

# WEEKLY ECONOMIC UPDATE

## 15 – 21 May 2017

Positive market reaction to the outcome of the French presidential elections proved only temporary and only bonds managed to sustain earlier gains while equities, CEE currencies and the euro lost somewhat last week.

This week, plenty of Polish and US macro data are on the agenda and the Polish MPC will announce its decision on the interest rates. We do not expect any change neither in monetary policy parameters nor in the Council's rhetoric but members will have a chance to comment on the flash 1Q17 GDP figure that we expect will show a sharp rebound vs 4Q16. We think Polish bonds and the zloty could give up part of their recent gains and only upward rating outlook revision by Moody's (which we do not expect in our base scenario) and significant surprises in Polish macro data could keep domestic assets strong.

### Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE	
				MARKET	BZWBK		
<b>MONDAY (15 May)</b>							
14:00	PL	Current account	Mar	€m	-319	-177	-860
14:00	PL	Exports	Mar	€m	17 639	18 053	15 044
14:00	PL	Imports	Mar	€m	17 607	17 607	15 581
14:00	PL	Core inflation	Apr	r/r	0.7	0.9	0.6
<b>TUESDAY (16 May)</b>							
9:00	CZ	Flash GDP	Q1	% y/y	2.3	-	1.9
9:00	HU	Flash GDP	Q1	% y/y	3.1	-	1.6
10:00	PL	Flash GDP	Q1	% y/y	3.9	3.7	2.7
11:00	DE	ZEW index	May	pts	80.9	-	80.1
11:00	EZ	Flash GDP	Q1	% y/y	1.7	-	1.7
14:30	US	House starts	Apr	k	1250	-	1215
14:30	US	Building permits	Apr	k	1270	-	1260
15:15	US	Industrial output	Apr	% m/m	0.4	-	0.5
<b>WEDNESDAY (17 May)</b>							
	PL	MPC decision		%	1.50	1.50	1.50
11:00	EZ	CPI	Apr	% y/y	1.9	-	1.5
<b>THURSDAY (18 May)</b>							
11:00	PL	Bond auction					
14:00	PL	Wages in corporate sector	Apr	% y/y	4.3	4.4	5.2
14:00	PL	Employment in corporate sector	Apr	% y/y	4.5	4.5	4.5
14:30	US	Initial jobless claims	week	k	-	-	236
14:30	US	Index Philadelphia Fed	May	pts	19.4	-	22.0
<b>FRIDAY (19 May)</b>							
14:00	PL	PPI	Apr	% y/y	4.5	4.0	4.7
14:00	PL	Industrial output	Apr	% y/y	1.9	-0.2	11.1
14:00	PL	Construction and assembly output	Apr	% y/y	6.8	6.6	17.2
14:00	PL	Real retail sales	Apr	% y/y	7.3	8.8	7.9

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>

Piotr Bielski +48 22 534 18 87

Marcin Luzziński +48 22 534 18 85

Grzegorz Ogonek +48 22 534 19 23

Izabela Sajdak, CFA +48 22 534 18 86

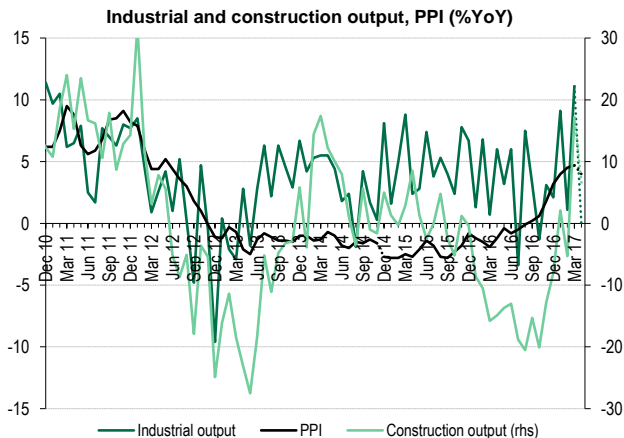
Marcin Sulewski +48 22 534 18 84

#### TREASURY SERVICES:

Poznań +48 61 856 5814/30

Warszawa +48 22 586 8320/38

Wrocław +48 71 369 9400

**What's hot next week** – A set of important data from Poland, MPC decision

- The scale of positive surprises with industrial and construction output for March and the recent downward revision of 1Q 2016 growth caused a round of forecast upgrades on the market regarding the upcoming release of GDP for 1Q (flash estimate). We expect 3.7% YoY, the market consensus is 3.9%, but actually 4% was most often indicated by analysts surveyed.

