

# EYEOPENER

5 October 2017

## MPC didn't change its stance

- **Correction of positive market mood**
- **MPC majority support the status quo**
- **Zloty and CEE currencies gain, EURUSD stable**
- **Domestic and core markets yields didn't change**
- **Today on the market: switch auction in Poland, US data release**

The global mood worsened on Wednesday after two days of optimism. European indices declined a bit which had positive influence on bonds but did not distract CEE currencies, which saw significant strengthening. The dollar stabilized vs the euro after an overnight weakness caused by reports about the potential successors of Janet Yellen. Yesterday data from the USA were quite strong. While September ADP report was in line with expectations, the services sector ISM index was way above forecasts (as was the Monday reading of industrial ISM index), which had some positive impact on the dollar and negative impact on bonds. The scale of intraday swings was relatively low. Today we expect that domestic bonds will stabilize and the zloty will stick to yesterday levels.

The Monetary Policy Council left interest rates unchanged, with reference rate at 1.50%. Post-meeting statement did not change much, and the same can be said about the Council's rhetoric. NBP president Adam Glapiński reiterated his mantra he saw no reasons to hike rates until end of 2018, as the economy is balanced and inflation will remain moderate, even despite its recent upward surprise (yet in his view inflation path may go up a bit in the November NBP projection). Glapiński said also that Eryk Łon's view that rates may need to be lowered soon, is not shared by anyone else in the Council. Rafał Sura agreed with Glapiński and said he saw no reasons to change monetary policy. Grażyna Ancyparowicz, on the other hand, proved to be a little more hawkish and she suggested that discussion about rate hikes may start in mid-2018, provided that wages grow stronger than expected, private investment rebounds and there are some external shocks. Much was said about the labour market; surprisingly, Sura said he expects a slowdown in wage growth, while NBP president argued that Poland still has available labour supplies plus it is unlikely that higher wage growth will translate into

higher prices. According to Glapiński, CPI at 3.5% is 'unimaginable' in two years' time.

In general, nothing has changed in the MPC bias and majority of central bankers want to keep rates unchanged in the upcoming quarters. In our view, however, MPC members are underestimating the labour market developments and they may be surprised by wage growth as well as by its impact on CPI. This will make more MPC members join the hawkish camp in 2018. We expect rates to go up in 4Q18.

EURUSD approached 1.18 yesterday, but positive US data released at the end of the day made the pair go down to 1.175. The rate stabilised slightly above August's trough and is awaiting an impulse. Until end of the week, we will get to see a lot of US data, which may spark higher volatility.

EURPLN and USDPLN fell yesterday below 4.295 and 3.645, similar downward moves were recorded by EURHUF and EURCZK. The koruna was stronger to the euro than in early September after rate hike in the Czech Republic. EURCZK was at the lowest level since November 2013, when the Czech central bank announced it will not tolerate the exchange rate below 27.0. It seems that emerging market currencies benefited from market speculation that the new Fed governor is unlikely to be as hawkish as expected. At the end of the week, the US data may prove important for the CEE currencies. As we suggested before, weak data are likely to be ignored, while strong may undermine the zloty, the forint and the koruna.

On the domestic interest rate market IRS and bond yields did not move much. Lack of any directional trend was observed also on the UST market. In Europe, 10Y Bund yields were falling since the beginning of the session and rebounded at the end of the day to around opening levels (0.46%).

We think Polish yields could remain stable today as European stocks are falling. On the other hand, outlook for Friday's US nonfarm payrolls may not allow for significant strengthening. Today the Ministry of Finance will hold a switch auction when it will sell OK0419, WZ1122, PS0123, WZ0126 and DS0727 and will repurchase WZ0118, PS0418, PS0718 and OK1018. We think the belly and long end of the curve could weaken slightly and temporarily after the auction.

