

EYEOPENER

19 January 2018

Złoty stronger, Polish long-term bonds weaker

- Domestic bonds weakened in the long end and the middle of the curve
- PLN stronger vs EUR, stable vs USD
- Sell-off on the long end of the US yield curve
- Today output and retail sales data in Poland

On Thursday, Polish debt was under pressure on the belly and long end of the curve following the trend observed on the core markets, while the short-term bonds were gaining. The zloty appreciated slightly vs the euro and remained flat vs the dollar. Investors were buying currencies of developing countries but selling their debt. Oil and US stock prices fell. The issue of lifting the US debt ceiling has not been solved yesterday. Today the US Senate will try to vote a stopgap measure in order to avoid a government shutdown, like the one that happened in 2013.

On Thursday EURUSD continued to climb, driven by weaker US housing market statistics (but decent labour market data on jobless claims). This moved EURUSD from 1.2170 at the start of the day to 1.2250 (level seen at Wednesday close in the USA). Stabilisation of EURUSD at 1.2250 over the last week was due to investors' expectations for the ECB conference (planned for the next Thursday). Yesterday the ECB's Benoit Coeure said that the central bank has to stop talking about strengthening the recovery, as the euro zone economy is expanding, not recovering. According to Coeure, the ECB should be preparing for the next crisis. This is another comment from the ECB indicating that another change in bank's bias towards more hawkish stance is becoming a consensus view in the Governing Council. Investors do not seem to be sure that such a change will take place next week, and there may be some additional uncertainty on the markets.

On Thursday the zloty was gaining versus the euro throughout the day. This development was fueled by rising EURUSD and positive market sentiment towards emerging market currencies. As a result, EURPLN moved from 4.1690 at the Wednesday close to 4.1620 Thursday afternoon. USDPLN, after opening at 3.40 moved upwards in the morning but then returned to the opening level, similarly as over the last days.

As for other currencies in the region, the Czech crown appreciated, which was reflected in the decline of EURCZK to 25.36. Similarly, the Hungarian forint strengthened, which led to EURHUF falling from 308.50 to 308.30. After the morning

growth, USDRUB returned to 56.60, thus showing resistance to falling oil prices.

Today, we expect stabilization of EURPLN and USDPLN. In our opinion, investors will wait with decisions for the ECB's Thursday conference.

On the US sovereign market, we observed sell-off of the long end of the curve waiting for the auction of new TIPS (inflation-linked bonds). Investors seemed afraid of an upshift of the market inflation expectations and the possible long-end sell-off coming as a consequence of it. It did translate to the long-end curve up-lift by 3 bp. This change was temporary and the scale of increases from before the auction shrank to 1 bp. On the European market, the Bund yield curve was steepened as a result of the long-end 1 bp rise and short end downshift by 1 bp. These changes were accompanied by Eurozone periphery bonds curve moving down (and a slight increase of long end of IRS curve), after the successful Spanish bond auction.

The domestic debt market lost at the longer and belly of the curve (+5bp change in yield) and gained on the front end (-1bp). These changes were accompanied by similar moves on the swap market, apart from the shorter end, which went up by 1bp. Investors were trying to reverse the last falls in spreads versus core markets.

Today we expect the yields from the belly and long end of the curve to fall. However, this could only be temporary and only the short-term bonds could remain stronger as large buybacks are looming.

Today at 14:00CET Polish data on December industrial output and retail sales are on the agenda. We forecast that sales grew 10.9% y/y (consensus at 5.8%) and output 2.2% y/y (consensus 2.8%). Such sharp deceleration of output growth vs November (9.1% y/y) would mainly be the consequence of base effect from late 2016 when the economic revival was starting and negative working day differences. After seasonal adjustment, today's output figure should be at c6-7% y/y.

According to Rzeczpospolita Daily, the government intends to finish the private pension funds (OFE) reform yet in this term. Earlier comments of policymakers were suggesting that this issue could be postponed amid lack of agreement between the Ministry of Finance and the Ministry of Labour. Also, the work on introduction of employee capital plans (PPK) that are additional element of pension system is expected to speed up.

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FX market

Today's opening

EURPLN	4.1646	CZKPLN	0.1640
USDPLN	3.3949	HUFPLN*	1.3492
EURUSD	1.2267	RUBPLN	0.0600
CHFPLN	3.5490	NOKPLN	0.4330
GBPPLN	4.7256	DKKPLN	0.5593
USDCNY	6.4055	SEKPLN	0.4236

*for 100HUF

Last session in the FX market

18/01/2018

	min	max	open	close	fixing
EURPLN	4.160	4.171	4.166	4.163	4.1663
USDPLN	3.390	3.425	3.400	3.405	3.4108
EURUSD	1.217	1.229	1.225	1.223	-

Interest rate market

18/01/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
DS1019 (2L)	1.57	2	1/4/18	OK0720	1.863
PS0123 (5L)	2.65	0	1/4/18	PS0123	2.561
DS0727 (10L)	3.33	0	12/15/17	DS0727	3.209

IRS on the interbank market**

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	1.77	2.04	-0.26
2L	1.99	2.25	-0.13
3L	2.17	2.36	0.04
4L	2.34	2.42	0.22
5L	2.48	2.46	0.38
8L	2.77	2.56	0.76
10L	2.91	2.62	0.96

WIBOR rates

Term	%	Change (bps)
O/N	1.39	-11
T/N	1.51	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	1.83	0
3x9	1.81	0
6x12	1.82	0

Measures of fiscal risk

Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.74 -2
France	16 0	0.27 0
Hungary	116 1	1.51 -1
Spain	42 -3	0.91 -1
Italy	103 -2	1.40 -1
Portugal	72 0	1.43 0
Ireland	25 -1	0.40 -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

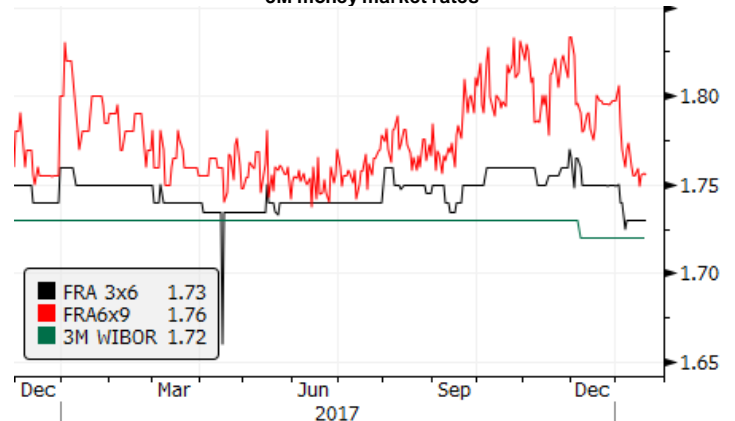
Zloty exchange rate



T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar					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	1.4
14:00	PL	Employment in corporate sector	Dec	% y/y	4.5	4.6	4.6	4.5
14:00	PL	Average Gross Wages	Dec	% y/y	6.9	7.5	7.3	6.5
15:15	US	Industrial Production	Dec	% m/m	0.4	-	0.9	0.2
THURSDAY (18 January)								
14:30	US	Initial Jobless Claims	Jan-18	k	245.0	-	220.0	261.0
14:30	US	Housing Starts	Dec	% m/m	-2.08	-	-8.2	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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