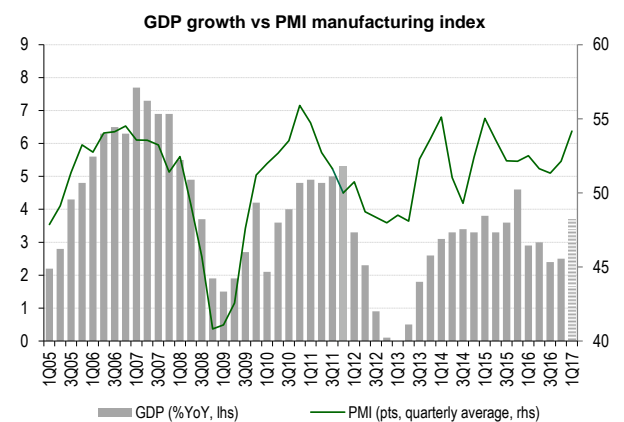
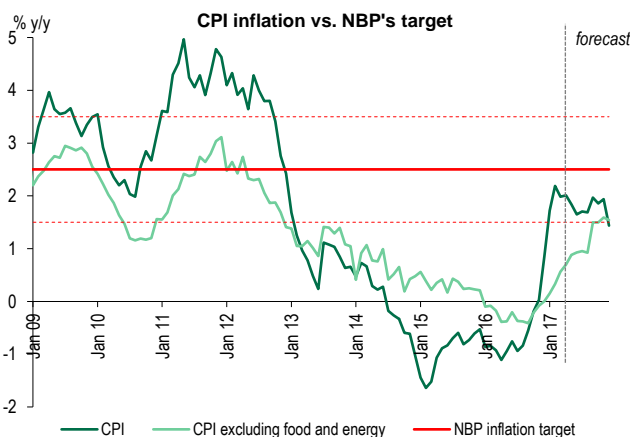
- MPC meets this week, but we do not see it trying to move away from the 'wait-and-see' approach just yet; apparently CPI had a local peak in February and for now we do not expect it to attack the 2.5% y/y target anytime this or even next year. The first rate hike could come only in November 2018.

- Exports might have accelerated from 3.8% to more than 17% y/y in March and it should be enough to restore positive monthly trade balance. The 'economic spring' in the euro zone bodes well for Polish trade figures.

- April could see the whole y/y growth of output disappear because of a combined negative trading day and Easter effect. It masked the positive momentum caused by economic revival in the euro zone.

- Wage growth likely returned below 4.5% y/y in April after a surprise acceleration to 5.2% in the previous release that we linked to one-off factors, but we think retail sales possibly got higher from 7.9% y/y to almost 9% in real terms.

- Core CPI most likely made another step higher in April, from 0.6% y/y to 0.9%. Before the CPI for April was known the market consensus for the core measure was 0.7%. On the other hand, PPI likely decelerated that month, strengthening our view that inflation has already lost its upside potential, unless fresh food prices surge later in the year.

**Last week in economy** – CPI in line with expectations, European Commission more optimistic on Poland

- April's CPI settled at 2.0% y/y and 0.3% m/m, in line with expectations and flash estimate. Food prices were stable vs March. The significant rise in meat prices (+0.9% m/m) was offset by a weak increase in vegetables (+0.1% m/m) and dropping fruit prices (-0.9% m/m). Fresh food could be key for our inflation path in the coming months if low temperatures observed in May destroyed crops.

- Fuel price drop of -0.9% m/m was a surprise, but so was the large increase in transport services (+11.9% m/m due to higher prices of airline fares).

