

EYEOPENER

17 November 2017

Today Polish labour market data

- Zloty and bonds gain amid global market improvement
- Kropiwnicki sees no threat from wage pressure
- Today, Polish labour market data

Bonds and zloty gained thanks to improved global sentiment. Additional support for the Polish debt came from the MPC's Jerzy Kropiwnicki's comment deferring the interest rate hike prospects. Today we will get the October data on wages and employment. Our forecasts are 6.4% and 4.5% y/y, respectively, both close to consensus.

The MPC member, Jerzy Kropiwnicki, having got acquainted with NBP projection, decided that there were no grounds for interest rate hikes at least over the next year horizon. His view was driven by the lack of mass wage pressure on the part of state officials at the time when seemingly additional expenses could be accommodated in the central budget. The second reason for withdrawing support for a potential rate hike next year was that NBP inflation projection did not go beyond the upper limit of acceptable deviations, i.e. over 3.5% y/y. A similar criterion was also used by NBP Governor, Adam Glapiński, to justify the opinion that the rate hike in 2018 seems redundant. MPC members opinions released this week indicate that there is still no majority on the Council ready to support a hike next year. We still believe that the distribution of votes on the Council in the coming months will be driven by hard data, especially those related to CPI, wages and investments. If they surprise on the upside, then the number of members ready to consider the earlier monetary policy tightening may increase.

US bonds sold off on Thursday on a wave of optimism regarding the process of reforming American tax system. The German debt behaved in a slightly different way. After some sell-off, it recovered in the second part of the day. The divergence in the behavior of German and American yield curves was caused by fears in Europe about the prospects for inflation and lack of progress in German coalition talks. As a result, the whole US curve shifted up by 2bp on Thursday while the German one, after some rise during the day, returned to closing levels of the previous day.

The domestic yield curve at first rose somewhat in the first half of the day, but in the afternoon it eased by 1-3bp, mostly on the long end. In the case of the IRS curve, we noted a move by 1-2bp which led to further narrowing of the asset swap spread. The rise of prices of domestic bonds was probably caused by remarks from MPC member Jerzy Kropiwnicki which acted

against expectations for a quick rate hike in Poland. Apart from that, the demand for domestic bonds from foreign investors strengthened.

Today we anticipate correction on the bond market which will likely be driven by the expectation for a high reading of domestic labour market release. The expectations for the faster end of tax reform in the US should help to push US yields up generating an upside pressure on Polish rates as well. Moreover, we think that expectations for a high-level reading of domestic industrial production data (which will be released on Monday) will negatively influence Polish debt market.

EURUSD was falling on Thursday, driven by solid US industrial data as well as market expectations for the positive ending of tax reform saga. The news from European front was not so optimistic – there is still no progress in German coalition negotiations due to the migration policy differences and inflation data suggested some prices weakening. As a result, EURUSD fell to 1.177 in the evening from 1.179 in the morning.

EURPLN was moving south and set the daily minimum at 4.23, but later returned close to opening level at 4.24. On one hand, the zloty was undermined by comment of MPC's Jerzy Kropiwnicki, on the other was supported by high risk demand.

EURHUF fell to 311.90, while EURCZK to 25.55. The Czech currency was supported by suggestions of further rate hikes (despite weaker growth of producer prices and falling export and import prices). The forint was backed by high retail sales in October. USDRUB continued to fall and reached 59.70 vs 60.20 at the opening. The Russian currency was underpinned by comment of central bank head Elvira Nabiullina, who suggested only slow and gradual rate cuts to reach 6-7% in one or two years' horizon. The ruble's strengthening was not undermined by lower oil prices and weaker than expected industrial output growth in October (0.0% y/y vs 1.1% expected).

Today we expect the zloty to gain in anticipation of data on domestic wages. However, we do not think EURPLN will diverge significantly from c 4.23. Taking into account the low volatility witnessed in a recent few weeks on the Polish FX market, we assume that until the year-end, the zloty may weaken against the euro.

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FX market

Today's opening

EURPLN	4.2443	CZKPLN	0.1660
USDPLN	3.5972	HUFPLN*	1.3597
EURUSD	1.1799	RUBPLN	0.0603
CHFPLN	3.6241	NOKPLN	0.4384
GBPPLN	4.7633	DKKPLN	0.5703
USDCNY	6.6316	SEKPLN	0.4285

*for 100HUF

Last session in the FX market

16/11/2017

	min	max	open	close	fixing
EURPLN	4.230	4.246	4.245	4.238	4.2346
USDPLN	3.593	3.606	3.598	3.600	3.5958
EURUSD	1.176	1.180	1.180	1.177	-

Interest rate market

16/11/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.59	0	11/9/17	OK0720	1.899
PS0422 (5Y)	2.58	-1	11/9/17	PS0123	2.750
DS0727 (10Y)	3.39	-4	11/9/17	DS0727	3.380

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.79	-1	1.71	2	-0.26	0
2L	2.03	0	1.89	2	-0.19	1
3L	2.20	-1	1.99	2	-0.07	0
4L	2.37	-1	2.06	2	0.06	1
5L	2.52	0	2.12	2	0.21	1
8L	2.84	-1	2.27	2	0.61	1
10L	2.99	-1	2.35	2	0.84	1

WIBOR rates

Term	%	Change (bps)
O/N	1.56	0
T/N	1.57	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	1.78	-2
9x12	1.91	1
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			3.01	-4
France	18	0	0.35	0
Hungary	116	1	1.88	0
Spain	70	-1	1.16	0
Italy	123	0	1.46	0
Portugal	109	-1	1.59	0
Ireland	32	-1	0.21	-1
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

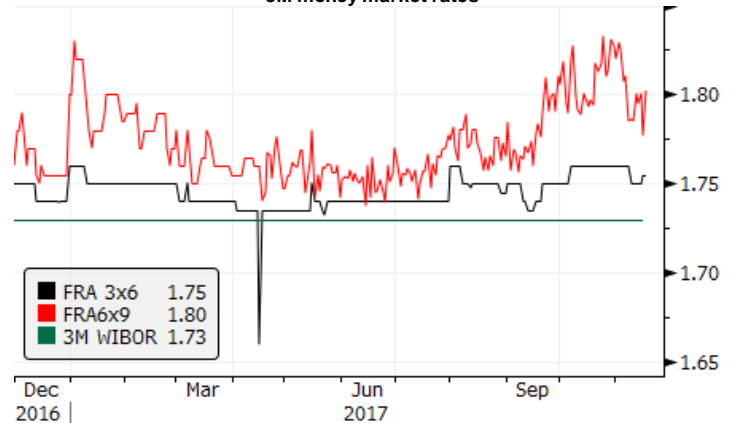
Zloty exchange rate



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 (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	-	1.4	1.5
14:30	US	Initial jobless claims	week	k	-	-	249	239
14:30	US	Philly Fed index	Nov	pts	24.0	-	22.7	27.9
15:15	US	Industrial output	Oct	% m/m	0.4	-	0.9	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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