

# EYEOPENER

4 January 2018

## Inflation fell to 2.0% in December

- **Start of 2018 under the sign of stronger zloty and bonds, rising equity prices**
- **Inflation fell to 2.0% in December, mainly due to base effects**
- **Today bond auction in Poland, services PMIs in the euro zone, ADP report in the USA**

The start of 2018 is marked by rising equities, higher demand for the zloty and strong valuation of Polish debt. On Wednesday the global mood was supported by strong ISM index reading for US manufacturing and reported low German unemployment rate. The release in Poland – flash December CPI – was in line with our forecast and slightly below market consensus.

Polish CPI inflation fell in December to 2.0% y/y from 2.5% in November, in line with our forecast. The main reason behind the decrease was a high base effect in fuel prices, which rose sharply in December 2016 and fell in December 2017. Also, growth in food prices has weakened slightly, according to our estimate. We think that the core CPI (excluding food and energy) dropped slightly to 0.8% y/y. The full release is scheduled for January 15. According to our forecast, CPI is likely to remain near 2% y/y until February 2018, after which it should climb above 2.5% in mid-year, and drop again toward 2.0% by December. Meanwhile, core inflation should be climbing gradually throughout the year, toward 2% y/y.

According to Fed minutes majority of FOMC members supported further gradual tightening of monetary policy. Several risk factors were also discussed, that could require a steeper path of policy rates. FOMC members agreed that tax cuts in the USA should support economic growth, but were divided when it comes to the right monetary policy reaction to the fiscal stimulus. The release of Fed minutes did not cause a material market reaction.

On Wednesday EURUSD stopped to rise and saw a small correction (from 1.2070 to 1.2020). EURUSD moves in reaction to very good data coming from both sides of the Atlantic (ISM in the US, German unemployment) were weak and temporary.

EURPLN went a bit higher yesterday morning, but after that it continued along the downward trend, declining in the course of

the day from 4.1700 to 4.1510 in the afternoon. The fx pair reached levels not seen since August 2015. The decline was not disturbed by lower-than-expected data on inflation. The appreciation of the zloty came from improving global sentiment, possibly also from Ministry of Finance's announcement that the scale of fx market operations by its agent, BGK was not different than a year ago. This was an answer to a press article that December strengthening of the zloty was based on MinFin and BGK market activity. USDPLN was moving higher during the day, but returned to the opening level in the afternoon.

In case of the other CEE currencies we saw Hungarian forint strengthening vs. euro. EURHUF fell to 308,60 from 309, the lowest level since October 2017. Meanwhile, EURCZK decreased to the morning opening level after intraday rose. USDRUB decreased to 57,20 from 57,50, returning to the October 2017 level. The move was driven by high level of oil prices and information that Russian gas export to Europe hit the record level and Russia plans to strengthen their position on the oil market.

Today we expect further zloty's appreciation amid expected strong European data and positive global market sentiment.

Core bond yield curves moved down on Wednesday. The release of the US manufacturing ISM index paused the strengthening trend only for a while. As a result, the US bond curve fell 1-2bp with the biggest changes on the belly and long end. German bonds performed similarly and the data on the record-low unemployment rate (5.5%) did not stop the trend.

Polish debt also gained on Wednesday being supported by the lower than the market expected flash December CPI figure. As a result, the domestic yield curve eased 2bp on the long end and 4-5bp on the belly and short end. IRS followed the suit with the 2Y and 5Y rates moving at a similar scale like bonds and the 10Y rate falling 5bp.

Today we expect slight rise of yields after the auction with the short end underperforming the belly and long end. However, the next days should bring yields down on the long end, in our view, amid better sentiment on the core debt market.

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## FX market

## Today's opening

EURPLN	4.1484	CZKPLN	0.1626
USDPLN	3.4488	HUFPLN*	1.3442
EURUSD	1.2028	RUBPLN	0.0602
CHFPLN	3.5285	NOKPLN	0.4257
GBPPLN	4.6629	DKKPLN	0.5572
USDCNY	6.4965	SEKPLN	0.4224

\*for 100HUF

## Last session in the FX market

03/01/2018

	min	max	open	close	fixing
EURPLN	4.151	4.171	4.163	4.152	4.1673
USDPLN	3.449	3.472	3.456	3.452	3.4616
EURUSD	1.200	1.207	1.205	1.203	-

