

# EYEOPENER

14 December 2017

## Fed's dovish hike

- Fed lifted interest rates by 25bp and still expects three more interest rate hikes in 2018
- MPC's Ancy parowicz supports rates stability in 2018
- Zloty weaker on Wednesday; EURUSD higher after Fed
- Domestic yields stable, awaiting FOMC decision
- Today, balance of payments for October, ECB decision, flash PMIs in Europe, data from USA

On Wednesday the global market mood was somewhat weaker than in the previous days. European stocks fell but bonds did not benefit from this situation as investors were worried that the tone of the FOMC statement and press conference could be hawkish. As a result, most of the CEE currencies were under pressure and the dollar was holding its gains recorded in the previous days.

The Fed raised interest rates by 25bp to 1.25-1.50%, in line with expectations. The GDP growth forecast for 2018 was raised to 2.5% from 2.1%, apparently discounting the effect of the tax reform. As the same time, the FOMC members' expectations for inflation and interest rates remained roughly unchanged. The "dot-plot" showed that the FOMC members still anticipate three 25bp rate hikes in 2018 and two more in 2019 (unchanged vs the previous projections). More hikes were added only in 2020. The Fed stressed it is watching inflation trends closely and softened its assessment of the situation on the labour market (it no longer expects the labour market to "strengthen" but to "remain strong"). Overall, the statement was perceived as not very hawkish.

EURUSD held near 1.175 as investors were waiting for the FOMC decision. The less hawkish tone of the statement and the press conference hit the dollar and pushed EURUSD above 1.182. Today flash euro zone PMIs could drive the exchange rate while we expect the outcome of the ECB meeting to be market neutral.

EURPLN rose to 4.216 yesterday in the morning and stayed just below Tuesday's peak in the following hours. USDPLN remained flat around 3.585. The forint and koruna lost vs the euro and the ruble gained slightly vs the dollar. Today we will see the Polish balance of payments data for October that in our view could help the zloty to recover slightly after recent depreciation.

The domestic debt market was calm yesterday. IRS rates and bond yields remained near the Tuesday closing levels, despite pressure being observed on the interest rate markets of the Euro zone peripheries. Core markets were also stable, only US Treasuries were seen strengthening. We think that after the Fed's "dovish hike" a strengthening of Polish bonds is possible today.

The Ministry of Finance (MoF) informed that at tomorrow's switch auction it will offer OK0720, WZ1122, PS0123, DS0727, WZ0528 and WS0429 papers. We expect the bigger share of shorter bonds (OK0720) on the auction than was recently observed. According to the latest MoF statement, average debt maturity at the end of November in PLN was 4.51 years. This gives the issuer a greater flexibility of the distributions of issued maturity (MoF's strategy is to extend average maturity to c5 years). As a consequence we forecast further yields increases in the front end of the curve following the auction results.

Today at 1400CET NBP releases data on balance of payments for October. We think the current account balance will show a sizeable surplus, thanks to a decreased deficit of primary income account and strong trade balance in goods and services. Positive working day effect should lift the growth of exports from 10.2% y/y to 19% and imports from 5.7% to 15.6%.

MPC's Grażyna Ancy parowicz was interviewed by the Polish Press Agency (PAP) and Reuters and she admitted that NBP governor Glapiński could be right saying that interest rates could remain flat at least until the end of 2018. In our [Instant comment](#) to November CPI data we wrote that the rise of inflation to 2.5% target driven by non-core components (food, fuel, energy) could be a reason why the less hawkish MPC members may be still not too worried, as these factors are beyond impact of the monetary policy. Ancy parowicz's opinion confirms also that despite her earlier comments we should not place her in the hawkish camp that is for a rate hike in 2018. Ancy parowicz emphasized she was worried about poor investments performance and said that a clear revival of credit growth (including investment loans) could be argument for her to consider a rate hike. In her view, too early hike could be "deadly for the economy".

