

# WEEKLY ECONOMIC UPDATE

18 – 24 June 2018

The previous week started with positive moods, given that the outcome of USA – North Korea meeting lowered the geopolitical risks. Later, markets were eyeing the central banks decisions, with Fed delivering a broadly expected 25bps hike and suggesting two more this year, and ECB announcing end of QE at the year-end and no rate hikes throughout summer 2019 or beyond. ECB was clearly the most important market mover, as the market interpreted its message as dovish due to the conditionality of policy tightening. This undermined the euro and supported debt markets. BoJ followed suit saying that it will not hurry with abandoning the highly accommodative monetary policy. In Poland, current account data surprised to the upside, while inflation was in line with the flash reading.

Next week there are some important data from Poland on the agenda, including industrial output, retail sales and labour market data. We expect these numbers to confirm that the domestic demand remains strong, but external demand may be somewhat weakening. Still, these readings are unlikely to move the Polish market, given MPC's strong dedication to dovish bias. Global calendar is rather light: we will get to see flash PMIs from Europe and they are likely to suggest a further slowdown. On Monday, central bankers' convention in Sintra starts and some interesting comments on monetary policy are likely to pop up. Polish national football team is to play with Senegal, we are expecting a tough game, but a slim win. In our view, the zloty will remain stable for the better part of the next week given lack of important global events. Bond markets are likely to strengthen on the back of last week's central bank decisions.

## Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST	
				MARKET	BZWBK	VALUE	
<b>MONDAY (18 June)</b>							
10:00	PL	Employment in corporate sector	May	% y/y	3.8	3.8	3.7
10:00	PL	Average Gross Wages	May	% y/y	7.0	7.6	7.8
<b>TUESDAY (19 June)</b>							
10:00	PL	Sold Industrial Output	May	% y/y	3.8	3.9	9.3
10:00	PL	Construction Output	May	% y/y	17.2	20.8	19.7
10:00	PL	PPI	May	% y/y	2.6	2.7	1.1
14:00	HU	Central Bank Rate Decision		%	0.9	-	0.9
14:30	US	Housing Starts	May	% m/m	1.9	-	-3.7
17:00		Poland – Senegal (World Cup game)		goals	-	2:1	-
<b>WEDNESDAY (20 June)</b>							
16:00	US	Existing Home Sales	May	% m/m	1.8		-2.5
<b>THURSDAY (21 June)</b>							
10:00	PL	Retail Sales Real	May	% y/y	7.4	7.3	4.0
14:30	US	Initial Jobless Claims	week	k	223	-	218
14:30	US	Index Philly Fed	Jun	pts	25.5	-	34.4
<b>FRIDAY (22 June)</b>							
09:30	DE	Germany Manufacturing PMI	Jun	pts	56.1	-	56.9
09:30	DE	Markit Germany Services PMI	Jun	pts	52.5	-	52.1
10:00	EZ	Eurozone Manufacturing PMI	Jun	pts	55.0	-	55.5
10:00	EZ	Eurozone Services PMI	Jun	pts	53.7	-	53.8
14:00	PL	Money Supply M3	May	% y/y	5.9	5.9	5.7

