

EYEOPENER

10 January 2018

Weak core markets hits Polish bonds

- **Government revamp with no impact on FX and FI markets**
- **Zloty dropped influenced by strong USD**
- **Polish bonds underperform core debt**
- **Today: MPC decision**

The Tuesday session on the global markets developed in a similar way as the previous one. Equity indices in Europe were rising, bond yields were decreasing at first, but rebounded in the afternoon and the dollar was gaining against the euro. When it comes to the emerging market currencies, yesterday most of them strengthened vs. the euro but lost vs. the dollar.

As was previously implied by the media, the position of new Minister of Finance was given to former deputy minister Teresa Czerwińska. While working in the Ministry of Finance, she has supervised, among others, the State Budget Department. The new head of the Ministry of Investment and Development is Jerzy Kwieciński, former deputy of Prime Minister Morawiecki as the head of this Ministry. The Polish market has not reacted to the outcome of the government's reconstruction. The new ministers in the ministries of key importance for the economy have become people who have experience in this area and hence, personnel replacements should not affect the economic policy conduct. The newly appointed head of the newly separated Ministry of Investment and Development announced that the Ministry would be very strongly focused on supporting investments. He added that an important task would be to stimulate investments in the private sector. This declaration gives hope for stronger government support for private investments growing at a very slow pace, especially in those places where access to EU funds and public funds is crucial. Henryk Kowalczyk became minister of environment, so one may hope for improved relations with the EU regarding the environmental issues. Lack of regulations in this matter may generate additional costs in the energy sector.

The World Bank revised GDP growth outlook for Poland for 2018 to 4.0% y/y from 3.2% y/y.

It was the third day of declines for the EURUSD, possibly triggered by weekend hawkish remarks by Fed's John Williams.

European data were not strong enough to support the euro. As a result at the end of the local session the exchange rate was around 1.193. The calendar is light today so the dollar may stay strong, awaiting more important publications coming still this week.

EURPLN, USDPLN and GBPPLN continued the rebound started before the weekend and at the end of the day the exchange rates were above 4.18, 3.50 and 4.73, respectively. There was no clear reaction of the FX market to the Polish government reshuffle and the dollar's appreciation seems to have been again the main reason for weaker zloty. In the case of the other CEE currencies, the koruna and ruble remained fairly stable while the forint lost slightly. No important data are on the agenda today. The MPC rhetoric is likely to remain dovish which will rather not help the zloty and so we see little room for stronger Polish currency.

On the domestic interest rate market IRS and bond yields were rising. Polish debt was not benefiting from pretty noticeable strengthening observed on the euro zone peripheries and was underperforming its German and US peers. In the afternoon, pressure on bonds intensified amid weakening of core debt after investors' attention turned to higher oil prices, robust economic performance and negative impact of lower monetary policy stimulus on the FI market. Polish bonds were on the rise since the very beginning of the day and there is no evidence that the government reshuffle weighed on bonds. On Tuesday, the short end of the curve was performing better than the belly and long end and we think today this will not change as we expect the dovish MPC rhetoric to be maintained.

Today the January MPC meeting ends. We do not expect much new from the Council. The rhetoric of the NBP governor will most likely stay very dovish, given that the recent macro readings have not induced him to change his view (drop of inflation, deceleration of wage growth). At the press conference, we expect two hawks, Gątnar and Zubelewicz, to turn up, as the last time they accompanied the governor was Jul-17. We think their calls will not overshadow the governor's dovish main message.

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

FX market

Today's opening

| | | | |
|--------|--------|---------|--------|
| EURPLN | 4.1854 | CZKPLN | 0.1638 |
| USDPLN | 3.5051 | HUFPLN* | 1.3520 |
| EURUSD | 1.1941 | RUBPLN | 0.0616 |
| CHFPLN | 3.5680 | NOKPLN | 0.4346 |
| GBPPLN | 4.7358 | DKKPLN | 0.5621 |
| USDCNY | 6.5243 | SEKPLN | 0.4263 |

*for 100HUF

Last session in the FX market

09/01/2018

| | min | max | open | close | fixing |
|--------|-------|-------|-------|-------|--------|
| EURPLN | 4.170 | 4.189 | 4.174 | 4.188 | 4.1779 |
| USDPLN | 3.484 | 3.514 | 3.485 | 3.513 | 3.4992 |
| EURUSD | 1.192 | 1.198 | 1.198 | 1.192 | - |

Interest rate market

09/01/2018

T-bonds on the interbank market**

| Benchmark (term) | % | Change (bps) | Last auction | Paper offered | Average yield |
|------------------|------|--------------|--------------|---------------|---------------|
| DS1019 (2L) | 1.62 | -1 | 1/4/18 | OK0720 | 1.863 |
| PS0123 (5L) | 2.59 | 5 | 1/4/18 | PS0123 | 2.561 |
| DS0727 (10L) | 3.31 | 1 | 12/15/17 | DS0727 | 3.209 |

IRS on the interbank market**

| Term | PL | | US | | EZ | |
|------|------|--------------|------|--------------|-------|--------------|
| | % | Change (bps) | % | Change (bps) | % | Change (bps) |
| 1L | 1.79 | -1 | 1.97 | 1 | -0.26 | 0 |
| 2L | 2.00 | 2 | 2.16 | 1 | -0.15 | 0 |
| 3L | 2.16 | 2 | 2.26 | 2 | 0.00 | 1 |
| 4L | 2.32 | 3 | 2.32 | 3 | 0.16 | 1 |
| 5L | 2.45 | 3 | 2.36 | 4 | 0.31 | 1 |
| 8L | 2.74 | 3 | 2.47 | 5 | 0.69 | 2 |
| 10L | 2.89 | 3 | 2.53 | 6 | 0.90 | 3 |

