

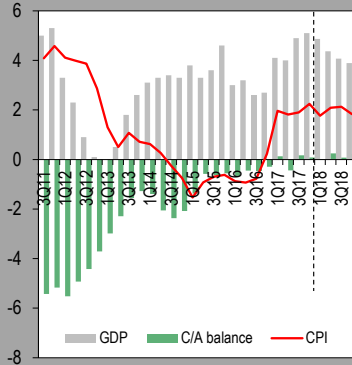
# MACROscope

Polish Economy and Financial Markets

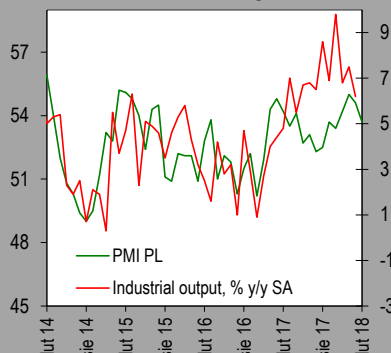
March 2018

## Rosy picture (with a scratch)

Quarterly economic indicators (%YoY)



Activity indices in Poland's manufacturing



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■ The pace of economic growth in Poland and abroad remains very decent, although the longer the expansion lasts the more questions about its possible demise arise. The introduction of US tariffs on steel and aluminum makes those questions even more valid, as the escalation of trade war could derail the global trade and growth outlook. But it is still to be seen how the situation develops. So far, we remain optimistic about the near-term outlook. **Although the peak of the cycle is probably already behind us, it seems that the next quarters are not going to be much worse and we keep our GDP growth forecast for this year at 4.3% (vs. 4.6% in 2017).**

■ Although the general picture looks nice and rosy, there are a few scratches on it that deserve attention. The biggest one is the quickly growing labour shortage (vacancies up 51.5% y/y in 4Q17), which may be limiting companies' activity in some sectors. Some business surveys already reflect worsening of companies' output expectations. We think that the continuing inflow of workers from the Ukraine and changes in labour participation will be not sufficient to bridge the rising gap between the supply and demand for labour, and as a result **the pace of wage growth will continue accelerating in the coming quarters, probably reaching double digits by the year-end.**

■ At the same time, the inflation environment still looks surprisingly benign, not only in Poland but also abroad. Despite rapid economic growth and tightening labour markets in Europe, 2018 began with a decline of inflation in most countries, and the ECB has just revised lower its medium-term inflation forecast for the euro zone. The Polish central bank did the same despite beefing up its predictions on GDP growth outlook. **We still predict that the increasing wage pressure will push the underlying inflation in Poland higher, with core inflation ex food and energy climbing slowly towards 2% y/y this year. But at the same time, the CPI path may be subdued (well below 2%), especially in the nearest months and at the end of 2018.**

■ Such environment warrants longer stabilisation of NBP monetary policy, it seems. The new NBP projection saw core inflation mounting to 3% y/y by 2020 and yet for the NBP Governor Adam Glapiński it was a scenario justifying lack of changes in interest rates even until 2020. It apparently confirms that the Polish central bank will need a strong evidence of inflation persistently and significantly breaching the official target before it decides to take action. **After the last MPC meeting we decided to delay the expected timing of first interest rate hike even further away, until November 2019.**

■ Despite the sound macro picture, the Polish currency has been under pressure recently, amid stronger dollar, shaky global market sentiment and very dovish MPC's bias. **We still hold the view that the room for the zloty appreciation is limited.** Lower scope for further positive surprises from domestic economy, higher global uncertainty, NBP interest rate hikes drifting further away and continuing Fed policy tightening would prevent EURPLN from falling significantly, in our view.

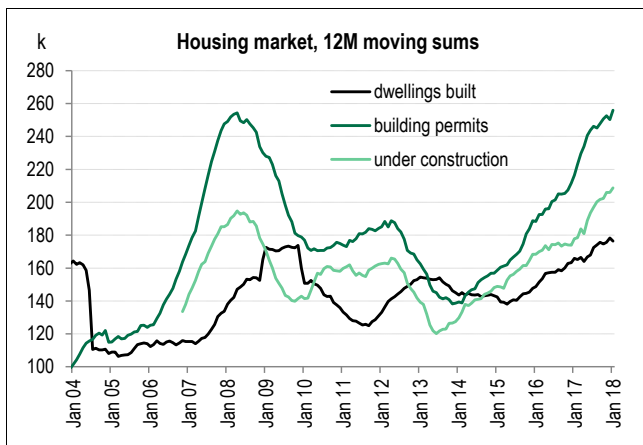
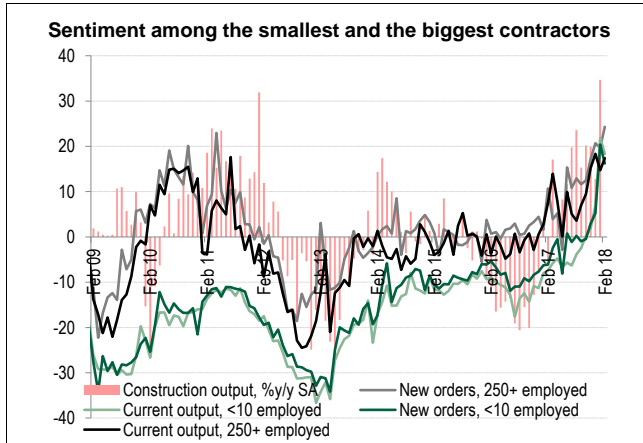
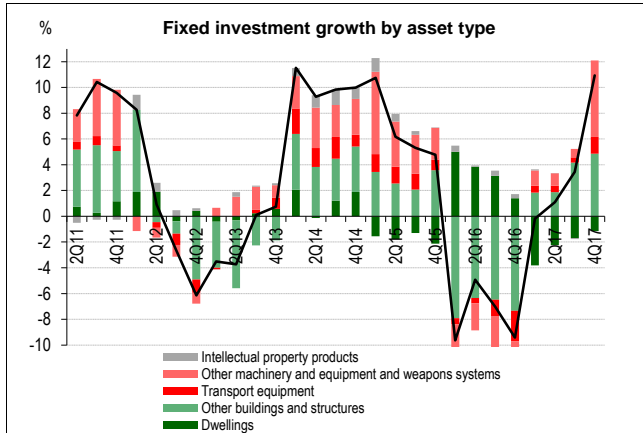
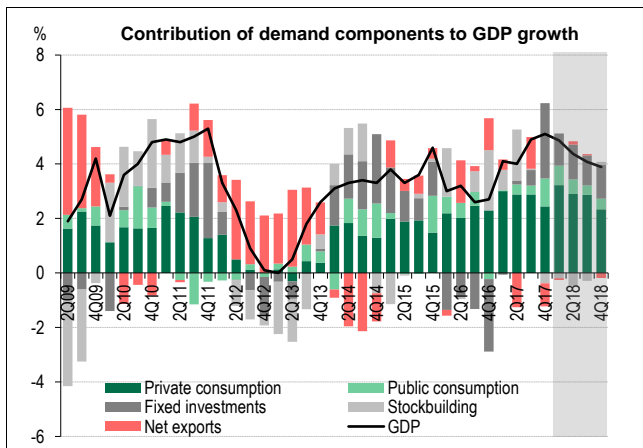
■ **On the debt market, lower inflation and dovish MPC should strongly support the short end of the curve in the coming weeks.** The long end will be more vulnerable to global moods, but here we also expect to see good news, as diminishing inflation in Europe and worries about trade war affecting growth outlook should be supportive for European bonds.

### Financial market on March 14, 2018:

NBP deposit rate	0.50	WIBOR 3M	1.72	EURPLN	4.2114
NBP reference rate	1.50	Yield on 2-year T-bond	1.52	USDPLN	3.4055
NBP lombard rate	2.50	Yield on 10-year T-bond	3.31	CHFPLN	3.6009

This report is based on information available until 14.03.2018.

## Economic update



Source: GUS, Eurostat, BZ WBK.

### Which way off the peak?

▪ The economy starts sending signals that a peak growth of activity has been reached (with GDP growth at 5.1% y/y in 4Q17) and some slowdown should follow. It is in line with our (4.3%) and market expectations (4.0%) that growth in 2018 is likely to be lower than in 2017 (4.6%). The consecutive quarters of 2018 are likely to form a downward trend. Still, 1Q18 may be close to 4Q17, at c5% y/y. On top of continued strong performance of private consumption we finally saw a rebound in investments, which should help economic growth glide at a high altitude. Market consensus for 1Q growth is a bit lower, at 4.5%. The view on 1Q is all about beliefs whether some negative signals in the data deserve extrapolation.

