EYEOPENER

18 December 2017

MPC highly tolerant towards inflation

FX market stable at the end of the week

- Russian central bank cuts rates by 50bp
- In 2018 electricity prices for households fairly stable
- Interest rate market calm
- Today in Poland labour market data, abroad final inflation in the euro zone

President of the European Council, Donald Tusk, announced that Brexit negotiations may go to the second stage, namely talks regarding the transition period and future relations, trade issues in particular. The first stage of the talks covered the problems of EU citizens' rights in the UK, the border between Ireland and Northern Ireland and financial settlements. The upcoming stage of the negotiations is likely to be harder in the light of the British Parliament's Wednesday decision whereby the UK Prime Minister was obliged to obtain the approval of the legislative authority for the negotiated terms. We believe that prolonged negotiations will have a negative impact on the British pound.

In today's interview for "Parkiet", the Monetary Policy Council member Kamil Zubelewicz said that he was still supporting the start of a cycle of gradual, small interest rate hikes. In his opinion, such a strategy would prevent the need for rapid monetary policy tightening in the future. He added, however, that NBP rates may remain unchanged even by the end of 2019, as the MPC is "very tolerant towards inflation." He believes that it will be difficult to obtain the majority votes for the hike until inflation exceeds 3.5% due to domestic factors. Such circumstances were noted on Friday by Jerzy Osiatyński who said that the situation on the labor market (wage growth rate and declining labor resources) may disturb the balance of the domestic economy. We think that trends in the labor market in 2018 may surprise some Council members (today we will learn November wages and our forecast is slightly above consenus) and therefore we do not change our scenario of one rate hike by 25bp in 2H18.

URE (Poland Energy Regulatory Office) published a new tariff of households' electricity prices for 2018. Sale price of electricity went slightly up (by c0.5%), but distribution price went up (also by c0.5%), so total change will be close to zero.

The central bank of Russia cut the interest rates by 50bp, to 7.75%, more than the market expected. Bank said that this decision was justified by low inflation (2.5% y/y in November vs. 4.0% target) and extent of agreement with OPEC, which should support the ruble. The tone of the conference was rather dovish. In the central bank governor opinion, Elvira Nabulina, the interest rates will be cut further to the 6-7% in the one-two year

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

perspectives. Earlier the central banker said that the rates would be reduced to 6.5-7.0% in the longer horizon. Nabiullina stressed that CBR sees room for the further sanction from the USA, which could increase the capital outflow and market volatility. The central bank governor stressed that CBR wil not change rates as a response to the sanctions.

In the first half of the Friday session EURUSD was slowly moving higher and temporarily rose above 1.18. Positive US data on industrial output strengthened the dollar and the exchange rate finished the day around 1.178. This week we will get plenty of data from the US, but in our view the markets should be quiet as the year-end is approaching.

On Friday the zloty strengthened against major currencies. EURPLN declined from 4.222 around the opening of the session to 4.21 at the end of the day. USDPLN declined to 3.57, but the dollar rebound following the US data releases sent this pair back to 3.575. We think the next data should be neutral for the zloty and the holiday season should bring stability.

On Friday, the ruble weakened after the CBR decision and USDRUB temporarily broke 59.0. However, the exchange rate quickly returned to the opening level and ended the day slightly above 58.80. EURCZK was stable close to 25.7, while the forint gained versus the euro slightly – EURHUF started the day above 314.0 and ended at 313.50.

The FI market was calm: both IRS and bond yields were stable. The market did not react to auction results.

On the Friday's switch auction, the Finance Ministry sold bonds worth PLN5.9bn. Floaters WZ1122 and WZ0528 recorded the highest sales at PLN2.8bn in total. Fixed-coupon PS1023 was sold in PLN1.2bn volume. Sale of OK0720 was larger than on the previous auctions but still lower than PLN1.0bn. The Ministry informed that after Friday's auction it has covered 16.9% of 2018 gross borrowing needs.

This week, we will learn about Polish November industrial output and retail sales data. Our forecasts are above the consensus but much of the positive news-flow from Poland seems to have already been priced by the FX market and the recent dovish comments of Polish central bankers should immunize domestic FI market against any positive surprises. Globally, we will get to see numerous US data but given that they will be released at the end of the next week, their market impact should be negligible.

On Wednesday, the European Commission may trigger the Article 7 of the EU Treaty against Poland. In our view, its impact on the financial market should be temporary, as the risk of financial sanctions is still remote.

 TREASURY SERVICES:

 Poznań
 +48 61 856 5814/30

 Warszawa
 +48 22 586 8320/38

 Wrocław
 +48 71 369 9400

Bank Zachodni WBK \& Grupa Santander

FX market							
Today's o	pening						
EURF	PLN	4.2086	CZł	KPLN	0.1639		
USDF	PLN	3.5761	HUF	HUFPLN*			
EURL	JSD	1.1769	RUE	BPLN	0.0609		
CHFF	PLN	3.6136	NOł	NOKPLN			
GBPF	PLN	4.7740	DKKPLN		0.5654		
USDO	CNY	6.6128	SEKPLN		0.4212		
*for 100HUF							
Last sess	ion in the	e FX mark	et	15	5/12/2017		
	min	max	open	close	fixing		
EURPLN	4.204	4.225	4.223	4.207	4.2217		
USDPLN	3.570	3.591	3.583	3.583	3.5786		

