, production and financial situation. In case of retail trade, the assessment of current sales and forecasts of demand, employment and sales were lower. The problems with finding new workers were still building.

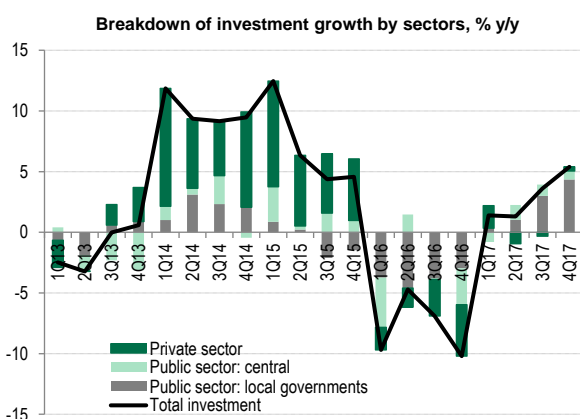
**Last week in economy – Sales strong despite trade ban, no jump in investment in 4Q17**

■ Retail sales accelerated to 8.8% y/y in March from 7.7%. The main drivers were food and non-specialised sales. These categories were supported by Easter, but their total growth was so strong that it made us believe that Sunday trade ban, effective from 1 March, was positive for them. Apparently, consumers stormed shops in order to acquire enough first need products for Sundays. The results in other categories proved quite poor. In general, we think the trade ban had a neutral or slightly negative impact on sales, but it caused significant shifts in its breakdown. In our view, growth rate of retail sales will stay high in the months to come, underpinning private consumption.

■ Statistics Poland revised GDP data for 2016-2017. Revision of 4Q17 investments to 5.4% y/y from 11.3% reported earlier was the most striking change. GG investment rose by 32.1% y/y in 4Q17, while private outlays remained in stagnation, rising by a mere 1.1% y/y. As regards asset breakdown, a positive contribution was posted by dwellings and machinery / equipment, a negative from non-residential buildings. Due to the revision, the peak of the cycle moved from 4Q17 to 3Q17.

■ GG deficit was revised to 1.7% of GDP from 1.5% of GDP. According to the Ministry of Finance, upward revision was the result of including the using state funds to provide capital for entities outside the central and local governments.

■ Central budget surplus continued in March and decreased from PLN4.5bn in February to PLN3.1bn. In March, total revenues rose 8.8% y/y and total expenditures rose 1.2% y/y. This was the highest central budget balance recorded for March since at least 1995. It also seems that this year's planned deficit (PLN41.5bn) will not be fully delivered. In our view, the budget surplus may continue until the mid-year, even despite no transfer from the NBP, which recorded a loss of PLN2.5bn in 2017.

**Quote of the week – EC supporting introduction of conditionality for EU budget****Věra Jourová, EU Justice Commissioner, PAP, April 25**

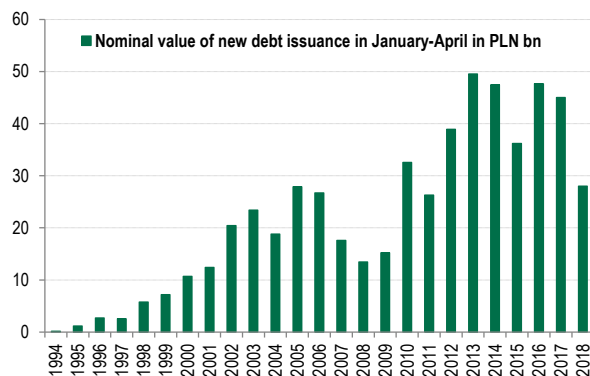
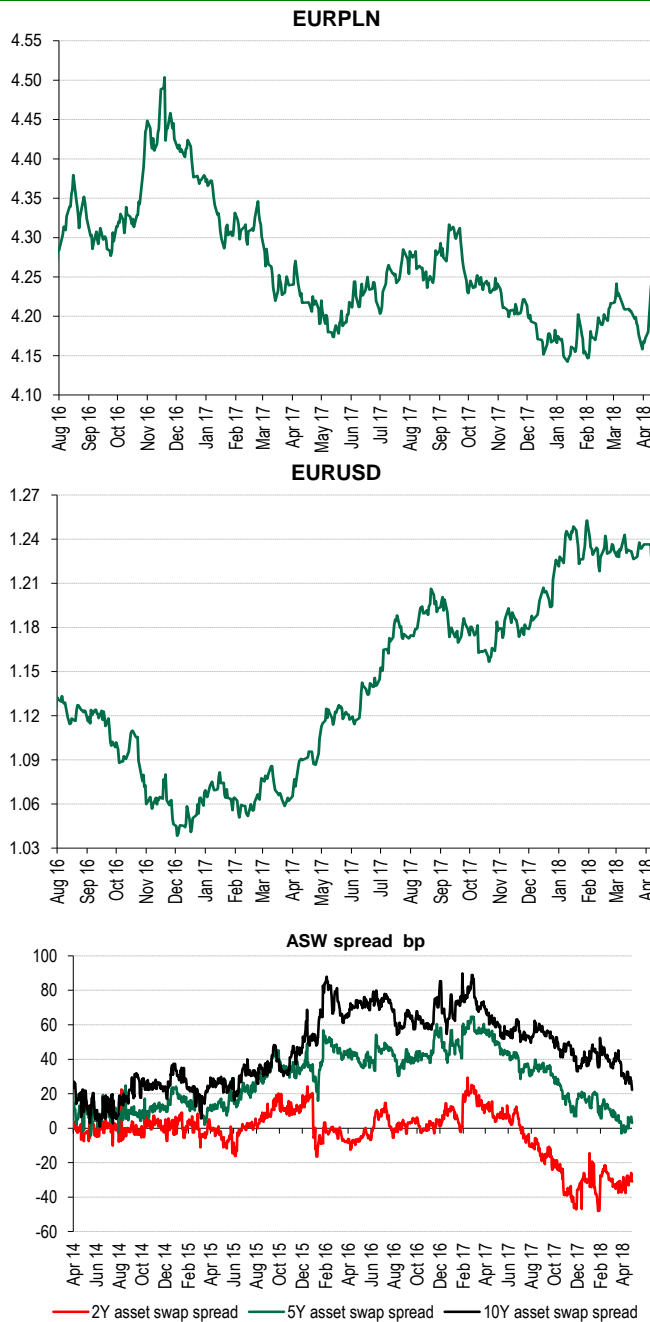
The European Commission (EC) has discussed the budget after 2020. The EC is supporting introduction of conditionality mechanism, but this is still work in progress. Final decisions will be taken next week.

