WEEKLY ECONOMIC UPDATE

28 August – 3 September 2017

Last week, the global market sentiment was fairly positive as the European data looked very strong. However, bonds, stocks and currencies did not move much as investors were waiting for the comments of central bankers that gathered at the Jackson Hole symposium. EURPLN neared the lower end of 4.25-4.30 range on the positive news on the 2018 budget and economic data.

At the time of writing, Mario Draghi did not speak at the Jackson Hole while Janet Yellen did not make any remarks on the monetary policy and the market is still waiting for any guidance on the outlook for the action two main central banks may take. Like we suggested last week, we would expect some hints that the era of ultra-loose monetary policy is ending, like it happened in Sintra. This could weigh on the EM currencies and bonds. The outcome of the central bankers meeting is likely to have a major impact on the market at least in the first days after the weekend. Later on, the US data may attract attention as the next FOMC meeting accompanied by the updated CPI and GDP forecasts and Janet Yellen press conference is nearing (September 20).

Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	LAST VALUE
		MONDAY (28 August)					
		No important data releases					
		TUESDAY (29 August)					
16:00	US	Consumer confidence index	Aug	pts	120	-	121.1
		WEDNESDAY (30 August)					
14:15	US	ADP report	Aug	k	185	-	178
14:30	US	Preliminary GDP	Q2	% q/q	2.7	-	1.2
		THURSDAY (31 August)					
10:00	**PL**	**GDP**	**Q2**	**% y/y**	**3.9**	**3.9**	**4.0**
10:00	**PL**	**Fixed investments**	**Q2**	**% y/y**	**2.5**	**2.1**	**-0.4**
10:00	**PL**	**Private consumption**	**Q2**	**% y/y**	**4.5**	**4.7**	**4.7**
11:00	EZ	Flash CPI	Aug	% y/y	1.4	-	1.3
14:00	**PL**	**Flash CPI**	**Aug**	**% y/y**	**-**	**1.7**	**1.7**
14:30	US	Consumer spending	Jul	% m/m	0.4	-	0.1
14:30	US	Personal income	Jul	% m/m	0.3	-	0.0
14:30	US	Initial jobless claims	week	k	-	-	234
16:00	US	Pending home sales	Jul	% m/m	0.6	-	1.5
		FRIDAY (1 September)					
3:45	CN	PMI – manufacturing	Aug	pts	51.0	-	51.1
9:00	**PL**	**PMI – manufacturing**	**Aug**	**pts**	**-**	**54.0**	**52.3**
9:00	CZ	Preliminary GDP	Q2	% y/y	4.5	-	3.0
9:55	DE	PMI – manufacturing	Aug	pts	59.4	-	58.1
10:00	EZ	PMI – manufacturing	Aug	pts	57.4	-	56.6
14:30	US	Non-farm payrolls	Aug	k	180	-	209
14:30	US	Unemployment rate	Aug	%	4.3	-	4.3
16:00	US	ISM – manufacturing	Aug	pts	56.4	-	56.3
16:00	US	Michigan index	Aug	pts	97.3	-	93.4

Source: BZ WBK, Reuters, Bloomberg

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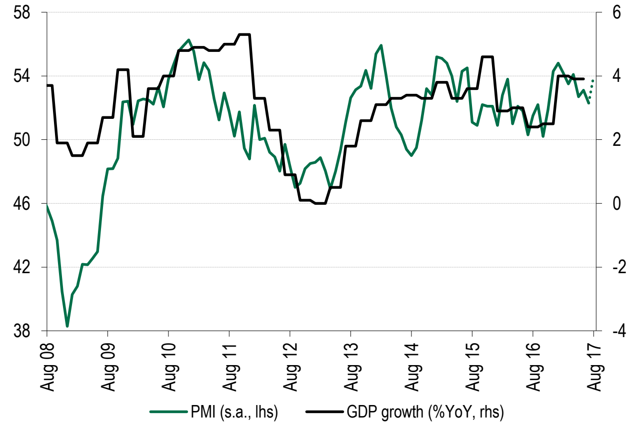
What's hot next week – August inflation and PMI, GDP details