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## FX market

## Today's opening

EURPLN	4.3033	CZKPLN	0.1665
USDPLN	3.6564	HUFPLN*	1.3799
EURUSD	1.1770	RUBPLN	0.0635
CHFPLN	3.7500	NOKPLN	0.4601
GBPPLN	4.8238	DKKPLN	0.5782
USDCNY	6.6528	SEKPLN	0.4518

\*for 100HUF

## Last session in the FX market

04/10/2017

	min	max	open	close	fixing
EURPLN	4.294	4.325	4.313	4.297	4.3025
USDPLN	3.644	3.678	3.670	3.653	3.6597
EURUSD	1.174	1.179	1.175	1.176	-

## Interest rate market

04/10/2017

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

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.72	-1	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.68	0	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.38	1	23.03.2017	DS0727	3.568

## IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.79	-1	1.58	1	-0.26	0
2L	1.98	-2	1.75	1	-0.17	0
3L	2.14	-2	1.85	1	-0.05	0
4L	2.30	-2	1.94	1	0.10	0
5L	2.45	-2	2.01	1	0.24	0
8L	2.76	-4	2.20	1	0.66	-1
10L	2.93	-3	2.29	1	0.91	-1

## WIBOR rates

Term	%	Change (bps)
O/N	1.58	-2
T/N	1.58	-3
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	1.75	0
6x9	1.80	-2
9x12	1.85	-2
3x9	1.82	-1
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	0
France	21	0	0.30	0
Hungary	116	1	2.19	-1
Spain	75	5	1.33	1
Italy	143	3	1.74	1
Portugal	133	3	1.96	1
Ireland	32	-1	0.26	1
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

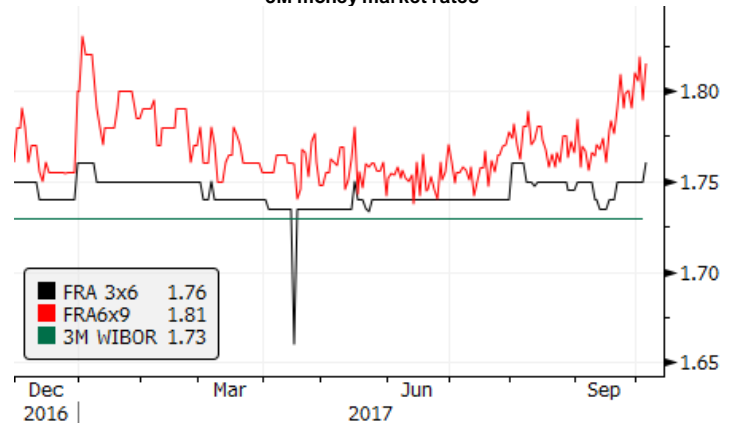
## Zloty exchange rate



## 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 (29 September)								
11:00	EZ	Flash CPI	Sep	% y/y	1.6	-	1.5	1.5
14:00	PL	Flash CPI	Sep	% y/y	2.0	1.9	2.2	1.8
14:30	US	Consumer spending	Aug	% m/m	0.1	-	0.1	0.3
14:30	US	Personal income	Aug	% m/m	0.3	-	0.2	0.4
15:45	US	Chicago PMI index	Sep	pts	57.5	-	65.2	58.9
16:00	US	Michigan index	Sep	pts	95.2	-	95.1	95.3
MONDAY (2 October)								
9:00	PL	PMI – manufacturing	Sep	pts	53.2	54.0	53.7	52.5
9:55	DE	PMI – manufacturing	Sep	pts	60.6	-	60.6	59.3
10:00	EZ	PMI – manufacturing	Sep	pts	58.2	-	58.1	57.4
16:00	US	ISM – manufacturing	Sep	pts	57.5	-	60.8	58.8
TUESDAY (3 October)								
9:00	CZ	GDP	Q2	% y/y	4.7	-	4.7	3.0
WEDNESDAY (4 October)								
	PL	MPC decision	Oct	%	1.50	1.50	1.50	1.50
9:55	DE	PMI – services	Sep	pts	55.6	-	55.6	53.5
10:00	EZ	PMI – services	Sep	pts	55.6	-	55.8	54.7
11:00	EZ	Retail sales	Aug	% m/m	0.3	-	-0.5	-0.3
14:15	US	ADP report	Sep	k	138	-	135	228
16:00	US	ISM – services	Sep	pts	55.5	-	59.8	55.3
THURSDAY (5 October)								
11:00	PL	Bond switch auction						
14:30	US	Initial jobless claims	week	k	265	-		260
16:00	US	Industrial orders	Aug	% m/m	1.0	-		-3.3
FRIDAY (6 October)								
8:00	DE	Industrial orders	Aug	% m/m	0.7	-		-0.7
14:30	US	Non-farm payrolls	Sep	k	70	-		156
14:30	US	Unemployment rate	Sep	%	4.4	-		4.4

Source: BZ WBK. Reuters. Bloomberg

\* in case of the revision the data is updated

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