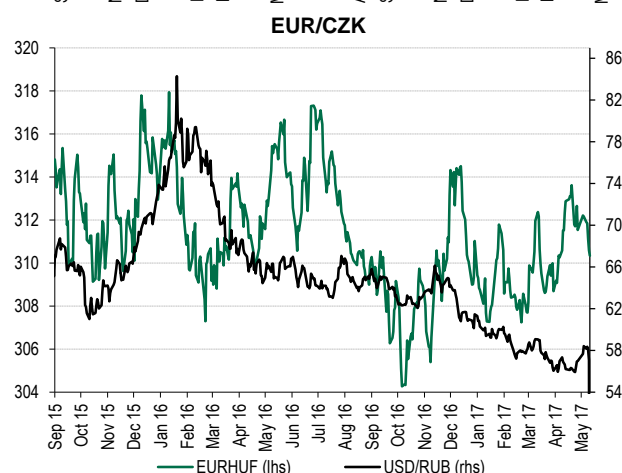
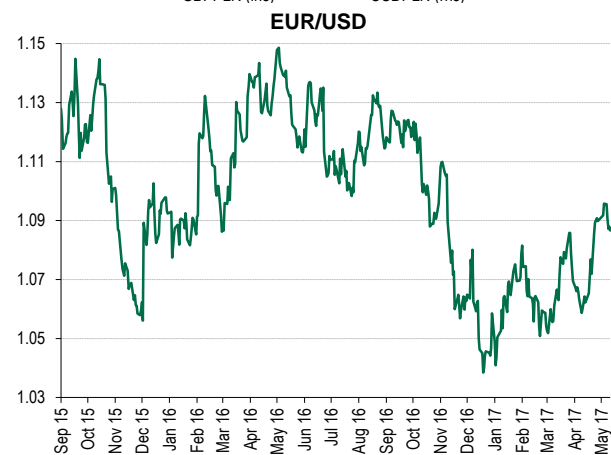
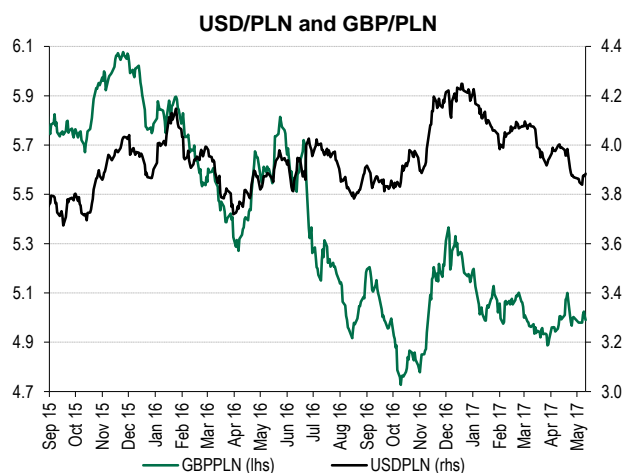
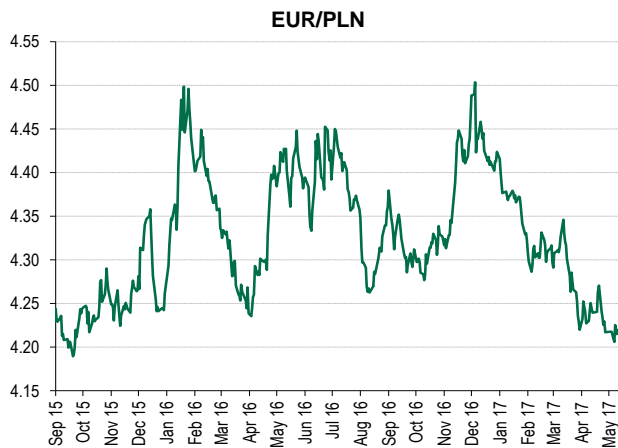
- European Commission (EC) published its spring economic forecasts. EC expects that Polish GDP will grow by 3.5% this year (from 3.2% estimated at the end of 2016, we expect 3.6%) and will slow to 3.2% next year, which is below our forecast (3.3%).

**Quote of the week** – 2017 growth may be close to 4%**Eugeniusz Gatnar, MPC, 10 May, Bloomberg**

Polish GDP growth will 'surely' reach 3.7% this year and may be higher as investments are set to pick up in 3Q. 2017 growth may be close to 4%. 1Q data exceeded expectations and this is why forecasts are higher than earlier this year. Economy in Europe also helps. Polish CPI driven by external factors.

MPC's Gatnar statement on growth seems bullish compared to the market median of 3.4%, but it is true that the monthly activity data for 2017 encouraged positive growth revisions. The market consensus on full-year growth was at 3% back in January. The 3.7% growth he mentioned as 'sure' is exactly the figure estimated by NBP staff for the March Inflation Report (central projection), so if there is anything to read from his words is his positive tilt on GDP. However the reference to external factors when describing inflation suggests he is unwilling to call for tighter monetary policy on the back of his optimism about real activity outlook.

