

EYEOPENER

15 January 2018

The zloty stabilizes, Germany closer to forming a government

- **German coalition government may be formed sooner than expected**
- **The zloty stable against the euro**
- **Remarks from Bundesbank head strengthened Polish debt**
- **Strong import reduced trade surplus in November according to Stats Office**
- **Today CPI and C/A in Poland, holiday in the US**

US inflation data surprised positively and led to US curve upshift. USD dropped against EUR and JPY, on information about progress in coalition talks in Germany and due to increasing conviction of investors that BoJ and ECB will want to tighten monetary policy this year. On Friday S&P index closed at new record high, while Brent oil prices closed in on 70US\$/b. The zloty stabilized against EUR and gained against USD. The domestic bonds at times followed the weakening US treasuries and at times the strengthening Bunds. Eventually, they closed a bit stronger on the day on the long end of the curve. Today is a holiday in the US. In Poland we will get inflation and balance of payment data.

According to Poland's Stats Office (GUS), the trade balance in November was -EUR349.1mn against a relatively high surplus of EUR500mn in the previous two months. The reason behind such a substantial deterioration in the balance is high import dynamics, which according to the GUS data was 18% y/y in November. We note however that in October, the GUS data showed much lower dynamics than NBP data (7.8% y/y according to Stats Office vs. 12.9% according to NBP). Thus, the high dynamics in November may stem from revision of previous months (the Stats Office shows these statistics on a cumulative basis). Moreover, the CSO data also suggest continuation of high pace of exports growth (11.9% y/y in November). Today, information about the balance of payments for the same period is to be announced by the NBP.

Friday was marked by rising yields in the USA and declines in Europe. Rise of US yields was due to higher than expected reading of core inflation and expected high results of banks (boosted by tax cuts). In due course, the US curve moved temporarily up by 3-5bps but ended the day 2-3bps higher. This rise pushed 2Y papers above 2.0%, last seen shortly after start of 2008 crisis. At the same time, the German curve moved upwards on the news about progress in CDU/SPD coalition talks, but later slid due to a comment of Bundesbank's Jens Weidmann, who suggested that no imminent rate hikes should be expected and the policy normalisation will be gradual. This brought the German curve back to Thursday close.

Yields on domestic bonds fluctuated throughout the day to interchangeably reflect either American or German bonds. Therefore, the short end of the curve remained unchanged, while 5-10L segment slid down by 1-3 bp (stronger at the long end) after we were witnessing 2-3 point jumps during the day.

Today we are expecting the middle and long end of the curve to gain strength and the short end to stabilize following the expected correction on the core market. Until the end of the week, we are expecting yields to go down in 2-5Y sector prior to next week's debt buybacks.

EURUSD was climbing on Friday, driven by information on progress in coalition talks in Germany. Leaders of all involved parties, CDU, CSU and SPD approved a continuation of talks sparking hopes for a faster finish of government negotiations. Thus, the single currency ended Friday at 1.2130 as compared to 1.2030 at the start of the day, temporarily surpassing 1.2150. Today the rate is close to 1.22.

EURPLN was on the rise on Friday after it fell to 4.166 earlier in the night and ended the Polish session near 4.17, close to Thursday's closing. Jump of EURUSD pushed USDPLN down to 3.436 (vs 3.457 at the opening), level last seen in the previous week.

Other currencies of the region followed different directions. EURCZK grew slightly (from 25.50 to 25.52), which could have been marginally impacted by the presidential elections pending in the Czech Republic. Preliminary poll results indicate that the current president Miloš Zeman and pro-Western Jiří Drahoš will make it to the second round. EURHUF fluctuated throughout the day, finally returning to the opening levels (308.70). It was not significantly affected by the lower than expected inflation reading from Hungary (however the inflation measures by the central bank went slightly up). USDRUB fluctuated around 56.60 owing to relatively stable oil prices until the evening.

Today we expect that zloty will try to strengthen against EUR, supported by trade balance and balance of payment data.

This week, important US and Polish data are on the agenda. Friday's release of December industrial output, which we expect to be slightly disappointing, will join the dovish signals from the flash December CPI and MPC meeting, possibly weighing on the zloty and supporting bonds. Given the recent EURUSD rally, we think there is bigger room for the exchange rate to fall after strong figures rather than for a rise in the case of disappointing readings.

