

# EYEOPENER

10 October 2017

## Polish assets gain as market calms

- **Hardt from MPC says inflation forecasts key for rate hikes**
- **Zloty recovers thank to rebound of EURUSD**
- **Bonds gain slightly after Friday weakening**

On Monday, the debt market was making up for the Friday's losses, while the zloty gained supported by slight decline of the European yields and inactivity of the US investors. The market disregarded good data on industrial output in Germany and the comment made by one of the MPC members on the potential effects of wage inflation.

The MPC Łukasz Hardt told Reuters that a slight interest rate hike may be needed in early 2018, if inflation forecasts indicate that CPI could rise above the NBP target (2.5%). Hardt worries that the increased wage pressure may impact the prices, while his view is the likelihood for a hike is 50/50. Łukasz Hardt (just like E. Gatnar and K. Zubelewicz) is a hawkish member of the MPC and for some time already he has been advocating a potential hike next year. However, we think it will be difficult to build up a strong support for the policy tightening at the beginning of the year and we expect a hike only in the 4Q18.

Inactivity of the US investors given the public holiday calmed down the currency market. EURUSD fluctuated in a narrow range of 1.172-1.174 with a slight upward trend, notwithstanding robust data on industrial output in Germany. Only at the very beginning of the today's session, the euro started to strengthen which could have been driven by the next batch of better-than-expected data (this time on exports) from the Europe's largest economy. In effect, today at the opening EURUSD is above 1.177.

In Poland the day was under the sign of the zloty appreciation vs the euro and the dollar. As a consequence, EURPLN declined to 4.30 from 4.315 at the opening which made it the best performing currency in the region. EURPLN did not react to better-than-expected industrial data from Germany and Czechia. It was also hard to spot a market reaction to remarks presented by MPC's Łukasz Hardt. As for the other CEE currencies, EURHUF increased in the morning to 312.50 (and approached the May top), but declined to 311.90 in the afternoon, ie below the Friday close. The behavior of the forint might have been affected by the release of international trade data with a smaller than forecasted surplus. EURCZK reacted positively to surprisingly strong data on industrial production and inflation (the highest inflation in four years), but in the afternoon it went back to 25.90 seen at the Friday close. A speech by Czech central banker that inflation will remain in the

upper part of the target range until the end of the year did not leave any lasting marks on the koruna. USDRUB grew for a third day in a row without any publications of local data and with oil prices being stable. At the end of the day the exchange rate was close to 58.40, from 58.20 in the morning.

Today we are expecting some strengthening of the Polish currency versus the euro. This trend may be continued in the following days if positive moods hold globally and the dollar appreciation stops.

On Monday, the core bond market remained relatively stable. The US market was closed, while German bonds gained slightly as yields decreased 1-2bp across the curve, despite the unexpectedly high reading of industrial production in Germany in August. Yields of the other European bonds have also shifted down.

The domestic market stayed stable at the beginning of the week. In the morning yields decreased by 1-3bp and stabilized later in the day. The domestic bonds tried to recover part of Friday losses and followed the trend observed on the European markets. The IRS curve remained stable, despite the unexpected high Czech industrial production reading and Polish MPC member Hardt remarks.

German export data released today in the morning surprised on the positive side but so far there is no significant reaction of the bond market. In our opinion Polish debt market will likely try to recover after Friday's weakening. Expected recovery could pause on Thursday, when Polish investors will have a chance to respond to the September Fed's minutes (that will be announce on Wednesday evening) and Polish final CPI data for September. We think that CPI release may show the higher share of core inflation in CPI growth, which could surprise the market.