## Interest rate market

03/01/2018

## 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)	2.61	-5	11/23/17	PS0123	2.704
DS0727 (10L)	3.29	-1	11/23/17	DS0727	3.338

## IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.79	-1	1.92	-1	-0.26	0
2L	2.00	-4	2.09	-1	-0.15	-1
3L	2.18	-4	2.18	-2	0.00	-1
4L	2.33	-5	2.23	-2	0.16	-2
5L	2.46	-6	2.27	-2	0.30	-2
8L	2.75	-6	2.37	-3	0.68	-3
10L	2.90	-6	2.43	-3	0.89	-2

## WIBOR rates

Term	%	Change (bps)
O/N	1.52	-1
T/N	1.52	-2
SW	1.57	0
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	1.74	-1
6x9	1.78	-2
9x12	1.88	-2
3x9	1.82	-1
6x12	1.86	-1

## Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.84	-3
France	17	0	0.36	0
Hungary	116	1	1.53	-2
Spain	55	-1	1.14	-1
Italy	120	-1	1.62	0
Portugal	84	-2	1.53	-1
Ireland	25	-1	0.22	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

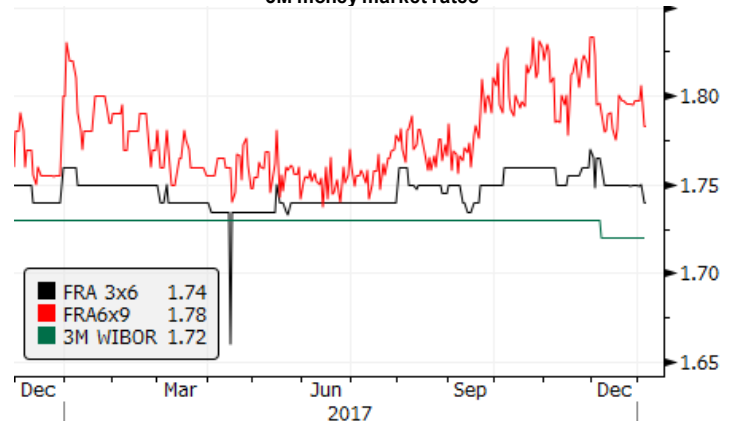
## Zloty exchange rate



## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic calendar

Economic Calendar									
TIME		INDICATOR		PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE
CET	MARKET					BZWBK			
WEDNESDAY (27 December)									
16:00	US	Conference Board index	Dec	pts	128	-	122.1	128.6	
16:00	US	Pending Home Sales	Nov	% m/m	-0.8	-	0.2	3.5	
FRIDAY (29 December)									
14:00	DE	CPI	Dec	%y/y	1.5	-	1.7	1.8	
TUESDAY (2 January)									
09:00	PL	Poland Manufacturing PMI	Dec	pts	54.6	54.0	55.0	54.2	
09:55	DE	Germany Manufacturing PMI	Dec	pts	63.3	-	63.3	63.3	
10:00	EZ	Eurozone Manufacturing PMI	Dec	pts	60.6	-	60.6	60.6	
WEDNESDAY (3 January)									
	PL	CPI		% y/y	2.15	2.0	2.0	2.5	
16:00	US	ISM manufacturing	Dec	pts	58.2	-	59.7	58.2	
20:00	US	FOMC Meeting Minutes	Dec-17		-	-			
THURSDAY (4 January)									
02:45	CH	Caixin China PMI Services	Dec	pts	51.8	-	53.9	51.9	
09:55	DE	Markit Germany Services PMI	Dec	pts	55.8	-		55.8	
10:00	EZ	Eurozone Services PMI	Dec	pts	56.5	-		56.5	
11:30	PL	Bond Auction							
14:15	US	ADP report	Dec	k	190.0	-		190.3	
14:30	US	Initial Jobless Claims		k	247.5	-		245.0	
FRIDAY (5 January)									
11:00	EZ	Flash HICP	Dec	% y/y	1.4	-		1.5	
14:30	US	Change in Nonfarm Payrolls	Dec	k	188	-		228	
14:30	US	Unemployment Rate	Dec	%	4.1	-		4.1	
16:00	US	Durable Goods Orders	Nov	% m/m	0.0	-		1.3	
16:00	US	ISM services	Dec	pts	57.55	-		57.4	
16:00	US	Factory Orders	Nov	% m/m	1.4	-		-0.1	

Source: BZ WBK, Bloomberg, Parkiet

\* in case of the revision the data is updated

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