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FX market

Today's opening

EURPLN	4.1690	CZKPLN	0.1633
USDPLN	3.4163	HUFPLN*	1.3494
EURUSD	1.2204	RUBPLN	0.0606
CHFPLN	3.5331	NOKPLN	0.4314
GBPPLN	4.6969	DKKPLN	0.5597
USDCNY	6.4415	SEKPLN	0.4244

*for 100HUF

Last session in the FX market

12/01/2018

	min	max	open	close	fixing
EURPLN	4.165	4.173	4.170	4.172	4.1669
USDPLN	3.413	3.466	3.464	3.418	3.4366
EURUSD	1.203	1.222	1.204	1.220	-

Interest rate market

12/01/2018

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)	2.62	-1	1/4/18	PS0123	2.561
DS0727 (10L)	3.31	-3	12/15/17	DS0727	3.209

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.77	0	2.00	2	-0.25	0
2L	1.99	0	2.20	3	-0.13	-1
3L	2.16	1	2.30	3	0.05	1
4L	2.32	0	2.36	3	0.22	1
5L	2.46	0	2.40	3	0.38	1
8L	2.75	0	2.50	2	0.76	1
10L	2.90	0	2.55	2	0.96	0

WIBOR rates

Term	%	Change (bps)
O/N	1.54	5
T/N	1.55	1
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	0
9x12	1.85	-1
3x9	1.82	0
6x12	1.84	-1

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.74	-3
France	16	0	0.27	0
Hungary	116	1	1.39	0
Spain	45	-2	0.92	1
Italy	108	-2	1.42	2
Portugal	74	-2	1.22	1
Ireland	25	-1	0.41	0
Germany	8	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

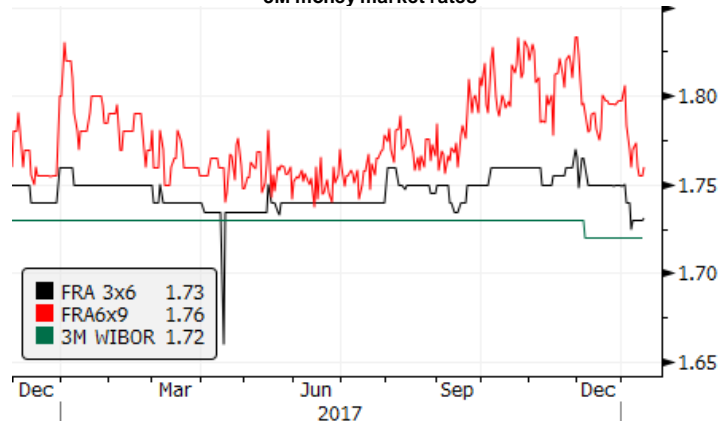
Zloty exchange rate



T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar					FORECAST		ACTUAL	LAST
TIME		INDICATOR	PERIOD		FORECAST		VALUE	VALUE
CET	MARKET				BZWBK			
FRIDAY (12 January)								
09:00	HU	CPI	Dec	% y/y	2.2	-	2.1	2.5
14:30	US	CPI	Dec	% m/m	0.1	-	0,1	0.4
14:30	US	Retail Sales Advance	Dec	% m/m	0.5	-	0.4	0.8
MONDAY (15 January)								
14:00	PL	CPI	Dec	% y/y	2.0	2.0		2.0
14:00	PL	Current Account Balance	Nov	€mn	693	881		575
14:00	PL	Trade Balance	Nov	€mn	554	608		597
14:00	PL	Exports	Nov	€mn	17 884	17 985		17 914
14:00	PL	Imports	Nov	€mn	17 289	17 377		17 317
TUESDAY (16 January)								
14:00	PL	CPI Core	Dec	% y/y	0.8	0.8		0.9
WEDNESDAY (17 January)								
11:00	EZ	HICP	Dec	% y/y	1.4	-		1.4
14:00	PL	Employment in corporate sector	Dec	% y/y	4.5	4.6		4.5
14:00	PL	Average Gross Wages	Dec	% y/y	6.9	7.5		6.5
15:15	US	Industrial Production	Dec	% m/m	0.4	-		0.2
THURSDAY (18 January)								
14:30	US	Initial Jobless Claims	Jan-18	k	245.0	-		261.0
14:30	US	Housing Starts	Dec	% m/m	-2.08	-		3.3
FRIDAY (19 January)								
14:00	PL	Sold Industrial Output	Dec	% y/y	2.8	2.2		9.1
14:00	PL	Construction Output	Dec	% y/y	10.1	10.2		19.8
14:00	PL	PPI	Dec	% y/y	0.6	0.7		1.8
14:00	PL	Retail Sales Real	Dec	% y/y	5.8	10.9		8.8
16:00	US	Michigan index	Jan	pts	97.0	-		95.9

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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