### Investment rebound in 4Q – has it met expectations?

▪ Investments grew by 11.3% y/y in 4Q, vs. 3.3% in 3Q. This was what one could expect after the Stats Office released preliminary full-year data for 2017. The nature of the rebound is still not known in full detail. We are left with anecdotal evidence that big-ticket purchases of aircraft (civil and/or government) played a substantial role, and with a breakdown by asset type. The latter showed another strong quarter for non-residential buildings and structures and a swing in purchases of transport equipment and 'other machinery and equipment and weapons systems'. Depending on estimates of the aircraft component this could mean either a moderate or a substantial rebound in investments of private companies – an item which seemed overdue given the labour market shortages and record strong internal and external demand captured in business sentiment surveys. Stats Office commented about the 4Q data that private investments were still rather flat, but NBP assumed in its projection that corporate outlays contributed more than 4pp to the 4Q investment growth, implying their growth rate of c7% y/y, serving as a good prelude to further rise.

### Capacity of the construction sector

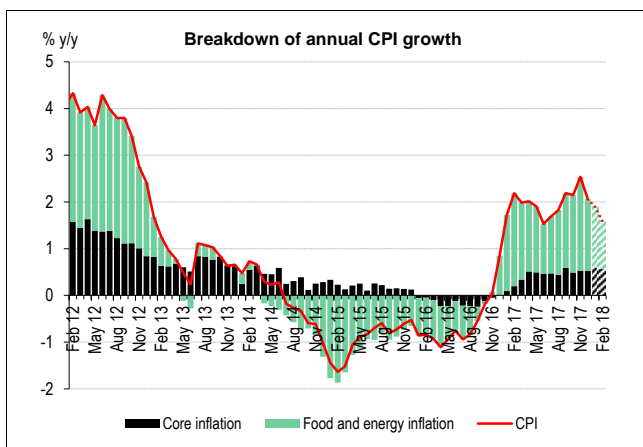
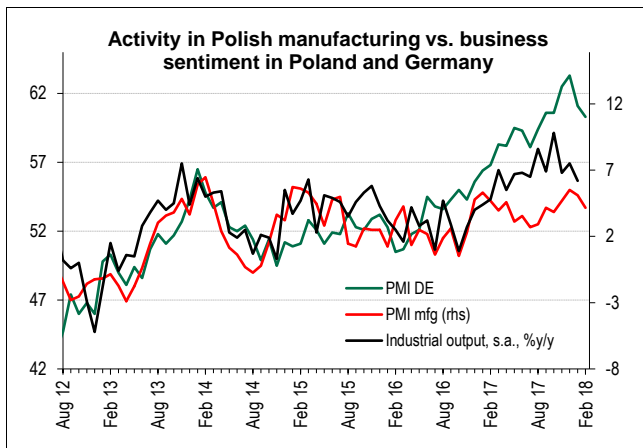
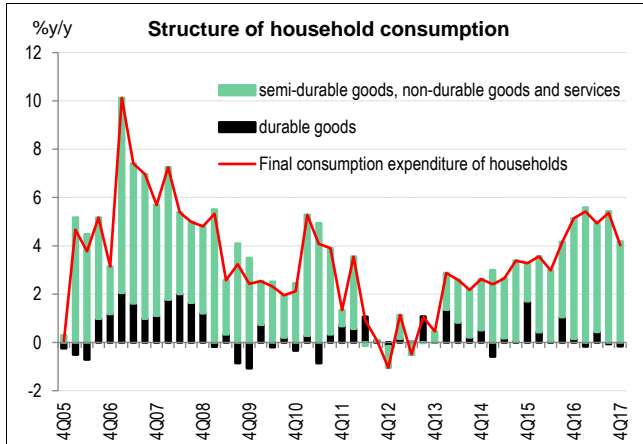
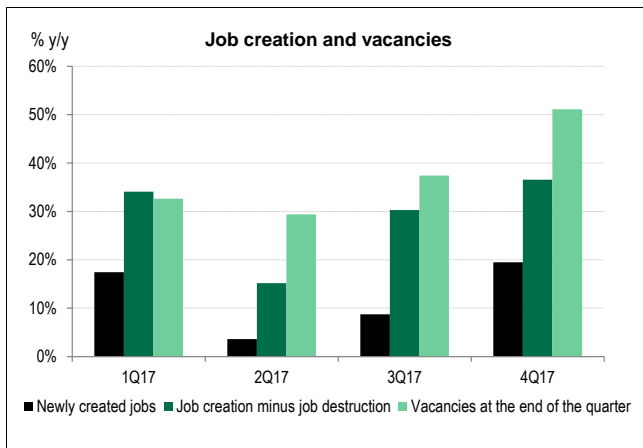
▪ Good performance of civil engineering is not an obvious result as we explained in the previous editions of MACROscope. Despite local elections this autumn and larger inflow of EU funds, local authorities and Polish Road Fund have their hands tied by the system of tenders for investment projects. All that because it is hard to find contractors or bids that would fall within a pre-specified budget. On the other hand, despite these obstacles the construction sector is still operating at close to full capacity. The demand side stays very strong, but it is the supply side that is pulling the strings. It will allow for further rise of output, but only at a moderate pace, in our view. We expect that the value added created in construction will still play an important role in supporting GDP growth, especially in 1H18 when construction output might still keep the pace for 4Q17.

▪ The Stats Office's general business sentiment of contractors is still close to 10-year high in case of entities with headcount of <10 - the search for spare workforce is putting small construction companies at an advantage now. Positive trend in new orders and current output indices have only steepened since late 2017. January output was incredibly high, +30.7% y/y in SA terms - in our view due to strong demand and benign weather - but the output level this month is usually 40-50% lower than the annual average, which made it easier to score high y/y growth. In our opinion, such pace is unsustainable.

### Serious housing demand

▪ Revised data showed dwellings construction subtracting from investment growth in all quarters of 2017 despite the demand from households seeking alternatives to low-paying deposits. NBP's Senior Loan Officers' survey for 4Q17 had record high indication of alternative financing hitting mortgage loan demand. Offer prices from main seven cities were up 4.6% y/y in 4Q17 on primary market and 7.1% on secondary market, spurring investment demand. In January, housing permits, 20.8k, were the highest since comparable data are available (2001) and up 38.6% y/y. A 12M sum is also record high now. 12M sum of pending house construction figures were also at an all-time high and show high y/y growth (+24.5%).

## Economic update



Source: GUS, NBP, Eurostat, Markit, BZ WBK.

### Labour market: high demand – growing vacancy numbers

Labour market continues to offer higher pay and at the same time did not come to a standstill in terms of employment growth. Real wage bill was at 9.3% y/y in January and real pension bill accelerated to 3.7% y/y, due to lower retirement age. It is important that the newly retired often return to work to improve their financial position, taking advantage of the elevated demand for labour. The Stats Office's quarterly report on labour demand showed that the problem of labour shortages grew in 4Q17. The number of vacancies was 51.5% higher than in 4Q16, vs. +37.4% y/y in 3Q17 and +29.4% y/y in 2Q17. In our view, it will continue fuelling acceleration of wage growth in the corporate sector, possibly to c10% y/y near the end of the year and bodes well for household budgets.

### Has consumption entered mature phase?

Private consumption kept growing 4.7-4.9% y/y in all quarters of 2017 and we think it can do the same in 2018 with a possibility of hitting 5% in 1Q. Its structure might soon change, though. Taking example of the 2006-2008, peak consumption should be moving towards a phase where purchases of durable goods play a bigger role. At some point, we should see in terms of y/y growth a 'satiation' in consumption of non-durable goods and higher propensity to buy durables. European Commission's consumer survey suggests a non-negligible change of attitude towards saving with one in three respondents managing to put aside some money while the share oscillated around 20% between 2008 and mid-2017. This may be another expression of record high optimism and very good financial situation and does not have to be a serious risk for our assumed path of consumption at c5% y/y.