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 Luziński +48 22 534 18 85

Grzegorz Ogonek +48 22 534 19 23

Konrad Soszyński +48 22 534 18 86

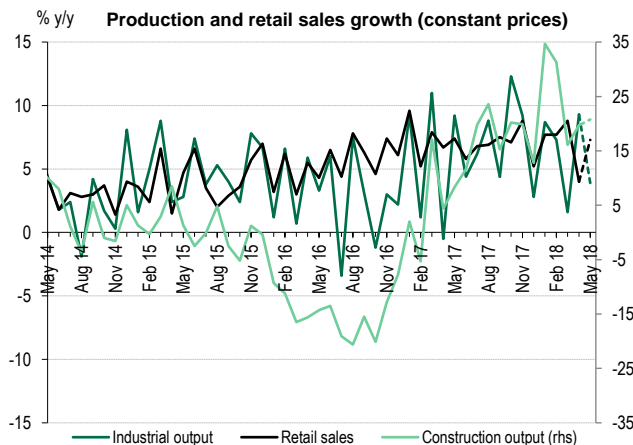
Marcin Sulewski +48 22 534 18 84

### TREASURY SERVICES:

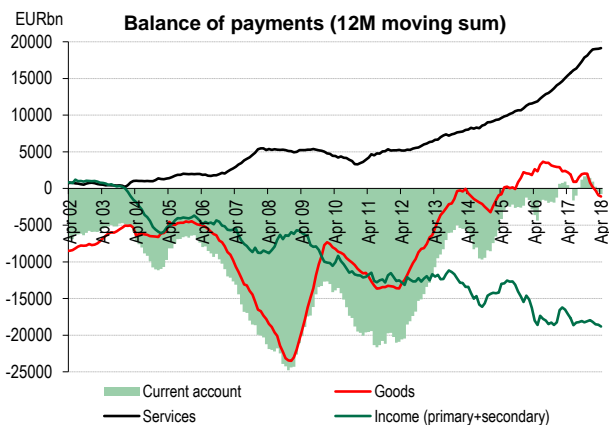
Poznań +48 61 856 5814/30

Warszawa +48 22 586 8320/38

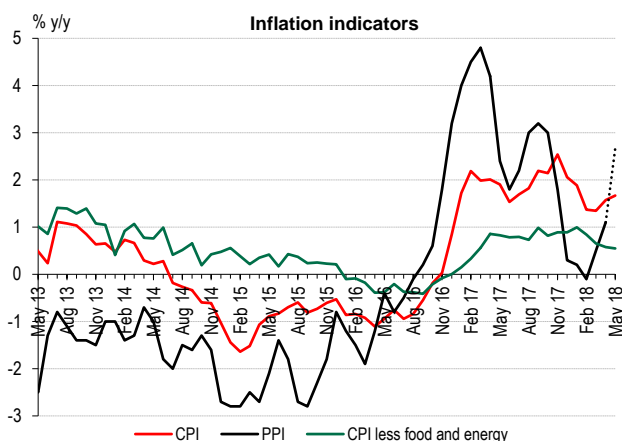
Wrocław +48 71 369 9400

**What's hot next week** – Real data on activity will be mixed

- This week we will get to see key data on real activity. Working day effect was negative in May (-1 versus +1 in April) and this is likely to weigh on industrial output, which will slow down to 3.9% y/y from 9.3% in April, in our view. In the months to come, industry will be under pressure of weaker economic climate in the eurozone.
- Construction will continue to show a strong, double-digit result, but in our view, it will be gradually slowing down in the months to come.
- We are expecting the retail sales to rebound to 7.3% y/y in May after the weak April (4.0% y/y), driven mostly by a normalisation in food sales after the distortions due to the timing of Easter. In our view, consumer demand will remain strong for the remainder of the year.
- Labour market data will continue to show strong prints, with employment accelerating to 3.8% y/y and wages rising by 7.6% y/y.

**Last week in economy** – Current account surprised to the upside

- In April, Poland's C/A balance amounted to -€21mn, significantly higher than the -€250mn expected by us and the market. The main source of the surprise was the goods trade balance, which reached +€314mn (we forecasted -€20mn). The nominal value of exports was fairly in line with our forecast (€17.3bn), while imports disappointed and showed €16.8bn. In annual terms, exports rose 8.6% and imports 9.9%. We expect the deceleration trend to continue this year, particularly on the exports side; although there could be a spike in the growth rate of trade turnover in the summer months. We assume y/y imports growth might top exports growth in all the remaining months of this year. Services balance rose to €1.7bn, but the revenue side decelerated further in y/y terms, from 6.4% to 6.0%. 12-month current account balance deteriorated to -0.2% of GDP in April from -0.1% of GDP in March.



