

# EYEOPENER

5 December 2017

## Zloty and short-term yields higher before the MPC conference

- Fitch upgraded Polish 2017 GDP growth forecast to 4.4%
- Zloty strengthened and short-term bonds weakened amid improvement of forecasts and before MPC conference
- Today the MPC decision in Poland, PMI services in Europe, euro zone retail sales

Today the Polish MPC ends its last meeting of this year. Our and market expectations clearly point to a result of no interest rate change. However the recent data from the Polish economy should heat up the discussion, and the statement may sound a bit more hawkish. The press conference will likely be dominated by NBP governor Adam Glapiński (as a month ago), who still does not see the need to consider rate hikes. Our analysis indicates that he will be accompanied by two members representing extreme opinions within the Council: E.Łon (very dovish) and either K.Zubelewicz or E.Gatnar (both are considered top hawks). The markets have prepared partially for the result of the meeting by strengthening the zloty and rising yields in the short end of the curve.

Fitch raised GDP forecasts for Poland: for 2017 from 4% to 4.4%, for 2018 from 3.2% to 3.6%. The agency assumes there could be some positive surprise from consumption. The main risk to its forecasts comes from labour shortage. Fitch sees 100bp of interest rate hikes next year (market consensus is 25bp) and additional 50bp in 2019. According to the agency the expectations of tighter financing conditions will be among the key reasons of GDP growth slowdown after 2017. In 4Q17 alone, the agency estimates the GDP growth to be 3.9% y/y (in our view it will exceed 4%). This Friday Fitch may issue Poland's rating review. In our view we will see confirmation of the current A- grade and the stable rating outlook.

On Monday morning, we saw the correction of Friday's yields drops on the core debt markets. Similarly as on Friday the move was triggered by news from the borderline of economy and politics. This time the trigger was information about a progress in work on US tax reform. As a consequence, the US and Germany yield curves in the 5Y-10Y segment went up by 3-4 bp. In the afternoon the yields were going down gradually, ignoring US durable goods data which beat expectations.

On the domestic debt market, the yields were increasing by 1-2 bp in the belly and on the front end of the curve, while the long

end of the curve decreased by c2bp. In our opinion the upward shift of the short end of the curve, which we have seen since last Thursday, was a consequence of market expectations for more hawkish tone of today's MPC conference. The Fitch decision to raise the Polish GDP growth forecasts has negatively but temporarily affected the long end of the curve. The IRS rates increased in the 5Y segment. The Czech and Hungarian debt remained relatively stable over the day.

Today, we are expecting a further rise of yields in 2-5Y segment and a bit less pronounced sell-off in 10Y sector in reaction to the MPC press conference. In our view, we are likely to hear a series of questions about potential monetary tightening given that inflation reached the NBP target. Further in the week, we are expecting the curve to develop a bearish flattener. We still expect a downward pressure on asset swap spread, mostly in the 5Y segment.

EURUSD was falling gently on Monday after somewhat higher volatility witnessed on Friday after signals from the US on the potential political crisis. The US data on factory orders and strong performance of equity market did not have much impact on EURUSD. Through whole session, the exchange rate fell to 1.1855 from 1.1855. At the same time, British pound got hit after the information that there is still no sufficient progress in talks about Brexit conditions – EURGBP rose to 0.88.

The zloty was gaining for the better part of the Monday's session thanks to, amid others, Fitch agency that revised Polish GDP growth forecasts up. As a result, EURPLN eased to 4.206 from 4.213. In the case of the other CEE currencies, the Czech koruna lost slightly while the forint gained temporarily vs the euro. The ruble appreciated after Friday's depreciation triggered by the risk of a political crisis in the US with Russia potentially being involved. Cheaper oil did not weigh on the ruble yesterday.

Today we see some chances for a stronger zloty, thanks to expectations for a bit more hawkish tone of the MPC communique and media information that Mateusz Morawiecki is likely to replace Beata Szydło as the Prime Minister.

Yesterday Senate's Commission of Family, Senior and Social Policy recommended to postpone the cancelation of limit on pension contributions to January 2019.

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## FX market

## Today's opening

EURPLN	4.2042	CZKPLN	0.1645
USDPLN	3.5442	HUFPLN*	1.3404
EURUSD	1.1863	RUBPLN	0.0604
CHFPLN	3.5950	NOKPLN	0.4246
GBPPLN	4.7527	DKKPLN	0.5650
USDCNY	6.6126	SEKPLN	0.4202

\*for 100HUF

## Last session in the FX market

04/12/2017

	min	max	open	close	fixing
EURPLN	4.198	4.224	4.210	4.205	4.2082
USDPLN	3.540	3.557	3.549	3.550	3.5499
EURUSD	1.183	1.189	1.188	1.184	-

## Interest rate market

04/12/2017

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

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
DS1019 (2L)	1.65	0	11/23/17	OK0720	1.846
PS0123 (5L)	2.76	0	11/23/17	PS0123	2.704
DS0727 (10L)	3.32	-1	11/23/17	DS0727	3.338

## IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.81	0	1.80	3	-0.26	0
2L	2.07	0	2.00	4	-0.19	0
3L	2.26	1	2.10	5	-0.06	0
4L	2.42	1	2.17	5	0.07	0
5L	2.56	2	2.22	5	0.21	1
8L	2.86	0	2.34	5	0.59	2
10L	3.01	1	2.40	5	0.81	2

## WIBOR rates

Term	%	Change (bps)
O/N	1.52	-4
T/N	1.52	-5
SW	1.58	-1
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	-2
6x9	1.82	-1
9x12	1.91	-2
3x9	1.83	-2
6x12	1.91	0

## Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.97	-2
France	16	0	0.31	0
Hungary	116	1	1.73	0
Spain	55	-2	1.06	0
Italy	114	-1	1.37	0
Portugal	101	0	1.54	0
Ireland	25	-1	0.21	1
Germany	9	0	-	-

\* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

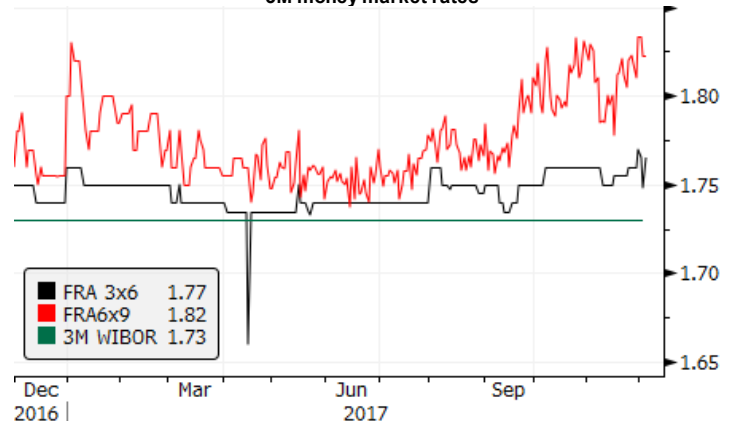
## Zloty exchange rate



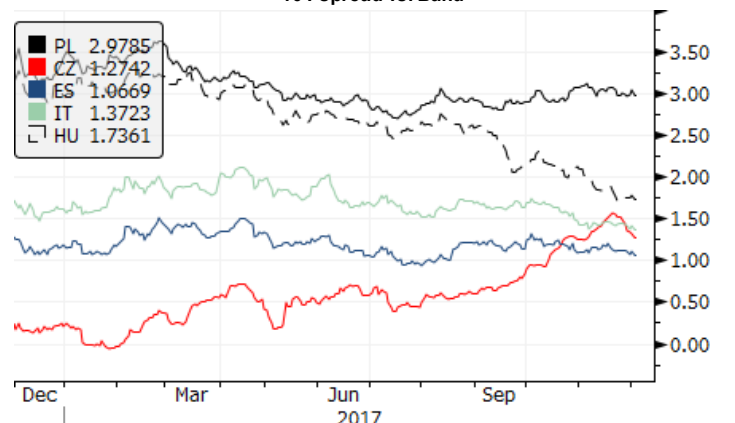
## T-bonds yields



## 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 (1 December)								
09:00	CZ	GDP SA	3Q	% y/y	5,0	5,0	5,0	
09:00	PL	Poland Manufacturing PMI	Nov	pts	54,0	54.6	54.2	53.4
09:55	DE	Germany Manufacturing PMI	Nov	pts	62.5		62.5	62.5
10:00	EZ	Eurozone Manufacturing PMI	Nov	pts	60,0		60.1	60,0
16:00	US	ISM manufacturing	Nov	pts	58.3		58.2	58.7
MONDAY (4 December)								
16:00	US	Durable Goods Orders	Oct	% m/m	-1,0		-0.8	-1.2
16:00	US	Factory Orders	Oct	% m/m	-0.4		-0.1	1.4
TUESDAY (5 December)								
	PL	Poland Base Rate Announcement		%	1.5	1.5	-	1.5
02:45	CH	Caixin China PMI Services	Nov	pts	-		-	51.2
09:55	DE	Markit Germany Services PMI	Nov	pts	54.9		-	54.9
10:00	EZ	Eurozone Services PMI	Nov	pts	56.2		-	56.2
11:00	EZ	Retail Sales	Oct	% m/m	-0.7		-	0.7
16:00	US	ISM services	Nov	pts	59.0		-	60.1
WEDNESDAY (6 December)								
08:00	DE	Factory Orders	Oct	% m/m	-0.2		-	1.0
14:15	US	ADP report	Nov	k	190,0		-	234.9
THURSDAY (7 December)								
08:00	DE	Industrial Production SA	Oct	% m/m	0.95		-	-1.6
11:00	EZ	GDP SA	3Q	% y/y	2.5		-	2.5
14:30	US	Initial Jobless Claims	Dec-17	k	240		-	238
FRIDAY (8 December)								
	PL	Rating Review						
08:00	DE	Exports SA	Oct	% m/m	1.0		-	-0.4
14:30	US	Change in Nonfarm Payrolls	Nov	k	200		-	261
14:30	US	Unemployment Rate	Nov	%	4.1		-	4.1
16:00	US	Michigan index	Dec	pts	99.0		-	98.5

Source: BZ WBK, Reuters, Bloomberg

\* in case of the revision the data is updated

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