**Anonymous PAP source at the EC, PAP, April 23**

The proposal to include conditionality is ready. The EC does not want to mention 'rule of law', but will refer to effective financial management. If a country does not have independent courts, a fund freeze will be possible – to reassure European taxpayers that funds are being spent correctly.

The European Commission plans a radical change of criteria for distribution of EU cohesion funds in the next budget framework 2021-2027. Until now, the most important factor was GDP per capita; currently the proposal is to include criteria covering youth unemployment, level of education, migration and innovation issues. This may lead to greater weight of Spain and Italy at the expense of CEE countries. The idea of conditionality – i.e. linking access to EU funds to compliance with rule of law – was supported by all EU commissioners. The details will be released on 2th of May, but the total size of the budget may be eEUR94bn less than the 2014-2020 budget of EUR1083bn. It is almost sure Poland will get less funds in the next EU budget, it is only a matter if it gets a bit or considerably less.

## FX and FI market – Polish and US data in spotlight

**EURPLN close to this year's peak**

▪ EURPLN rebounded to c4.24 from 4.17, drawing the biggest weekly white candle since October 2017. Zloty depreciation was triggered by stronger dollar, that weighed also on other EM currencies. Since last Friday, all major EM currencies have lost vs the dollar and the zloty was the weakest of them (c-2%).

▪ The most important factors to watch in the coming two weeks are Poland April manufacturing PMI and flash CPI and US non-farm payrolls. So far, the Polish PMI proved rather resilient to the significant fall of German and euro zone indexes but now we expect it fell in April. Also, flash inflation estimate may show CPI has remained well below 2% in April, giving more reasons for MPC doves to keep rates unchanged in the long months to come. Last US nonfarm payroll figure disappointed and if now we see a rebound, the dollar could gain weighing on the EM currencies, including the zloty.

▪ EURUSD broke the February bottom at 1.215 after a series of better-than-expected US data and this opens door for more dollar gains in the short-term.

▪ In the last nine years, the zloty ended May with a gain versus the euro and the dollar only twice. Liquidity on the Polish FX market is likely to be low in the first week of May which could intensify any zloty depreciation.

**Correction, following the core markets**

▪ Yields in the 5-10Y segment were on the rise for the better part of the past week. Polish bonds tracked the core markets. Flash PMIs in Europe were better-than-expected, pushing yields up. Despite higher yields, the asset swap spread narrowed in the long end of the curve to 19bp from 24bp for 10Y, the level seen last time in May 2015.

**Low supply support bonds**

▪ In the next two weeks, we expect the domestic bonds yields to decrease. In our opinion, the downward move will be supported by the low supply of debt in the only regular auction in April. On Wednesday the Ministry of Finance announced that it planned to sell PLN4bn bonds on the Friday auction (vs. formerly announced PLN4-8bn), which will translate into the lowest nominal value of debt issuance in January-April period since 2011. Moreover, we believe that Polish PMI release will push the yields down. We forecast the PMI downward trend (seen since the beginning of the year) to maintain. Until the end of May, we expect the yields to remain on the low level. High prices of bonds will be supported by European industry data, likely remain low, as well as lack of inflation pressure, visible in the domestic data.

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