

EYEOPENER

13 December 2017

Core inflation in line with expectations, waiting for the Fed

- Still good mood on the global markets
- Core inflation in line with expectations
- Zloty weaker against EUR and USD fueled by EURUSD drop
- The yields up
- Today: US inflation and FOMC decision

Yesterday global equity indices continued to grow, which negatively affected bond prices. The size of changes on the debt market was however small, as investors are waiting for the result of the FOMC meeting this evening. The dollar strengthened after stronger-than-expected US PPI data, which had a negative impact on CEE currencies.

EURUSD declined yesterday to 1.172 from close to 1.18, mostly on the US data on stronger growth of producer prices than the market expected. To some extent the fx pair was also affected by information that Republicans have lost one seat in the US Senate (reducing their majority to 51-49). Today FOMC meeting is the highlight of the day. The interest rate market has already priced in a 25bp rate hike, but the dollar is now weaker than in June, the last time the Fed raised interest rates. We think the outcome of the FOMC meeting could make the dollar appreciate, which in turn would weigh on emerging market currencies.

EURPLN rebounded yesterday to 4.216 from just above 4.20 while USDPLN jumped to 3.596 from 3.564 amid lower EURUSD. The koruna and forint remained stable near weak levels reached vs the euro in the recent days while the ruble lost slightly vs the dollar. We think the outcome of the FOMC meeting could have a positive impact on the dollar which in turn could weigh on the zloty.

On the domestic interest rate market IRS and bond yields rose and neutralized Monday's drop. This time, the Polish debt was underperforming slightly its core peers but was doing better than bonds from the euro zone peripheries. The outcome of the FOMC meeting could have a key impact on Polish debt at least

in the week-end horizon. We think the tone of the statement and press conference could be somewhat hawkish which might push Polish and foreign yields up. June "dot chart" showed that the FOMC members expect three 25bp rate hikes to be delivered in 2018 and the FRA market is pricing only two hikes.

Yesterday, the Polish parliament voted through the vote of confidence for the new government with Prime Minister Mateusz Morawiecki. According to the Prime Minister's declaration, the social policy is to be continued, while the expenditures for the development of the economy will increase.

The Prime Minister remarked that micro, small and medium-sized enterprises would be the heart of the governmental economic philosophy. Among key areas of Poland's development for the next few years Morawiecki first pointed to the health service and declared that the expenditures on that goal would grow abruptly to 6% of GDP over the next few years.

Morawiecki also said that he would like alternative energy sources to develop in Poland, but not in the name of ideology, only where it is economically justified and likely to bring benefits. As he pointed out, coal is now the basic source of energy and the government does not want to give it up.

He announced long-term reforms, whereby Silesia will also become a basin of new technologies. The Prime Minister also promised to continue the construction of motorways and expressways, including A1, S3 and S7. More funds are to be earmarked for communal and poviast transport, both road and rail

In line with our and market expectations, in November core inflation excluding food and energy prices climbed to 0.9% y/y from 0.8% y/y. An upward move was recorded also in case of other measures of core inflation – excluding administered prices to 2.7% y/y from 2.2% y/y, ex most volatile prices to 1.8% y/y from 1.5% y/y, 15% trimmed mean to 2.0% from 1.7% y/y.

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FX market

Today's opening

EURPLN	4.2024	CZKPLN	0.1640
USDPLN	3.5673	HUFPLN*	1.3371
EURUSD	1.1780	RUBPLN	0.0607
CHFPLN	3.5978	NOKPLN	0.4264
GBPPLN	4.7616	DKKPLN	0.5646
USDCNY	6.6208	SEKPLN	0.4192

*for 100HUF

Last session in the FX market

11/12/2017

	min	max	open	close	fixing
EURPLN	4.193	4.212	4.202	4.211	4.2038
USDPLN	3.559	3.577	3.570	3.571	3.5633
EURUSD	1.176	1.181	1.177	1.179	-

Interest rate market

11/12/2017

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
DS1019 (2L)	1.64	0	11/23/17	OK0720	1.846
PS0123 (5L)	2.67	-3	11/23/17	PS0123	2.704
DS0727 (10L)	3.21	-4	11/23/17	DS0727	3.338