### Industrial slowdown

Value added q/q SA growth in 4Q slowed down from 1.1% to 0.9% with all main components weakening: industry from 1.8% to 1.3%, construction from 3.6% to -1%, trade from 2.5% to 1.3% and transport from 1.5% to 1.2%. (but NSA y/y growth in industry and transport increased in 4Q). Seasonally adjusted industrial output data confirm a slowing pace of growth since the October 9.8% y/y peak (January reading was 6.2%, the lowest since April 2017). We see the October print as an outlier and assume that output should maintain a 6-8% y/y pace through most of 2018. However there are other signals in the data that suggest the economy will struggle to accelerate further after 4Q17. ESI industrial production expectations seem relatively low given record new orders and depletion of stocks of finished goods. In February the index of output expectations went below the index of current production trends, which happens rarely in these data, and the monthly decline of the expectations index was the largest in 9 years. The two consecutive decreases of German PMI, both constituting a negative surprise at the time of the release, also require monitoring. Polish manufacturing PMI did no better – it fell to 53.7pts in February from 54.6pts in January and 55pts in December, bringing the index to the level recorded in October 2017. The index was dragged lower by a weaker growth of all main components: new orders, output and employment. Stats Office business sentiment indicators have not indicated such deterioration, only a correction in February of an astonishing surge of optimism a month earlier. Despite all the quoted data we do not see reason to panic. Seeing the economy peak in various aspects is not the same as stating that bad times have started.

### Inflation – easy come, easy go.

Descent of inflation most likely continued in February from 1.9% y/y to 1.6%, just three months away from November's peak at 2.5%, strengthening the MPC's rhetoric that there are no reasons to consider rate hikes in foreseeable future. Core inflation can go the other way, from 0.9% y/y in December to 1% in February and further up to c2% in the end of 2018. Our estimates show that this year's CPI basket revision can marginally raise inflation, mostly at the start of the year (by +0.045 pp), but the effect will be too weak to change the overall trajectory.

## Monetary policy watch

### Excerpts from the MPC's official statement after its March meeting

The global economic conditions continue to improve. The euro area data for GDP in 2017 Q4 signal that the economy continues to grow faster than in previous years. This is driven by an improvement in the labour market conditions, good sentiment of economic agents, and stronger world trade growth. In the United States, economic conditions also remain favourable, although GDP growth in 2017 Q4 slowed down slightly. In China, in turn, GDP growth was relatively stable in 2017.

Despite the ongoing global recovery, inflation abroad remains moderate, on the back of persistently low domestic inflationary pressure in many countries, and lower than in the previous year global agricultural commodity prices. At the same time, prices of some other commodities, including oil, are higher than a year ago. The European Central Bank keeps interest rates close to zero, including the deposit rate below zero, while still purchasing financial assets. The US Federal Reserve, in turn, continues to gradually reduce its balance sheet, signalling further interest rate increases in the future.

In Poland, annual GDP growth in 2017 Q4 stood at 5.1%. Growth is still primarily driven by domestic demand, including consumer demand, supported by rising employment and an acceleration in wage growth, disbursement of benefits and very strong consumer sentiment. At the same time, 2017 Q4 saw a marked recovery in investment. The pickup in investment was primarily observed in the public sector, although gross fixed capital formation of enterprises probably increased as well. Growth in economic activity is also supported by strong external demand. Despite the acceleration in economic growth, annual consumer price growth continues to run at a moderate level. At the same time – although wage growth increased – inflation net of food and energy prices remains low.

In the Council's assessment, current data and the results of the projection indicate a favourable outlook for growth in economic activity in Poland, despite an expected slight slowdown in GDP growth in the coming years. In line with the projection, in the monetary policy transmission horizon inflation will remain close to the inflation target. As a result, the Council judges that the current level of interest rates is conducive to keeping the Polish economy on a sustainable growth path and maintaining macroeconomic stability.

### NBP Governor's stance getting even more dovish

▪ The Monetary Policy kept rates unchanged at its meeting in March, and it came as no surprise for the market. The statement showed little change vs. the previous one and the main message remains the same: the current level of rates is optimal and will serve well the economy. In the Council's view, inflation is still moderate, despite further acceleration of GDP, and core CPI is low despite faster wage growth.

▪ At the post-meeting press conference, the governor Adam Glapiński was even more dovish than before. He admitted that the new projections support lack of rate hikes until the end of 2020, even if he is unwilling to state something so far into the future. Another of his dovish remarks was that analysts are right to push forward their rate hike expectations. Other members present at the press conference, Grażyna Ancyparowicz and Jerzy Żyżyński, were on the same page. The former expects an even better growth path than projected, but still is not willing to destabilize the positive situation with rate changes.

▪ The MPC press conference reinforced the dovish message sent by the Monetary Policy Council. Last month, we have moved the expected timing of interest rate hike forward, from 4Q18 to 1Q19, and now we feel that this may move even further away. However, we still believe that the MPC will start hiking interest rates earlier than suggested by the NBP governor Adam Glapiński. Possibly the first rate hike may take place in 4Q19 and will be triggered by mounting inflationary and wage pressure and the start of interest rate hikes by the ECB.

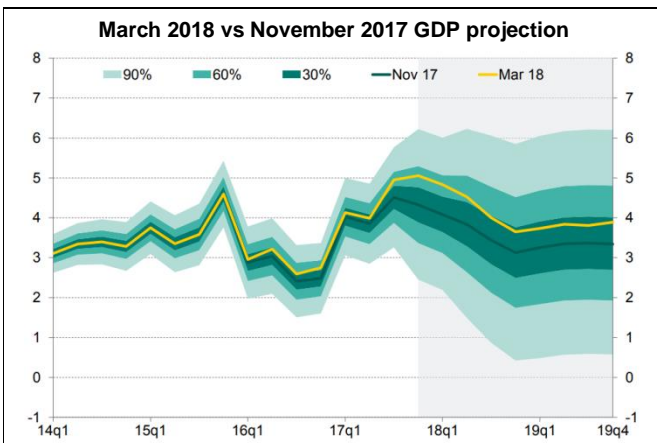
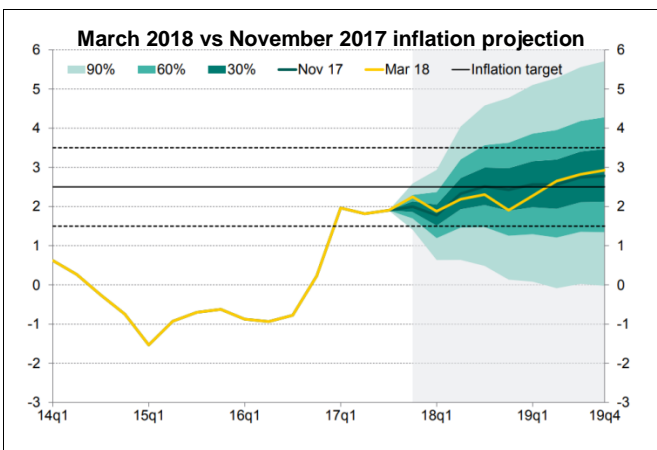
### FX substitute of rate hikes

▪ The March NBP staff projection was made under the assumption of global growth higher than in the November round. The projected path of Polish GDP was raised. In particular, the forecast for investments was raised by 1pp. to 8.6% in 2018 and by 1.3pp. to 6.3% in 2019, which was justified by high demand, high capacity utilization and very low inventories of finished goods. The revision came in spite of a negative surprise for 2017 results (actual investments came in below the NBP's November forecast). The forecast for private consumption was increased by 0.4pp. in 2018-2019 due to higher-than-previously-estimated wage growth and strong consumer optimism. As a result, the output gap for 2018 was revised higher, from 0.7% of potential GDP to 1.2%, and in the following years the gap is forecast to grow to +1.7% and +1.8%.

▪ As for the labour market, employment is expected to grow in each year of the forecast thanks to rising labour participation rates (at least as long as the expansionary stage of the business cycle continues), and the growth of nominal wages is forecast to rise no higher than the already achieved +7% y/y.

