EYEOPENER

25 January 2017

MPC will start mulling rate hikes in 2018 at the earliest

- **Data from Europe better than expected**
- **Glapiński: rate hikes no earlier than in 2018 and only if economy "revives vigorously"**
- **Zloty still waiting for the impulse**
- **Polish debt slightly stronger**
- **Today the registered unemployment rate in Poland, Ifo index in Germany**

Yesterday's PMIs for German and euro zone manufacturing surprised to the upside, confirming the signal sent by the ZEW index last week. US data were only slightly weaker than expected, so they failed to undermine the positive market moods. Changes on the FI, FX and stock markets were not considerable. The UK market was different, as the UK Supreme Court ruled that the British Parliament has to approve the Brexit procedure, but at the same time it decided that the government does not have to consult parliaments of Scotland, North Ireland and Wales. This ruling does not seem to change scenario for the United Kingdom significantly, as already last week the PM May announced that Brexit will be voted in the parliament.

Yesterday EURUSD was hovering at an elevated level near 1.075 reached after Friday's speech of Donald Trump. The data from Europe surprised to the upside, but did not trigger any major reaction of the exchange rate. It seems that today's Ifo should not affect EURUSD, which may stay stable ahead of important US data releases planned for the upcoming days.

EURPLN did not change much yesterday and remained close to 4.37. USDPLN was near 4.07. USDRUB was hovering near to 59.2, while EURHUF close to 310. The Hungarian central bank kept monetary policy parameters on hold, but reiterated that further non-standard actions can be used if necessary. Rhetoric of the central bank did not change much versus the last meeting, so neither the decision nor the bank's statement affected the forint. Yesterday's better-than-expected data from Europe did not affect the CEE currencies strongly. Today we will see the January's Ifo for Germany, but in our view it will not cause any crucial changes, similarly to the Polish Statistics Office's Bulletin. In our view, EURPLN will be awaiting a stronger impulse.

On the domestic interest rate market Tuesday brought some strengthening – IRS curve moved down by no more than 2bp, while bond curve by 1bp. Some changes were also observed on the core and peripheral markets. Today's data should not trigger any important moves and it seems that more considerable changes are possible in the following days under impact of US signals.

NBP governor Adam Glapiński said in interview with the Polish Press Agency (PAP) that the MPC could start mulling interest rate hikes no earlier than in 2018, but if the economy does not gain steam significantly the rates may stay unchanged leading to lower real interest rates amid rising inflation. Glapiński believes that pace of the GBP growth will accelerate to at least 3% this year. In his view, economic growth above 4% would be "inflationary". The opinion of the NBP governor confirms, in our view, that the interest rates should stay unchanged this year while any hikes in 2018 will largely depend on the economic activity.

Fitch analyst Arnaud Louis said yesterday that in 2017 investment in Poland should accelerate thanks to EU funds. He stressed that the agency expects fiscal deficit below 3% of GDP in 2017 and higher outcome would be credit-negative. Deterioration of business climate under impact of political situation would be also be negative for the rating, but so far the agency did not witness such a development.

Chief economist of the EBRD Sergei Guriev said yesterday that it may be difficult for Poland to keep deficit below 3% of the GDP amid lower retirement age, higher interest rates worldwide or the impact of Brexit. In our base case scenario we do not expect breaking this threshold which this year will be possible thanks to, amid others, rising inflation and reacceleration of the pace of the GDP growth.

Today at 10:00CET the stat office will release data on the registered unemployment in December. We think the rate rose to 8.3% at the year-end which is in line with the Labour Ministry's estimate. This could be the lowest reading in December since 1990. We are expecting the unemployment rate to go further down in 2017, yet not as quickly as in 2016. The stat office will release also its monthly bulletin, so we will get to know a bit more about the surprising deceleration of wage growth in December and seasonally adjusted economic sentiment indexes for January.

