

EYEOPENER

16 November 2017

Next comments of MPC members

- Sharp deterioration of global market mood
- Next comments of MPC members
- EURPLN stable, EURUSD swings drive USDPLN
- Polish bonds follow core market
- Today, final euro zone HICP nad next US data

The MPC member Grażyna Ancyparowicz said yesterday that there was no reason to raise interest rates until the end of 2018. She added that such a move could only trigger shocks. This statement sounds dovish contrary to what Ancyparowicz stated after the October MPC meeting. In our opinion, the further rapid growth of wages and their impact on prices may be a reason for a rate hike not only for Grażyna Ancyparowicz. Today in the morning Eugeniusz Gatnar said in the interview for Polish Press Agency that in his view 1Q18 will be the right moment to raise rates by 25bp. He considers the new NBP inflation projection to be too low and assumes that the inflation target of 2.5% y/y will be reached already in the first three months of 2018. We think that inflation may hit the target around the middle of next year and that the Council will hike rates in 2H18.

Another day of falls on the stock markets pushed down the yields on the core debt markets. As usual, the effect was the strongest on the long end and belly of the yield curves. As a result, the German curve slipped in the 5Y-10Y segment by 2-3bps and the US one by 3-4bps. The short end of the US curve rebounded in the afternoon to levels at the opening, while the German one stepped up by 3bp (temporarily by 6bp). In the case of 2Y German Bunds this was a response to the Tuesday's auction, when a relatively large volume of 2Y bonds was sold (cEUR 4bn). Investors did not react to the US data, which was close to expectations.

In the first half of the day, Polish bonds followed the core markets, but strong falls at the opening of US equity market discouraged investors from buying Polish securities, triggering a sell-off in the afternoon. As a result, 5- and 10Y bond yield ended the day only 1bp lower than on Tuesday, while 2Y bond returned to Tuesday closing level. The IRS curve was less volatile than the bond curve and went down by 1-2bp at the end of the session.

Today we expect a rise of the domestic yield curve, especially of the long end. Such move should be supported by expectations

for solid data from the Polish labour market and by continued weak sentiment for risk assets.

On Wednesday EURUSD tried to continue to move higher and reached 1.185 at the peak. However in the afternoon the gains from the morning were reversed and the pair came down to 1.18. The decline in EURUSD occurred amid a rapid deterioration on stock exchanges during the day (lower demand for risky assets was positive for the dollar), including a large drop of the German DAX index.

EURPLN retreated in the first half of the day to 4.239 but returned to opening levels in the following hours (4.248). In general, yesterday's EURPLN moves were limited, history on USDPLN chart was a bit more interesting as the exchange rate fell to 3.58 but rebounded to 3.60 at the end of the day. Other CEE currencies lost as EURCZK climbed to 25.63 from 25.50, while EURHUF moved to 312.45 from 311.80. USDRUB corrected a bit down as the oil prices stabilized.

We think that risk aversion will hold in the second half of the week so the zloty will weaken further. In our view, there is low chance that Polish employment data, due for release on Friday, will affect this trend.

Deputy prime minister Mateusz Morawiecki said yesterday that within a few years he wants to see a budget surplus in Poland. He added that the reform of open pension funds would take place within 12-24 months and that the tightening of the increased tax collection efficiency brought the inflows of PLN20bn in 2017. In 20218, it is to contribute PLN 10bn. We are rather skeptical about the announced budget surplus – the observation of Multiyear Financial Plans of the state indicates that successive governments expect the deficit to shrink in the upcoming years, whilst the reality turns quite different. Similarly, we think that the effect of tax tightening is actually twice lower than implied by deputy prime minister Morawiecki.

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FX market

Today's opening

EURPLN	4.2402	CZKPLN	0.1656
USDPLN	3.6006	HUFPLN*	1.3593
EURUSD	1.1776	RUBPLN	0.0600
CHFPLN	3.6342	NOKPLN	0.4376
GBPPLN	4.7380	DKKPLN	0.5697
USDCNY	6.6349	SEKPLN	0.4277

*for 100HUF

Last session in the FX market

15/11/2017

	min	max	open	close	fixing
EURPLN	4.241	4.251	4.248	4.245	4.2487
USDPLN	3.580	3.606	3.606	3.598	3.5886
EURUSD	1.178	1.186	1.178	1.180	-

Interest rate market

15/11/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.58	-1	10/25/17	OK0720	2.000
PS0422 (5Y)	2.60	-1	10/25/17	PS0123	2.813
DS0727 (10Y)	3.44	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	1.70	0	-0.27	0
2L	2.03	-1	1.87	-1	-0.20	0
3L	2.22	0	1.97	-1	-0.08	0
4L	2.38	-1	2.04	-2	0.06	-1
5L	2.53	-2	2.10	-2	0.20	-1
8L	2.85	-2	2.25	-3	0.60	-2
10L	3.00	-2	2.33	-3	0.84	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.56	-2
T/N	1.56	-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	1.75	0
6x9	1.80	1
9x12	1.90	-1
3x9	1.83	-1
6x12	1.88	-1