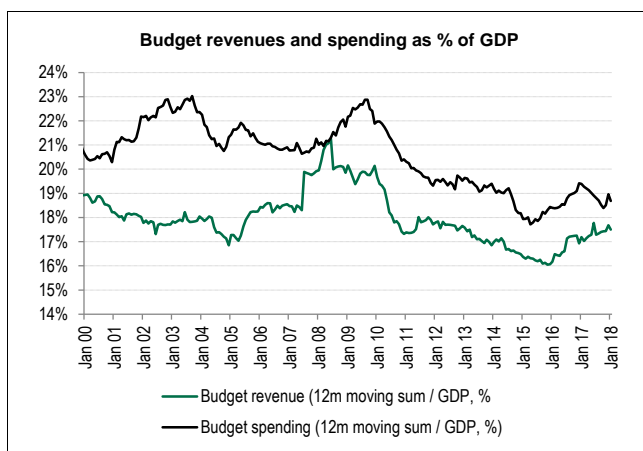
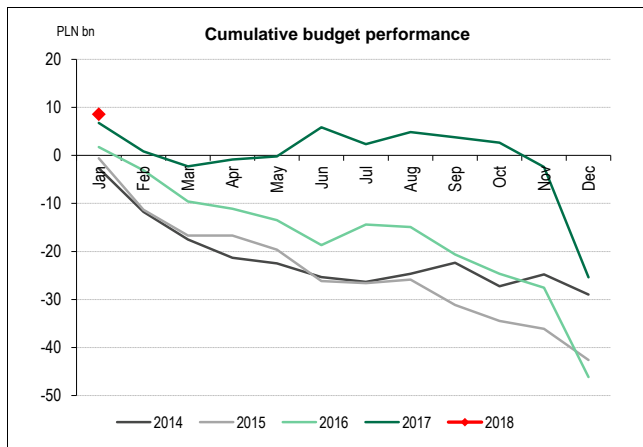
▪ Despite the higher forecast for GDP, output gap, and wage growth, the inflation projection has been lowered vs. the November forecast. According to NBP analysts, this is partly due to the absence of energy price hike in early 2018, which had been assumed in the previous projection, but was primarily driven by the reduction of the forecast for core inflation. The authors of the analysis attribute this to a lower sensitivity of domestic prices to economic activity and by the appreciation of the zloty, which reduces import prices. The NBP directors stressed that this issue is a widely observed phenomenon among developed economies and in the CEE.

The weaker response of inflation to real economic developments is yet to be properly diagnosed by economists. This is why we believe that the MPC, faced with the March projection, will be willing to extend its 'wait-and-see' period and will assess new economic data with caution.



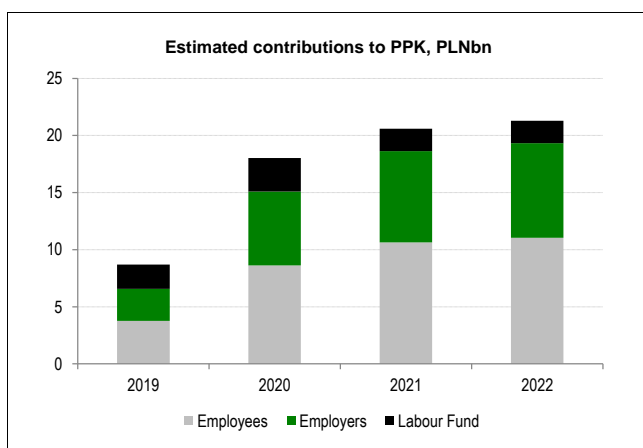
Sources: NBP, BZ WBK.

## Fiscal policy watch



### Timing of PPK introduction

Employer group	Employees (mn)	Introduction date
>250 persons	3.3	01.01.2019
50-249 persons	2.0	01.07.2019
20-49 persons	1.1	01.01.2020
other and GG	5.1	01.07.2020
<b>Total</b>	<b>11.4</b>	



Source: Finance Ministry, Stats Office, BZ WBK.

### Budget performance in January

- The central budget reported a surplus of PLN8.6bn in January, which is the best start to a year since comparable data have been available (1995).

- Surprisingly, budget revenues amounted to PLN35.2bn, down by 5% y/y. A fall in total revenues was primarily due to weak VAT inflows, which were down by 17.1% y/y. In our view, this blot on the landscape was caused by one-off effects, such as delays in payments triggered by recovery in investment in 4Q17, the government's strategy of shifting the timing of VAT returns and a change in the VAT framework to monthly payments from quarterly payments for some companies. Other taxes showed quite decent growth rates, with PIT adding 13.7% y/y and CIT adding 11.4% y/y.

- The high budget surplus in January was mostly due to low spending, which amounted to PLN26.6bn (-12% y/y). In our view, this level of spending growth is not sustainable. January's spending was the lowest start to a year since 2009 and, in our view, was caused by a pull-forward of some spending to December (e.g. subsidies to the Social Security Fund).

- In the months to come, we are expecting both revenues and spending to rebound. GG deficit is likely to be below 3% of GDP this year, in our view.

### Employees' Capital Plans (PPK)

- On 15 February, the government presented the Employees' Capital Plans (PPKs), i.e. new element in the pension system. PPKs are set up to support domestic saving and to increase future pensions. PPKs will be introduced gradually (see table on the left): initially, only the biggest companies will be obliged to offer PPKs to its employees, while smaller companies will join the scheme later. In the last stage, PPKs will also cover the public sector entities. According to the estimates of Finance Ministry, PPKs will be available to a total of 11.4mn employees.

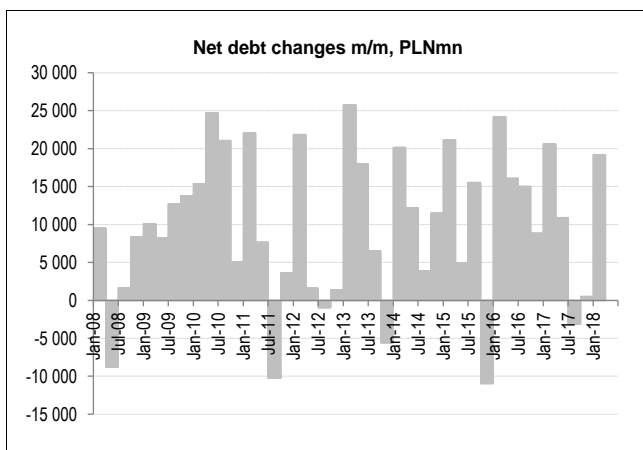
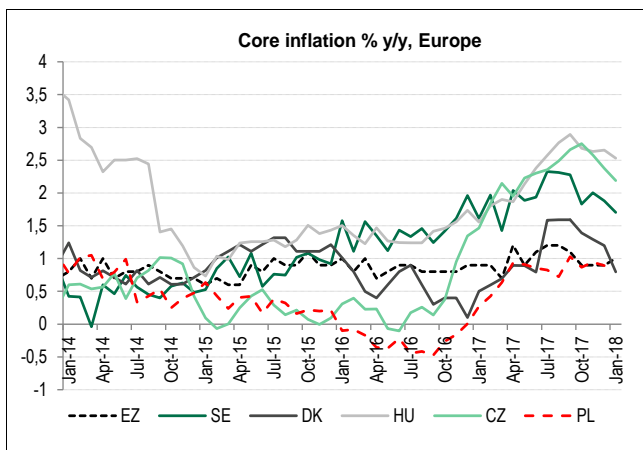
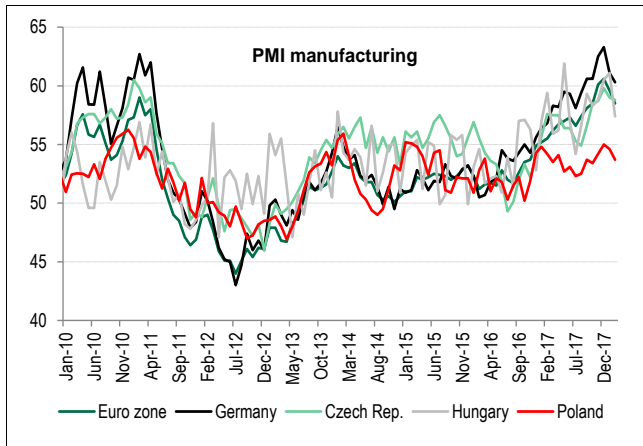
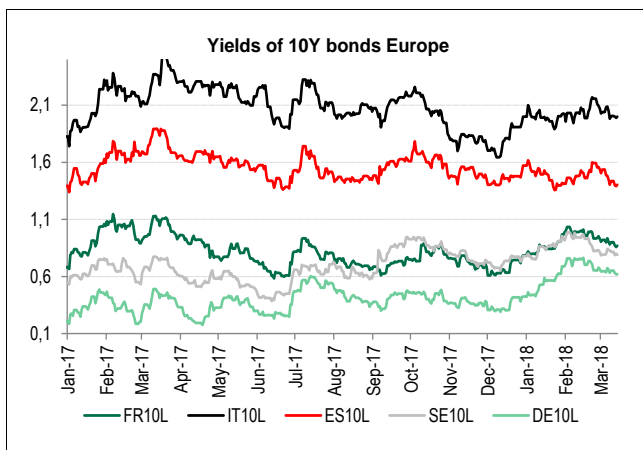
- PPK contribution is to be equal to 2.0% of the gross salary, paid by the employee with a possibility of a voluntary increase to 4.0%. This contribution will not be tax-deductible, so it will decrease the net salary. Additionally, 1.5% of gross salary will be paid by the employer with a possibility of a voluntary increase to 4.0%. In total, contribution may fall between 3.5% and 8.0% of gross salary.

