

EYEOPENER

24 May 2017

MPC's Sura does not see upside inflation risks

- **Markets remained relatively calm**
- **The zloty stable vs major currencies; EURUSD lower after the US Treasury auction**
- **Polish bond market not far from the Monday close**
- **Today a speech by Mario Draghi, FOMC minutes, US home sales data**

On Tuesday, global markets were calm. Main stock indices were positive at the end of the day and the debt market fluctuations were minor, however, after the debt auction in the USA, the yields went up by approx. 4bp. After a three-days-rise, the price of crude oil arrived at almost US\$54/bbl before the Thursday OPEC meeting. Moody's downgraded China's rating by a notch, and changed the outlook from negative to stable. It justified the move by a 'material rise' in economy-wide debt and weakening of potential economic growth.

Yesterday, the Statistics Office (GUS) published financial results of companies in 1Q 2017. Net financial result rose by 17,5% y/y but the capital expenditures dropped by 0,4% versus the previous year. Statistics show good financial standing of companies, which in our opinion may strengthen the economic growth in the coming quarters.

In the interview for the Polish Press Agency (PAP), a member of the MPC, Rafał Sura, admitted that the economic growth in 2017 may exceed 4%, however, he does not see any justifications for the interest rates increase during the coming 3-4 quarters. He remarked that rate hikes could be triggered by accelerating inflation, "which was absolutely absent in the March and the current NBP projection" as the inflation is supposed to oscillate around 2% not achieving the target value this year or next. This comment is another sign of the "wait-and-see" strategy adopted by the MPC which we assume will continue for a longer period.

In 1Q17, the local government's revenues amounted to PLN62.2bn (rise by 15.8% y/y) while spending was at PLN49.8bn (rise by 19.2% y/y). The quarter ended with a surplus of PLN12.4bn, i.e. like in 2016 (PLN11.9bn). Investment spending amounted to PLN1.8bn, i.e. more than one year ago (+11.2% y/y), but still considerably lower than in the previous years, as average in 2012-2015 was at PLN3.4bn). EU investment spending was also weak (PLN0.6bn, i.e. -2.8% y/y and versus PLN2.0bn on average in 2012-2015). In general, data show no major revival in local government investment in 1Q17.

Yesterday EURUSD remained near this year's high at 1.1126 reached at the beginning of the week although at the end of the day a correction to 1.121 occurred (and was continued to 1.118 during the night). Neither record high reading of German Ifo index nor strong flash euro zone and German manufacturing PMIs managed to push EURUSD higher. No reaction to such sound data might suggest that, just like we expected, it could be difficult for the exchange rate to climb higher and a profit taking after recent dollar's depreciation looks more likely. The greenback rallied somewhat after the US bond auction where yields rose. The most recent US data were slightly below expectations and more US figures are on the agenda later this week, including the second estimate of 1Q GDP. Yesterday's session suggest that the market could be more sensitive to strong data than to weak ones. Today the market attention may turn to Mario Draghi's speech and evening release of the FOMC minutes.

On Tuesday, the currencies of our region remained stable. The range of fluctuations for the zloty was low and at the end of the day EURPLN and USDPLN were almost at Monday's close. Waiting for signals from the ECB and the Fed, EURCZK was slightly below 26.5. The Russian ruble remained stable despite falling oil prices and at the end of the day USDRUB was below 56.3.

At the yesterday's meeting the Hungarian Central Bank (MNB) kept main interest rate unchanged at 0.9%, in line with expectations. The MNB repeated its pledge to maintain accommodative monetary policy and to support economy if needed. In April the inflation rate in Hungary fell to 2.2% y/y and the MNB expects that it should remain at such level in the near term. The bank expects that inflation would approach the target (3%) in 1H2018. However, if it remains below the target, further monetary easing is possible, with the use of non-conventional tools. We think that the dovish attitude of the central bank may weigh on the forint. Marton Nagy, the MNP deputy governor sees a possibility that interest rates remain unchanged at least until 2019 and with weak inflation expectations and CPI further monetary easing cannot be ruled out.

The interest rate market was quiet on Tuesday. US Treasuries strengthened stronger than German Bunds, and the 10-year US-DE spread narrowed another day to 185 bps, the lowest level since the US presidential election. Polish bonds remained stable and the 10-year spread to Bund fell to 294bps. There were almost no changes on the IRS market with the strongest fall in 2Y rate - by 2bp. The Ministry of Finance has announced that it will repurchase OK0717 / DS1017 on Thursday, offering investors OK0419 / PS0422 / WZ1122 / WZ0126 / DS0727 bonds.

Attention! Next Eyeopener will be released on Monday.

