

EYEOPENER

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Correction of post-FOMC moves, North Korea issues a threat

- **Positive mood after FOMC, US data beat forecasts, but geopolitics is back**
- **MPC's Gątnar might consider a rate hike in 1Q18**
- **The zloty recovers further, EURUSD rose after a leg lower**
- **Polish bonds felt some pressure, core markets already started to recover from post-FOMC losses**
- **Today Statistical Bulletin and money supply in Poland, flash PMIs from the Euro zone and Germany**

On Thursday global market sentiment was positive – stock indexes were rising which provided some support for the EM currencies but weighed on bonds. Upside move of yields was mainly the result of the outcome of the FOMC meeting where the US central bankers said that the one more rate hike this year is still on the table. Although this had a positive impact on the dollar on Wednesday evening, yesterday the US currency gave up part of gains. Better than expected initial jobless claims and Philly Fed index did not help the dollar. Yesterday S&P downgraded China for the first time since 1999 (to A+ from AA-) citing rising debt as a main reason but this decision did not have much impact on the market. During the night the tensions between the US and North Korea intensified. Leader of North Korea called Donald Trump's speech at the UN sitting as a "declaration of war" and Korean officials said that it will take "highest level of hard-line countermeasures" against the US.

EURUSD rate rebounded yesterday to 1.193 from Thursday's low of 1.186, reached in response to the tone of the FOMC communication. Data from the US were a positive surprise, but investors decided to take profits on the evening fall. Although the scale of intraday changes was significant, overall EURUSD remained in the range 1.182-1.21 observed since the end of August. We believe that today's releases of the September preliminary PMI indices for Germany and the euro zone will not change the market picture.

Yesterday, EURPLN and USDPLN rates corrected part of the upward move triggered by the FOMC rhetoric. The daily change of EURPLN was negligible - while the rate rebounded to almost 4.29 during the session, at the close of business it got back to almost 4.27. In the case of USDPLN a fall to 3.58 from just over 3.60 was noted. Not only good sentiment globally supported the zloty, but also the hawkish comments made by MPC's Eugeniusz Gątnar, a MPC member. EURPLN moved further away from the resistance rate at 4.30 yesterday and the end of the week is unlikely to see any push outside the 4.23-4.30 band.

The weakest currency in the region yesterday was the forint - EURHUF rebounded again above 310, which may have been driven by the loosening of monetary policy by the Hungary's central bank this week and its announcement that this approach is likely to continue, which is clearly in clash with the US central bank's tone. The Czech koruna gained yesterday against the euro and EURCZK fell to 26.07 from 26.1, while the ruble stabilised at c58.1 vs USD after a night rise from 57.8.

On the domestic interest rate market IRS and bond yields rose amid "hawkish" tone from the FOMC and at the similar scale like abroad. Polish bond and IRS curve moved 1-5bp up with the biggest changes on the long end. Core bonds outperformed as they were recovering after the initial jump of yields.

Conclusion of September MPC minutes is the same as in July: inflation pressure remains limited and no imbalances are growing in the economy, so the risk of exceeding the target permanently is low and the MPC can stay in wait-and-see mode. The document included a paragraph presenting a stance that worsening of business climate would trigger discussion about rate cuts. In our view, this was Eryk Łon's initiative, and other MPC members do not share his opinion. Still, this paragraph was a counter-weight for sentence stating that some MPC members would like to discuss hikes if data and forecasts point to stronger inflation pressure. Minutes of September MPC meeting did not encourage us to change our forecasts – we still expect the first hike in 4Q18.

MPC's Eugeniusz Gątnar said yesterday that interest rates should go up by 25bp in 1Q18 if wage pressure strengthens and inflation approaches the target. According to Gątnar, economic growth at 4% or higher, labour market situation and stronger growth of food prices may be arguments supporting higher CPI growth. Gątnar noted also the rising number of pensioners, which may fuel the wage pressure. In his view, the MPC should not hesitate with rate hike, as delayed decision would hit the economy during a downturn. In our view, the positive results of Polish economy and stronger labour market tension will trigger a broader discussion about interest rate hikes in the MPC.

Our estimates of seasonally-adjusted business climate indicators, shown yesterday by the stat office in unadjusted form, point to an improvement in manufacturing, construction and retail trade. Further expansion of business climate, together with positive data on industrial output, are strong arguments to revise 2H17 growth forecasts upwards.