- According to our estimates, contributions paid by employees will be growing from PLN3.8bn in 2019 to PLN11bn in 2022 and decreasing the disposable income. This will weigh on private consumption, which, in our view, will grow 0.3pp. less in 2019 and 2020, and 0.1pp. less later. In the long term, the negative impact of PPKs on consumption decreases because the programme boosts purchasing power of retirees. We expect that households saving rate will go up, by about 1.0-1.5pp. (in 3Q17 it was equal to 2.4%), which will positively influence the current account balance by c0.3% GDP.

- Labour costs will rise by cPLN3-8bn per year. The implementation of PPKs will coincide with the removal of the cap of annual pension contribution (30 times the average wage), which will raise labour costs by another cPLN1bn per year. We think that in an environment of scarcity of spare labour force and wage pressure, it would be an extra factor compressing enterprise margins, which could lead to faster growth of inflation.

- We assume that PPKs will allocate a lion's share of their means in Polish treasuries. In our view, it should not be lower than 30%, which would translate to PPKs' demand for government bonds of cPLN2.5bn in 2019 and cPLN6.5bn in 2022. With time, PPKs' portfolio should be moving more towards safer assets, such as government bonds, due to the ageing of the population. Read more on this in our [Economic comment](#).

## Interest rate market



Source: Finance Ministry, Reuters, Bloomberg, BZ WBK.

### Central banks and data pushed curves down

▪ The previous month started from strong sell-off on the global sovereign bond market. These moves were triggered by communiqué and conferences of FOMC and ECB, rated by investors as signaling the tightening of monetary policy. However, the upward moves were erased in the further weeks. Since the 2H February, the macroeconomic data releases have started to push the yields down. First, the weaker industrial production, where the data showed the first symptoms of a slight slowdown in growth rate. Later the bonds were influenced by the deterioration of investors' sentiment indicators (ZEW, Sentix) and leading economic indicators (Ifo, PMI, ESI). The bonds received additional fuel from the Ministry of Finance (MoF) which informed about lower debt supply (compared to 2017). Finally, in early March, the yield curve was pushed stronger by the dovish tone of MPC and ECB conferences.

▪ As a result, the domestic t-bonds yield curve slid by 18-31 bps (comparing to the peak from the beginning of February). At the same time, the IRS rates decreased slightly less, by 13-28 bps (stronger in the middle part of the curve). It led to the asset swap compression by 5, 3 and 12 bps, for 2, 5 and 10Y contracts, respectively. These moves were partially a consequence of Eurozone yields decreases.

▪ The second February auction was much better than the first one. In February average bid to cover ratio was 2.4 vs. 1.8 in January, and MoF sold PLN9bn bonds (vs. PLN12bn in January). As usual WZ-series floating-coupon bonds were the most popular bonds on the auctions.

### Weaker inflation to support bonds

▪ In the next weeks, we expect downward yield pressure to continue. On the domestic front, we expect weaker inflation data for February and March, which will likely support the short end of the yield curve. We anticipate the CPI reading below the 2.0% y/y (our forecast is 1.6% y/y and 1.8% y/y for February and March, respectively). We think that delivery of this scenario will boost credibility of the message from the last MPC conference that the new projections justify lack of hikes perspective. Moreover, the 1-4Y segment will be positively influenced by PS0418 bonds buy-back (PLN14,6bn scheduled for the end of April) and low bonds supply in March.

▪ In our opinion, the long end of the domestic curve will likely benefit from better moods at the Eurobond market. The domestic bonds will be influenced by inflation indices behavior in Europe, where most of them have decreased in y/y terms over the last months. Also, most European core inflation indices do not show tendencies to rebound. We think that the domestic and European sovereign bonds will also be supported by weaker European leading indicators. Moreover, the fears about the trade war currently positively influence the debt market.

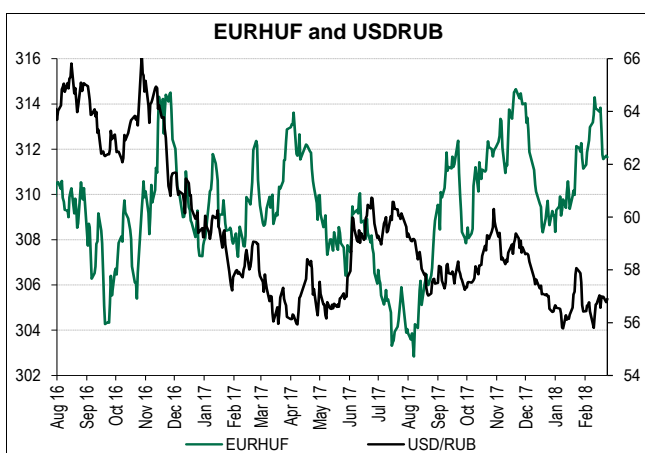
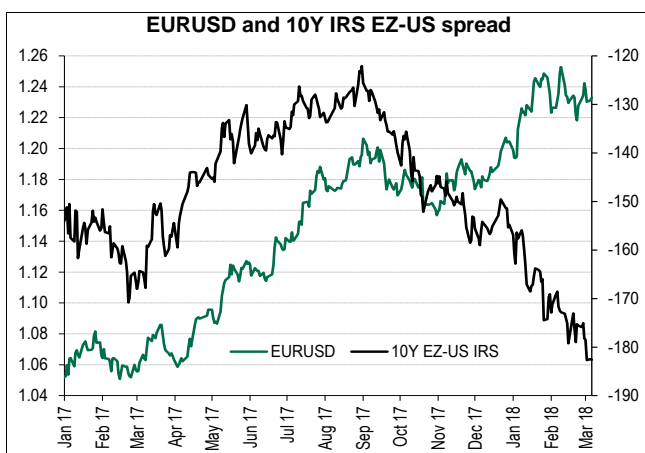
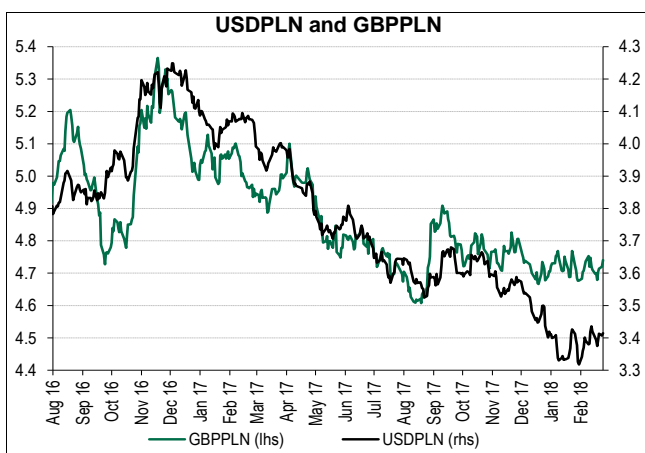
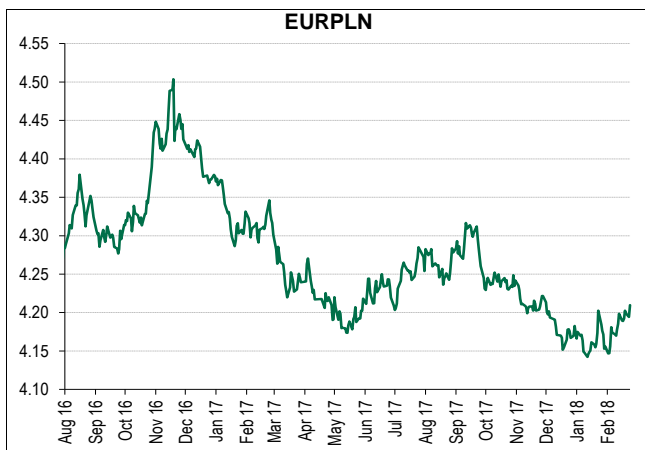
### Over-liquidity still as important factor

▪ The over liquidity of the financial sector (as we have seen it for some time), represented by the lower level of Polonia rates, should support the demand from the domestic financial institutions (banks and non-banks) for the Polish t-bonds. We think that this situation in combination with the expected improvement in budget stance (and, lower debt supply) should help to compress the asset swap spreads across the curve.

### Planned auctions

▪ The Ministry of Finance has planned two auctions for March. The first of them will be the switch auction (15 March). The ministry plans to switch OK0720, PS0123, WZ0524, WS0428, WZ0528 for PS0418 (PLN14.60bn), PS0718 (PLN18.7bn), OK1018 (PLN19.7bn). The regular auction has been planned for 27 March (supply of PLN3-5bn), with the same set of bonds to buy.

