

# EYEOPENER

12 September 2017

## Offbeat remarks of two MPC members

- **Positive mood at the start of the week, Polish CPI without surprise**
- **The zloty weaker on Eryk Łon's remarks**
- **EURUSD slightly lower**
- **Lower demand for safe assets weighed on domestic and global bonds**
- **Today Polish core inflation**

The positive mood dominated the equity markets after the weekend. European stock indices rose strongly yesterday. Demand for risk assets pushed bonds yields up and was supported by information about lower-than-expected damage in the United States caused by Hurricane Irma. At the beginning of the week euro has decreased against US dollar after the Benoit Coeure comment that ECB's monetary policy was set to remain easy for a long time owing to delays in inflation recovery and the time it will take inflation to reach the target.

Yesterday EURUSD moved away from this year's peak (close to 1.21), set last week, and drop below 1.20. It was a consequence of ECB's Benoit Couere remarks about monetary policy. This week lack of important data should stabilise the market. On the other hand lack of new positive signals for the euro could encourage the market players to take profits from euro longs. We expect a gradual slide of EURUSD away from this year's peak. This process may continue at least until the publication of US inflation data (scheduled for Thursday) as well as industrial production and retail sales data (scheduled for Friday).

MPC member Eryk Łon said yesterday that rate cut by 50bp might be necessary quite soon and that FX interventions aimed at zloty's depreciation cannot be excluded. His view seems to be a complete outlier within the MPC as even NBP governor Glapiński did not suggest such an option at the last week's conference after the Council's meeting. Furthermore, another MPC member that in the past had used to talk about possible rate cuts, Jerzy Żyżyński, said this morning that probably there will be no reason for a hike until mid-2018 and the acceleration in banks' credit action will determine his further decisions. If inflation accelerates but this is not accompanied by higher credit creation, this will be no reason for Żyżyński to support rate hikes. We perceive his comment as relatively hawkish

given his previous dovish bias, neutralizing Łon's recent opinion.

Both EURPLN and USDPLN rose yesterday to 4.245 and 3.555, respectively. The zloty did not benefit from the global mood improvement as the surprising comment of Eryk Łon proved more important. Additional pressure on the zloty vs the dollar was generated by lower EURUSD. The first attempt of EURPLN to break 4.23 was not successful we think the exchange rate may try again to go through this level. There are no important data on the agenda for the better part of the week and this should be supportive for the zloty. Additionally, tomorrow we will learn Polish July C/A data and we forecast lower deficit than the consensus. Reading in line with our forecast could back the zloty.

The other CEE currencies held the same pattern yesterday – first they gained at the beginning of the session but later in the day exchange rates returned to opening levels. Only the ruble managed to keep part of morning gains despite lower oil prices.

On the domestic interest rate market IRS stayed roughly flat while bond yields rose slightly following the trend observed abroad. Still, scale of move in Poland was smaller than on the German, Spanish or Italian markets. IRS and bond yields are still hovering only slightly above this year's lows reached in June. We think these levels might be tested before rates start to grow later in the year when chances for one more Fed rate hike begin to rise (we still expect a 25bp hike in December).

In August, CPI inflation reached 1.8% y/y, in line with the flash estimate. At the same time, the stat office has revised monthly change in prices up to -0.1% m/m from -0.2% m/m. According to our estimates, core CPI (inflation excluding food and energy prices) eased to 0.7% y/y in August from 0.8% that we have observed for the last four months. Today at 14:00CET central bank will release official data. We expect inflation to rise later in the year but high base effect should pull CPI down well below 2% in December.

Yesterday Grand Thornton released a report saying that as much as 60% of big and medium enterprises have problem in finding a qualified workforce, the highest share in the nine-year history of the survey. A quarter ago this ratio stood at 46% and a year ago at 32%. In our view, shortage of workforce may be a significant constraint for the GDP growth, preventing an acceleration well above 4% this year.

### ECONOMIC ANALYSIS DEPARTMENT:

al. Jana Pawła II 17, 00-854 Warsaw fax +48 22 586 83 40

email: [ekonomia@bzwbk.pl](mailto:ekonomia@bzwbk.pl)

Web site: [skarb.bzwbk.pl](http://skarb.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

## FX market

## Today's opening

EURPLN	4.2479	CZKPLN	0.1628
USDPLN	3.5470	HUFPLN*	1.3855
EURUSD	1.1976	RUBPLN	0.0620
CHFPLN	3.7128	NOKPLN	0.4529
GBPPLN	4.6786	DKKPLN	0.5710
USDCNY	6.5313	SEKPLN	0.4436

\*for 100HUF

## Last session in the FX market

11/09/2017

	min	max	open	close	fixing
EURPLN	4.239	4.254	4.242	4.243	4.2426
USDPLN	3.522	3.553	3.522	3.545	3.5293
EURUSD	1.196	1.204	1.204	1.197	-

