

EYEOPENER

30 January 2018

Zloty joins weakening bonds

- Polish and global yields climb higher, dollar recovers
- Zloty gives up part of recent gains
- Dovish comments of MPC's Łon and Żyżyński, rate hike in 1H19 would not surprise Glapiński
- Today, Polish flash 2017 GDP data and decision of the Hungarian central bank

The week started well for the dollar, which gained in particular vs the euro and the British pound. Stock market no longer showed the enthusiasm seen in the first part of the previous week and the price of Brent oil dropped below US\$70/b. This was an adverse environment for emerging currencies, and the zloty was doing the worst among them, losing about 1% vs the dollar yesterday. At the same time the global sell-off of bonds continued, including the domestic market.

EURUSD tried several times to get below 1.24 and succeeded only in the second half of the day on broad dollar strengthening. The euro weakened on the back of a comment from ECB's chief economist Peter Praet, that the criteria that would allow the bank to consider monetary policy normalization have not been met yet. The dollar was supported by growing yields of US Treasuries. The euro was yesterday the weakest among the G10 currencies and at the end of the Polish session EURUSD was close to 1.235. We think that the dollar will remain strong, awaiting tomorrow's FOMC decision and Friday labour market data from the US.

Yesterday, the Polish zloty performed the worst amongst emerging currencies. At the opening of the session, EURPLN stood at 4.136 to approach 4.15 afterwards. USDPLN was at 3.33 early in the day and has reached the highest level since last Wednesday (3.356). Stronger weakening of the Polish zloty as compared to other emerging currencies may partially result from the correction of the last week's strengthening, after the speech of the NBP's Adam Glapiński was mistakenly interpreted as hawkish by the market. It may also have been triggered by dovish speeches of the other MPC members. Today, the market sentiment is weak which may keep EURPLN exchange rate at a higher level.

In the interview by Polish Press Agency, MPC member Eryk Łon stated that he did not think about hiking the interest rates but the strengthening of the domestic currency might incline him to cut them. According to Łon, strong zloty hinders business. In our opinion, Eryk Łon's view is not shared by other MPC members and the idea of monetary policy easing will not be supported by them. On the other hand, another MPC member, Jerzy Żyżyński, stated that zloty could still grow stronger but keeping it weaker was beneficial for export.

After comments last week, yesterday the NBP president again spoke on monetary policy. Glapiński stressed he assumes no rate changed until end of 2018. In the first half of 2019 Glapiński sees a further stabilization, but a hike would not be a surprise for him. Glapiński said also that the MPC will not hesitate with actions should some internal factors emerge. For the NBP president, a faster-than-expected rise in core inflation would be a warning sign. Adam Glapiński would also be concerned about ECB rate hike. In our view, euro zone rates will go up in 2Q19 at the earliest, while the first hike in Poland could be expected at the turn of 2018 and 2019 when wage growth gains strength and core inflation goes up.

The sell-off included other currencies of the region. EURHUF increased from 309.2 to 310. Today Hungarian central bank decides on rates. Recent forint appreciation could encourage the central bankers to adopt somewhat more dovish tone, in our view. The Czech koruna was volatile due to information about weekend presidential elections. Miloš Zeman got 51.4% of votes in the second round, beating Jiří Drahoš. Zeman will thus stay for the second 5-year term and his victory means an increase of chances that Andrej Babiš manages to form a government (Drahoš did not want to grant Babiš a second chance after failed confidence vote of his cabinet). EURCZK corrected the morning rise as news about the election results came, but later in the day it did not avoid the negative sentiment for emerging currencies. The ruble increased the Friday loss due to weaker oil. USDRUB reached 56.34.

On the global bonds market, the sell-off continued. The US yield curve has rebounded by 2bp on the front end, 4bp on the belly and 5bp on the long end. The bigger move was registered on the German market, by 3bp, 4bp and c7bp, respectively. Polish and Czech short-term bonds resisted this trend – the former thanks to corrections after the last week's the NBP governor remarks, the latter in reaction to the political tension relaxation after the weekend presidential elections. On the long end of the domestic curve, we observed the upward move by c7bp. The IRS rates from the belly and the long end of the curve have rebound by 6-7bp, while the short end by 3bp.

Today at 10:00CET stat office will release Poland flash 2017 GDP data. This release will give us some information about economic performance in 4Q17. We are expecting the annual figure to show 4.5%, which will indicate 4Q17 result in 4.7-5.0% range. Fixed investment will be another important figure. Annual growth above 2.5% will suggest that the recovery in investment was gaining strength in the final quarter of 2017. Result above 3.5% is an indicator of a strong rebound. We are expecting the economic climate to stay positive in 2018 as well. We think today's data could slow the process of profit taking after recent zloty's appreciation.