## Foreign exchange market



Sources: Reuters, Bloomberg, BZ WBK.

### EURPLN higher for longer?

Since our last report, the situation on the Polish FX market has been evolving pretty in line with our expectations. The zloty was pressured by stronger dollar, shaky global market sentiment and dovish MPC tone amid Polish mixed economic activity data. As a result, EURPLN established a fresh 2018 high at just above 4.21. USDPLN climbed temporarily to 3.44, its highest since mid-January.

We sustain our view that there is little room for the stronger zloty in the nearest future.

First, we have already seen some economic data confirming our scenario of no GDP growth acceleration this year vs 2017. In our 2018 Outlook, we showed that although pace of economic growth may stay above solid 4%, the tendency of lower y/y readings could prove key, particularly given the fact that in 2017 the zloty was one of the best EM performing currencies.

Gradual slowdown of an economic activity will be accompanied by the sub-2% CPI readings in the short-term in our view which could also add pressure on the zloty. We have seen the Polish currency weakening sharply after the NBP's governor said that he does not see any reason for hikes even until 2020. Annual inflation below 2.0% may reinforce this dovish rhetoric and keep EURPLN above 4.20.

Globally, we still expect stronger dollar in the weeks to come (see details below) which might weigh on the EM currencies (including the zloty) that, in general, have gained so far this year vs the dollar.

### Looming Fed rate hike may support dollar

Higher risk aversion persisting on the global market, hawkish tone of the FOMC minutes and somewhat weaker-than-expected European economic activity data pushed EURUSD down temporarily below 1.22 in February. The exchange rate was testing this support but did not manage to stay below this level for longer owing to Donald Trump idea to impose tariffs on steel and aluminum.

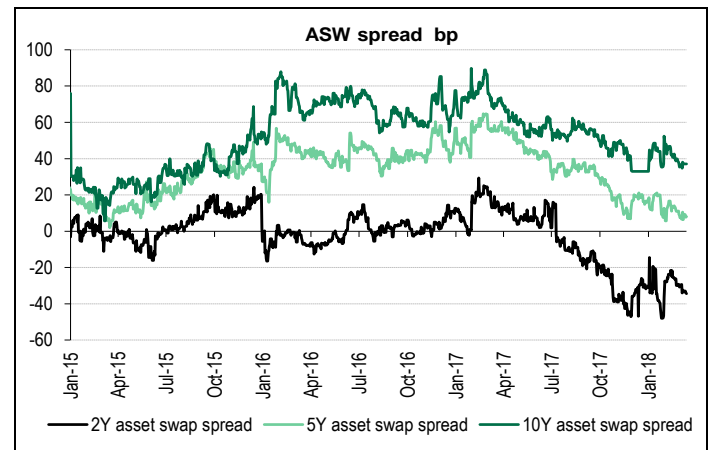
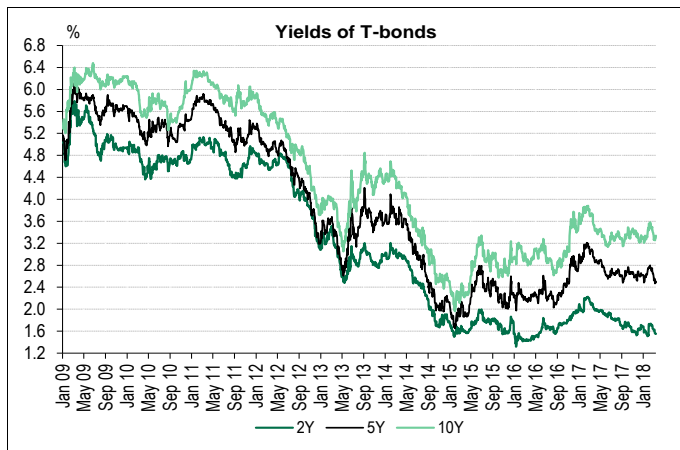
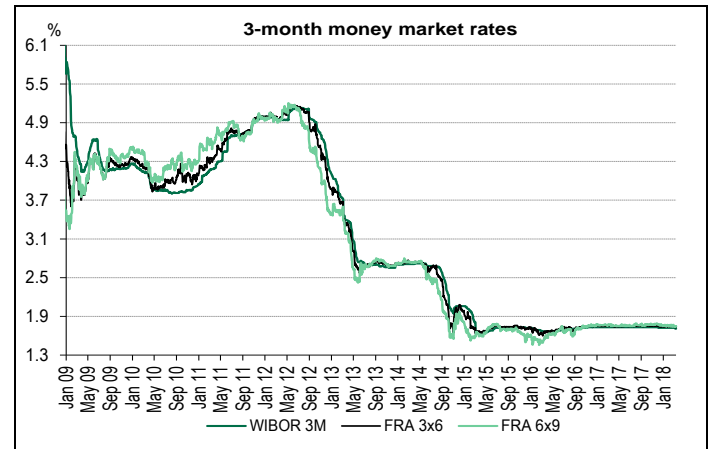
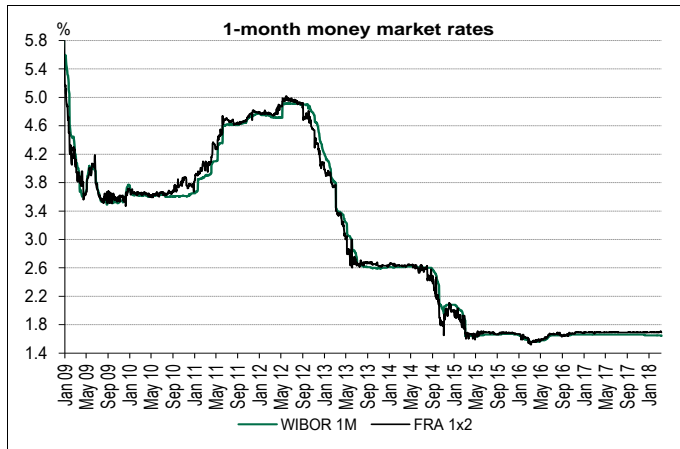
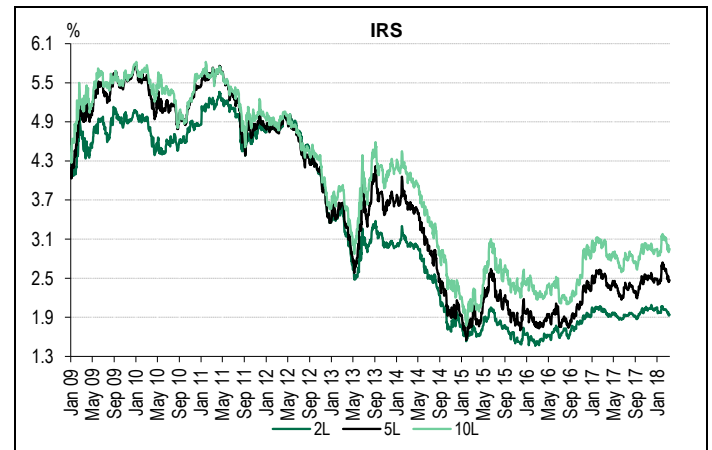
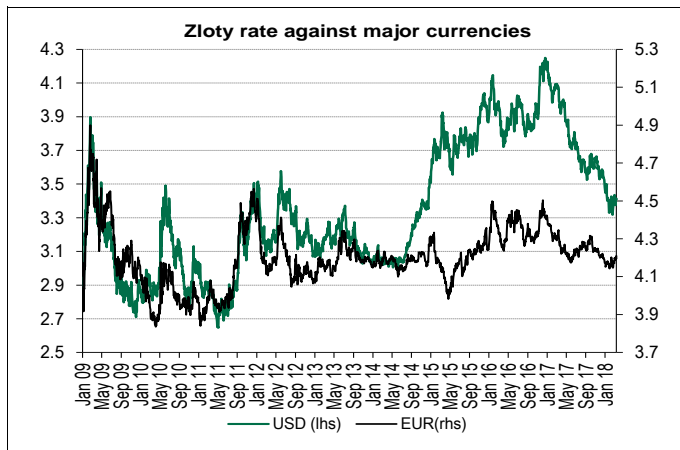
We are of the opinion that EURUSD could retry to break 1.22 again in the weeks to come. In our view, the exchange rate is way too high given the Fed rate hike likely to be delivered on March 21. Also, the most recent European economic activity data showed lower readings while the EURUSD rally observed in 2017 was largely fueled by the fast economic revival in the euro zone. Finally, the market is already very long euro and it could be difficult to attract fresh money to enter the market at current relatively high level. We expect the EURUSD upside trend to resume in late 1H18.