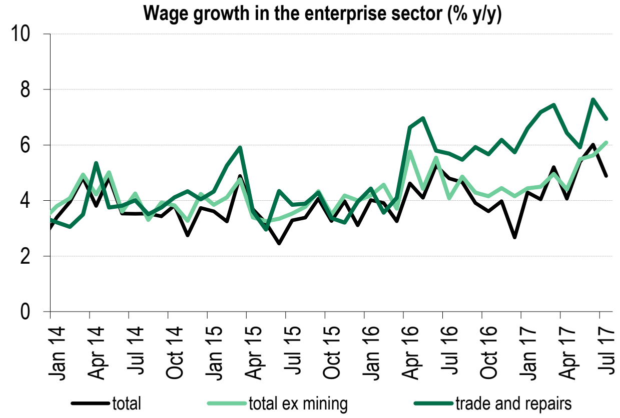
Manufacturing PMI vs. GDP growth



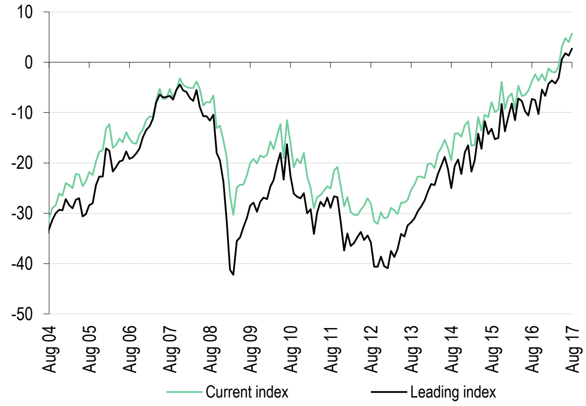
- Business optimism in the Euro zone increased in August and we expect it will translate to a rebound of Polish PMI. The index was recently under influence of erratic domestic orders, leading to several negative surprises, and bringing it out of sync with the rebound in main trading partner economies.
- Flash August CPI could be similar to the July outcome of 1.7% y/y. There was an almost 2% m/m rebound of fuel prices and butter prices continued to rise, but in our view some pressure on fruit and vegetable prices has already come off. In general we still see CPI rising until November, getting to c2% y/y, before a strong negative base effect sends it 0.5pp lower.
- The detailed 2Q GDP data are a highly awaited publication. There is little doubt private consumption was strong in this period, but it seems investments were still low, despite highly increased activity reported in the construction sector.

Last week in economy – Plenty of optimism, low budget deficit

Wage growth in the enterprise sector (% y/y)



Consumer sentiment



- Domestic consumer sentiment rose to the all-time high in August, fueled by rising propensity to buy big-ticket items and record-high assessment of households' financial standing. The business sentiments indicators for manufacturing and retail sales remained on upbeat levels. Construction and services sectors indices rose further in August, which suggests that GDP growth might be close to the 2Q print.
- Unemployment rate stayed at 7.1% in line with the Ministry of Labour and stat office (GUS) estimate and the market consensus. However the LFS-based unemployment surprised on the upside with a 2Q reading for the unemployment rate of 5% instead of the expected 4.8%. That said, the number of unemployed was the lowest on record, while the employment rate (the employed-to-population ratio) was the strongest on record. The participation rate increased significantly in 2Q and at 56.7% was the highest since 2001.
- The detailed data on enterprise wages which decelerated from 6% y/y to 4.9% in July showed that once the highly distortive mining sector is excluded, there is a clear uptrend in the pace of wage growth – an element that seemed to be missing despite a high level of tension in the very tight labour market.
- 2018 central deficit was penciled in at PLN41.5bn as the government entered the final stage of talks before the budget draft goes to parliament. Given the favorable external environment, domestic economic performance, and strong fiscal performance in 1H of the year a lower value than the PLN59.3bn planned for 2017 is not a surprise. However the government pushed higher the broader, general government deficit for 2018. This year's update of the Polish Convergence Programme had 2.5% GDP, while the PM mentioned 2.7%.

Quote of the week – Flat interest rates help maintain economic balance

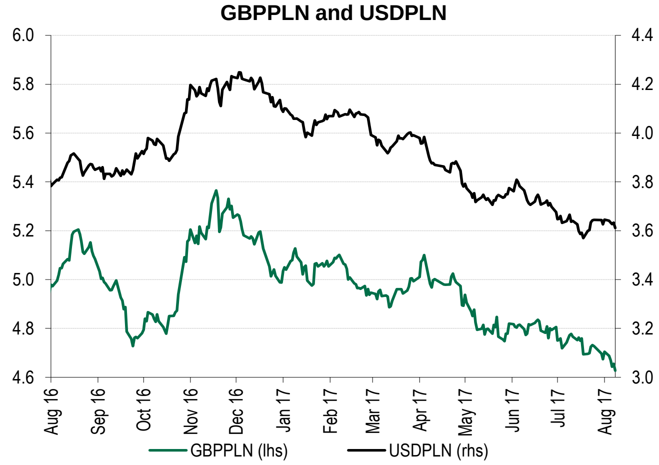
MPC minutes from July meeting, 24 August, NBP