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FX market

Today's opening

EURPLN	4.3689	CZKPLN	0.1617
USDPLN	4.0741	HUFPLN*	1.4075
EURUSD	1.0724	RUBPLN	0.0689
CHFPLN	4.0673	NOKPLN	0.4876
GBPPLN	5.0955	DKKPLN	0.5875
USDCNY	6.8788	SEKPLN	0.4601

*for 100HUF

Last session in the FX market 24/01/2017

	min	max	open	close	fixing
EURPLN	4.363	4.376	4.369	4.371	4.372
USDPLN	4.064	4.088	4.086	4.075	4.0708
EURUSD	1.069	1.076	1.070	1.073	-

Interest rate market 24/01/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0418 (2Y	1.95	-1	5.01.2017	OK0419	2.324
PS0421 (5Y)	2.91	-1	5.01.2017	PS0422	3.159
DS0726 (10Y)	3.69	1	5.01.2017	DS0727	3.757

IRS on the interbank market**

Term	PL %	PL Change (bps)	US %	US Change (bps)	EZ %	EZ Change (bps)
1L	1.80	0	1.24	1	-0.22	0
2L	2.03	1	1.49	2	-0.16	1
3L	2.20	1	1.69	2	-0.08	1
4L	2.36	2	1.84	3	0.03	2
5L	2.52	2	1.97	3	0.15	2
8L	2.84	1	2.23	4	0.53	3
10L	3.01	0	2.34	4	0.78	5

WIBOR rates

Term	%	Change (bps)
O/N	1.65	0
T/N	1.65	0
SW	1.60	0
2W	1.63	0
1M	1.66	0
3M	1.73	0
6M	1.81	0
9M	1.83	0
1Y	1.85	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.74	0
3x6	1.75	0
6x9	1.80	0
9x12	1.89	0
3x9	1.84	0
6x12	1.91	0

Measures of fiscal risk

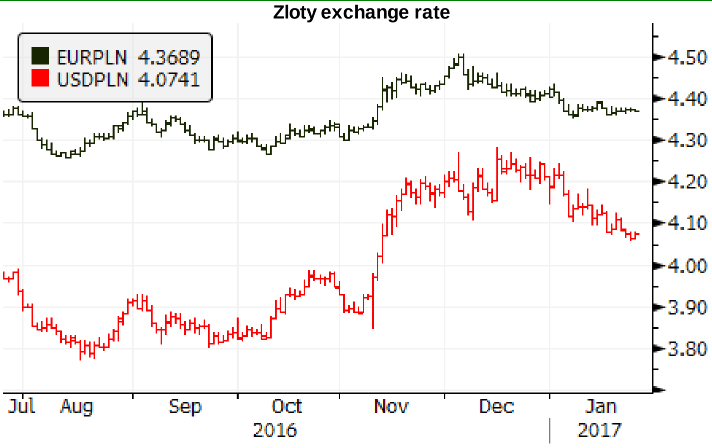
Country	CDS 5Y USD Level	CDS 5Y USD Change (bps)	10Y spread* Level	10Y spread* Change (bps)
Poland	71	-1	3.27	0
France	39	0	0.49	0
Hungary	116	1	3.05	-1
Spain	75	1	1.09	-1
Italy	156	4	1.63	0
Portugal	270	-3	3.42	-1
Ireland	64	1	0.63	0
Germany	20	0	-	-

* 10Y treasury bonds over 10Y Bunds

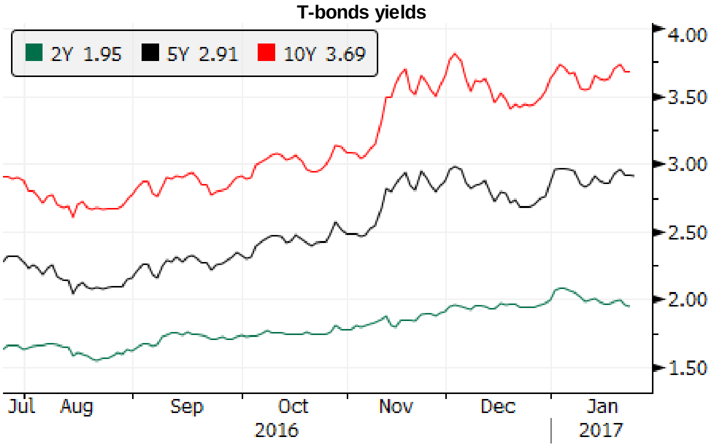
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

