

EYEOPENER

12 April 2017

Geopolitical tension rising

- **Strong data from Germany temporarily improved market sentiment, but the geopolitical tension increased global risk aversion**
- **Lower prices of vegetables pushed inflation down in March**
- **Zloty slightly weaker against euro and stronger versus dolar, EURUSD slightly up**
- **Polish IRS and bond yields a bit lower**
- **Today core inflation data in Poland**

On Tuesday the market mood temporarily improved after Monday deterioration in global sentiment, which could be attributable to better-than-expected data from Germany. In March the ZEW indicator of economic sentiment was much higher than forecast - it exceeded 80 points, reaching the highest level since July 2011. The indicator of expectations was also better than predicted. In response to the data, European stocks slightly advanced. Nonetheless, this move was not long-lasting and at the end of the sessions equities started to fall amid rising geopolitical concerns - the tension related to the Syrian conflict and relationships with North Korea was rising. In response to the growing risk aversion, gold prices went up, the Japanese yen strengthened, and bond yields in the core markets declined. Meanwhile, the euro appreciated slightly against the US dollar.

Polish CPI inflation reached 2.0% y/y in March, in line with the flash estimate. Prices dropped 0.1% m/m. As we suspected, the drop of inflation from February's 2.2% y/y resulted mainly from the lower prices of food (-0.3% m/m), and in particular vegetables, which got cheaper by 5.4% m/m – the strongest drop in this month for at least 10 years. We expect inflation to stay near 2% y/y in the months to come and ease to c1.5% y/y at the year-end due to the high base effect. Core inflation should continue to rise to c1.6-1.7% y/y in late 2017. Such inflation trends should warrant stable interest rates in Poland.

Today at 14:00CET, the central bank will release data on March core inflation. According to our estimates, core inflation excluding prices of food and energy rose 0.7% y/y and was the highest since 2014. Bloomberg market consensus is at 0.5% y/y.

EURUSD climbed yesterday above 1.06 in reaction to much better-than-expected data from Germany. Volatility range was only slightly higher than one day before. Scale and pace of this move suggest that one week before the Easter the market will not react strongly to the incoming data.

The EUR/PLN exchange rate exceeded 4.245 during the Tuesday session and in the evening it temporarily exceeded 4.25. The USD/PLN temporarily touched 4.01 early in the morning. As for other CEE currencies, the Hungarian forint weakened against the euro (the EUR/HUF exceeded 312 in the afternoon, which was attributable, inter alia, to much lower-than-forecast inflation in March), while Russian rouble was steady against the US dollar. The Czech koruna lost against the euro. It seems that the EUR/CZK downward impulse has been coming to its end. The exchange rate may become steady near 26.5 and later during the year the losing streak may continue, albeit at a slower pace. If the global geopolitical tension persists, the CEE currencies may be negatively affected in the coming days.

On the domestic interest rate market, IRS and bond yields fell slightly, by not more than 2bp. Euro zone peripheral bonds lost, while core bond yields fell under rising demand for safe assets given rising geopolitical risk.

The MPC member Rafał Sura said yesterday in an interview for the Reuters agency that if inflation stabilises (which is suggested by expected stabilisation of oil prices, in his view), then interest rates should stay unchanged at least until 1Q2018, assuming the economy expands in line with forecasts. His comment did not change our forecasts assuming the first rate hike at the end of 2018.

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FX market

Today's opening

EURPLN	4.2440	CZKPLN	0.1591
USDPN	3.9969	HUFPLN*	1.3611
EURUSD	1.0617	RUBPLN	0.0704
CHFPLN	3.9722	NOKPLN	0.4658
GBPPLN	4.9926	DKKPLN	0.5708
USDCNY	6.8949	SEKPLN	0.4424

*for 100HUF

Last session in the FX market 11/04/2017

	min	max	open	close	fixing
EURPLN	4.218	4.240	4.228	4.238	4.2415
USDPN	3.973	4.004	3.988	3.998	4.0009
EURUSD	1.057	1.061	1.060	1.060	-

Interest rate market 11/04/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.99	-1	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.89	-2	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.44	-4	23.03.2017	DS0727	3.568

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.77	0	1.38	-1	-0.22	0
2L	1.93	0	1.57	-3	-0.16	0
3L	2.08	-1	1.73	-3	-0.08	0
4L	2.23	-1	1.85	-4	0.02	0
5L	2.37	-1	1.95	-4	0.14	1
8L	2.68	-1	2.18	-5	0.50	1
10L	2.84	0	2.28	-4	0.71	0

WIBOR rates

Term	%	Change (bps)
O/N	1.65	1
T/N	1.65	1
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	1.74	0
6x9	1.77	0
9x12	1.80	0
3x9	1.80	0
6x12	1.82	0