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## FX market

## Today's opening

EURPLN	4.3011	CZKPLN	0.1661
USDPLN	3.6513	HUFPLN*	1.3789
EURUSD	1.1780	RUBPLN	0.0628
CHFPLN	3.7330	NOKPLN	0.4577
GBPPLN	4.8086	DKKPLN	0.5779
USDCNY	6.5931	SEKPLN	0.4508

\*for 100HUF

## Last session in the FX market

09/10/2017

	min	max	open	close	fixing
EURPLN	4.299	4.316	4.307	4.306	4.3121
USDPLN	3.662	3.680	3.674	3.665	3.6743
EURUSD	1.172	1.176	1.173	1.175	-

## Interest rate market

09/10/2017

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

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.76	0	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.76	1	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.48	-1	23.03.2017	DS0727	3.568

## IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.81	0	1.60	0	-0.26	-1
2L	2.02	1	1.78	1	-0.17	-1
3L	2.20	1	1.89	0	-0.05	-1
4L	2.38	2	1.97	-1	0.10	-1
5L	2.53	1	2.04	0	0.24	0
8L	2.85	0	2.22	0	0.65	-2
10L	3.03	1	2.32	0	0.89	-2

## WIBOR rates

Term	%	Change (bps)
O/N	1.58	-2
T/N	1.58	-2
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	1.76	0
6x9	1.83	1
9x12	1.89	1
3x9	1.84	1
6x12	1.91	1

## Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	3.03	-2
France	21	0	0.27	0
Hungary	116	1	2.30	0
Spain	69	-2	1.23	0
Italy	141	0	1.67	0
Portugal	123	-8	1.95	0
Ireland	32	-1	0.24	-2
Germany	12	0	-	-

\* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

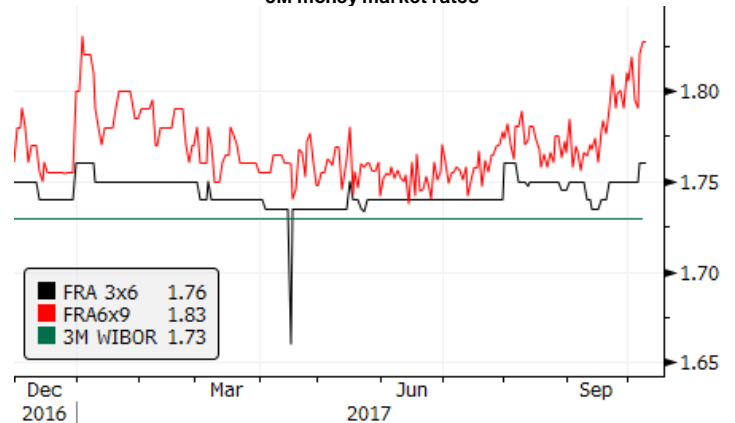
## Zloty exchange rate



## 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 (6 October)								
8:00	DE	Industrial Orders	Aug	% m/m	4.7	-	7.8	5
13:30	US	Change in Nonfarm Payrolls	Sep	K	80	-	-33	156
13:30	US	Unemployment Rate	Sep	%	4.4	-	4.2	4.4
MONDAY (9 October)								
8:00	DE	Industrial output	Aug	% m/m	0.8	-	2.6	0.0
9:00	CZ	Industrial output	Aug	% y/y	4.2	-	5.8	3.3
9:00	CZ	CPI	Sep	% y/y	2.7	-	2.7	2.5
TUESDAY (10 October)								
8:00	DE	Exports	Aug	% m/m	1.0	-	3.1	0.2
9:00	HU	CPI	Sep	% y/y	2.7	-		2.6
WEDNESDAY (11 October)								
20:00	US	FOMC minutes						
THURSDAY (12 October)								
11:00	EZ	Industrial output	Aug	% m/m	0.5	-		0.1
14:00	PL	CPI	Sep	% y/y	2.2	2.2		1.8
14:30	US	Initial jobless claims	week	k	-	-		260
FRIDAY (13 October)								
14:00	PL	Core inflation	Sep	% y/y	0.9	1.0		0.7
14:30	US	CPI	Sep	% m/m	0.6	-		0.4
14:30	US	Retail sales	Sep	% m/m	1.6	-		-0.2
16:00	US	Flash Michigan	Oct	pts	95.0	-		95.1

Source: BZ WBK. Reuters. Bloomberg

\* in case of the revision the data is updated

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