# **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
- Todav: 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.

#### **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

#### TREASURY SERVICES:

Poznań +48 61 856 5814/30 Warszawa +48 22 586 8320/38 Wrocław +48 71 369 9400

	F)	( 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	0/12/2017	
	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	%	Change	Last	Paper	Average
(term)	/0	(bps)	auction	offered	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	ı	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

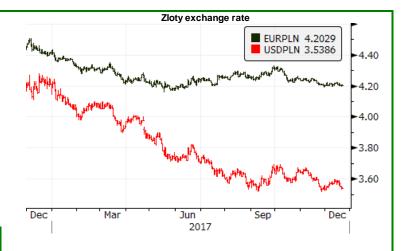
#### FRA rates on the interbank market\*\*

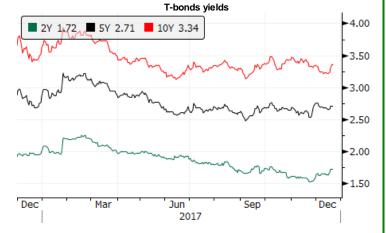
The rates of the interpark market					
Term	%	Change (bps)			
1x4	1.73	0			
3x6	1.75	0			
6x9	1.80	0			
9x12	1.90	0			
3x9	1.82	0			
6x12	1.88	0			

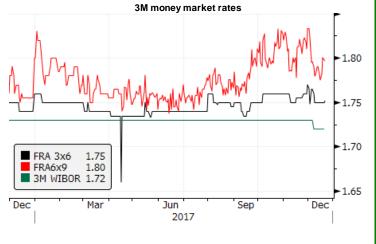
#### Measures of fiscal risk

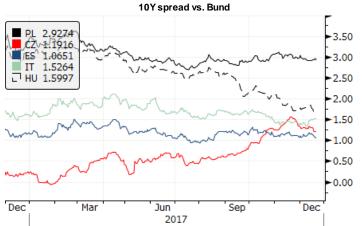
Country	CDS 5Y USD		10Ys	pread*
	Level	Change	Level	Change
		(bps)		(bps)
Poland			2.92	-3
France	17	0	0.33	0
Hungary	116	1	1.60	-2
Spain	54	0	1.06	0
Italy	116	2	1.52	0
Portugal	92	-3	1.36	-1
Ireland	25	-1	0.18	0
Germany	9	0	-	-

<sup>\* 10</sup>Y treasury bonds over 10Y Bunds









<sup>\*\*</sup>Information shows bid levels on the interbank market at the end of the trading day Source: Bloomberg



#### **Economic calendar**

TIME		INDICATOR	PERIOD		FORE	CAST	ACTUAL VALUE	LAST
CET					MARKET	BZWBK		VALUE
		FRID	AY (15 Decen	nber)				
11:30	PL	Bond Switch Auction			-			
15:15	US	Industrial Production	Nov	% m/m	0.3	-	0.2	1.2
		MONE	OAY (18 Decei	mber)				
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
		TUESI	DAY (19 Dece	mber)				
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
		WEDNE	SDAY (20 Dec	cember)				
16:00	US	Existing Home Sales	Nov	% m/m	0.91	-	5.6	2.05
		THURS	DAY (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	week	k	233	-		225
		FRID	AY (22 Decen	nber)				
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

This publication has been prepared by Bank Zachodni WBK S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial results. Bank Zachodni WBK S.A. is difficulties and any financial results a complete or composities referred to herein. Bank Zachodni WBK S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Bank Zachodni WBK S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

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.

<sup>\*</sup> in case of the revision the data is updated