

EYEOPENER

6 December 2017

MPC still dominated by doves

- NBP governor signaled that strong macro data did not change the pledge to keep interest rates unchanged
- Bond yields lower, EURPLN higher; global risk aversion rising
- Today German factory orders, US ADP report

The Monetary Policy Council kept the main interest rates unchanged, as expected. The MPC also decided to reduce interest on the mandatory reserve to 0.5% (from 1.35%), with effect from 1 January 2018. The latter decision will increase the NBP profit (at the expense of commercial bank profits) by around PLN350m per year, according to our estimates. According to the NBP governor the decision was of a technical nature and – together with the last month's tweak to the reserve ratio – was aimed at promoting long-term deposits (>2Y). The official MPC communique was relatively soft. The Council acknowledged that inflation's rise to 2.5% in November was fueled mainly by the prices of food and energy, while core inflation remained low. They also wrote that wage growth in the total economy remained stable in 3Q and unit labor costs even decelerated. The MPC maintained its assessment that the current level of interest rates supports well-balanced economic growth and macroeconomic stability. The post-meeting press conference was even softer. Adam Glapiński repeated his claim that interest rates should remain on hold until the end of 2018. In his view, the recent data did not challenge this opinion, but even confirmed it – wage pressure is not rising but even (in his view) decreasing, core inflation remains low, growth of unit labor costs decelerated. Glapinski was accompanied by Eryk Lon (extremely dovish) and Rafal Sura (moderately dovish), and both MPC members confirmed his assessment that there is no need for monetary policy adjustment.

In sum, the official statement and the press conference confirmed that the NBP governor Glapiński still firmly controls the majority in the rate-setting panel, with no desire to change the monetary policy stance in the foreseeable future. However, we suspect that the recent strong data releases could have deepened the divisions in the MPC. The announcement of the decision (13:55CET) was unusually late (latest since March 2015, when the MPC cut rates by 50bps) and we suspected that it could have resulted from more heated discussion about the monetary policy outlook. Governor Glapinski did not confirm this assessment. However, we guess that more hawkish Council members will be more vocal in expressing their concerns in the coming weeks. But, of course, to see a significant change in the

balance of votes would require much more hard arguments from economic data. For now, we assume that the first interest rate hike is still likely in the final quarter of 2018.

On Tuesday the short end US yields were rising by 1 bp was driven by expected rate hike on the December Fed meeting, despite the stock market and commodities drops and lower than expected ISM services reading. In the 10Y segment the US yields slid by 2 bp after the European market closing. On the German market the yields curve eased by 2-3 bp. This move was triggered by weaker than expected services PMI.

Domestic yields and IRS rates were sliding, driven by German bond market behavior. At the afternoon dovish tone of MPC conference delivered additional fuel for decreases. As a result, the yield and IRS curves went down by 3-5 bp, stronger on the long end.

Today we expect the short-term yields to continue the down trend which should be supported by weaker expectations for faster rate hikes after the yesterday's MPC press conference. The belly and long end should remain stable. In the week-end horizon we think Polish bonds could gain slightly.

EURUSD eased to 1.186 from 1.188 amid below-consensus final services PMIs in Europe and information on progress with US tax reform.

EURPLN started the yesterday's session with a drop to below 4.20 but soon rebounded back to the opening level at near 4.205. Dovish tone of the MPC press conference coincided with the end of the exchange rate down move. EURCZK rose on Tuesday to 25.65 from 25.6 which might have been triggered by comment of Jiri Rosnok saying that next rate hikes could take place in 2018 (while the market was pricing a December hike). EURHUF was also on the rise despite positive surprise in headline 3Q GDP figure (3.9% vs flash estimate at 3.6%). USDRUB continued the downtrend and closed the day at 58.7 despite lower CPI data that supported market expectations for a December rate cut to 8%.

Today the zloty and its CEE peers may be under slight pressure of higher global risk aversion – yesterday's session in the US and today's in Asia ended in red on the equity market and European futures open lower vs yesterday's closing. The clear message from the Polish central bank governor that no rate hike should be expected before the end of 2018 may also weigh on the zloty.