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## FX market

## Today's opening

EURPLN	4.2215	CZKPLN	0.1644
USDPLN	3.5714	HUFPLN*	1.3434
EURUSD	1.1820	RUBPLN	0.0608
CHFPLN	3.6244	NOKPLN	0.4290
GBPPLN	4.7969	DKKPLN	0.5672
USDCNY	6.6109	SEKPLN	0.4248

\*for 100HUF

## Last session in the FX market

13/12/2017

	min	max	open	close	fixing
EURPLN	4.207	4.219	4.212	4.217	4.2155
USDPLN	3.577	3.594	3.593	3.585	3.588
EURUSD	1.172	1.177	1.172	1.176	-

## Interest rate market

13/12/2017

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

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
DS1019 (2L)	1.64	-1	11/23/17	OK0720	1.846
PS0123 (5L)	2.68	0	11/23/17	PS0123	2.704
DS0727 (10L)	3.24	0	11/23/17	DS0727	3.338

## IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.80	0	1.85	0	-0.27	0
2L	2.02	-1	2.02	-2	-0.19	-1
3L	2.19	-1	2.11	-2	-0.06	0
4L	2.34	-1	2.17	-2	0.07	-1
5L	2.47	-1	2.22	-3	0.21	-1
8L	2.75	-2	2.33	-4	0.58	-1
10L	2.90	-2	2.39	-4	0.80	0

## WIBOR rates

Term	%	Change (bps)
O/N	1.66	-4
T/N	1.66	-4
SW	1.60	-1
2W	1.62	0
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	1.79	0
9x12	1.89	-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			2.93	0
France	16	0	0.34	0
Hungary	116	1	1.85	0
Spain	56	1	1.17	-1
Italy	115	3	1.47	-1
Portugal	98	1	1.54	-2
Ireland	25	-1	0.21	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

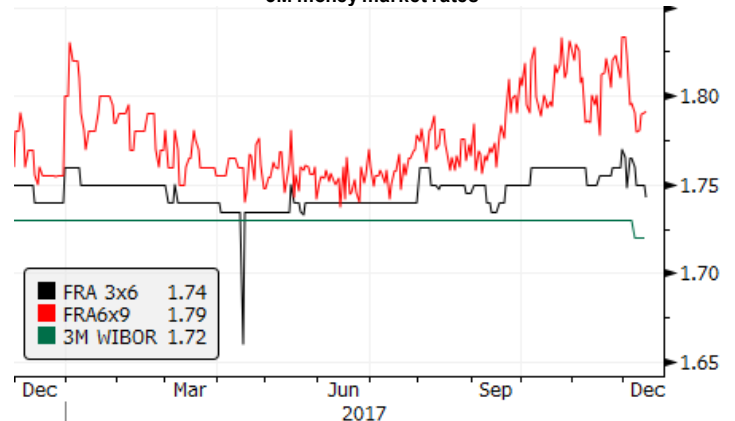
## Zloty exchange rate



## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic calendar

Economic calendar			TIME		INDICATOR		PERIOD		FORECAST		ACTUAL		LAST	
			CET						MARKET		BZWBK		VALUE	
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	-				0.2		-0.5
14:30	US	CPI			Nov	% m/m	0.4	-				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	62.0	-						62.5
09:30	DE	Markit Germany Services PMI			Dec	pts	54.6	-						54.3
10:00	EZ	Eurozone Manufacturing PMI			Dec	pts	59.7	-						60.1
10:00	EZ	Eurozone Services PMI			Dec	pts	56.0	-						56.2
13:45	EZ	ECB Main Refinancing Rate				%	0.0	-						0.0
14:00	PL	Current Account Balance			Oct	€mn	210	702						-100
14:00	PL	Trade Balance			Oct	€mn	480	748						764
14:00	PL	Exports			Oct	€mn	18100	18478						17207
14:00	PL	Imports			Oct	€mn	17400	17730						16443
14:30	US	Initial Jobless Claims			week	k	236	-						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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