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FX market

Today's opening

EURPLN	4.1489	CZKPLN	0.1639
USDPLN	3.3560	HUFPLN*	1.3380
EURUSD	1.2363	RUBPLN	0.0597
CHFPLN	3.5798	NOKPLN	0.4328
GBPPLN	4.7052	DKKPLN	0.5574
USDCNY	6.3346	SEKPLN	0.4242

*for 100HUF

Last session in the FX market 29/01/2018

	min	max	open	close	fixing
EURPLN	4.129	4.150	4.134	4.141	4.1423
USDPLN	3.322	3.360	3.325	3.347	3.3375
EURUSD	1.234	1.244	1.243	1.237	-

Interest rate market

29/01/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.73	-2	1/4/18	OK0720	1.863
PS0123 (5L)	2.75	1	1/4/18	PS0123	2.561
WS0428 (10L)	3.56	5	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	2.08	1	-0.26	0
2L	2.06	-1	2.32	1	-0.12	0
3L	2.30	0	2.45	2	0.09	1
4L	2.53	1	2.53	2	0.30	2
5L	2.71	2	2.57	3	0.48	2
8L	3.02	3	2.68	4	0.88	5
10L	3.16	2	2.73	5	1.07	6

WIBOR rates

Term	%	Change (bps)
O/N	0.89	-45
T/N	1.28	-10
SW	1.53	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	1.86	0
3x9	1.81	-1
6x12	1.84	-1

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.87	5
France	16	0	0.28	0
Hungary	116	1	1.56	-2
Spain	42	-2	0.73	1
Italy	98	-2	1.34	1
Portugal	65	-1	1.24	0
Ireland	25	-1	0.43	7
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

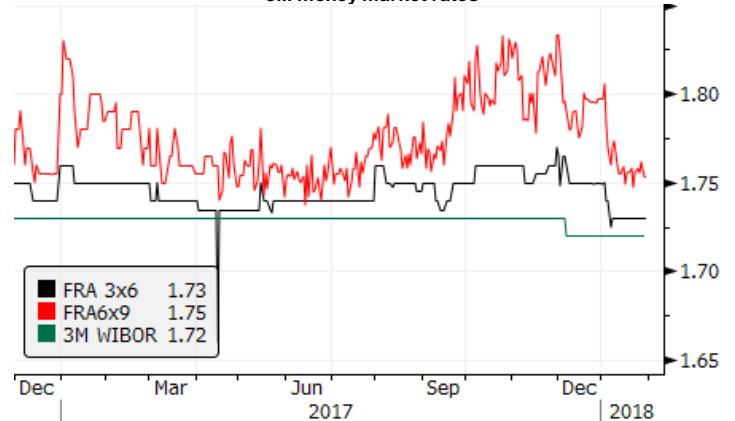
Zloty exchange rate



T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar								
TIME		INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE
CET					MARKET	BZWBK		
FRIDAY (26 January)								
11:30	PL	Bond Auction			-			
14:30	US	Durable Goods Orders	Dec	% m/m	0.8		2.9	1.3
14:30	US	GDP Annualized	4Q	% Q/Q	3.0		2.6	3.2
MONDAY (29 January)								
14:30	US	Personal Spending	Dec	% m/m	0.45		0.4	0.6
14:30	US	Personal Income	Dec	% m/m	0.3		0.4	0.3
TUESDAY (30 January)								
10:00	PL	GDP	2017	% y/y	4.5	4.5	-	2.9
11:00	EZ	GDP SA	4Q	% y/y	2.65		-	2.8
14:00	HU	Central Bank Rate Decision	Jan-18	%	0.9		-	0.9
16:00	US	Conference Board index	Jan	pts	123.0		-	122.1
WEDNESDAY (31 January)								
11:00	EZ	Flash HICP	Jan	% y/y	1.2		-	1.4
11:00	EZ	Unemployment Rate	Dec	%	8.7		-	8.7
14:15	US	ADP report	Jan	k	190.0		-	250.2
16:00	US	Pending Home Sales	Dec	% m/m	0.5		-	0.2
20:00	US	FOMC decision	Jan-18		1.5		-	1.5
THURSDAY (1 February)								
09:00	PL	Poland Manufacturing PMI	Jan	pts	55.2	55.4	-	55.0
09:55	DE	Germany Manufacturing PMI	Jan	pts	61.2		-	61.2
10:00	EZ	Eurozone Manufacturing PMI	Jan	pts	59.6		-	59.6
13:00	CZ	Central Bank Rate Decision	Feb-18		0.75		-	0.5
14:30	US	Initial Jobless Claims	Jan-18	k	235.0		-	233.0
16:00	US	ISM manufacturing	Jan	pts	58.95		-	59.7
FRIDAY (2 February)								
14:30	US	Change in Nonfarm Payrolls	Jan	k	187.5		-	148.0
14:30	US	Unemployment Rate	Jan	%	4.1		-	4.1
16:00	US	Michigan index	Jan	pts	95.0		-	94.4
16:00	US	Factory Orders	Dec	% m/m	0.5		-	1.3

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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