ECONOMIC ANALYSIS DEPARTMENT:

al. Jana Pawła II 17, 00-854 Warsaw fax +48 22 586 83 40

email: ekonomia@bzwbk.pl

Web site: skarb.bzwbk.pl

Piotr Bielski +48 22 534 18 87

Marcin Luziński +48 22 534 18 85

Grzegorz Ogonek +48 22 534 19 23

Konrad Soszyński +48 22 534 18 86

Marcin Sulewski +48 22 534 18 84

TREASURY SERVICES:

Poznań +48 61 856 5814/30

Warszawa +48 22 586 8320/38

Wrocław +48 71 369 9400

FX market

Today's opening

EURPLN	4.2126	CZKPLN	0.1642
USDPN	3.5632	HUFPLN*	1.3406
EURUSD	1.1822	RUBPLN	0.0605
CHFPLN	3.6116	NOKPLN	0.4301
GBPPLN	4.7775	DKKPLN	0.5661
USDCNY	6.6141	SEKPLN	0.4246

*for 100HUF

Last session in the FX market 05/12/2017

	min	max	open	close	fixing
EURPLN	4.199	4.210	4.205	4.205	4.2024
USDPN	3.540	3.563	3.550	3.562	3.5454
EURUSD	1.181	1.188	1.184	1.181	-

Interest rate market 05/12/2017

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
DS1019 (2L)	1.63	-2	11/23/17	OK0720	1.846
PS0123 (5L)	2.71	-5	11/23/17	PS0123	2.704
DS0727 (10L)	3.27	-5	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	1.81	1	-0.26	0
2L	2.05	-2	2.00	1	-0.19	-1
3L	2.23	-3	2.11	1	-0.07	-1
4L	2.38	-4	2.17	0	0.05	-2
5L	2.52	-4	2.22	0	0.18	-3
8L	2.81	-5	2.32	-1	0.57	-2
10L	2.96	-5	2.38	-2	0.79	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.44	-8
T/N	1.49	-3
SW	1.57	-1
2W	1.61	-1
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	1.77	2
6x9	1.80	-3
9x12	1.91	0
3x9	1.84	1
6x12	1.89	-2

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.98	-2
France	16	0	0.31	1
Hungary	116	1	1.79	3
Spain	56	1	1.10	1
Italy	114	0	1.39	1
Portugal	99	-2	1.56	1
Ireland	25	-1	0.17	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

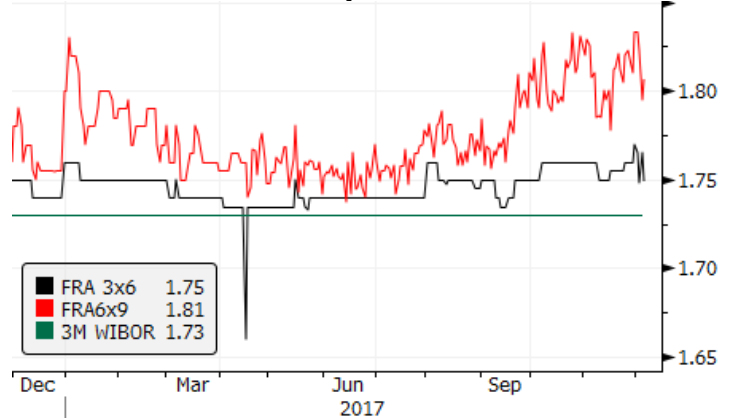
Zloty exchange rate



T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

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
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	-	51.9	51.2
09:55	DE	Markit Germany Services PMI	Nov	pts	54.9	54.3	54.9
10:00	EZ	Eurozone Services PMI	Nov	pts	56.2	56.2	56.2
11:00	EZ	Retail Sales	Oct	% m/m	-0.7	-1.1	0.7
16:00	US	ISM services	Nov	pts	59.0	57.4	60.1
WEDNESDAY (6 December)							
08:00	DE	Factory Orders	Oct	% m/m	-0.2	0.5	-
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

This publication has been prepared by Bank Zachodni WBK S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Bank Zachodni WBK S.A., its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Bank Zachodni WBK S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Bank Zachodni WBK S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

Additional information is available on request. Please contact Bank Zachodni WBK S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawla II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@bzwbk.pl, http://www.bzwbk.pl.