Measures of fiscal risk

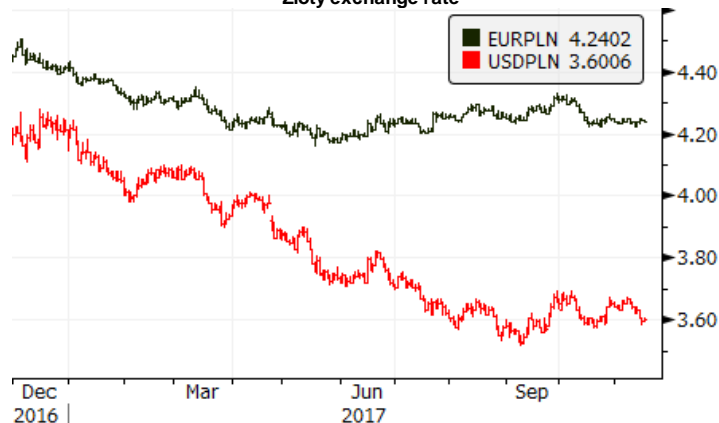
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	3.06	1
France	19	1	0.36	0
Hungary	116	1	1.85	0
Spain	71	2	1.17	0
Italy	123	5	1.46	0
Portugal	110	-37	1.61	0
Ireland	32	-1	0.22	0
Germany	10	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

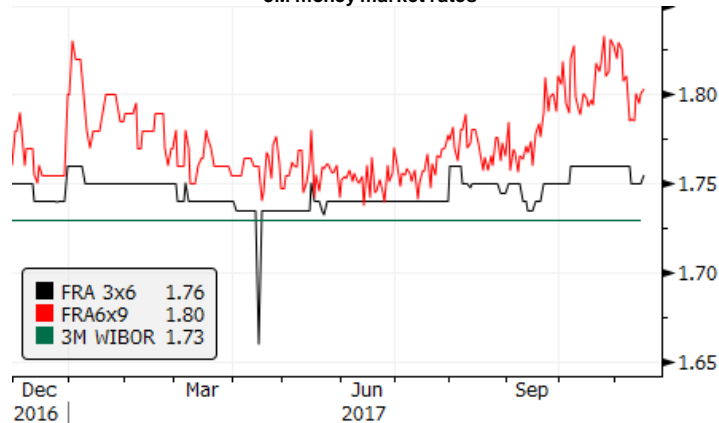
Zloty exchange rate



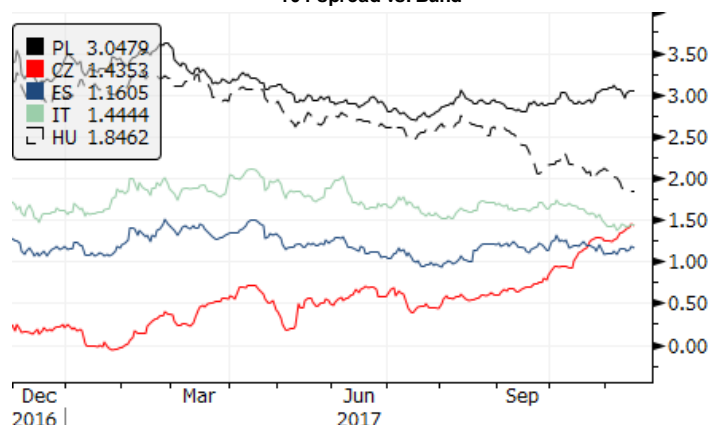
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar								
TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	BZWBK		
FRIDAY (10 November)								
16:00	US	Flash Michigan	Nov	pts	100.8	-	97.8	100.7
MONDAY (13 November)								
14:00	PL	CPI	Oct	% y/y	2.1	2.1	2.1	2.2
14:00	PL	Current account	Sep	€m	-350	-667	-100	-100
14:00	PL	Exports	Sep	€m	17 050	16 892	17 207	15 661
14:00	PL	Imports	Sep	€m	16 686	16 939	16 443	15 383
TUESDAY (14 November)								
8:00	GE	Flash GDP	Q3	% y/y	2.3	-	2.8	2.3
9:00	CZ	Flash GDP	Q3	% y/y	4.8	-	5.0	4.7
9:00	HU	Flash GDP	Q3	% y/y	3.7	-	3.6	3.3
10:00	PL	Flash GDP	Q3	% y/y	4.5	4.3	4.7	3.9
11:00	EZ	Flash GDP	Q3	% y/y	2.5	-	2.5	2.5
11:00	EZ	Industrial output	Sep	% y/y	3.3	-	3.3	3.8
11:00	GE	ZEW index	Nov	pts	88.0	-	88.8	87.0
14:00	PL	Core inflation	Oct	% y/y	0.9	0.8	0.8	1.0
WEDNESDAY (15 November)								
14:30	US	CPI	Oct	% m/m	0.1	-	0.1	0.5
14:30	US	Retail sales	Oct	% m/m	0.0	-	0.2	1.6
THURSDAY (16 November)								
11:00	EZ	CPI	Oct	% y/y	1.4	-		1.5
14:30	US	Initial jobless claims	week	k	-	-		239
14:30	US	Philly Fed index	Nov	pts	24.0	-		27.9
15:15	US	Industrial output	Oct	% m/m	0.4	-		0.3
FRIDAY (17 November)								
14:00	PL	Wages in corporate sector	Oct	% y/y	6.5	6.4		6.0
14:00	PL	Employment in corporate sector	Oct	% y/y	4.5	4.5		4.5
14:30	US	House starts	Nov	% m/m	5.4	-		-4.7
14:30	US	Building permits	Nov	% m/m	1.4	-		-3.7

Source: BZ WBK. Reuters. Bloomberg

* in case of the revision the data is updated

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