

EYEOPENER

9 November 2017

MPC press conference surprisingly dovish

- **Dovish tone of MPC press conference despite a bit more hawkish tone of the official statement**
- **Domestic debt stronger after the MPC press conference**
- **Zloty gained, despite the MPC rhetoric**
- **Today in Poland switch auction, US jobless claims**

The Monetary Policy Council kept the main interest rates unchanged, with the reference rate at 1.5%. At the same time, the MPC decided to cut the required reserve ratio on funds with maturity of at least two-years to 0% (from current 3.5%) – the decision will be effective since March 2018. The NBP projection showed CPI path with mid-point higher than the previous one by c.0.25pp in 2018-19 and GDP growth higher by 0.15pp in 2017-18. In the crucial fragment of the official statement, the MPC dropped earlier claim that the risk of exceeding the inflation target in the medium term is limited. The statement said also that core inflation rose and is moderate, while in previous months they wrote that it remains low. A bit more hawkish MPC statement was offset by a dovish tone of the press conference. It seems that the NBP Governor Glapiński still holds a firm majority. Present at the conference MPC member Łukasz Hardt did not mention too much hawkish arguments and said that MPC should not abstain the decision until the beginning of 2018. We think a change of balance of views in the rate-setting panel would require more evidence from the economic data of building wage and inflationary pressures. We expect that the data will provide such evidence but it will take at least a few months. Therefore, after a short-time relief on the market after more dovish than expected press conference, the expectations for rate hikes could start building again at the start of 2018 ([the full comment on MPC decision was published yesterday](#)).

On Wednesday, the core debt market upswing lost steam. The US and German yield curves moved down a bit during the day, but returned above opening levels at the end of the session. Euro zone peripheral bond yields returned to levels observed on Tuesday (excluding Portuguese papers). As regards CEE debt, Czech yields climbed due to worries about further rate hikes. Hungarian yields went down (except for 2Y) given that the central bank's minutes included an announcement of introduction of tools lowering financing costs. Russian 10Y yields fell.

The domestic debt market could not decide on direction in the morning. The yields saw ebbs and flows, at times copying the

behavior of core markets and then switching focus to expectations about the new NBP projection (where investors eyed a rise of the CPI path). The end of the day brought a decline of the entire yield curve. The move was worth 3bp in the short end and 1bp in the long end. It was a reaction to a dovish commentary of the MPC to the new projection (despite the fact that it showed higher inflation forecasts). On the interest rate derivatives market the IRS curve shifted downwards by 2bp. The FRA curve reacted to the dovish tone of the press conference by moving the long end (9M+) lower by 3-5bp. This is equal to a postponement of the expected date of the first rate hike to early 2019. It is understandable given how the MPC members and the governor sounded at the press conference, but in our view pricing of a quicker rate hike will return in a couple of months together with the data confirming acceleration of wage growth and inflation.

Today the Ministry of Finance will hold a bond switch auction at which it will offer OK0720, WZ1122, PS0123, DS0727 and WZ0528. Given the Ministry's target of extending the total debt maturity, we expected limited supply of OK0720, just like on the previous auctions. This should keep the front end of the curve low. Yields on the belly and long end may rebound towards Wednesday's opening levels.

EURUSD fluctuated throughout Wednesday between 1.1580 and 1.1600 without a clear trend. The lack of important data and the stabilisation on stock markets hampered the exchange rate to get on a distinct track. On Thursday we expect the EURUSD to stabilise near the current levels.

Zloty appreciated slightly on Wednesday, which translated to the drop of EURPLN from 4.2450 to 4.2350. The dovish tone of MPC press conference (accompanying the increased inflation forecast) did not have a negative impact on PLN value. The remaining currencies of the region weakened, except for the Russian ruble which remained relatively stable. EURHUF climbed from 311.60 to 312.00 supported by the dovish tone of the Hungarian central bank's minutes. EURCZK also increased (from 25.55 to 25.60), notwithstanding expectations of tightening the monetary policy by the Czech central bank, reflected in interest rate instruments.

Today we expect EURPLN to stabilise with the risk of zloty depreciation vs euro over upcoming weeks.