WIBOR rates

| Term | % | Change (bps) |
|------|------|--------------|
| O/N | 1.52 | -3 |
| T/N | 1.52 | -3 |
| SW | 1.56 | -1 |
| 2W | 1.59 | -1 |
| 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 | 1.73 | 0 |
| 6x9 | 1.77 | 0 |
| 9x12 | 1.87 | 2 |
| 3x9 | 1.82 | 1 |
| 6x12 | 1.86 | 2 |

Measures of fiscal risk

| Country | CDS 5Y USD | | 10Y spread* | |
|----------|------------|-----------------|-------------|-----------------|
| | Level | Change (bps) | Level | Change (bps) |
| Poland | | | 2.77 | -7 |
| France | 17 | 0 | 0.28 | -7 |
| Hungary | 116 | 1 | 1.42 | -7 |
| Spain | 51 | 0 | 0.97 | -7 |
| Italy | 116 | -1 | 1.50 | -7 |
| Portugal | 79 | 0 | 1.31 | -7 |
| Ireland | 25 | -1 | 0.41 | 23 |
| 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

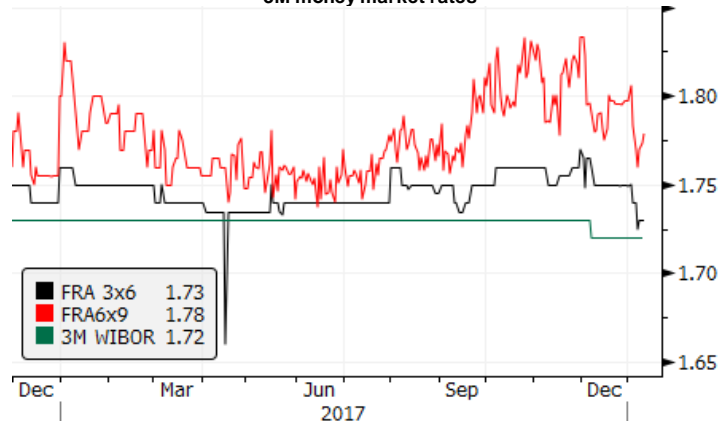
Zloty exchange rate



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 | | |
| FRIDAY (5 January) | | | | | | | | |
| 11:00 | EZ | Flash HICP | Dec | % y/y | 1.4 | - | 1.4 | 1.5 |
| 14:30 | US | Change in Nonfarm Payrolls | Dec | k | 190 | - | 148 | 252 |
| 14:30 | US | Unemployment Rate | Dec | % | 4.1 | - | 4.1 | 4.1 |
| 16:00 | US | Durable Goods Orders | Nov | % m/m | - | - | 1.3 | 1.3 |
| 16:00 | US | ISM services | Dec | pts | 57.5 | - | 55.9 | 57.4 |
| 16:00 | US | Factory Orders | Nov | % m/m | 1.1 | - | 1.3 | 0.4 |
| MONDAY (8 January) | | | | | | | | |
| 08:00 | DE | Factory Orders | Nov | % m/m | 0.0 | - | -0.4 | 0.7 |
| 09:00 | CZ | Industrial Production | Nov | % y/y | 5.5 | - | 8.5 | 10.5 |
| 09:00 | HU | Industrial Production SA | Nov | % y/y | 7.2 | - | 3.4 | 7.6 |
| 11:00 | EZ | Retail Sales | Nov | % m/m | 1.3 | - | 1.5 | -1.1 |
| TUESDAY (9 January) | | | | | | | | |
| 08:00 | DE | Exports SA | Nov | % m/m | 1.2 | - | 4.1 | -0.4 |
| 08:00 | DE | Industrial Production SA | Nov | % m/m | 1.8 | - | 3.4 | -1.2 |
| 11:00 | EZ | Unemployment Rate | Nov | % | 8.7 | - | | 8.8 |
| WEDNESDAY (10 January) | | | | | | | | |
| | PL | Poland Base Rate Announcement | | % | 1.50 | - | | 1.50 |
| 09:00 | CZ | GDP SA | 3Q | % y/y | 5.0 | - | 5.0 | 5.0 |
| 09:00 | CZ | CPI | Dec | % y/y | 2.4 | - | 2.4 | 2.6 |
| THURSDAY (11 January) | | | | | | | | |
| 11:00 | EZ | Industrial Production SA | Nov | % m/m | - | - | | 0.2 |
| 14:30 | US | Initial Jobless Claims | | k | 241 | - | | 245 |
| FRIDAY (12 January) | | | | | | | | |
| 09:00 | HU | CPI | Dec | % y/y | 0.0 | - | | 2.5 |
| 14:30 | US | CPI | Dec | % m/m | 0.2 | - | | 0.4 |
| 14:30 | US | Retail Sales Advance | Dec | % m/m | 0.3 | - | | 0.8 |

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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Additional information is available on request. Please contact Bank Zachodni WBK S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@bzwbk.pl, http://www.bzwbk.pl.