- The final May CPI confirmed that inflation rose to 1.7% y/y from 1.6% y/y. Statistics Poland revised the monthly consumer prices change to +0.2% from +0.1%. CPI rise would not be possible without higher fuel prices that jumped 5.6% m/m. At the same time, the contribution of food prices to the headline figure decreased by 0.3pp vs April. The healthcare and telecomm services are the core CPI components where prices rose more than we expected. Prices of insurance continued to fall (-3.6% m/m). Core inflation ex food and energy prices remained at 0.6% y/y in May, even though we saw some downward risk after the flash data. In the upcoming months we are expecting a rise of core CPI towards c1.4% in 4Q18. Headline CPI is likely to surpass 2% y/y in the months to come given the high oil prices, but in 2H18 the high base effect will bring it down to 1.5% again.

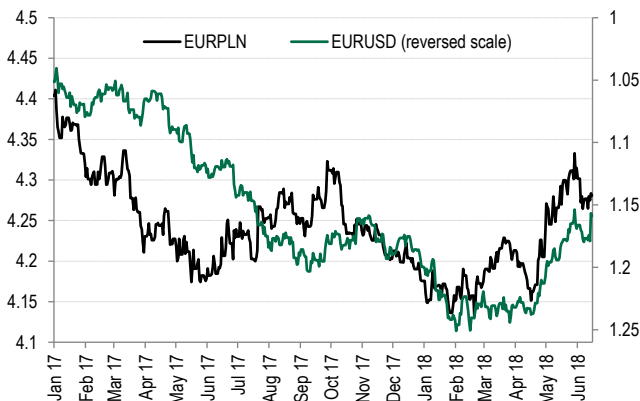
**Quote of the week** – 2019 budget assumptions seem realistic**Government's 2019 budget assumptions, PAP, 12 June 2018**

Budget macro assumptions for 2019 include GDP growth at 3.8%, CPI growth at 2.3%, wage growth in the national economy at 5.6% and at 6.1% in the corporate sector. Average employment in the national economy is expected at 10,709 thousand, registered unemployment rate is expected at 5.6% at the year-end. The draft budget does not envisage wage valorization in the public sector, with employment at 559k.

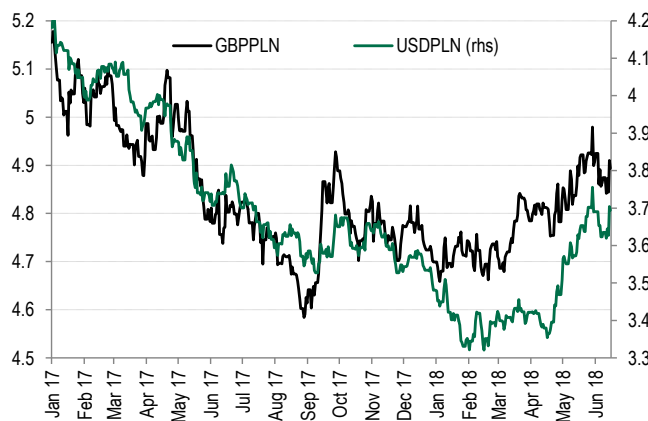
In our view, the government's macro assumptions for 2019 budget are more or less realistic. The government's crucial figures are slightly above our forecasts (we anticipate GDP growth at 3.5% and inflation at 2.2% next year), but this pinch of optimism is balanced by the conservative assumptions about wage growth (our forecasts are c7%). Positive surprise in the wage bill would yield tangible benefits to the budget, as we saw in 2017 and first months of 2018 (in January-April 2018, the government transfers to Social Security Fund to cover the Fund gap were lower by 40% y/y). Therefore, we do not see a high risk in the presented budget assumptions.