## Foreign exchange market – Temporary rally after French elections



### Zloty stable after appreciation

Result of the French presidential elections failed to trigger any significant positive reaction on the Polish FX market and EURPLN rose after two consecutive weeks of a decline. The exchange rate touched 4.24 while USDPLN rebounded to 3.90 from 3.81. Polish currency lost also vs the British pound but remained strong vs the Swiss franc.

Please recall from our last weekly report that in the last 11 years EURPLN has fallen in May only twice. This phenomenon is less obvious for the stock market, but works quite well for Polish bonds, suggesting that impulse for weaker zloty may come from the interest rate market.

Equity market's positive reaction to the result of the French presidential elections proved only temporary indicating that the pro-EU result has already been priced-in. More positive factors may now be needed to push EURPLN further down.

Such positive impulse could emerge if Moody's changes Polish rating outlook to "stable" this evening. However, we do not expect such a scenario and thus we do not see much room for further zloty's appreciation, especially that our forecast of industrial output is well below the consensus. We expect that the GDP growth accelerated vs 4Q16 but our estimate is also just below the market expectations.

### Euro lower despite French elections

Euro's positive reaction to French elections was very short-lived and at the end of the week EURUSD was below 1.09.

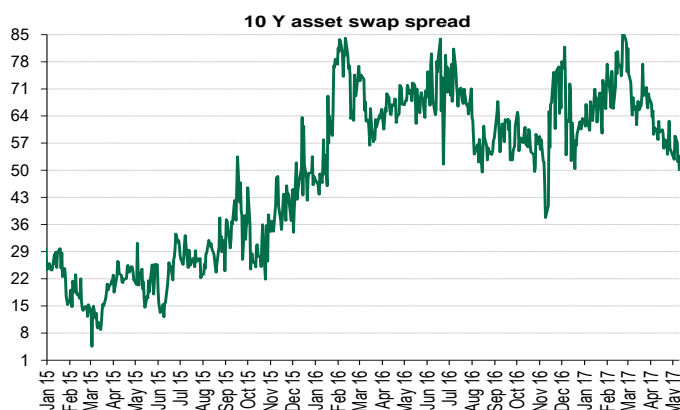
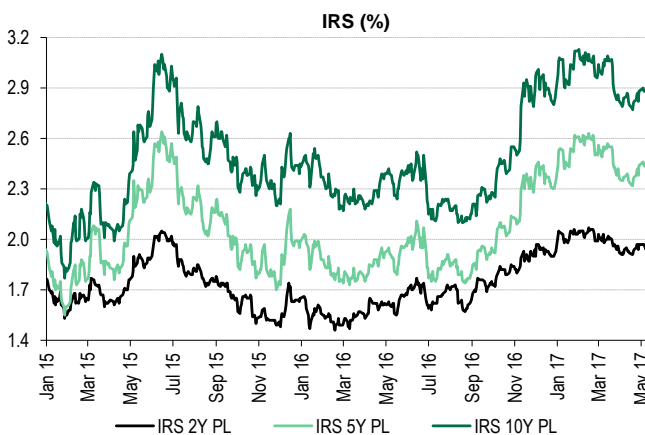
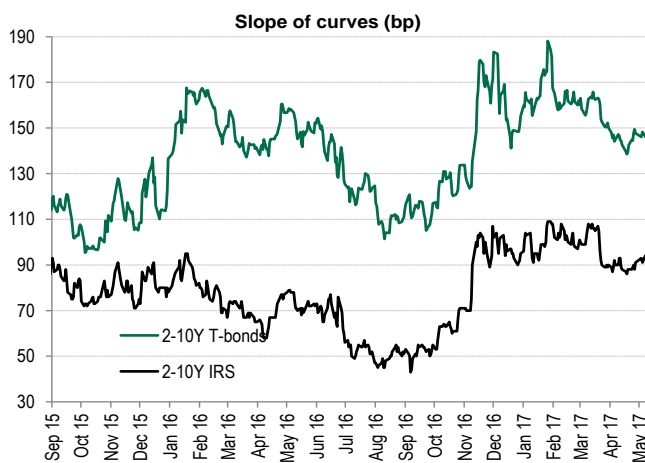
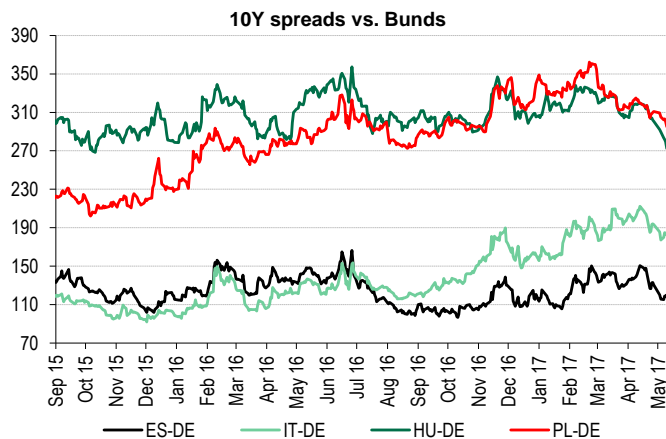
Muted market reaction to the outcome of the French elections suggests that some correction after the recent euro's rally could be observed. This could particularly be the case if the US data scheduled this week surprise to the upside. The interest rate market seems to have already priced much of the June Fed 25bp rate hike but EURUSD looks too high when we consider this factor (it is higher than in March when the FOMC raised rates this year).

