

# EYEOPENER

16 January 2018

## Trade surplus down on strong imports

- C/A and trade balance below forecasts
- Final December inflation higher than flash estimate
- The zloty lost vs. EUR, following EURUSD
- ECB's Hansson strengthened the euro and weighed on German debt
- Today core inflation in Poland

Despite the holiday in the US, the dollar was hot topic yesterday as it was losing the fourth day in a row. Apparently, investors have focused on the sentiments of Eurozone central bankers, on intentions of the Bank of Japan and on the Chinese yuan performance (the strongest against the dollar for over two years). Stock markets in Europe were subdued by a further strengthening of the euro, yet Asian markets remained optimistic.

Final reading of December CPI was at 2.1% y/y versus 2.0% shown in the flash release. Still, m/m reading showed 0.2% in both cases. Decline from November's 2.5% was due to high base effect in food and fuels. We estimate core inflation excluding food and energy prices at 0.8% y/y. In our view, inflation is likely to oscillate in 2.0-2.5% range in the months to come with a major change in its breakdown - from food/energy driven to core driven (we expect core inflation at 2.0% at the end of 2018). Recent rise in oil prices would pose an upward risk for our forecast, if it proves permanent. The data are neutral from the MPC's point of view. Close-to-target inflation will give the MPC the comfort to stick to its 'wait-and-see' mode at least until end of 2018.

C/A remained in surplus in November (EUR233mn vs. EUR693mn consensus, previous reading revised down from EUR575mn to EUR297mn). Both exports and imports recorded a higher pace of y/y growth than expected, but it was the strength of November imports and its upward revision for October that caused the surprise. In case of exports the 14.8% y/y growth reveals how beneficial is the current external environment. The reported pace of imports (15.9% y/y) suits better the very strong domestic demand. The 12 month rolling C/A balance to GDP ratio set a new record high at 0.3% in November.

The German yield curve opened the day with declines in the short end and in the middle of the curve, partly due to Friday's speech of Bundesbank chief Jens Weidemann, implying slow normalization of monetary policy. Later that day, the German curve trimmed losses in effect of Ardo Hansson's words on the need to have the monetary policy quickly tightened by the ECB.

Domestic bonds gained in the morning and adjusted part of the morning yields in the afternoon after ECB Ardo Hansson's

comments. Consequently, the short end yield declined by mere half point, the middle went 1 bp up while the long end saw a 2 bp decrease. The IRS market reacted differently by adding to the asset swap spread in the 5Y segment and reducing it for 2Y and 10Y. At the same time, we continued to witness the narrowing of Polish 10Y bond spreads versus similar German bonds.

Today we expect some technical correction of the long end and some strengthening of the front end of the curve. Core CPI data should be market-neutral. Later in the week, we expect 1-5Y yields to go down as the maturity of floaters is looming.

On Monday, EURUSD stayed in the up trend fueled by new information on the progress in German coalition talks and Germany planning to include yuan into their FX reserves. The euro gained additional support from ECB's Ardo Hansson who said that interest rates should be raised several times before the balance sheet reduction starts and that asset purchases program should end "in one step" in September. In his view, strong euro is not a problem in terms of inflation outlook. Even the dovish Philip Lane said that ECB's forward guidance should change in order to prepare market to what may happen in September. Yesterday, the US market was closed. EURUSD closed 1.226 vs 1.219 on Friday.

EURPLN fell in the first part of the day, but later climbed in reaction to weaker data on current account. Further in the day, the comment of Ardo Hansson about the need to tighten the ECB monetary policy quickly undermined the zloty. However, the Polish currency gained versus the dollar following the euro and other emerging market currencies. As a result, USDPLN slid from 3.4200 at the start of the day to 3.4040 at the close.

Other CEE currencies were following global trends, lost versus the euro and gained versus the dollar. EURCZK moved to 25.35 from 25.15 and EURHUF to 308.90 from 308.70. In case of Hungary, investors ignored information about a delay in central bank's purchases of short-term MBS. Moreover, investors did not react to Czech data on current account. USDRUB fell to 56.40 from 56.60 thanks to information about rising exports of oil to China and weakening dollar.

