

EYEOPENER

26 October 2017

Everybody is waiting for the ECB

- Stronger-than-expected German and US data; market waiting for the ECB decision on QE
- The zloty close to 4.24 vs. the euro, rise of EURUSD supported the decline of USDPLN
- Domestic yields rose after high supply at the auction
- Today MPC minutes, ECB decision and US data

On Wednesday, there were no major market changes. Even though German and US data surprised to the upside, the upward move of core yields was lower than one day earlier after flash PMIs. German Ifo set a new optimism record amid expectations that October saw some deterioration in German business sentiment. In the USA, durable goods orders and deliveries proved stronger than expected in September and new home sales showed the biggest monthly increase since the second half of the 80s, 18.9% m/m compared to market forecasts at -1.1% m/m. Scale of the positive surprise on the primary housing market was the biggest since 2005. On Friday, we will get to see the advance GDP reading for Q3 – Wednesday data might have lead to a rise of expectations ahead of this release. The US dollar and stock market were undermined by mixed financial results of US companies and critics of Trump policies voiced by two Republican senators. Let us remind that the US health care reform stuck in the Senate and the market is currently regaining faith in tax reform, so these comments may prove important for investors. The euro gained versus the dollar, but generally the FX market moves were less considerable ahead of the ECB decision.

Yesterday EURUSD rose to 1.18 from 1.176 owing to German Ifo data and despite the solid durable goods orders report in the USA. Today investors will be focused on ECB decision. As happened in recent months, the central bank will likely try to sound dovish, not to cause appreciation of the euro. EURUSD has stabilised in 1.166-1.188 range and is waiting for a new impulse. We still think that to the dollar might strengthen by the end of the year.

EURPLN fell to 4.23 from 4.245 and USDPLN to 3.585 from 3.615. The other CEE currencies remained fairly stable. Today market attention will focus on the ECB decision. According to the market, the central bank will cut its monthly bond purchases to €40bn from €60bn but will extend the program into 2018. We think that the reduction of bond purchases could be bigger which may weigh on the zloty and the other CEE currencies.

On the domestic debt market IRS rates as well as yields were rising yesterday. The rise of the yield and IRS rate curves was

supported by Tuesday's sell-off on the core markets as well as by huge offer of long term bonds on the Wednesday's auction. As a result the yields of Polish 10Y t-bonds rose by 5 bp and surpassed 3.40%. 10Y IRS increased by 4bp and surged above 3.00%. We think that today the ECB conference will have the biggest impact on the debt market. In our opinion information about continuation of phase-out of the bond-purchase program should pull the IRS rates and yields up. Moreover the market is still feeling uneasy about the Fed chair successor to be named soon. Fears that new Fed chairman will be more hawkish-oriented than Janet Yellen helps yields to remain relatively high.

At the yesterday auction Ministry of Finance (MF) sold bonds worth PLN8bn (upper level of planned supply), while the demand was PLN12bn. MF sold OK0720 (yield 2.0%), WZ1122, PS0123 (2.81%), WZ0126, DS0727 (3.38%) and WS0447. Circa 54% of sold bonds were fixed-rate papers with maturity of less than three years and floating-rate bonds, while the share of market demand for these bonds was 62% of total demand. These papers see high demand from domestic banks. The auction results and the yesterday MF buyback of more than PLN13bn suggest that valuations of bonds from this segment may stay attractive in the near future. The MF said that after the auction it realised 91% of borrowing needs for this year (calculations based on the expected 2017 budget performance that was included in 2018 budget draft).

MPC member Eugeniusz Gatnar told Bloomberg yesterday that he could support a 25bp rate rise from 1Q18. In his view, inflation could rise to 2.5% y/y in the first three months of the next year and settle around 2.5-3.5% later on. In our view, annual CPI will touch the target only in mid-2018 and stay below 2.5% for the rest of the year. Recent days brought several MPC members suggesting that rate hike could take place next year. Eugeniusz Gatnar already belonged to that group. It is worth to notice, however, that hawkish Council members outline different conditions for a hike and that is why we think monetary policy could become tighter only in 2H18.

Today the NBP will release minutes from the last MPC meeting. Statement released after the last decision did not show any further division of opinions among the Council's members. However, recent views expressed by some members revealed that fewer of them are supporting the dovish bias of governor Adam Glapiński. That is why today's document could be an important hint regarding the chances for a rate hike next year.

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FX market

Today's opening

EURPLN	4.2457	CZKPLN	0.1658
USDPLN	3.5902	HUFPLN*	1.3674
EURUSD	1.1826	RUBPLN	0.0622
CHFPLN	3.6289	NOKPLN	0.4479
GBPPLN	4.7547	DKKPLN	0.5703
USDCNY	6.6332	SEKPLN	0.4374

*for 100HUF

Last session in the FX market

25/10/2017

	min	max	open	close	fixing
EURPLN	4.228	4.249	4.246	4.242	4.237
USDPLN	3.582	3.615	3.609	3.591	3.6006
EURUSD	1.175	1.182	1.176	1.181	-

Interest rate market

25/10/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.66	-2	09.06.2017	OK0419	1.859
PS0422 (5Y)	2.68	2	09.06.2017	PS0422	2.587
DS0727 (10Y)	3.42	4	09.06.2017	DS0727	3.128

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.82	0	1.63	1	-0.26	0
2L	2.05	0	1.82	1	-0.17	1
3L	2.23	1	1.95	1	-0.04	1
4L	2.41	1	2.04	1	0.10	0
5L	2.56	1	2.12	2	0.25	0
8L	2.88	1	2.32	3	0.68	1
10L	3.03	0	2.42	3	0.92	1