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FX market

Today's opening

EURPLN	4.2346	CZKPLN	0.1655
USDPLN	3.6463	HUFPLN*	1.3567
EURUSD	1.1614	RUBPLN	0.0616
CHFPLN	3.6537	NOKPLN	0.4473
GBPPLN	4.7943	DKKPLN	0.5689
USDCNY	6.6313	SEKPLN	0.4354

*for 100HUF

Last session in the FX market

08/11/2017

	min	max	open	close	fixing
EURPLN	4.230	4.247	4.247	4.236	4.2423
USDPLN	3.647	3.669	3.667	3.654	3.6595
EURUSD	1.157	1.161	1.158	1.159	-

Interest rate market

08/11/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.56	-4	10/25/17	OK0720	2.000
PS0422 (5Y)	2.60	-3	10/25/17	PS0123	2.813
DS0727 (10Y)	3.39	-1	10/25/17	DS0727	3.375

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.80	-1	1.68	1	-0.27	0
2L	2.01	-1	1.84	0	-0.20	0
3L	2.17	-2	1.94	1	-0.09	0
4L	2.32	-3	2.01	1	0.04	0
5L	2.47	-3	2.07	1	0.18	0
8L	2.77	-4	2.22	1	0.58	0
10L	2.93	-3	2.30	2	0.81	0

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	-2
9x12	1.90	0
3x9	1.83	0
6x12	1.88	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	3.06	-2
France	19	0	0.37	0
Hungary	116	1	1.94	-1
Spain	62	4	1.14	-1
Italy	116	3	1.40	-1
Portugal	113	4	1.65	-2
Ireland	32	-1	0.20	0
Germany	10	1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

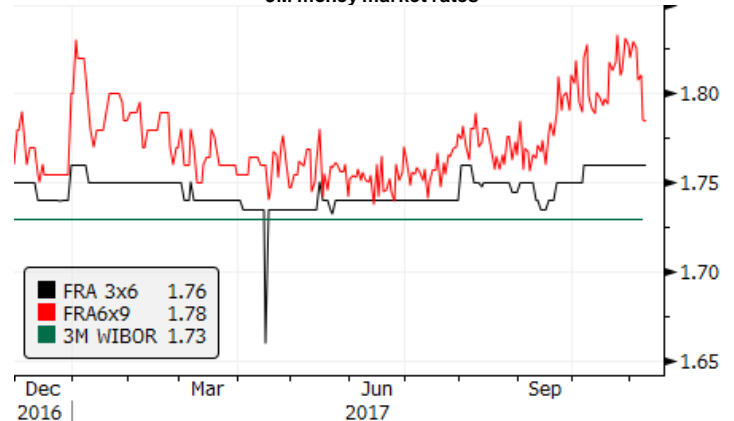
Zloty exchange rate



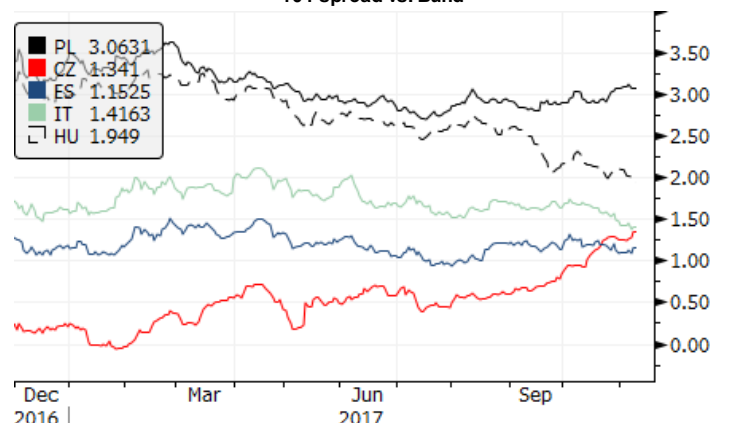
T-bonds yields



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 (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	1.50
THURSDAY (9 November)								
8:00	DE	Exports	Sep	% m/m	-1.3		-0.4	2.9
9:00	CZ	CPI	Oct	% y/y	2.7	-	2.9	2.7
9:00	HU	CPI	Oct	% y/y	2.3	-	2.2	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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