Today we are expecting a correction of yesterday's rise in EURUSD and a temporary strengthening of the zloty. This development could be underpinned by news that some SPD politicians do not approve coalition with Angela Merkel.

The Finance Ministry informed that its holdings of FX cash cushion fell in December to €3.8bn from €6.9bn and this move can only partially be explained by foreign debt servicing (€0.5bn).

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**FX market**

**Today's opening**

EURPLN	4.1733	CZKPLN	0.1635
USDPN	3.4072	HUFPLN*	1.3523
EURUSD	1.2249	RUBPLN	0.0604
CHFPLN	3.5353	NOKPLN	0.4322
GBPPLN	4.6979	DKKPLN	0.5603
USDCNY	6.4350	SEKPLN	0.4247

\*for 100HUF

**Last session in the FX market 15/01/2018**

	min	max	open	close	fixing
EURPLN	4.165	4.181	4.172	4.171	4.1696
USDPN	3.386	3.426	3.390	3.399	3.401
EURUSD	1.219	1.230	1.220	1.227	-

**Interest rate market 15/01/2018**

**T-bonds on the interbank market\*\***

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
DS1019 (2L)	1.60	0	1/4/18	OK0720	1.863
PS0123 (5L)	2.64	2	1/4/18	PS0123	2.561
DS0727 (10L)	3.30	1	12/15/17	DS0727	3.209

**IRS on the interbank market\*\***

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.78	0	2.01	1	-0.25	0
2L	1.99	0	2.21	1	-0.12	0
3L	2.16	-1	2.31	1	0.06	1
4L	2.31	-1	2.35	-1	0.23	1
5L	2.45	-2	2.39	-1	0.39	1
8L	2.73	-2	2.49	-1	0.77	1
10L	2.88	-2	2.54	-2	0.97	1

**WIBOR rates**

Term	%	Change (bps)
O/N	1.49	-5
T/N	1.51	-4
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	1.86	1
3x9	1.82	0
6x12	1.85	1

**Measures of fiscal risk**

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.73	2
France	16	0	0.27	0
Hungary	116	1	1.40	1
Spain	46	0	0.93	-1
Italy	108	-1	1.41	-1
Portugal	73	-1	1.20	0
Ireland	25	-1	0.40	0
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

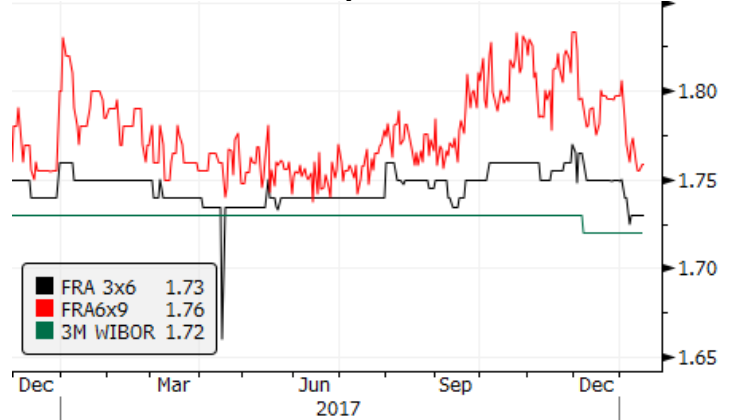
**Zloty exchange rate**



**T-bonds yields**



**3M money market rates**



**10Y spread vs. Bund**



## Economic calendar

TIME CET	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE		
			MARKET	BZWBK				
<b>FRIDAY (12 January)</b>								
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
<b>MONDAY (15 January)</b>								
14:00	PL	CPI	Dec	% y/y	2.0	2.0	2.1	2.0
14:00	PL	Current Account Balance	Nov	€mn	693	881	233	575
14:00	PL	Trade Balance	Nov	€mn	554	608	109	597
14:00	PL	Exports	Nov	€mn	17 884	17 985	18 243	17 914
14:00	PL	Imports	Nov	€mn	17 289	17 377	18 134	17 317
<b>TUESDAY (16 January)</b>								
14:00	PL	CPI Core	Dec	% y/y	0.8	0.8		0.9
<b>WEDNESDAY (17 January)</b>								
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
<b>THURSDAY (18 January)</b>								
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
<b>FRIDAY (19 January)</b>								
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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