

EYEOPENER

11 January 2018

MPC more dovish

- **Signals from China hit USD and global bonds**
- **MPC more dovish**
- **Zloty weakening stops, other CEE currencies slightly weaker**
- **Today: US and Eurozone data**

There were no important releases yesterday, and yet fx and bond markets were more volatile than in previous days. The dollar saw losses and yields of US Treasuries jumped up on reports that China might consider slowing or stopping US bond purchases and to increase the share of euros in its fx reserves. Later during the day Chinese officials said that media cited "wrog source". Earlier this week the Bank of Japan decided to decrease the amount of bond purchases in its QE programme, so another news about a large player possibly tweaking its policy upset the markets.

The Monetary Policy Council kept the main interest rates unchanged, with the reference rate at 1.5%. The official MPC communiqué did not change significantly, with the most important part stating that inflation will remain close to the inflation target over the projection horizon, so the current level of interest rates is conducive to keeping the Polish economy on a sustainable growth path and maintaining macroeconomic stability. Data released in December (lower inflation and wage growth) were generally supportive for the Council's rhetoric and did not provide hawks with any new arguments. NBP president Adam Glapiński reiterated his claim that interest rates should remain on hold until the end of 2018 or even into 2019.

MPC's Eugeniusz Gatnar was present at the conference and he presented a rather dovish view, in contrast to his earlier rather hawkish remarks. According to Gatnar, December's inflation (2.0% y/y) was lower than expected and this encouraged him to revise view presented in November that rates could be hiked in 1Q18. Currently, Gatnar would like to wait until March's projection to see what is happening with the inflation trends. MPC member said also that CPI in 2.0-3.5% range would not worry him. Jerzy Kropiwnicki argued that labour market processes are moderate and contained, generating no risk for price growth. According to Kropiwnicki, wage growth is slower than productivity growth. Obviously, the tone of the press conference was even more dovish than in the previous months.

January's meeting clearly showed that the hawkish camp lost strength as president Adam Glapiński is really enthusiastic

about the MPC policy and called it "wait and support". In our view, more strong data on wage growth is likely to come in, while CPI breakdown is likely to change considerably into core-driven from energy-and-food-driven. Still, headline inflation is likely to stay close to the target, and this will be a strong reason not to hurry with rate hikes.

EURUSD jumped yesterday to 1.20 from 1.193 in reaction to the report on possible China action on the bond and FX market. Today in the afternoon the US weekly initial jobless claims will be released and this could be the first figure this week that could trigger some market reaction. Tomorrow, the US inflation is on the agenda so the signals from the world's biggest economy could be key for EURUSD in the final days of the week.

EURPLN rate departed slightly from 4.19 yesterday, while USDPLN fell to 3.48 from over 3.51 due to the weakening of the dollar worldwide. Other currencies of the region were doing worse than zloty yesterday. We believe that today EURPLN will remain at an elevated level, probably below 4.19. In the final days of the week, we expect important data from the US which, if they prove positively surprising, may strengthen the dollar and this in turn could have an adverse impact on the zloty and other currencies of the emerging markets.

On the domestic interest rate market, IRS and yields were rising since the beginning of the day under the influence of an explicit weakening of US bonds and Eurozone periphery bonds. As we anticipated, the short end of the yield curve performed better than the middle and long end while the decline in the 2Y bond yields was slightly affected by the still dovish rhetoric of the MPC.

The S&P rating agency is forecasting the Poland's GDP to rise by more than 4% in 2018 thanks to a strong consumption. The agency assessed that the Polish economy is close to overheating. According to the S&P, demographic situation is the main factor limiting the economic growth.

Janusz Szewczak was recommended by PiS to head the Sejm's finance committee. Szewczak was earlier the chief economist of SKOK credit unions.

We are pleased to inform that our team ranked 4th in 2017 "Parkiet" macroeconomic and market forecasts accuracy competition. We ranked first in accuracy for the unemployment rate, second in CPI, third in exports, imports and industrial output.