### Waiting for Hungarian elections

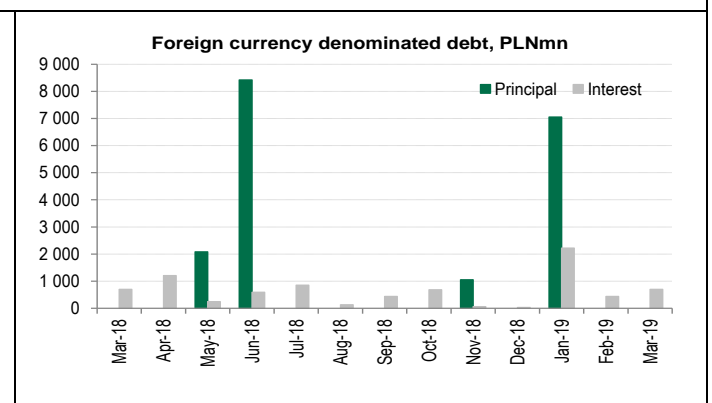
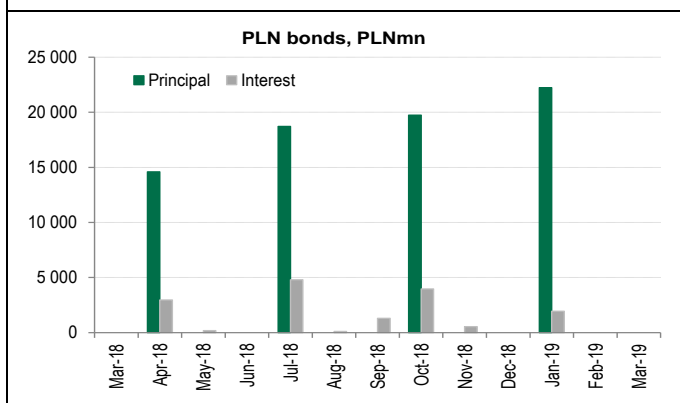
Last month, the forint and koruna were also largely driven by the higher risk aversion persisting on the global market. EURHUF jumped above 314 reaching its fresh 2018 peak while EURCZK neared 25.5 vs 25.2 in early February. USDRUB was very volatile – it first fell to 55.53 from 58.8 and soon rebounded to 57.3. The ruble was under the impact of trends of commodities, dollar performance on the global market and Russian rating upgrade.

In the nearest future, the main event in the CEE region will be the Hungarian general election to be held on April 8. Since 2008, Fidesz is holding a comfortable majority and nothing is likely to change on this front this year as the ruling party could obtain even more than 50% of votes, according to polls with the runner-up support at just below 20%. Recently, the Fidesz candidate defeat in the local mayoral race has attracted media attention suggesting that the party's lead in general election might be smaller than indicated by polls. However, we do not expect any surprise and the outcome of elections should be rather market-neutral.

# Market monitor



## Principal and interest payments



Source: Finance Ministry, Reuters, BZ WBK.



## Economic calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
<b>19 March</b> <i>PL: Industrial output (Feb)</i> <i>PL: PPI (Feb)</i>	<b>20</b> <i>PL: Retail sales (Feb)</i>	<b>21</b> US: Home sales (Feb) US: FOMC decision	<b>22</b> <i>PL: Money supply (Feb)</i> DE: Flash PMI – services (Mar) DE: Flash PMI – manufacturing (Mar) EZ: Flash PMI – manufacturing (Mar) EZ: Flash PMI – services (Mar) DE: Ifo index (Mar)	<b>23</b> <i>PL: Rating review by Moody's</i> <i>PL: Unemployment rate (Feb)</i> US: Durable goods orders (Feb) US: New home sales (Feb)
<b>26</b>	<b>27</b> HU: Central bank decision US: Consumer confidence index (Mar)	<b>28</b> US: GDP third estimate (Q4) US: Pending home sales (Feb)	<b>29</b> <i>PL: Flash CPI (Mar)</i> CZ: Central bank decision US: Personal income (Feb) US: Consumer spending (Feb) US: Michigan index (Mar)	<b>30</b>
<b>2 April</b> CN: PMI – manufacturing (Mar) US: ISM – manufacturing (Mar)	<b>3</b> <i>PL: PMI – manufacturing (Mar)</i> EZ: PMI – manufacturing (Mar) DE: PMI – manufacturing (Mar) CZ: Final GDP (Q4)	<b>4</b> EZ: Flash CPI (Mar) US: ADP report (Mar) US: ISM – services (Mar) US: Industrial orders (Feb)	<b>5</b> DE: Industrial orders (Feb) DE: PMI – services (Mar) EZ: PMI – services (Mar) EZ: Retail sales (Feb)	<b>6</b> US: Non-farm payrolls (Mar) US: Unemployment rate (Mar) DE: Industrial output (Feb) CZ: Industrial output (Feb)
<b>9</b> DE: Exports (Feb)	<b>10</b> CZ: CPI (Mar) HU: CPI (Mar)	<b>11</b> <i>PL: MPC decision</i> US: CPI (Mar) US: FOMC minutes	<b>12</b> <i>PL: CPI (Mar)</i> EZ: Industrial output (Feb)	<b>13</b> <i>PL: Rating review by S&amp;P</i> <i>PL: Balance of payments (Feb)</i> <i>PL: Core inflation (Mar)</i> US: Flash Michigan (Apr)
<b>16</b> US: Retail sales (Mar)	<b>17</b> DE: ZEW index (Apr) US: House starts (Mar) US: Building permits (Mar) US: Industrial output (Mar)	<b>18</b> <i>PL: Wages and employment (Mar)</i> US: Fed Beige Book	<b>19</b> <i>PL: Industrial output (Mar)</i> <i>PL: PPI (Mar)</i> US: Philly Fed index (Apr)	<b>20</b> <i>PL: Retail sales (Mar)</i>

Source: GUS, NBP, Bloomberg.

## Calendar of MPC meetings and data releases for 2018

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
ECB decision	25	-	8	26	-	14	26	-	13	25	-	13
MPC decision	10	7	7	11	16	6	11	-	5	3	7	5
MPC minutes	-	22	29	27	-	21	-	23	20	25	22	20
Flash GDP*	30	14	-	-	15	-	-	14	-	-	14	-
GDP*	-	28	-	-	30	-	-	31	-	-	30	-
CPI	15	15	15	12	11	11	12	10	11	12	12	11
Core inflation	16	-	16	13	14	12	13	13	12	15	13	12
PPI	19	20	19	19	21	19	18	20	19	17	20	19
Industrial output	19	20	19	19	21	19	18	20	19	17	20	19
Retail sales	19	20	20	20	22	20	19	21	20	18	21	20
Gross wages, employment	17	16	16	18	18	18	17	17	18	16	19	18
Foreign trade	about 50 working days after reported period											
Balance of payments*	-	-	30									
Balance of payments	15	13	16	13								
Money supply	23	22	22	24								

\* Quarterly data. a preliminary data for January. b January and February.  
Source: GUS, NBP.