### Capital flows and higher oil price boost CEE currencies

Wednesday's Czech and Hungarian April CPI data (at 2.0% y/y and 2.2% y/y, respectively) were below the consensus. Inflation fell mainly on lower food prices. The Czech central bank (CNB) expected April's CPI at 2.2% y/y and a further rise to 2.6% y/y in the coming months. The koruna lost after the figure was released but later in the week the currency managed to recover and gained for the second week in a row. EUR/CZK has neared the bottom it reached in reaction to the Czech central bank decision to abandon the 27.0 floor. When we look at the forint's performance (EUR/HUF fell to 310, its lowest since early April) it seems that the CEE currencies have ignored the lower CPI figures that warrant longer period of eased monetary policy in the Czech Republic and Hungary and gained thanks to a significant bond strengthening seen in the region.

The ruble gained as well, boosted by the rebound in oil price. As a result, USDRUB fell to 57, neutralizing roughly a half of the upside leg that has started in late April.

## Interest rate market – Polish bond yields might increase



### Falling yields

▪ Last week, domestic interest rate market strengthened significantly. On a weekly basis, yields decreased with 10Y benchmark falling below 3.30% on Friday. Polish yield curve flattened and 2-10Y spread for T-bonds dropped by 10bp to 136bp, lowest level since US elections last year. Trading volume on the bond market was very thin.

▪ IRS market remained stable in Poland while Hungarian IRS rates shifted down across the board by c7bp.

▪ Core market lost somewhat as investors sought for risky assets after victory of pro-European Macron in French elections. 10Y PL-DE spread fell below 300bp thanks to the global mood improvement.

▪ 1-12M WIBORs did not change and the FRA rates ended the week virtually flat waiting for strong set of Polish macro data this week.

### Continuing dovish rhetoric from MPC

▪ This week, investors will focus on the MPC meeting. It is broadly expected that the Council keeps NBP's rates unchanged. In our view, the MPC is likely to continue its dovish rhetoric after the Friday's April CPI data and although 1Q17 GDP data can accelerate above the market consensus. As a result, the short-term rates should stay firm this week.

▪ We expect both Polish and core markets yields to increase soon due to gradual shift towards tighter monetary policy by the Fed and improvement of macro data in Euro zone. Better-than-expected data in the US that would confirm interest rate hikes later this year might put pressure on Bund yields. In our view, positive momentum in Polish bond market might fade this week and coming bond auction can be a trigger for a mood change (details below).

### First bond auction in May

▪ March saw a significant rise in non-residents' holdings of Polish bonds. However, the nominal value of their portfolio is nearing all-time high, suggesting there could be limited room for more purchases, especially when the Fed is on track to hike rates and the ECB may soon start to prepare the market for a gradual exit from its asset purchase programme. Also, please note that when we look at this year's bond auctions, the bid/cover ratio is in a clear downtrend, from 2.58 in January to 1.22 in April, which implies that more disappointments (like after the last auction) are possible and a bond market adverse reaction may finally hit the zloty-denominated bond market.

▪ The Finance Ministry announced its plans to issue bonds for PLN20-30bn in 2Q17 at 5 standard auctions and 1 switch auction. On 18 May bonds OK0419 / PS0422 / WZ1122 / WZ0126 / DS0727 will be offered with expected supply of PLN3-5bn.

This publication has been prepared by Bank Zachodni WBK S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Bank Zachodni WBK S.A., its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Bank Zachodni WBK S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Bank Zachodni WBK S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

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 87, email [ekonomia@bzwbk.pl](mailto:ekonomia@bzwbk.pl)