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FX market

Today's opening

EURPLN	4.2713	CZKPLN	0.1638
USDPLN	3.5684	HUFPLN*	1.3788
EURUSD	1.1970	RUBPLN	0.0617
CHFPLN	3.6822	NOKPLN	0.4579
GBPPLN	4.8430	DKKPLN	0.5740
USDCNY	6.5952	SEKPLN	0.4483

*for 100HUF

Last session in the FX market

21/09/2017

	min	max	open	close	fixing
EURPLN	4.267	4.289	4.272	4.276	4.2863
USDPLN	3.554	3.608	3.559	3.584	3.5975
EURUSD	1.186	1.203	1.200	1.193	-

Interest rate market

21/09/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.77	2	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.70	4	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.36	5	23.03.2017	DS0727	3.568

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.80	1	1.55	4	-0.26	0
2L	1.97	3	1.70	6	-0.17	0
3L	2.11	4	1.81	7	-0.04	1
4L	2.26	5	1.89	6	0.10	2
5L	2.40	6	1.96	6	0.24	2
8L	2.70	6	2.14	5	0.65	2
10L	2.86	6	2.23	4	0.89	2

WIBOR rates

Term	%	Change (bps)
O/N	1.56	-3
T/N	1.58	-1
SW	1.59	-1
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	1.75	1
6x9	1.79	1
9x12	1.83	2
3x9	1.84	2
6x12	1.87	2

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.92	6
France	21	1	0.28	0
Hungary	116	1	2.18	1
Spain	62	1	1.16	0
Italy	143	3	1.64	-1
Portugal	130	0	1.94	-1
Ireland	32	-1	0.28	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

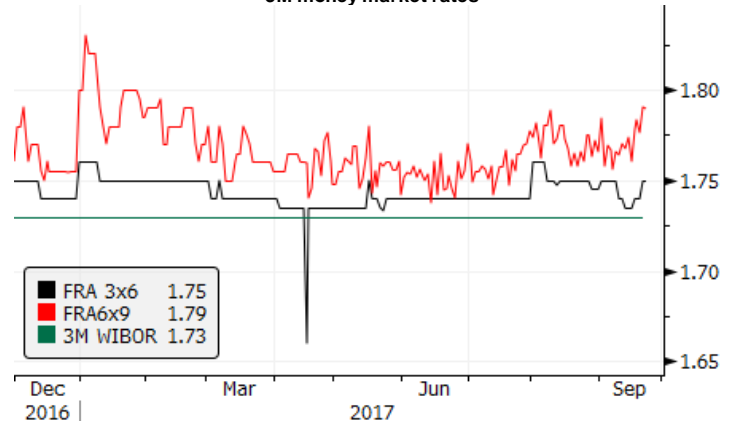
Zloty exchange rate



T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	BZWBK			
FRIDAY (15 September)								
14:30	US	Retail sales	Aug	% m/m	0.1	-	-0.2	0.3
15:15	US	Industrial output	Aug	% m/m	0.1	-	-0.4	0.4
16:00	US	Flash Michigan	Sep	pts	96.5	-	95.3	96.8
MONDAY (18 September)								
11:00	EZ	CPI	Aug	% y/y	1.5	-	1.5	1.3
14:00	PL	Wages in corporate sector	Aug	% y/y	5.7	5.9	6.6	4.9
14:00	PL	Employment in corporate sector	Aug	% y/y	4.6	4.7	4.6	4.5
TUESDAY (19 September)								
11:00	DE	ZEW index	Sep	pts	86.0	-	87.9	86.7
14:00	HU	Central bank decision		%	0.90	-	0.90	0.90
14:00	PL	Industrial output	Aug	% y/y	5.9	6.1	8.8	6.2
14:00	PL	Construction and assembly output	Aug	% y/y	24.0	27.9	23.5	19.8
14:00	PL	Real retail sales	Aug	% y/y	6.7	7.5	6.9	6.8
14:00	PL	PPI	Aug	% y/y	3.0	3.2	3.0	2.2
14:30	US	House starts	Aug	k	1.7	-	-0.8	-2.2
14:30	US	Building permits	Aug	k	-0.8	-	5.7	-3.5
WEDNESDAY (20 September)								
16:00	US	Home sales	Aug	mn	0.4	-	-1.7	-1.3
20:00	US	FOMC decision		%	1.00-1.25	1.00-1.25	1.00-1.25	1.00-1.25
THURSDAY (21 September)								
14:00	PL	MPC minutes						
14:30	US	Philly Fed index	Sep	pts	17.0	-	23.8	18.9
14:30	US	Initial jobless claims	week	k	302	-	259	282
FRIDAY (22 September)								
9:30	DE	Flash PMI – manufacturing	Sep	pts	59.0	-		59.3
9:30	DE	Flash PMI – services	Sep	pts	53.7	-		53.5
10:00	EZ	Flash PMI – manufacturing	Sep	pts	57.2	-		57.4
10:00	EZ	Flash PMI – services	Sep	pts	54.8	-		54.7
10:00	PL	Unemployment rate	Aug	%	7.0	7.0		7.1
14:00	PL	Money supply	Aug	% y/y	5.2	5.3		5.0

Source: BZ WBK, Reuters, Bloomberg

* in case of the revision the data is updated

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