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FX market

Today's opening

EURPLN	4.1982	CZKPLN	0.1587
USDPLN	3.7549	HUFPLN*	1.3614
EURUSD	1.1181	RUBPLN	0.0668
CHFPLN	3.8487	NOKPLN	0.4471
GBPPLN	4.8707	DKKPLN	0.5641
USDCNY	6.8893	SEKPLN	0.4312

*for 100HUF

Last session in the FX market

23/05/2017

	min	max	open	close	fixing
EURPLN	4.194	4.207	4.200	4.203	4.2018
USDPLN	3.725	3.758	3.738	3.755	3.7354
EURUSD	1.118	1.127	1.123	1.119	-

Interest rate market

23/05/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.92	0	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.77	0	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.34	0	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	1.37	1	-0.23	0
2L	1.92	0	1.54	2	-0.13	0
3L	2.06	0	1.68	3	-0.02	0
4L	2.22	1	1.80	3	0.10	1
5L	2.37	1	1.89	3	0.23	1
8L	2.67	2	2.11	4	0.61	1
10L	2.82	1	2.22	5	0.84	1

WIBOR rates

Term	%	Change (bps)
O/N	1.64	0
T/N	1.64	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	1.73	0
3x6	1.73	0
6x9	1.76	0
9x12	1.79	0
3x9	1.80	0
6x12	1.85	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.93	0
France	29	-1	0.43	0
Hungary	116	1	2.67	0
Spain	73	-1	1.19	0
Italy	161	-3	1.70	0
Portugal	199	-1	2.75	1
Ireland	40	1	0.44	0
Germany	15	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

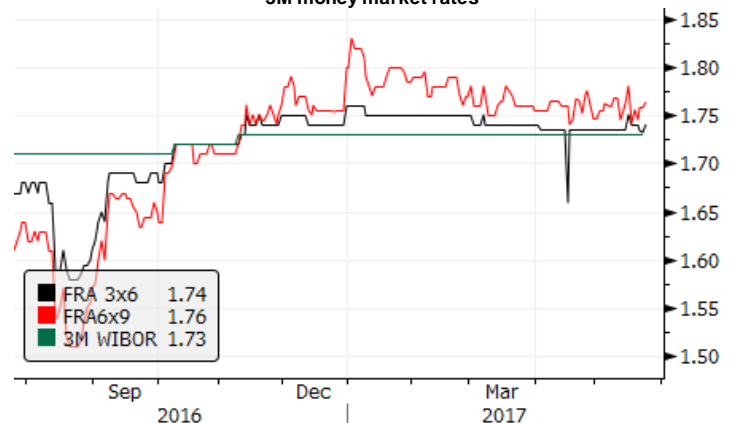
Zloty exchange rate



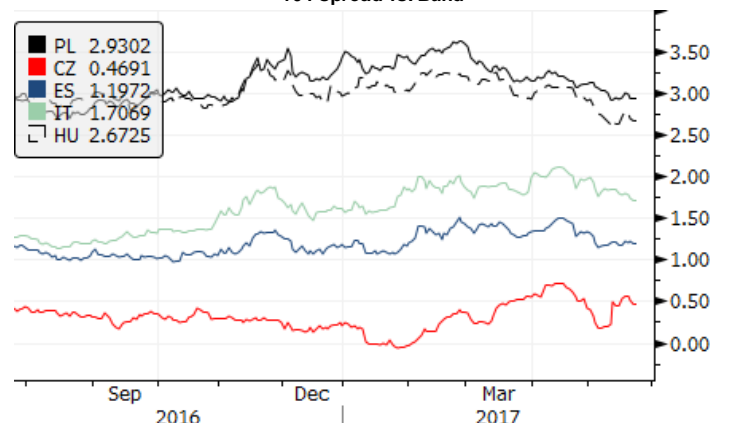
T-bonds yields



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 (19 May)								
14:00	PL	PPI	Apr	% y/y	4.5	4.0	4.3	4.7
14:00	PL	Industrial output	Apr	% y/y	1.9	-0.2	-0.6	11.1
14:00	PL	Construction and assembly output	Apr	% y/y	6.8	6.6	4.3	17.2
14:00	PL	Real retail sales	Apr	% y/y	7.2	8.8	6.7	7.9
MONDAY (22 May)								
No important data								
TUESDAY (23 May)								
8:00	DE	GDP	Q1	% y/y	1.7	-	1.7	1.7
9:30	DE	Flash PMI – manufacturing	May	pts	-	-	59.4	58.2
10:00	EZ	Flash PMI – manufacturing	May	pts	-	-	57.0	56.7
10:00	DE	Indeks Ifo	May	pts	-	-	114.6	112.9
14:00	HU	Central bank decision		%	0.90	-	0.90	0.90
16:00	US	New home sales	Apr	% m/m	-0.2	-	-11.4	5.8
WEDNESDAY (24 May)								
16:00	US	Home sales	Apr	% m/m	-1.1	-		4.4
THURSDAY (25 May)								
10:00	PL	Unemployment rate	Apr	% y/y	7.7	7.7		8.1
14:30	US	Initial jobless claims	week	k	232	-		
FRIDAY (26 May)								
14:30	US	Preliminary GDP	Q1	% y/y	0.9	-		0.7
16:00	US	Michigan index	May	pts	97.5	-		97.7

Source: BZ WBK, Reuters, Bloomberg

* in case of the revision, the data is updated

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