## Economic data and forecasts for Poland

## Monthly economic indicators

		Feb 17	Mar 17	Apr 17	May 17	Jun 17	Jul 17	Aug 17	Sep 17	Oct 17	Nov 17	Dec 17	Jan 18E	Feb 18E	Mar 18E
PMI	pts	54.2	53.5	54.1	52.7	53.1	52.3	52.5	53.7	53.4	54.2	55.0	54.6	53.7	53.5
Industrial production	% YoY	1.2	11.0	-0.5	9.2	4.4	6.2	8.8	4.4	12.3	9.2	2.8	8.6	6.7	3.0
Construction production	% YoY	-5.3	17.1	4.4	8.3	11.6	19.8	23.6	15.3	20.2	19.9	12.8	34.7	28.1	18.0
Retail sales <sup>a</sup>	% YoY	7.3	9.7	8.1	8.4	6.0	7.1	7.6	8.6	8.0	10.2	6.0	8.2	7.6	8.0
Unemployment rate	%	8.4	8.0	7.6	7.3	7.0	7.0	7.0	6.8	6.6	6.5	6.6	6.9	6.8	6.6
Gross wages in corporate sector	% YoY	4.0	5.2	4.1	5.4	6.0	4.9	6.6	6.0	7.4	6.5	7.3	7.3	7.5	7.2
Employment in corporate sector	% YoY	4.6	4.5	4.6	4.5	4.3	4.5	4.6	4.5	4.4	4.5	4.6	3.8	3.8	3.7
Exports (€)	% YoY	6.4	19.7	3.2	19.2	7.2	13.3	11.5	10.0	15.5	14.9	2.1	6.4	11.9	6.0
Imports (€)	% YoY	10.5	19.8	4.6	21.7	14.5	13.2	7.8	7.5	14.8	15.7	10.9	12.1	12.0	5.7
Trade balance	EUR mn	-169	330	519	-83	-235	-172	162	466	321	150	-1268.0	-330	-202	400
Current account balance	EUR mn	-514	-405	350	-264	-892	-203	189	120	297	272	-1,152	1,889	-700	160
Current account balance	% GDP	0.1	0.1	0.0	-0.1	-0.5	-0.3	-0.1	0.2	0.2	0.3	0.1	-0.1	-0.1	0.0
Budget deficit (cumulative)	PLN bn	0.9	-2.3	-0.9	-0.2	5.9	2.4	4.9	3.8	2.7	-2.4	-25.4	8.6	2.6	-0.4
Budget deficit (cumulative)	% of FY plan	-1.4	3.8	1.5	0.3	-9.9	-4.0	-8.2	-6.4	-4.5	4.1	42.7	-20.6	-6.2	1.1
CPI	% YoY	2.2	2.0	2.0	1.9	1.5	1.7	1.8	2.2	2.1	2.5	2.1	1.9	1.6	1.8
CPI excluding food and energy	% YoY	0.3	0.6	0.9	0.8	0.8	0.8	0.7	1.0	0.8	0.9	0.9	1.0	1.0	1.1
PPI	% YoY	4.5	4.8	4.2	2.4	1.8	2.2	3.0	3.2	3.0	1.8	0.3	0.2	0.2	0.5
Broad money (M3)	% YoY	8.2	7.8	6.7	6.3	5.0	5.0	5.4	5.4	5.7	4.5	4.6	4.8	5.1	0.0
Deposits	%YoY	7.7	7.3	6.1	5.7	4.5	4.6	5.0	5.0	5.3	4.2	4.1	4.5	4.7	5.0
Loans	%YoY	4.8	5.3	4.5	4.8	4.5	4.5	5.0	5.1	4.7	3.7	3.6	4.0	4.1	4.1
EUR/PLN	PLN	4.31	4.29	4.24	4.20	4.21	4.24	4.26	4.27	4.26	4.23	4.20	4.16	4.17	4.20
USD/PLN	PLN	4.05	4.02	3.96	3.80	3.75	3.68	3.61	3.59	3.63	3.60	3.55	3.41	3.37	3.45
CHF/PLN	PLN	4.04	4.01	3.95	3.85	3.87	3.83	3.74	3.73	3.69	3.63	3.60	3.55	3.61	3.63
Reference rate <sup>b</sup>	%	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
3M WIBOR	%	1.73	1.73	1.73	1.73	1.73	1.73	1.73	1.73	1.73	1.73	1.72	1.72	1.72	1.71
Yield on 2-year T-bonds	%	2.20	2.08	1.98	1.95	1.94	1.89	1.80	1.73	1.71	1.60	1.66	1.63	1.66	1.62
Yield on 5-year T-bonds	%	3.15	3.02	2.87	2.79	2.61	2.65	2.65	2.61	2.69	2.62	2.63	2.68	2.72	2.62
Yield on 10-year T-bonds	%	3.82	3.66	3.42	3.35	3.19	3.30	3.33	3.27	3.39	3.40	3.27	3.25	3.40	3.37

Note: <sup>a</sup> in nominal terms, <sup>b</sup> at the end of the period.

Source: GUS, NBP, Finance Ministry, BZ WBK estimates.

## Quarterly and annual economic indicators

		2015	2016	2017	2018E	1Q17	2Q17	3Q17	4Q17	1Q18E	2Q18E	3Q18E	4Q18E
GDP	PLN bn	1,798.3	1,858.6	1,982.3	2,103.2	456.0	476.2	487.4	562.7	486.8	505.9	516.6	593.9
GDP	% YoY	3.8	2.9	4.6	4.3	4.1	4.0	4.9	5.1	4.9	4.4	4.1	3.9
Domestic demand	% YoY	3.3	2.2	4.9	4.5	3.9	5.5	3.9	6.1	5.1	4.4	4.2	4.2
Private consumption	% YoY	3.0	3.9	4.8	4.9	4.7	4.9	4.8	4.9	5.0	4.9	4.8	4.7
Fixed investments	% YoY	6.1	-7.9	5.2	6.7	-0.5	0.9	3.3	11.3	10.1	7.9	6.4	4.9
Industrial production	% YoY	4.8	2.9	6.5	6.4	7.3	4.2	6.3	8.4	6.0	6.6	7.8	5.3
Construction production	% YoY	0.3	-14.6	13.7	18.2	5.6	8.4	19.3	17.1	25.5	24.2	17.7	11.4
Retail sales <sup>a</sup>	% YoY	1.5	3.9	8.2	7.6	9.6	7.6	7.9	8.0	7.9	8.2	8.8	5.7
Unemployment rate <sup>b</sup>	%	9.7	8.2	6.6	5.7	8.0	7.0	6.8	6.6	6.6	5.7	5.6	5.7
Gross wages in the national economy <sup>a</sup>	% YoY	3.3	3.8	5.7	7.8	4.1	5.0	4.9	7.1	7.1	7.4	7.4	8.9
Employment in the national economy	% YoY	0.9	2.3	3.7	2.8	3.2	3.0	3.6	3.4	2.8	2.7	2.4	2.3
Exports (€)	% YoY	8.5	3.1	11.5	10.2	13.8	9.6	11.6	11.0	8.1	11.6	12.1	9.1
Imports (€)	% YoY	5.0	2.7	13.1	11.3	15.5	13.5	9.4	13.9	9.8	12.7	13.4	9.5
Trade balance	EUR mn	2,213	2,935	508	-1,644	641	204	460	-797	-132	-322	-91	-1,099
Current account balance	EUR mn	-2,405	-1,254	389	1,102	1,659	-799	112	-583	1,349	328	-735	160
Current account balance	% GDP	-0.6	-0.3	0.1	0.2	0.1	-0.4	0.2	0.1	0.0	0.2	0.1	0.2
General government balance	% GDP	-2.6	-2.5	-1.9	-2.2	-	-	-	-	-	-	-	-
CPI	% YoY	-0.9	-0.6	2.0	2.0	2.0	1.8	1.9	2.2	1.8	2.1	2.1	1.8
CPI <sup>b</sup>	% YoY	-0.5	0.8	2.1	1.8	2.0	1.5	2.2	2.1	1.8	2.1	2.1	1.8
CPI excluding food and energy	% YoY	0.3	-0.2	0.7	1.5	0.3	0.8	0.8	0.9	1.0	1.3	1.7	2.0
PPI	% YoY	-2.2	-0.2	2.9	1.5	4.4	2.8	2.8	1.7	0.3	1.8	2.2	1.8
Broad money (M3) <sup>b</sup>	% oY	9.1	9.6	4.6	6.8	7.8	5.0	5.4	4.6	5.2	5.7	6.3	6.8
Deposits <sup>b</sup>	%YoY	9.0	9.1	4.1	6.7	7.3	4.5	5.0	4.1	4.8	5.4	6.1	6.7
Loans <sup>b</sup>	%YoY	6.9	4.7	3.6	7.1	5.3	4.5	5.1	3.6	4.5	5.4	6.2	7.1
EUR/PLN	PLN	4.18	4.36	4.26	4.21	4.32	4.22	4.26	4.23	4.18	4.21	4.24	4.22
USD/PLN	PLN	3.77	3.95	3.78	3.43	4.06	3.83	3.63	3.59	3.41	3.47	3.45	3.38
CHF/PLN	PLN	3.92	4.00	3.84	3.59	4.04	3.89	3.77	3.64	3.60	3.62	3.61	3.54
Reference rate <sup>b</sup>	%	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
3M WIBOR	%	1.75	1.70	1.73	1.71	1.73	1.73	1.73	1.73	1.72	1.71	1.71	1.71
Yield on 2-year T-bonds	%	1.70	1.63	1.88	1.65	2.10	1.96	1.81	1.66	1.64	1.58	1.65	1.72
Yield on 5-year T-bonds	%	2.21	2.35	2.77	2.79	3.03	2.76	2.64	2.65	2.67	2.71	2.81	2.98
Yield on 10-year T-bonds	%	2.69	3.04	3.42	3.42	3.72	3.32	3.30	3.35	3.34	3.38	3.47	3.50

Note: <sup>a</sup> in nominal terms, <sup>b</sup> at the end of period. Source: GUS, NBP, Finance Ministry, BZ WBK estimates.

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