

EYEOPENER

13 October 2017

Important US data today

- Polish yields down despite inflation data
- Zloty still strong, dollar recovers slightly
- S&P raises Poland GDP forecasts
- Today Polish core CPI and important data from the US

This afternoon there will be plenty of US data releases, including the September CPI. Inflation slowdown has been often recently quoted by American central bankers as a significant criterion when it comes to next interest rate decisions. The market sees a 77% probability for a 25bp rate hike in December and today's inflation data can influence this pricing. The core CPI release in Poland should be irrelevant for domestic debt.

In September, CPI inflation reached 2.2% y/y, in line with the flash estimate. The acceleration vs 1.8% y/y in August came from a rise of prices in categories like food, alcoholic drinks, clothing & footwear (most likely due to bad weather) and health (where low base played a role). Our core CPI estimate pointed to 0.9% y/y in September, up from 0.7% y/y and after 0.8% was recorded between April and July. This would be its strongest reading since 1H14. Now that we know that some core categories were involved in the acceleration of CPI we may assume that at least some Council members will be less relaxed about the NBP governor's rhetoric of keeping rates unchanged until the end of 2018. That said we expect CPI and core CPI to go much higher from here only in early 2018.

On Thursday, the core bond market remained stable despite faster than expected industrial output growth in the Eurozone. Also, Bundesbank president Jens Weidmann remarks, that the ECB should not keep interest rates low for too long and should tighten policy quickly during an economic upturn was ignored by market players. Only later in the afternoon the German yield curve begun to decline in response to information that Brexit talks have hit a brick wall. As a consequence, the German yield curve fell by 1-2bp. The US treasuries yields fell in the same scale.

The domestic yield curve continued to decline, despite the domestic inflation data showing higher share of core inflation in CPI growth. As a consequence, the domestic yields dropped by 5bp in the belly and the long end of the curve and by 1bp on the front end. The IRS rates move was half of that. As a result, the asset swap spreads reached levels last time seen this January. In our opinion, it was a consequence a lower probability of political tension increase between Poland and EU in the face of German government negotiations and Brexit talks.

Today, we are expecting further declines of Polish bond yields. However, trends abroad will be crucial, as global debt may be under pressure of important US data, including inflation figure.

The upward trend of EURUSD, lasting already for a few days, stopped on Thursday. This may have been due to weekly US labour market data, which showed that jobless claims returned to pre-hurricane levels. As a result, EURUSD ended the day at 1.183 as compared to 1.187 at the start of the session, but scale of changes was not big compared to last days.

On Thursday, EURPLN stopped its decline and stabilized near 4.269, getting higher only for a short period after the Polish inflation release.

When it comes to other CEE currencies, EURHUF declined to 308.60, while EURCZK remained close to 25.90 in spite of a suggestion by one of the central bank officials that there is still room for 1-2 rate hikes this year. USDRUB continued to move down thanks to reports of a smaller than planned fiscal deficit after September.

Today, we expect to see a stable zloty and a still declining EURUSD. The sentiment at the market opening is somewhat positive, which should keep EURPLN low and neutralize the potentially negative influence of the afternoon US data.

S&P rating agency upgraded its forecast for Polish GDP growth in 2017 to 4.2% from 3.6% and in 2018 to 3.8% from 3.1%. In the agency's opinion fiscal situation will also look better than it was expected so far. The next Polish rating review by S&P is planned for October 20.

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FX market

Today's opening

EURPLN	4.2670	CZKPLN	0.1650
USDPLN	3.6031	HUFPLN*	1.3827
EURUSD	1.1843	RUBPLN	0.0624
CHFPLN	3.6951	NOKPLN	0.4568
GBPPLN	4.7836	DKKPLN	0.5732
USDCNY	6.5799	SEKPLN	0.4444

*for 100HUF

Last session in the FX market

12/10/2017

	min	max	open	close	fixing
EURPLN	4.267	4.281	4.271	4.269	4.2705
USDPLN	3.595	3.615	3.605	3.607	3.6
EURUSD	1.183	1.188	1.185	1.184	-

Interest rate market

12/10/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.71	-1	09.06.2017	OK0419	1.859
PS0422 (5Y)	2.68	-3	09.06.2017	PS0422	2.587
DS0727 (10Y)	3.36	-5	09.06.2017	DS0727	3.128

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.79	-1	1.61	0	-0.26	0
2L	1.99	0	1.78	0	-0.17	0
3L	2.14	-1	1.88	0	-0.05	-1
4L	2.31	-1	1.96	0	0.09	-2
5L	2.46	-1	2.03	0	0.24	-2
8L	2.77	-2	2.20	0	0.65	-2
10L	2.93	-2	2.29	-1	0.89	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.58	0
T/N	1.58	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	1.76	0
6x9	1.79	0
9x12	1.86	-1
3x9	1.83	0
6x12	1.88	-1

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.92	-4
France	21	0	0.42	0
Hungary	116	1	2.18	1
Spain	68	0	1.18	-1
Italy	138	-2	1.66	-1
Portugal	119	-1	1.86	0
Ireland	32	-1	0.23	-2
Germany	12	-1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

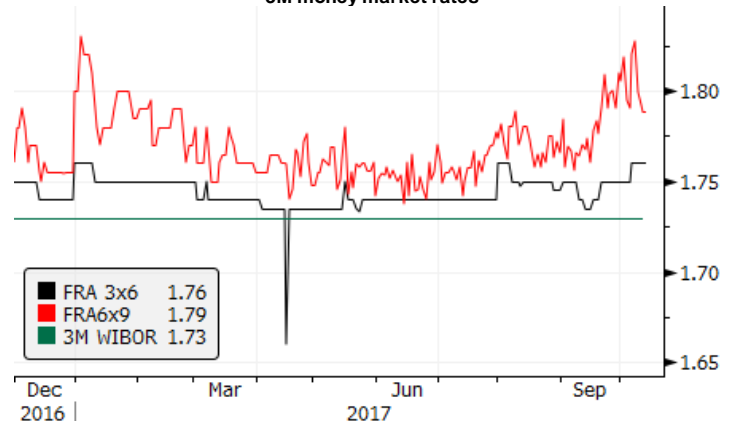
Zloty exchange rate



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 (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	-	2.5	2.6
WEDNESDAY (11 October)								
20:00	US	FOMC minutes						
THURSDAY (12 October)								
11:00	EZ	Industrial output	Aug	% m/m	0.6	-	1.4	0.1
14:00	PL	CPI	Sep	% y/y	2.2	2.2	2.2	1.8
14:30	US	Initial jobless claims	week	k	250	-	243	260
FRIDAY (13 October)								
14:00	PL	Core inflation	Sep	% y/y	0.9	0.9**		0.7
14:30	US	CPI	Sep	% m/m	0.6	-		0.4
14:30	US	Retail sales	Sep	% m/m	1.7	-		-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

** estimate after CPI data

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