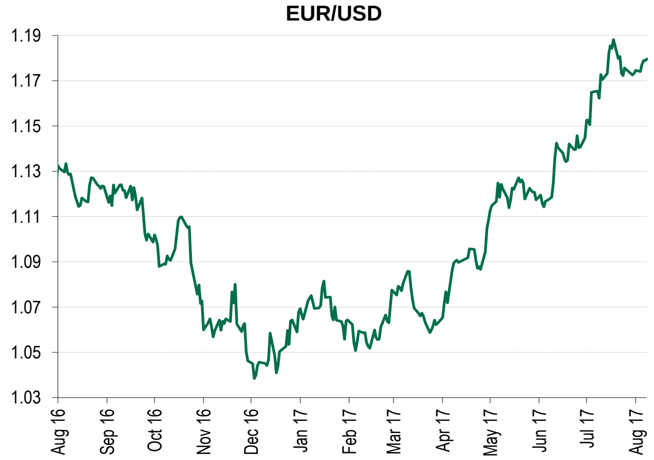
The majority of the Council members assessed that stabilisation of the NBP interest rates was likely in the following quarters, since – given the available information – it had been helping to keep the Polish economy on a sustainable growth path and maintain macroeconomic balance. In addition, the majority of the Council members assessed that the stabilisation of the interest rates would support the expected recovery in investment.

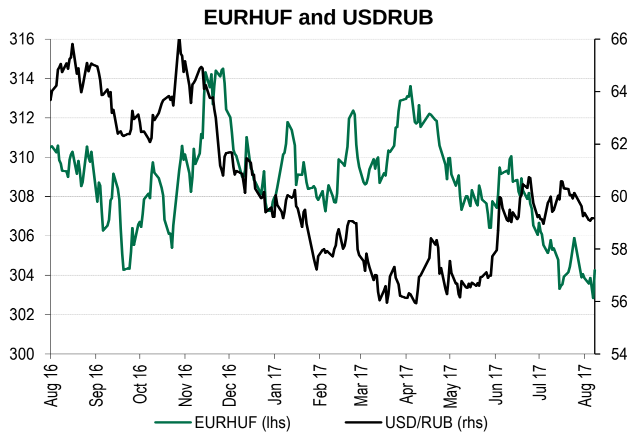
In the opinion of certain Council members (…) decisions on the level of interest rates should takeinto account in particular the impact of negative real interest rates on lending, asset prices and savings rate in the Polish economy.

The minutes did not indicate any material change of the balance of views inside the Council. The majority still stresses no imbalances in the economy, despite the very low unemployment rate and the buildup of pressure on the labour market. The hawks remained a minority, but some of their arguments might gain some traction in light of the recent data like a possible drop of saving rate suggested in the NBP report on households' financial situation, a m/m drop of household deposits in July (that was only the second time in the last 9 years that this item declined m/m in July). That said we remain of the view that rates are going to stay unchanged in Poland for at least one more year.

Foreign exchange market – Still waiting for a trigger







EURPLN holds the range

- Last week, the zloty gained vs main currencies thanks to the fairly positive global market sentiment and supportive signals from Poland (see page 2). EURPLN fell to 4.25 and was testing the lower end of the 4.25-4.30. At the same time, USDPLN eased to 3.58 from c3.65, GBPPLN fell to 4.60 from 4.69 while CHFPLN dropped below 3.74 from just below 3.78.
- At the time of writing, Mario Draghi did not speak at the Jackson Hole while Janet Yellen did not make any remarks on the monetary policy and the market is still waiting for any guidance on the outlook for the action two main central banks may take. Like we suggested last week, we would expect some hints that the era of ultra-loose monetary policy is ending, like it happened in Sintra. This could weigh on the Polish zloty.
- After the weekend, global events shall remain the core driver for the zloty. Next week, we will learn important data from the US – nonfarm payrolls, ISM index and consumer confidence index.
- Last week, Polish events had a positive impact on the zloty. In the coming days, we will learn detailed 2Q GDP data, flash CPI and manufacturing PMI for August. In our view, these figures are rather unlikely to have any persistent impact on the zloty.
- Taking a broader glance on the market, EURPLN holds in the 4.25-4.30 range waiting for a trigger.

