

# 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 consensus) 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

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 will 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.

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## FX market

## Today's opening

|        |        |         |        |
|--------|--------|---------|--------|
| EURPLN | 4.2086 | CZKPLN  | 0.1639 |
| USDPLN | 3.5761 | HUFPLN* | 1.3387 |
| EURUSD | 1.1769 | RUBPLN  | 0.0609 |
| CHFPLN | 3.6136 | NOKPLN  | 0.4272 |
| GBPPLN | 4.7740 | DKKPLN  | 0.5654 |
| USDCNY | 6.6128 | SEKPLN  | 0.4212 |

\*for 100HUF

## Last session in the FX market

15/12/2017

|        | 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 |
| EURUSD | 1.175 | 1.181 | 1.179 | 1.175 | -      |

## Interest rate market

15/12/2017

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

| 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         |

## IRS on the interbank market\*\*

| Term | PL   |              | US   |              | 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           |

## Measures of fiscal risk

| Country  | CDS 5Y USD |              | 10Y spread* |              |
|----------|------------|--------------|-------------|--------------|
|          | Level      | Change (bps) | Level       | Change (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

## Zloty exchange rate



## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic calendar

| Economic calendar       |    |                                |        |       |          |       |                 |               |
|-------------------------|----|--------------------------------|--------|-------|----------|-------|-----------------|---------------|
| TIME                    |    | INDICATOR                      | PERIOD |       | FORECAST |       | ACTUAL<br>VALUE | LAST<br>VALUE |
| CET                     |    |                                |        |       | MARKET   | BZWBK |                 |               |
| FRIDAY (15 December)    |    |                                |        |       |          |       |                 |               |
| 11:30                   | PL | Bond Switch Auction            |        |       | -        |       |                 |               |
| 15:15                   | US | Industrial Production          | Nov    | % m/m | 0.3      | -     | 0.2             | 1.2           |
| MONDAY (18 December)    |    |                                |        |       |          |       |                 |               |
| 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           |
| TUESDAY (19 December)   |    |                                |        |       |          |       |                 |               |
| 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          |
| WEDNESDAY (20 December) |    |                                |        |       |          |       |                 |               |
| 16:00                   | US | Existing Home Sales            | Nov    | % m/m | 0.91     | -     |                 | 2.05          |
| THURSDAY (21 December)  |    |                                |        |       |          |       |                 |               |
| 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           |
| FRIDAY (22 December)    |    |                                |        |       |          |       |                 |               |
| 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

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