

# EYEOPENER

8 November 2017

## MPC press conference today

- Domestic debt gained, following markets in Europe
- Zloty weaker in reaction to falling equity markets abroad
- Unemployment rate fell in October to 6.6%
- Today, MPC decision and main results of the new NBP economic projections

Core market yields continued to fall on Tuesday. Investors did not like the morning publication of German industrial output (-1.6% m/m vs -1% m/m forecast). In the afternoon the market was upset by news about US tax reform negotiations (which also weighed on equities). As a consequence the belly and the long end of the US and German government yield curves declined by 1bp. The short end of the US curve rose by 2bp and the German counterpart was stable. The move of Eurozone periphery yields was additionally fuelled by words from Portuguese finance minister Mario Centeno about plans to quickly pay off the country's IMF debt and news about EUR180bn of maturing debt in the ECB portfolio. As a result we saw a strong 10bp declines of yields in the Southern Europe.

The domestic debt followed Eurozone debt markets. The Polish sovereign bonds yield curve slid by 2-4 bp over the curve, stronger on the long end. The IRS curve decreased by 3-4bp. The positive news from Eurozone debt market did not affect the rest of CEE region debt.

Today morning we expect the yield decreases to continue and change the trend on the long end in the afternoon. Although the new NBP projection and the tone of the MPC press conference should not give investors strong new argument to pricing bigger likelihood of rate hikes (see the comment below), the long end of the curve will likely be pulled up by expectations for Thursday switch auction. In our opinion, the scale of the move will be marginal owing to the positive mood in the European debt market.

On Tuesday, EURUSD continued the downward march, supported by weakening European stock markets and less optimistic data from the German industry. As a result, EURUSD fell from 1.1600 to 1.5800, temporarily reaching 1.1560. Today the rate is back at 1.16.

EURPLN fell at the very beginning of the yesterday's session but later in the day the exchange rate was on the rise and reached level seen on Monday afternoon. The increase to 4.244 from 4.239 was driven by falling stock prices on the foreign equity markets. On Tuesday, forint continued to

depreciate vs the euro (EURHUF rose to 311.7 from 311) despite Hungarian economic growth forecasts upgrade by the EBRD. EURCZK fell to 25.55. USDRUB rose to 59.4 from 58.5, its highest since August, amid deceleration in oil price growth and inflation falling to 2.7%, its lowest since the comparable data are available. This release might encourage the Russian central bank to cut interest rates further from current 8.25%.

According to the Polish Press Agency, the draft bill on Employees' Capital Plans (new retirement scheme the government plans to introduce, Polish abbreviation PPK) assumes a minimal contribution of 2.0% of gross salary paid by employee and 1.5% paid by employer. PPK are to be created by all employers for all employees who pay social contributions. However, employees would be entitled to opt out from the scheme.

The Labour Ministry said that the registered unemployment rate amounted to 6.6% in October, in line with our forecast. Unemployed count fell by 46k m/m, which is the highest drop in October since 2007 and in our view it results from the reduction of retirement age.

Today we will see the decision and the press conference of the Monetary Policy Council. It seems that the predominant view ahead of the MPC decision is that the new staff projection will make the Council lean somewhat more to the hawkish side. In recent months we have seen a growing number of members who do not agree with the governor's view that rates should stay in place in 2017 and 2018. Some suggested that they will review their (neutral at that time) stance upon seeing the projection. We doubt that the post-meeting statement will sound more hawkish and that after the press conference the market will price-in monetary tightening with greater intensity than before it. The new CPI projection does not need to provide strong arguments for rate hikes, even if it might signal a quicker hit of the 2.5% inflation target than the July edition. Another issue is the dovish governor's choice of wingmen at the press conference. There is a high chance he will appear with two doves by his side (Żyżyński+Łon). Żyżyński+Hardt is another option, yet we would not expect the latter (a hawk) to predetermine the overall tone, especially if the projection does not confirm a persistent breach of the inflation target.

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## FX market

## Today's opening

EURPLN	4.2345	CZKPLN	0.1655
USDPLN	3.6544	HUFPLN*	1.3606
EURUSD	1.1588	RUBPLN	0.0624
CHFPLN	3.6534	NOKPLN	0.4485
GBPPLN	4.8053	DKKPLN	0.5689
USDCNY	6.6315	SEKPLN	0.4346

\*for 100HUF

## Last session in the FX market

06/11/2017

	min	max	open	close	fixing
EURPLN	4.239	4.248	4.245	4.240	4.2449
USDPLN	3.650	3.665	3.655	3.651	3.6585
EURUSD	1.158	1.162	1.161	1.161	-

## Interest rate market

06/11/2017

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

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.61	0	10/25/17	OK0720	2.000
PS0422 (5Y)	2.66	-1	10/25/17	PS0123	2.813
DS0727 (10Y)	3.44	-2	10/25/17	DS0727	3.375

## IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.82	-1	1.66	0	-0.27	0
2L	2.03	0	1.82	0	-0.20	0
3L	2.21	-1	1.93	-1	-0.09	-1
4L	2.38	-1	2.00	-1	0.04	-2
5L	2.52	-2	2.06	-1	0.18	-2
8L	2.84	-1	2.21	-2	0.58	-2
10L	3.00	-2	2.30	-2	0.81	-3

## WIBOR rates

Term	%	Change (bps)
O/N	1.58	-1
T/N	1.58	-1
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	1.81	-2
9x12	1.91	0
3x9	1.84	0
6x12	1.90	0

## Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	3.10	-2
France	18	0	0.39	0
Hungary	116	1	2.02	0
Spain	61	0	1.11	-2
Italy	117	1	1.43	-2
Portugal	111	1	1.66	-1
Ireland	32	-1	0.22	0
Germany	10	0	-	-

\* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

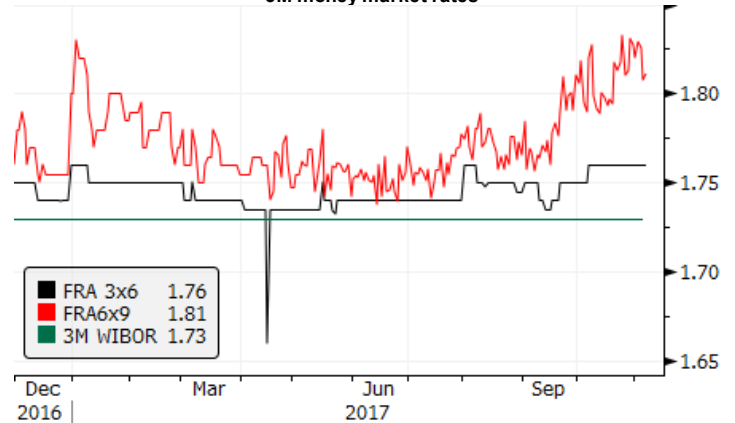
## Zloty exchange rate



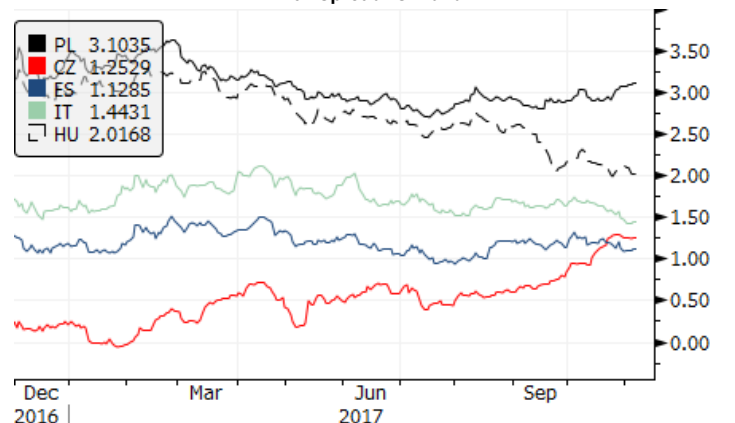
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	BZWBK		
FRIDAY (3 November)								
13:30	US	Non-farm payrolls	Oct	k	313	-	261	-33
13:30	US	Unemployment rate	Oct	%	4.2	-	4.1	4.2
15:00	US	ISM – services	Oct	pts	58.5	-	60.1	59.8
15:00	US	Durable goods orders	Sep	% m/m	2.0	-	2.0	2.2
MONDAY (6 November)								
8:00	DE	Industrial orders	Sep	% m/m	-1.4	-	1.0	3.6
9:00	CZ	Industrial output	Sep	% m/m	3.5	-	4.4	5.8
9:55	DE	PMI – services	Oct	pts	55.2	-	54.7	55.6
10:00	EZ	PMI – services	Oct	pts	54.9	-	55.0	55.8
TUESDAY (7 November)								
8:00	DE	Industrial output	Sep	% m/m	-1.0	-	-1,6	2.6
11:00	EZ	Retail sales	Sep	% m/m	0.6	-	0.7	-0.1
WEDNESDAY (8 November)								
	PL	MPC decision		%	1.50	1.50		1.50
THURSDAY (9 November)								
8:00	DE	Exports	Sep	% m/m	-1.3	54.4		2.9
9:00	CZ	CPI	Oct	% y/y	2.7	-		2.7
9:00	HU	CPI	Oct	% y/y	2.3	-		2.5
11:00	PL	Bond switch auction				0.50		
14:30	US	Initial jobless claims	week	k	-	-		229
FRIDAY (10 November)								
14:00	PL	Current account	Sep	€m	-202	-667		-100
14:00	PL	Exports	Sep	€m	17 090	16 892		15 682
14:00	PL	Imports	Sep	€m	16 846	16 939		15 384
16:00	US	Flash Michigan	Nov	pts	100.0	-		100.7

Source: BZ WBK, Reuters, Bloomberg

\* in case of the revision the data is updated

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