WIBOR rates

Term	%	Change (bps)
O/N	1.21	-33
T/N	1.26	-28
SW	1.58	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	2
9x12	1.92	2
3x9	1.84	0
6x12	1.92	1

Measures of fiscal risk

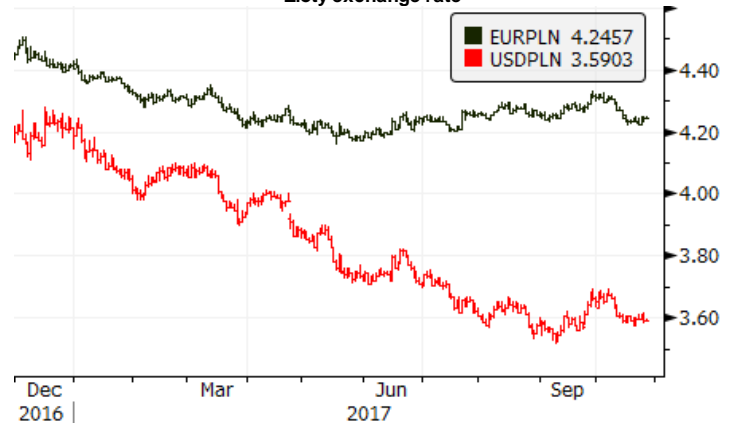
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.95	5
France	21	0	0.40	0
Hungary	116	1	1.99	1
Spain	70	-1	1.16	0
Italy	131	0	1.56	0
Portugal	121	-1	1.81	0
Ireland	32	-1	0.21	0
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

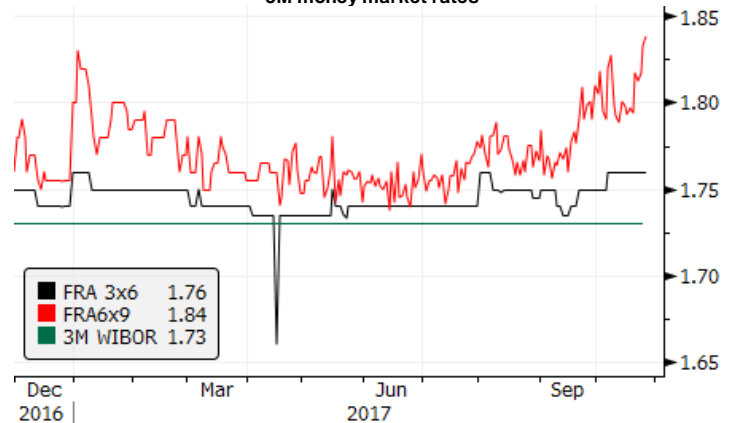
Zloty exchange rate



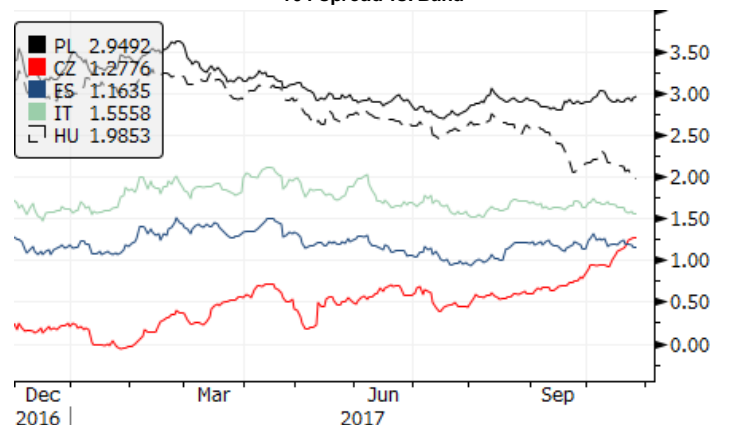
T-bonds yields



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 (20 October)								
Polish rating review by S&P								
14:30	US	Home sales	Sep	% m/m	-0.9	-	0.7	-1.7
MONDAY (23 October)								
14:00	PL	Money supply	Sep	% y/y	5.6	5.6	5.4	5.5
TUESDAY (24 October)								
9:30	DE	Flash PMI – manufacturing	Oct	pts	60.0	-	60.5	60.6
9:30	DE	Flash PMI – services	Oct	pts	55.5	-	55.2	55.6
10:00	EZ	Flash PMI – manufacturing	Oct	pts	57.8	-	58.6	58.1
10:00	EZ	Flash PMI – services	Oct	pts	55.6	-	54.9	55.8
10:00	PL	Unemployment rate	Oct	%	6.9	6.9	6.8	7.0
14:00	HU	Central bank decision		%	0.90	-	0.90	0.90
WEDNESDAY (25 October)								
10:00	DE	Ifo index	Oct	pts	115.1	-	116.7	115.3
11:00	PL	Bond auction						
14:30	US	Durable goods orders	Sep	% m/m	1.0	-	2.2	2.0
16:00	US	New home sales	Sep	% m/m	-1.0	-	18.9	-3.6
THURSDAY (26 October)								
13:45	EZ	ECB decision		%	0.0	-		0.0
14:00	PL	MPC minutes						
14:30	US	Initial jobless claims	week	k	235	-		222
16:00	US	Pending home sales	Sep	% m/m	0.3	-		-2.6
FRIDAY (27 October)								
14:30	US	Advance GDP	Q3	q/q	2.5	-		3.1
16:00	US	Michigan index	Oct	pts	101.0	-		95.1

Source: BZ WBK. Reuters. Bloomberg

* in case of the revision the data is updated

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