

# EYEOPENER

18 May 2017

## MPC is not excited about GDP growth

- Deterioration of market sentiment due to turmoil about Trump
- Polish policy rates and MPC stance unchanged
- Zloty stable against main currencies, EURUSD moves higher
- Polish yields moved lower
- Today bond auction and labour market data in Poland

On Wednesday, sentiment on the global stock markets was weaker and the most important stock indices ended the day in red. Due to turmoil about the US President Donald Trump, investors are more worried about realization of his economic plan. As a result, appetite for risk fell and gold prices are on the rise for the fifth day in a row.

The Monetary Policy Council kept the main interest rates on hold in May. The reference rate is still at 1.5%. The rhetoric at the post-meeting press conference was similar to the ones heard in the previous months and the statement changed only a bit. The MPC expects that inflation will stay at the current moderate level and the risk of it slipping above the target in the medium term remains limited. The rise of core inflation caught attention of the Council, but it is still too low to affect the monetary policy. The members present at the press conference stated that the GDP growth rate of 4% should not generate imbalances in the Polish economy and consequently should not increase the probability of rate hikes. A further rise of inflation would be a good argument for monetary tightening, but for now there are no signs that it is going to happen. The NBP President Adam Glapiński said he did not expect the economy to maintain such pace of GDP growth, forecasting a return to c3.5%. Glapiński also believes that there will be no need for rate changes by the end of 2018, but pointed out that some members of the MPC assume high probability of rate changes in the middle of next year.

The MPC did not surprise. The stabilization of inflation in recent months has reinforced the MPC's view that the risk of breaching the inflation target is limited, and the acceleration of growth to 4% in their opinion does not generate the risk of rising imbalances, including price pressures. We maintain our

view that the MPC will not hurry with monetary tightening and interest rate hikes are highly unlikely before mid-2018.

On Wednesday EURUSD was going up and set a new record high for this year. The dollar remains under pressure due to the political turmoil caused by Donald Trump's actions and doubts about his ability to deliver the stimulus package. Investors' reservations also contribute to the lower pricing of Fed's rate hike in June. As a result, EURUSD reached c1.114 (during Asian session it visited 1.117, but is starting a little lower today). Recent data from the US were mainly weaker than expected and if this situation persists today, the dollar might note further losses.

The zloty did not manage to sustain its evening gains vs the euro and yesterday EURPLN rebounded temporarily to 4.20 from 4.16. USDPLN remained in the 3.75-3.79 range. In the case of the other CEE currencies, the forint gained vs the euro, the Czech koruna lost slightly while the ruble lost vs the dollar despite rising oil prices. Weekly report on the Brent inventories helped to push its price to near \$US52/bbl. Yesterday Polish currency was the strongest vs the Swiss franc since September 2015 and CHFPLN approached 3.84. EURPLN started today's session somewhere around 4.20 amid some negative sentiment persisting on the global market.

On Wednesday, yields on the core bond markets fell sharply (by 8 bp for 10-year Treasuries and 6 bps for the Bund). The 10-year US-DE spread fell below 190 bp yesterday, the lowest since the US election. Polish bonds also gained, and the yields of the 10-year-old returned close to 3.30%. IRS rates remained unchanged on Wednesday. Spread asset swap fell for another day (this time by 3 bp) and at the end of the day was close to 46 bps. Today, the Ministry of Finance will offer OKO419, PS0422, WZ1122, WZ0126 and DS0727 bonds for no more than PLN3bn (instead of PLN5bn as planned) and from the beginning of the day we can see a further drop in yields as the market is preparing for the auction.

Today we will see April data on employment and wage growth in Poland and data from the US labour market. Wage growth in Poland 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.

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## FX market

## Today's opening

EURPLN	4.2063	CZKPLN	0.1582
USDPLN	3.7763	HUFPLN*	1.3602
EURUSD	1.1139	RUBPLN	0.0659
CHFPLN	3.8548	NOKPLN	0.4476
GBPPLN	4.8939	DKKPLN	0.5654
USDCNY	6.8934	SEKPLN	0.4317

\*for 100HUF

## Last session in the FX market

16/05/2017

	min	max	open	close	fixing
EURPLN	4.187	4.204	4.198	4.189	4.1912
USDPLN	3.780	3.830	3.825	3.782	3.7808
EURUSD	1.097	1.109	1.097	1.108	-

## Interest rate market

16/05/2017

## T-bonds on the interbank market\*\*

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.98	1	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.79	-2	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.34	-1	23.03.2017	DS0727	3.568

## IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.78	1	1.36	0	-0.23	0
2L	1.95	1	1.53	0	-0.14	1
3L	2.10	2	1.68	0	-0.03	1
4L	2.26	2	1.80	0	0.10	2
5L	2.40	2	1.91	-1	0.23	1
8L	2.71	2	2.14	0	0.61	1
10L	2.86	2	2.25	0	0.84	2

## WIBOR rates

Term	%	Change (bps)
O/N	1.64	2
T/N	1.63	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	1.75	2
6x9	1.78	2
9x12	1.82	1
3x9	1.82	1
6x12	1.85	1

## Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.94	3
France	30	0	0.45	-1
Hungary	116	1	2.68	5
Spain	70	-1	1.19	0
Italy	161	-1	1.79	0
Portugal	199	-2	2.84	0
Ireland	40	1	0.45	-1
Germany	16	0	-	-

\* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

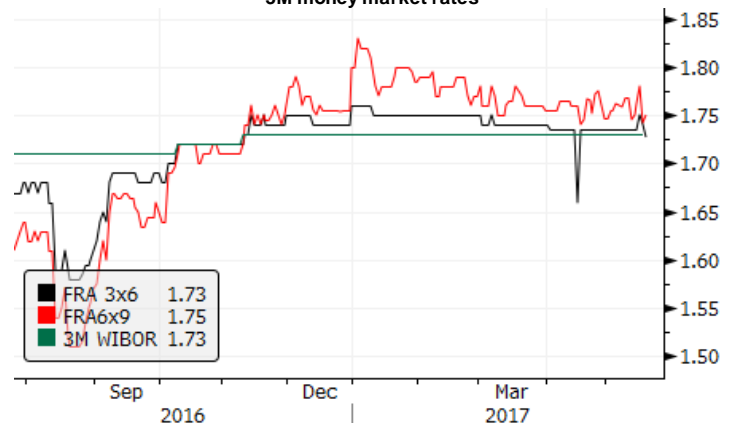
## Zloty exchange rate



## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic calendar

Economic calendar								
TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	BZWBK		
FRIDAY (5 May)								
	PL	Moody's rating decision						
8:00	DE	Flash GDP	Q1	% y/y	1.7	-	1.7	1.7
11:00	EZ	Industrial output	Mar	% y/y	2.3	-	1.9	1.2
14:00	PL	CPI	Apr	% y/y	2.0	2.0	2.0	2.0
14:00	PL	Money supply	Apr	% y/y	7.2	7.3	6.6	7.7
14:30	US	CPI	Apr	% m/m	0.2	-	0.2	-0.3
14:30	US	Retail sales	Apr	% m/m	0.6	-	0.4	-0.2
16:00	US	Flash Michigan	May	pts	97.0	-		97.0
MONDAY (15 May)								
14:00	PL	Current account	Mar	€m	-319	-177	-738	-825
14:00	PL	Exports	Mar	€m	17 639	18 053	17 798	15 193
14:00	PL	Imports	Mar	€m	17 607	17 607	18 016	15 696
14:00	PL	Core inflation	Apr	r/r	0.7	0.9	0.9	0.6
TUESDAY (16 May)								
9:00	CZ	Flash GDP	Q1	% y/y	2.3	-	2.9	1.9
9:00	HU	Flash GDP	Q1	% y/y	3.1	-	4.1	1.6
10:00	PL	Flash GDP	Q1	% y/y	3.9	3.7	4.0	2.7
11:00	DE	ZEW index	May	pts	80.9	-	83.9	80.1
11:00	EZ	Flash GDP	Q1	% y/y	1.7	-	1.7	1.7
14:30	US	House starts	Apr	k	1250	-	1172	1215
14:30	US	Building permits	Apr	k	1270	-	1229	1260
15:15	US	Industrial output	Apr	% m/m	0.4	-	1.0	0.5
WEDNESDAY (17 May)								
	PL	MPC decision		%	1.50	1.50	1.50	1.50
11:00	EZ	CPI	Apr	% y/y	1.9	-	1.9	1.5
THURSDAY (18 May)								
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	240	-		236
14:30	US	Index Philadelphia Fed	May	pts	18.5	-		22.0
FRIDAY (19 May)								
14:00	PL	PPI	Apr	% y/y	4.5	4.0		4.7
14:00	PL	Industrial output	Apr	% y/y	6.7	-0.2		17.2
14:00	PL	Construction and assembly output	Apr	% y/y	6.8	6.6		11.1
14:00	PL	Real retail sales	Apr	% y/y	7.3	8.8		7.9

Source: BZ WBK, Reuters, Bloomberg

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

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