## Interest rate market

11/09/2017

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

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.67	0	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.51	1	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.16	1	23.03.2017	DS0727	3.568

## IRS on the interbank market\*\*

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	1.77	1.44	-0.27
2L	1.88	1.54	-0.20
3L	1.99	1.62	-0.11
4L	2.11	1.70	0.02
5L	2.21	1.77	0.15
8L	2.49	1.97	0.55
10L	2.66	2.07	0.79

## WIBOR rates

Term	%	Change (bps)
O/N	1.59	0
T/N	1.59	0
SW	1.60	0
2W	1.62	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	1.74	-1
6x9	1.76	0
9x12	1.79	0
3x9	1.82	0
6x12	1.83	0

## Measures of fiscal risk

Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland	71 -1	2.81 0
France	21 0	0.30 0
Hungary	116 1	2.52 -1
Spain	65 -1	1.22 0
Italy	142 0	1.62 0
Portugal	153 -2	2.45 -1
Ireland	32 -1	0.32 0
Germany	13 0	- -

\* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

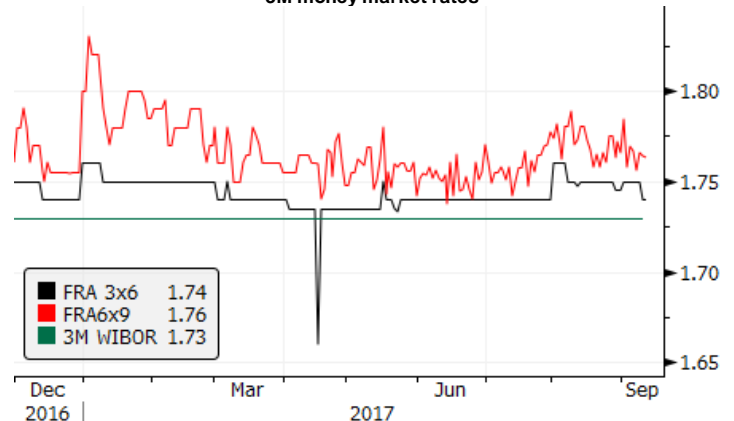
## Zloty exchange rate



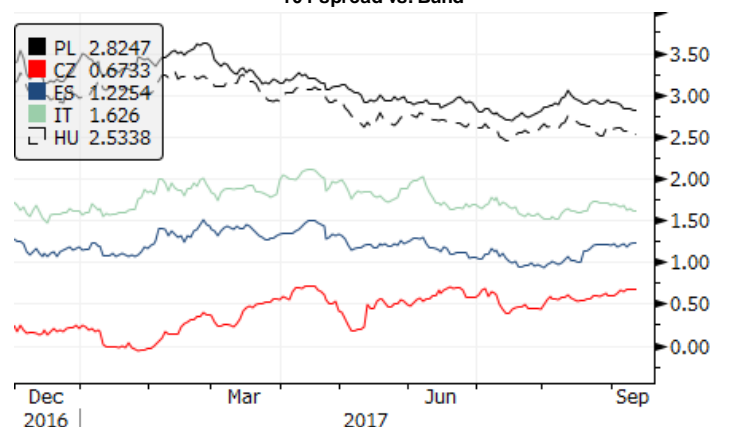
## T-bonds yields



## 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 (8 September)								
8:00	GE	Exports	Jul	% m/m	1.3	-	0.2	-2.7
9:00	HU	CPI	Aug	% y/y	2.5	-	2.6	2.1
MONDAY (11 September)								
9:00	CZ	CPI	Aug	% y/y	2.6	-	2.5	2.5
14:00	PL	CPI	Aug	% y/y	1.8	1.8	1.8	1.7
TUESDAY (12 September)								
14:00	PL	Core inflation	Aug	% y/y	0.8	0.7		0.8
WEDNESDAY (13 September)								
11:00	EZ	Industrial output	Jul	% m/m	0.2	-		-0.6
14:00	PL	Current account	Jul	€m	-853	-532		-932
14:00	PL	Exports	Jul	€m	15 222	14 900		16 627
14:00	PL	Imports	Jul	€m	15 788	15 300		16 854
THURSDAY (14 September)								
11:00	PL	Bond switch auction						
14:30	US	CPI	Aug	% m/m	0.3	-		0.1
14:30	US	Initial jobless claims	week	k	-	-		298
FRIDAY (15 September)								
14:30	US	Retail sales	Aug	% m/m	0.1	-		0.6
15:15	US	Industrial output	Aug	% m/m	0.1	-		0.2
16:00	US	Flash Michigan	Sep	pts	96.5	-		96.8

Source: BZ WBK. Reuters. Bloomberg

\* in case of the revision the data is updated

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Additional information is available on request. Please contact Bank Zachodni WBK S.A. Financial Management Division. Economic Analysis Department. al. Jana Pawła II 17. 00-854 Warsaw, Poland. phone +48 22 534 18 87. email ekonomia@bzwbk.pl. http://www.bzwbk.pl.