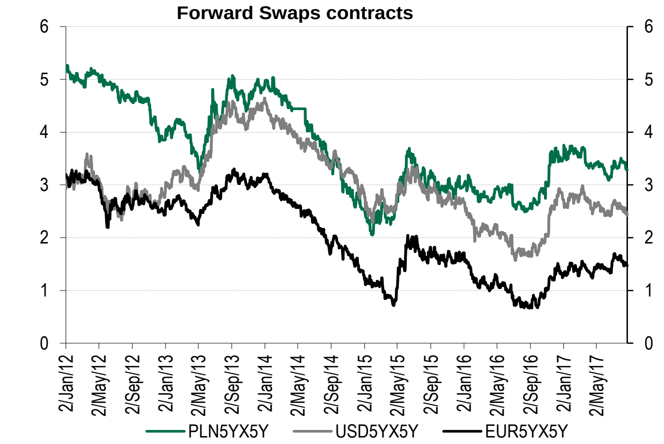
Central bankers and US data key

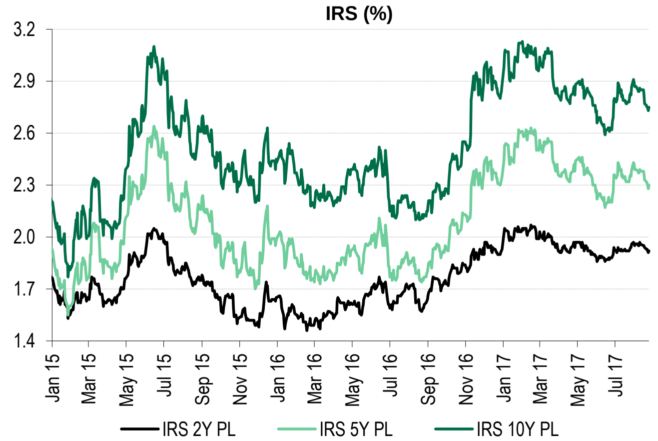
- EUR/USD was long stable and only at the end of the Polish session the exchange rate jumped to 1.186. In her comment, Janet Yellen made no remarks on the monetary policy outlook which looks to have been disappointing for those who were expecting hawkish rhetoric.
- The outcome of the central bankers meeting is likely to have a major impact on the exchange rate at least in the first days after the weekend. Later on, the US data may attract attention as the next FOMC meeting accompanied by the updated CPI and GDP forecasts and Janet Yellen press conference is nearing (September 20).
- In the short term, we think the recent EURUSD rally looks overdone and we think the exchange rate could ease towards 1.14 at the end of the year before resuming the upside trend.

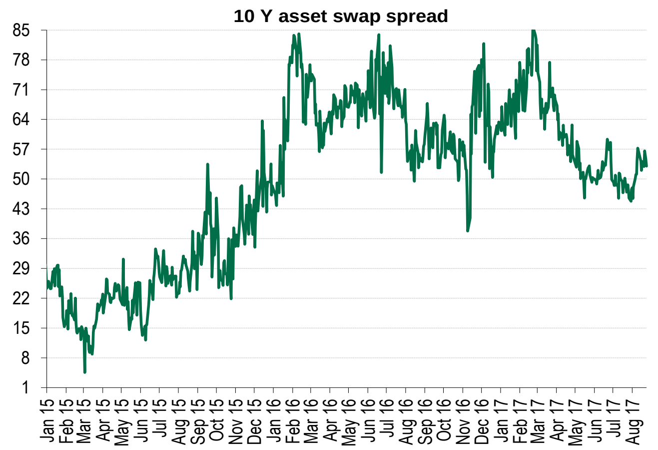
MNB spurs HUF volatility

- Last week, the forint was the most volatile CEE currency. EURHUF first dropped below 302 reaching its lowest level for two years after the Hungarian central bank (MNB) left interest rates unchanged with the main rate at 0.90%. MNB repeated that the Council will stand ready to ease monetary conditions, if needed, but this did not weigh on the forint. Only later in the week, the MNB explicitly said it is planning to ease monetary policy further and this wording pushed EURHUF up above 304.
- At the same time, EURCZK stayed around 26.1 and USDRUB remained near 59.

Interest rate market – US data in the spotlight







IRS rates slid despite high readings of leading indicators

- On the data front, the Euro zone has surprised on the upside over the last week. Germany manufacturing PMI flew to a level last time seen in spring and other Euro zone PMIs tried to follow. Only ZEW indices disappointed slightly. The euro IRS rates were sliding despite the excellent macroeconomic data. The market might have still been negatively affected by geopolitical risk and rising EURUSD. Investors were digesting the current data and news but keeping their minds focused on the Jackson Hole event.
- The domestic IRS rates have followed the same way. 10Y IRS rates continued the previous week trend and dropped to 2.74% from 2.77%, hit the mid July local low. 5Y PLN IRS followed the same path and decreased to 2.29% from 2.32%, and 2Y IRS went down by 1bp to 1.92%. On the credit risk market, we observed a different story: the 5Y-10Y segment remained stable while the 2Y asset swap spread reached a new local low, -17bp. The excellent consumer and business confidence data released last week as well as MPC minutes were completely ignored by the domestic IRS and credit risk market players. The FRA and Wibor rates still stayed insensitive for the data and news.

US data in the spotlights

- We expect some correction after the Jackson Hole Symposium which ends on Saturday. In our opinion any signal of unwinding of ultra-easy monetary policy will likely negatively affect domestic interest rates market. We think that some support for the rates-up scenario will be generated by non-farm payrolls and University Michigan data from USA. Additionally, flash GDP data from Poland and final Euro zone August PMI readings should convince investors to trim their long domestic bond positions and incite market to push the IRS rates up on the long end of the curve.

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