Measures of fiscal risk

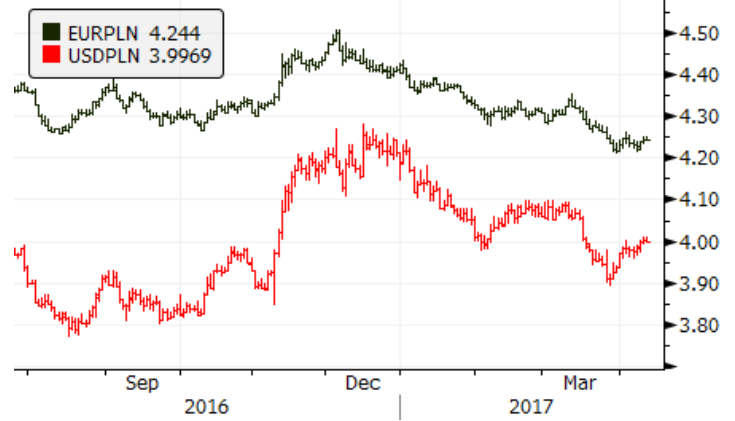
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	3.24	-3
France	58	1	0.75	-1
Hungary	116	1	3.09	2
Spain	82	7	1.43	1
Italy	188	4	2.08	1
Portugal	254	2	3.64	1
Ireland	52	0	0.74	-1
Germany	18	1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

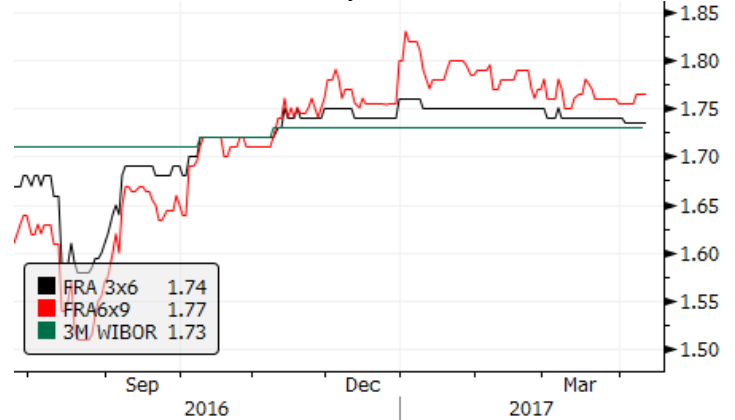
Zloty exchange rate



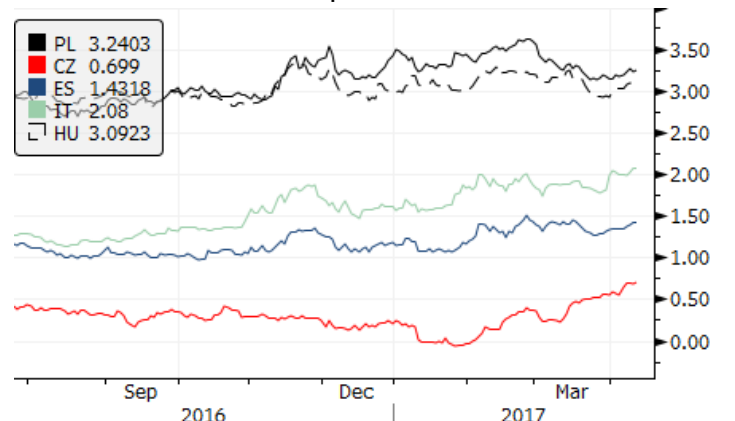
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		REALIZACJA	LAST VALUE*
				MARKET	BZWBK		
FRIDAY (7 April)							
8:00	DE	Industrial output	Feb	% m/m	-0.2	-	2.2
8:00	DE	Exports	Feb	% m/m	-0.5	-	2.4
14:30	US	Non-farm payrolls	Mar	k	180	-	219
14:30	US	Unemployment rate	Mar	%	4.7	-	4.7
MONDAY (10 April)							
9:00	CZ	CPI	Mar	% y/y	2.6	-	2.6
TUESDAY (11 April)							
9:00	HU	CPI	Mar	% y/y	3.1	-	2.9
11:00	EZ	Industrial output	Feb	% y/y	1.9	-	0.2
11:00	DE	ZEW index	Apr	pts	77.5	-	77.3
14:00	PL	CPI	Mar	% y/y	2.0	2.0	2.2
WEDNESDAY (12 April)							
14:00	PL	Core inflation	Mar	% y/y	0.5	0.7	0.5
THURSDAY (13 April)							
14:00	PL	Current account	Feb	€m	-100	-357	2457
14:00	PL	Exports	Feb	€m	15 356	15 064	14 976
14:00	PL	Imports	Feb	€m	15 300	15 300	14 751
14:30	US	Initial jobless claims	week	k	-	-	234
16:00	US	Flash Michigan	Apr	pts	97.0	-	96.9
FRIDAY (14 April)							
14:00	PL	Money supply	Mar	% r/r	8.7	8.3	8.2
14:30	US	CPI	Mar	% m/m	0.0	-	0.1
14:30	US	Retail sales	Mar	% m/m	0.0	-	0.1

Source: BZ WBK, Reuters, Bloomberg

* in case of the revision, the data is updated

** estimate after inflation data

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