## FX and FI market – Waiting for flash PMIs

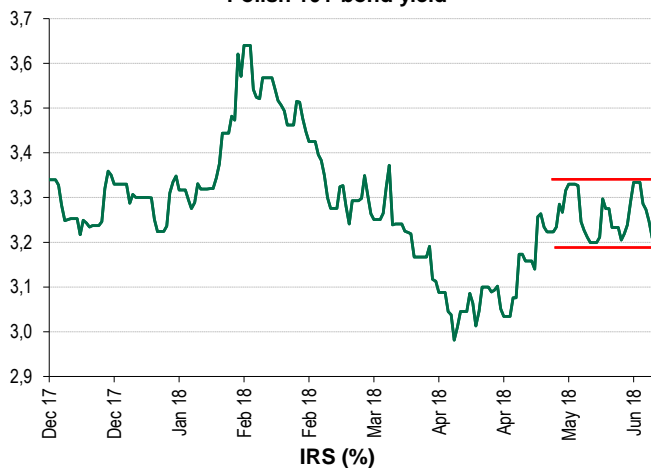
### EURPLN and EURUSD



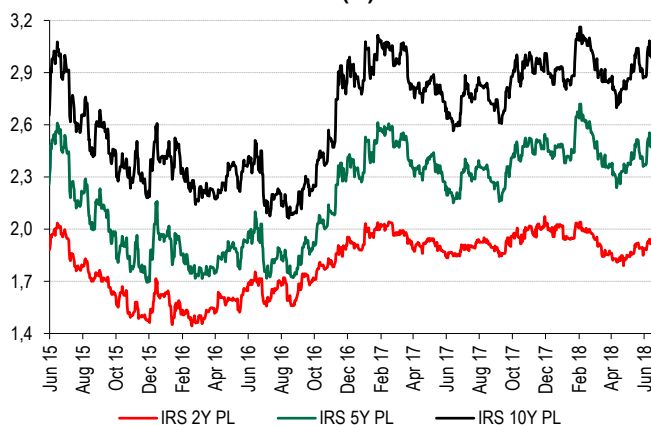
### GBPPLN and USDPLN



### Polish 10Y bond yield



### IRS (%)



### Zloty stable vs euro, weaker vs dollar, bonds gain

▪ **FX** Last week, the zloty remained fairly stable vs the euro and lost vs the greenback as EURUSD plummeted after the ECB meeting. EURPLN was hovering around 4.27 and at the time of writing the weekly trading range was the lowest since early November 2017. USDPLN rose above 3.70 from 3.60 on lower EURUSD.

▪ **FI** Polish bond yields and IRS fell with the biggest changes seen on the long ends of the curves. The down move was fueled by gradual strengthening observed on the core markets that accelerated after the dovish signals from the ECB. As a result, the 10Y IRS fell c7bp to 3.0%, the 5Y IRS by 6bp to 2.49% and the 2Y stayed flat near 1.95%.

### What to watch for next week

▪ Next week we will see Poland's June industrial output and retail sales data. Our forecasts are a touch above the consensus but this is likely to be a non-event for the market as the MPC maintained its dovish bias at the last meeting. In our view, the global events should be of a particular importance.

▪ It seems that after the ECB meeting, this week the market may be driven by expectations for next the European data. Investors are awaiting flash June euro zone PMIs on Friday and the recent figures have been pretty disappointing. Monthly hard data confirmed the growth slowdown in 2Q18 vs 1Q18 and even the ECB has already cut its 2018 GDP forecasts. Now it is crucial to see if and at what pace the growth deterioration continues.

▪ Central bankers meet in Sintra early next week but this event is rather unlikely to deliver any fresh market sensitive news after this week's ECB and FOMC decisions.

▪ The US data should also be fairly neutral as even adding one more Fed rate hike to the 2018 calendar failed to trigger any sustainable and meaningful market reaction.

### Market implications

▪ **FX** We expect EURPLN to remain roughly stable around 4.27 for the better part of the week. Recent remarks from the central banks did not cause any concern so investors could be in pretty good moods waiting for the flash June PMIs. Should the market logic work the same way it did in the previous months, poor readings might push EURUSD down, which, in turn, may generate an upside pressure on EURPLN at the end of the week.

▪ **FI** At the same time, next data showing that the scenario of the economic growth in the euro zone may be less optimistic than expected until recent could be supportive for European bonds.

▪ Until this week, Polish 10Y bond yield has been holding in a narrow 3.20-3.35% range since mid-May and the lower end of this consolidation was tested after the ECB decision. Dovish rhetoric of the central bank and supportive internal factors should help bond to recover at least part of losses suffered since mid-April.

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)