1.181

EURUSD 1.175

Interest ra T-	14 ank marke	5/12/2017 et**			
Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
DS1019 (2L)	1.63	0	11/23/17	OK0720	1.846
PS0123 (5L)	2.65	-1	11/23/17	PS0123	2.704
DS0727 (10L)	3.22	0	11/23/17	DS0727	3.338

1.179

1.175

IRS on the interbank market**								
Term	F	PL		US	l	EZ		
	%	Change (bps)	%	Change (bps)	%	Change (bps)		
1L	1.79	0	1.86	1	-0.27	0		
2L	2.01	0	2.03	2	-0.18	1		
3L	2.17	0	2.12	2	-0.06	0		
4L	2.32	0	2.17	2	0.07	0		
5L	2.45	0	2.21	2	0.21	0		
8L	2.73	0	2.30	1	0.57	0		
10L	2.89	1	2.35	0	0.78	-1		

WIBOR rates					
Term	%	Change (bps)			
O/N	1.60	-2			
T/N	1.62	0			
SW	1.60	0			
2W	1.61	0			
1M	1.65	0			
3M	1.72	0			
6M	1.81	0			
9M	1.82	0			
1Y	1.85	0			

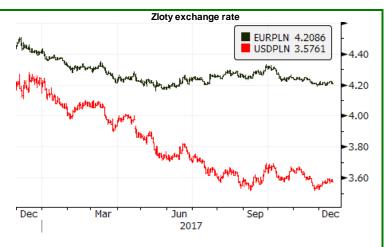
FRA rates on the interbank market**				
Term	%	Change (bps)		
1x4	1.73	0		
3x6	1.75	0		
6x9	1.78	-1		
9x12	1.88	0		
3x9	1.82	-1		
6x12	1.87	-1		

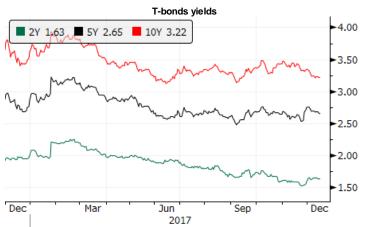
	Meas	sures of fisca	al risk			
Country	CDS	5Y USD	10Y s	10Y spread*		
	Level	Change	Level	Change		
		(bps)		(bps)		
Poland			2.92	0		
France	15	0	0.33	0		
Hungary	116	1	1.76	0		
Spain	55	0	1.14	-1		
Italy	116	1	1.50	-1		
Portugal	96	-1	1.46	-4		
Ireland	25	-1	0.20	-1		
Germany	9	0	-	-		

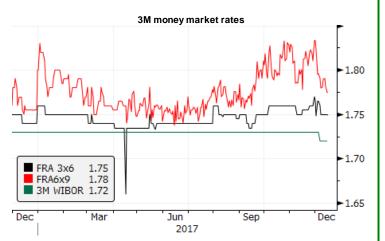
* 10Y treasury bonds over 10Y Bunds

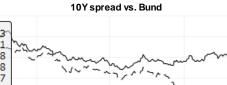
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg









>3.50 ►3.00



\& Grupa Santander

Economic calendar

TIME		INDICATOR	PERIOD		FORE	CAST	ACTUAL VALUE	LAST	
CET					MARKET	BZWBK		VALUE	
	FRIDAY (15 December)								
11:30	PL	Bond Switch Auction			-				
15:15	US	Industrial Production	Nov	% m/m	0.3	-	0.2	1.2	
		MONE	DAY (18 Decei	mber)					
11:00	EZ	HICP	Nov	% y/y	1.5	-		1.5	
14:00	PL	Employment in corporate sector	Nov	% y/y	4.4	4.3		4.4	
14:00	PL	Average Gross Wages	Nov	% y/y	6.9	7.1		7.4	
		TUES	DAY (19 Dece	mber)					
10:00	DE	IFO Business Climate	Dec	pts	-	-		117.5	
14:00	HU	Central Bank Rate Decision	Dec-17	%	0.9	-		0.9	
14:00	PL	Sold Industrial Output	Nov	% y/y	9.0	10.1		12.3	
14:00	PL	Construction Output	Nov	% y/y	14.1	11.2		20.3	
14:00	PL	PPI	Nov	% y/y	2.1	1.9		3.0	
14:00	PL	Retail Sales Real	Nov	% y/y	6.4	7.2		7.1	
14:30	US	Housing Starts	Nov	% m/m	-3.1	-		13.7	
		WEDNE	SDAY (20 Dec	cember)					
16:00	US	Existing Home Sales	Nov	% m/m	0.91	-		2.05	
		THURS	SDAY (21 Dec	ember)					
14:00	PL	MPC minutes	Dec-17		-				
14:30	US	GDP Annualized	3Q	% Q/Q	3.3	-		3.3	
14:30	US	Initial Jobless Claims	Dec-17	k	236	-		225	
			AY (22 Decen	-					
10:00	PL	Unemployment Rate	Nov	%	6.5	6.6		6.6	
14:00	PL	Money Supply M3	Nov	% y/y	-	4.6		5.7	
14:30	US	Durable Goods Orders	Nov	% m/m	1.8	-		-0.8	
14:30	US	Personal Spending	Nov	% m/m	0.4	-		0.3	
14:30	US	Personal Income	Nov	% m/m	0.4	-		0.4	
16:00	US	Michigan index	Dec	pts	97.2	-		96.8	
16:00	US	New Home Sales	Nov	% m/m	-4.96	-		6.2	

Source: BZ WBK. Bloomberg, Parkiet

* in case of the revision the data is updated

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.

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