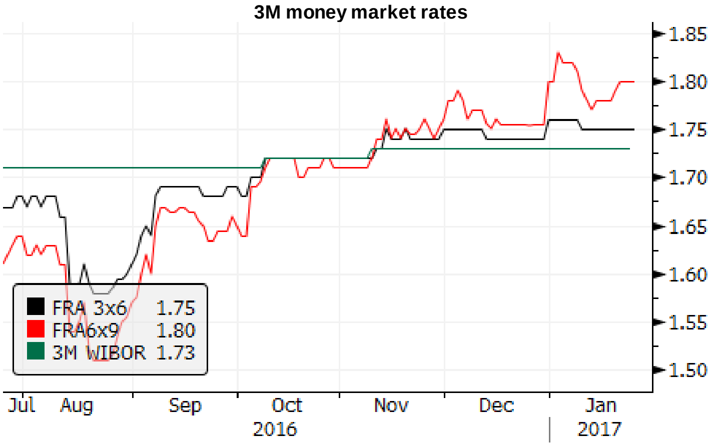
Zloty exchange rate



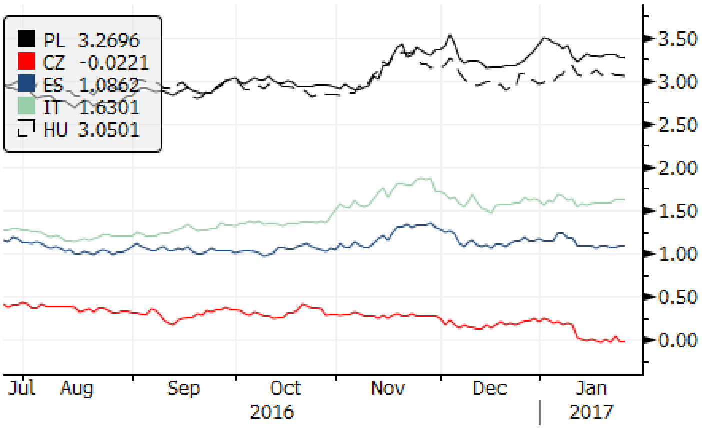
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE*
		FRIDAY (20 January)						
		No important data releases						
		MONDAY (23 January)						
11:30	**PL**	**T-bonds auction**						
		TUESDAY (24 January)						
9:30	GE	Flash PMI – manufacturing	Jan	pts	55.4	-	56,5	55.6
10:00	EZ	Flash PMI – manufacturing	Jan	pts	54.8	-	55,1	54.9
14:00	HU	Central bank decision	Jan	%	0.90	-	0,90	0.90
16:00	US	Home sales	Dec	m	5.50	-	5.49	5.65
		WEDNESDAY (25 January)						
10:00	**PL**	**Registered unemployment rate**	**Dec**	**%**	**8.3**	**8.3**		**8.2**
10:00	GE	Ifo index	Jan	pts	111.3	-		111.0
		THURSDAY (26 January)						
14:00	**PL**	**MPC minutes**						
14:30	US	Initial jobless claims	week	k	-	-		234
14:30	US	New home sales	Dec	k	586	-		592
		FRIDAY (27 January)						
14:30	US	Advance GDP	4Q16	q/q	2.1	-		3.5
14:30	US	Durable goods orders	Dec	% m/m	2.9	-		-4.5
16:00	US	Michigan index	Jan	pts	98.1	-		98.1

Source: BZ WBK, Reuters, Bloomberg

** in case of the revision, the data is updated*

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