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FX market

Today's opening

EURPLN	4.1729	CZKPLN	0.1633
USDPLN	3.4965	HUFPLN*	1.3494
EURUSD	1.1935	RUBPLN	0.0613
CHFPLN	3.5630	NOKPLN	0.4329
GBPPLN	4.7130	DKKPLN	0.5604
USDCNY	6.5079	SEKPLN	0.4264

*for 100HUF

Last session in the FX market

10/01/2018

	min	max	open	close	fixing
EURPLN	4.174	4.193	4.188	4.175	4.1784
USDPLN	3.481	3.515	3.513	3.490	3.4999
EURUSD	1.192	1.202	1.192	1.196	-

Interest rate market

10/01/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
DS1019 (2L)	1.61	-1	1/4/18	OK0720	1.863
PS0123 (5L)	2.60	1	1/4/18	PS0123	2.561
DS0727 (10L)	3.33	3	12/15/17	DS0727	3.209

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.78	-1	1.98	1	-0.26	0
2L	1.99	-1	2.17	2	-0.15	0
3L	2.16	0	2.28	2	0.01	1
4L	2.32	0	2.34	2	0.17	1
5L	2.46	0	2.39	3	0.32	1
8L	2.74	1	2.50	3	0.71	2
10L	2.90	0	2.56	4	0.92	2

WIBOR rates

Term	%	Change (bps)
O/N	1.49	-3
T/N	1.50	-2
SW	1.56	0
2W	1.59	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	1.73	0
6x9	1.76	-1
9x12	1.86	-1
3x9	1.82	-1
6x12	1.85	-1

Measures of fiscal risk

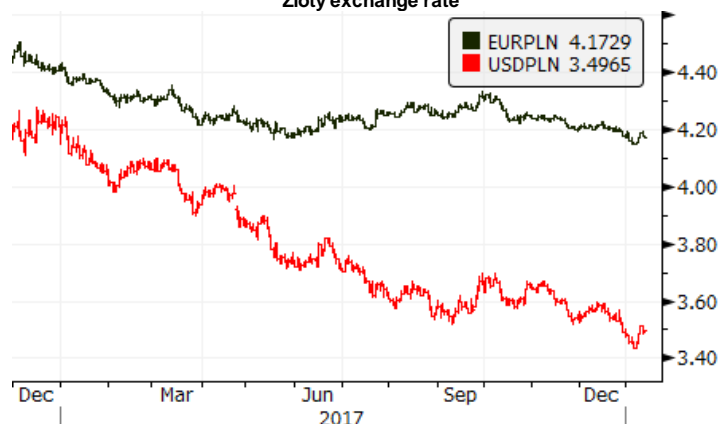
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.81	4
France	17	0	0.27	0
Hungary	116	1	1.48	2
Spain	52	1	1.01	1
Italy	114	-2	1.50	1
Portugal	78	-1	1.29	0
Ireland	25	-1	0.41	1
Germany	8	-1	-	-

* 10Y treasury bonds over 10Y Bunds

**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

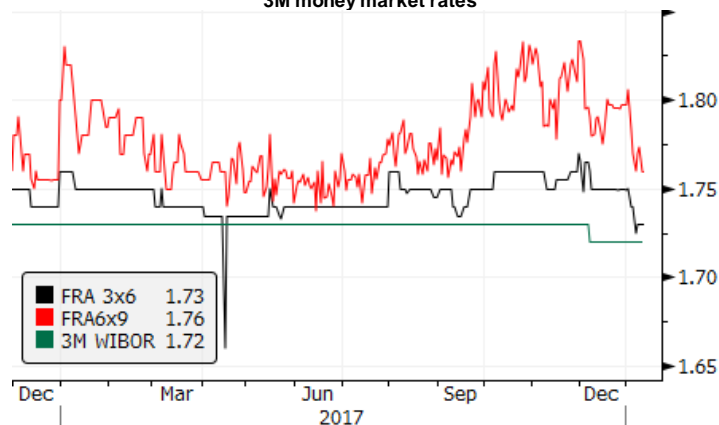
Zloty exchange rate



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	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	0.8	-		0.2
14:30	US	Initial Jobless Claims		k	245	-		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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