IRS on the interbank market**

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	1.79	1.83	-0.27
2L	2.02	2.01	-0.19
3L	2.19	2.10	-0.07
4L	2.34	2.16	0.07
5L	2.46	2.21	0.20
8L	2.76	2.32	0.57
10L	2.91	2.39	0.79

WIBOR rates

Term	%	Change (bps)
O/N	1.67	12
T/N	1.67	12
SW	1.60	3
2W	1.62	1
1M	1.65	0
3M	1.72	0
6M	1.81	0
9M	1.82	0
1Y	1.85	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.73	0
3x6	1.75	0
6x9	1.78	0
9x12	1.89	-1
3x9	1.83	0
6x12	1.87	-1

Measures of fiscal risk

Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.91 -4
France	16 0	0.33 0
Hungary	116 1	1.80 -1
Spain	54 -1	1.10 -1
Italy	112 -1	1.34 -1
Portugal	97 0	1.48 -1
Ireland	25 -1	0.19 0
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

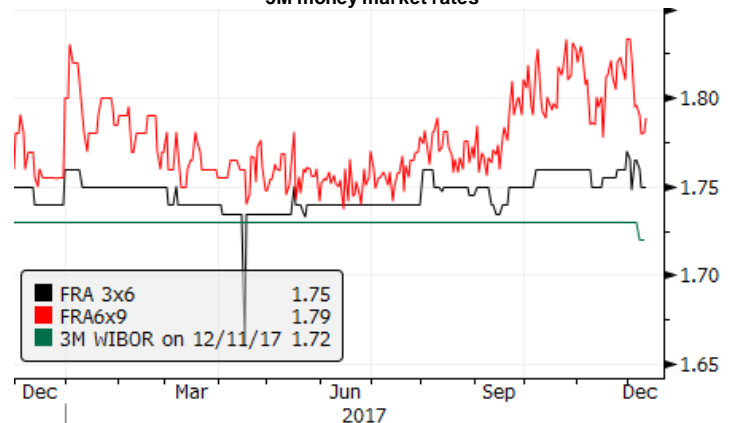
Zloty exchange rate



T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic Calendar			INDICATOR		PERIOD		FORECAST		ACTUAL	LAST
TIME							MARKET	BZWBK		VALUE
CET										
FRIDAY (8 December)										
	PL	Rating Review								
08:00	DE	Exports SA	Oct	% m/m	1.0				-0.4	-0.4
14:30	US	Change in Nonfarm Payrolls	Nov	k	195.0	-			228	244
14:30	US	Unemployment Rate	Nov	%	4.1	-			4.1	4.1
16:00	US	Michigan index	Dec	pts	99.0	-			96.8	98.5
MONDAY (11 December)										
14:00	PL	CPI YoY	Nov	% y/y	2.5	2.5			2.5	2.5
TUESDAY (12 December)										
11:00	DE	ZEW Survey Current Situation	Dec	pts	88.7	-			89.3	88.8
14:00	PL	CPI Core	Nov	% y/y	0.9	0.9			0.9	0.8
WEDNESDAY (13 December)										
11:00	EZ	Industrial Production	Oct	% m/m	0.0	-				-0.6
14:30	US	CPI	Nov	% m/m	0.4	-				0.1
20:00	US	FOMC decision		%	1.25-1.5	-				1-1.25
THURSDAY (14 December)										
09:30	DE	Germany Manufacturing PMI	Dec	pts	62.1	-				62.5
09:30	DE	Markit Germany Services PMI	Dec	pts	54.5	-				54.3
10:00	EZ	Eurozone Manufacturing PMI	Dec	pts	59.7	-				60.1
10:00	EZ	Eurozone Services PMI	Dec	pts	55.9	-				56.2
13:45	EZ	ECB Main Refinancing Rate		%	0.0	-				0.0
14:00	PL	Current Account Balance	Oct	€mn	147					-100
14:00	PL	Trade Balance	Oct	€mn	609					764
14:00	PL	Exports	Oct	€mn	17800					17207
14:00	PL	Imports	Oct	€mn	17371					16443
14:30	US	Initial Jobless Claims	week	k	240	-				236
14:30	US	Retail Sales Advance	Nov	% m/m	0.3	-				0.2
FRIDAY (15 December)										
11:30	PL	Bond Switch Auction								
15:15	US	Industrial Production	Nov	% m/m	0.2	-				0.94

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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