

# EYEOPENER

17 January 2018

## Core inflation unchanged in December

- Core inflation at 0.9% y/y in December, same as previously
- EURPLN slightly lower
- Domestic yields decline slowly on positive mood and correction in European yields
- Today wage and employment data in Poland

This time it were the the US shares not the US dollar that saw a pullback. EURUSD ceased to rise, but the main US indices, having reached new peaks, dropped by more than 1% during the day. The US is again facing the vision of the so-called "fiscal cliff". Congressmen and President Donald Trump seem to be far from reaching a consensus on providing further financing for government agencies and the currently binding arrangements are due to expire on Friday. ECB members' statements helped to stop further EURUSD rise.

CPI ex food and energy stayed at 0.9% in December, same as in November. We and the market expected it to decline to 0.8% y/y. The data are not going to influence the MPC, in our view. The Council members we considered potential voters for a rate hike this year have recently expressed more conservative views and it seems the sole rate hike we see in late 2017 is becoming less likely. Still, we think core inflation will rise to c2% y/y during 2018 which may bring back some hawkish rhetoric later in the year.

On the second day of the week, the core debt markets were heading in different directions. As regards German securities, the yield curve shifted down by 1 bp in the 5-10Y segment and stabilized in the 2Y segment. In fact, the debt did not react to comments made by the euro zone monetary authorities: neither Francois Villeroy de Galhau, who expressed concern about the adverse impact of euro appreciation on inflation, nor Jens Weidmann, who suggested not only that closing the ECB's purchase programme this year would be a smart move, but also that analysts' expectations are right that the bank could raise rates only from mid-2019. The US curve has shifted slightly upwards (after the morning decline), stronger in the short end of the curve, thus reacting temporarily to reports about the struggles of American politicians with rising the debt ceiling yet another time.

Domestic bonds were gaining for the second day in a row, stronger on both ends of the yield curve (-2bp) and dropping by 1 bp on the belly, supported by good mood on emerging markets bonds and expectations for bonds redemption at the end of the next week.

Slower (than bonds yields) IRS rates decreases were supporting the narrowing of asset swap spread.

Today we expect domestic bonds to continue strengthening in the 2-5Y segment and a light correction on the long end of the curve. We still think that domestic curve will be a beneficiary of looming debt redemptions.

EURUSD stayed in the down trend for the better part of the yesterday's session. Only when the US markets opened the dollar gave up part of its gains. The weaker than expected Empire State index (in January at 18pts vs 17.7pts in December and consensus at 19pts) did not concern investors much. As a result, EURUSD fell to 1.1224 from 1.227 on daily basis. The euro depreciated amid comments of ECB's Francois Villeroy de Galhau who said that recent 15% euro appreciation vs the dollar might put a downside pressure on inflation through lower oil prices.

On Tuesday, the zloty gained versus the euro, supported by positive start of equity sessions. EURPLN fell to 4.1690 from 4.1760. At the start of the day USDPLN was going up, but at the end of the day returned towards opening level at 3.4060. As regards other CEE currencies, EURCZK fell to 25.44 from 25.52, and reached the lowest level since end of November. This movement was triggered by comment of CNB's member Vojtěch Benda, who stated that the inflation pressure may accelerate the rate hiking cycle and that the koruna returned to long-term appreciation trend. The Czech currency was also supported by data on faster than expected rise in PPI in December. On the other hand, the koruna was not affected by the lost confidence vote of Andrej Babiš's minority government. EURHUF stayed in a narrow trading range and fell to 308.50 from 308.80. USDRUB climbed to 56.40 from 56.30, despite pressure from falling oil prices.

Today we expect the zloty to gain vs the euro as the Polish labour market data should be strong and sentiment on the EM markets remains positive. However, in our view any strengthening could be temporary and EURPLN could rise later in the week.

According to data from the Ministry of Finance, in November VAT returns to companies amounted to PLN9.1bn vs PLN6.6bn in November 2016 (+39% y/y). At the same time, VAT revenues into the state budget accelerated to 19% y/y in November from 12% y/y in October. These data seem to confirm our claim from the last MACROscope – this year the Ministry is returning VAT faster, it started in November or maybe even in October.

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## FX market

## Today's opening

EURPLN	4.1732	CZKPLN	0.1640
USDPLN	3.4103	HUFPLN*	1.3505
EURUSD	1.2237	RUBPLN	0.0603
CHFPLN	3.5442	NOKPLN	0.4334
GBPPLN	4.6998	DKKPLN	0.5603
USDCNY	6.4350	SEKPLN	0.4240

\*for 100HUF

## Last session in the FX market

16/01/2018

	min	max	open	close	fixing
EURPLN	4.168	4.186	4.171	4.171	4.1825
USDPLN	3.396	3.426	3.399	3.407	3.419
EURUSD	1.220	1.228	1.227	1.224	-

## Interest rate market

16/01/2018

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

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
DS1019 (2L)	1.57	-3	1/4/18	OK0720	1.863
PS0123 (5L)	2.60	-2	1/4/18	PS0123	2.561
DS0727 (10L)	3.27	-2	12/15/17	DS0727	3.209

## IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.77	-1	2.02	1	-0.25	0
2L	1.98	-1	2.22	1	-0.11	1
3L	2.14	-1	2.32	1	0.05	-1
4L	2.31	0	2.38	2	0.22	-1
5L	2.44	-1	2.42	2	0.38	-1
8L	2.72	-1	2.50	2	0.75	-2
10L	2.86	-2	2.55	2	0.95	-2

## WIBOR rates

Term	%	Change (bps)
O/N	1.52	3
T/N	1.52	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	1.75	-1
9x12	1.84	-2
3x9	1.81	-1
6x12	1.83	-2

## Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.72	-1
France	16	0	0.28	0
Hungary	116	1	1.41	1
Spain	45	-1	0.95	1
Italy	104	-3	1.42	1
Portugal	73	0	1.46	24
Ireland	25	-1	0.40	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

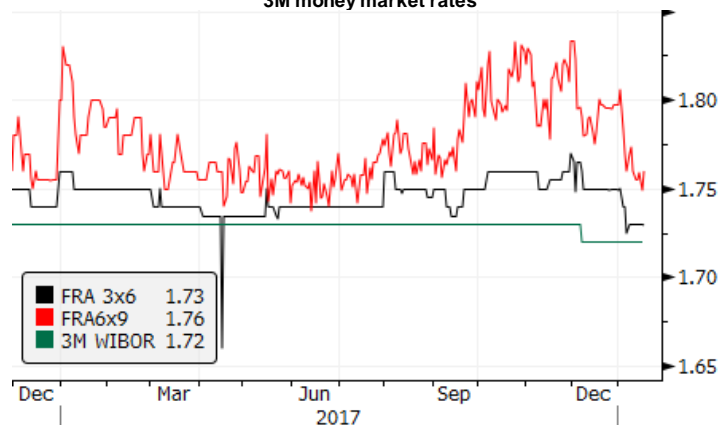
## Zloty exchange rate



## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic calendar

Economic calendar					FORECAST		ACTUAL	LAST
TIME		INDICATOR	PERIOD				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	2.1	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
TUESDAY (16 January)								
14:00	PL	CPI Core	Dec	% y/y	0.8	0.8	0.9	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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