

# EYEOPENER

21 December 2017

## EC launched procedure against Poland

- EC triggered Article 7 against Poland
- The zloty losses only temporarily its CEE peers stable
- EURSUD without big changes
- The core markets and domestic yields higher
- Today: Polish MPC minutes and US important data

Wednesday did not bring many changes in the global FX market, exchange rates were hovering near Tuesday's close. Bigger moves took place in the debt markets, still being affected by signals from the USA that the tax reform could be signed into law relatively soon. The zloty and Polish bonds were also slightly affected by the European Commission's decision.

As hinted last week by PM Morawiecki, the European Commission recommended the EU Council to trigger the Article 7 of the EU Treaty against Poland. It implies that the EC has formally concluded that there is a clear risk of a serious breach of the rule of law in Poland. The Commission has also issued a fourth Rule of Law Recommendation, setting out clearly the steps that the Polish authorities can take to remedy the current situation. Furthermore, the EC has decided to take the next step in its infringement procedure against Poland for breaches of EU law by the Law on the Ordinary Courts Organisation, referring Poland to the Court of Justice of the European Union.

This is the first time ever the pressure of the EU institutions directed at on a single country went that far. The Article 7(1) is a step forward in exerting pressure on Poland. It still does not imply sanctions (which are described in Article 7(2)), but is a step in this direction. Sanctions still seem to be quite unlikely, in our view, requiring a unanimous vote by member states (ex Poland). It seems that veto could come from Hungary (a country which might seek reciprocal protection from Poland in its arguments with the EU). Yesterday the Hungarian deputy PM Zsolt Semjen said that EC's action against Poland is unacceptable and his government will be against introducing sanctions.

December's consumer confidence indicators recorded a drop to the lowest level since April 2017. The current indicator fell to 2.1pts from 5.4pts, while the leading indicator to -0.2pts from 3.4pts. All subindices of these measure went down and the most considerable drop was posted by expected changes in households' financial situation (-4.8pts). Marked downward correction was also recorded in expected economic situation and prospects for saving money. We cannot rule out that lower

consumer optimism was due to government plans to scrap the limit on social contributions (i.e. to raise taxes), but on the other hand this can be just a noise. In our view, the economic situation will be supportive for consumption in the upcoming quarters.

EURPLN rose to nearly 4.21 from just below 4.20 in reaction to the EC decision but most if this move was soon corrected and at the end of the day the exchange rate was close to 4.20. Given the pretty low risk of the EU imposing sanctions on Poland, we do not think yesterday's decision will have a permanent impact on the zloty. As the same time, we do not expect EURPLN to resume the down move in the year-end horizon.

In the case of the other CEE currencies, the forint and koruna gained slightly while the ruble remained stable vs the dollar.

Yesterday, EURUSD rate was hovering close to 1.185. The end of the year and lack of important data limited the investors' activity. Today, we will learn about important US data. Amongst others, final GDP for Q3 will be published. However, in our opinion, the impact of the data will be slight due to subsiding activity of investors, typical for the end of the year period.

The Ministry of Finance has announced that government debt grew by PLN 3bn (0.3% up) to PLN 935bn as at the end of November. The national debt totals about PLN 646.1bn and fx debt – about PLN 288.9bn.

In the domestic interest rate and IRS markets yields increased, following the trend visible in the core markets. After European Commission's decision, the dynamics of changes increased and, consequently, at the end of the day yield of 10Y benchmark was 3.5 bp higher as compared to closing of Tuesday's session. Yield of a 10Y Bund went 3bp up and US Treasuries 1.5 bp up.

Today at 14:00CET the central bank will release minutes from the last MPC meeting. Since the last Council's meeting, the only member of hawkish camp who spoke with media was Kamil Zubelewicz (he underlined that interest rates could stay unchanged even until the end of 2019) while the other hawkish members were strangely silent (which surprised investors). This may suggest they now feel less comfortable about communicating their view. The MPC minutes will show whether they really stood down, or whether it was simply a coincidence that only members with views similar to the dovish NBP governor had the opportunity to speak to the media.

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## FX market

## Today's opening

EURPLN	4.2029	CZKPLN	0.1635
USDPLN	3.5386	HUFPLN*	1.3424
EURUSD	1.1877	RUBPLN	0.0605
CHFPLN	3.5878	NOKPLN	0.4218
GBPPLN	4.7307	DKKPLN	0.5646
USDCNY	6.5845	SEKPLN	0.4216

\*for 100HUF

## Last session in the FX market

20/12/2017

	min	max	open	close	fixing
EURPLN	4.195	4.209	4.201	4.206	4.1975
USDPLN	3.528	3.556	3.552	3.541	3.5459
EURUSD	1.183	1.190	1.183	1.188	-

## Interest rate market

20/12/2017

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

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
DS1019 (2L)	1.72	0	11/23/17	OK0720	1.846
PS0123 (5L)	2.71	0	11/23/17	PS0123	2.704
DS0727 (10L)	3.35	-1	11/23/17	DS0727	3.338

## IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.80	-1	1.89	0	-0.26	0
2L	2.03	-1	2.06	0	-0.17	1
3L	2.22	0	2.16	0	-0.02	2
4L	2.38	0	2.22	0	0.14	2
5L	2.51	1	2.27	0	0.29	3
8L	2.80	2	2.39	1	0.67	4
10L	2.96	2	2.46	1	0.87	2

## WIBOR rates

Term	%	Change (bps)
O/N	1.37	-5
T/N	1.42	-4
SW	1.58	-1
2W	1.60	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	1.80	0
9x12	1.90	0
3x9	1.82	0
6x12	1.88	0

## Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.92	-3
France	17	0	0.33	0
Hungary	116	1	1.60	-2
Spain	54	0	1.06	0
Italy	116	2	1.52	0
Portugal	92	-3	1.36	-1
Ireland	25	-1	0.18	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 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
MONDAY (18 December)								
11:00	EZ	HICP	Nov	% y/y	1.5	-	1.5	1.5
14:00	PL	Employment in corporate sector	Nov	% y/y	4.4	4.3	4.5	4.4
14:00	PL	Average Gross Wages	Nov	% y/y	6.9	7.0	6.5	7.4
TUESDAY (19 December)								
10:00	DE	IFO Business Climate	Dec	pts	-	-	117.2	117.5
14:00	HU	Central Bank Rate Decision	Dec-17	%	0.9	-	0.9	0.9
14:00	PL	Sold Industrial Output	Nov	% y/y	9.6	10.1	9.1	12.3
14:00	PL	Construction Output	Nov	% y/y	14.1	11.2	19.8	20.3
14:00	PL	PPI	Nov	% y/y	2.1	1.9	1.8	3.0
14:00	PL	Retail Sales Real	Nov	% y/y	6.4	7.2	8.8	7.1
14:30	US	Housing Starts	Nov	% m/m	-3.1	-	3.3	13.7
WEDNESDAY (20 December)								
16:00	US	Existing Home Sales	Nov	% m/m	0.91	-	5.6	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	week	k	233	-		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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