

EYEOPENER

2 February 2018

MPC minutes sound dovish

- **Dovish tone of the MPC minutes**
- **Polish companies still optimistic**
- **Zloty flat vs euro, gains vs dollar on higher EURUSD**
- **Polish bond yields down**
- **Today US monthly job report**

Yesterday Polish bonds gained despite a rise of yields on global markets, but the zloty did not benefit from that versus the euro.

The Monetary Policy Council's minutes from the January meeting included some new statements confirming a relatively more dovish stance. Reference to disinflationary factors in the form of global value chains was included in the description of global inflation trends. A paragraph about rising oil prices does not suggest that this issue is considered as a pro-inflationary risk factor. Demand pressure was still considered as limited by a majority, judging by the still low core CPI. In the part that lists MPC hawks' arguments, reference to possible negative consequences of negative real rates was dropped, while those very same members stated that "in the light of recently released data, the risk of a marked increase in inflationary pressure was lower than previously assumed". The minutes are consistent with comments from recent press conferences where, despite the fact that members considered monetary policy hawks were present, the overall tone was surprisingly dovish. When discussing the appreciation of the zloty, the Council agreed that it will curb the rise of inflation; however, there was no common opinion regarding whether it bodes poorly for exports. The labor market is not seen by a majority as generating important inflationary pressure. It was mentioned during the discussion that despite firms' perception of growing labor shortages, enterprise employment was growing fast. It was also stated that the improving GDP outlook for 2018 should mitigate the transmission of wage pressures to unit labor costs. Reference to March NBP projections as an important prerequisite for further assessment of the outlook for monetary policy seems to sideline the upcoming meeting (February 6-7). However, with the market stir caused by the recent interview with NBP governor Adam Glapiński (seemingly suggesting he tilted towards monetary tightening in 2019) we think this will prove an important market-relevant event.

NBP Quick Monitoring from January 2018 showed that Polish companies were quite sanguine about the situation at the beginning of 2018, yet they are expecting some deterioration of their financial situation. A growing number of companies reported problems with finding workers and rising labor costs. Firms also raised their forecasts for their own prices and the prices of raw materials. Respondents are planning higher investments, yet this can be applied mostly to public companies and those utilizing the EU funds.

Firms reported falling liquidity indicators, especially in construction, which complained about the longer timing of tax settlements, probably due to the introduction of reverse VAT payments. Construction had the highest capacity utilization: 70% of companies report they are close to maximum capacity, and that the main way for them to deal with this issue is to drop some orders.

After Wednesday's afternoon drop, EURUSD rebounded on Thursday. Consequently, EURUSD exchange rate stood at 1.247 at closing of the session (vs. 1.241 at opening) and it's approaching 1.25 this morning. Euro benefited from sound PMI, whereas the dollar was under pressure due to low sales of cars in the USA and weak results of important ISM index subcomponents. From the previous week, EURUSD has been hovering slightly below a multi-year peak. Today, important US data will be published which may generate a lot of volatility at the end of the week.

EURPLN increased to almost 4.16 from 4.15 due to deteriorating sentiment in the European stock exchanges and, partially, weaker than projected PMI index for Polish industry. USDPLN went down to 3.32 after closing of the domestic session thanks to rising EURUSD. Today at the opening, the global sentiment is neutral so EURPLN may hover close to 4.16, expecting US data publication.

Elsewhere in the region, EURCZK declined from 25.29 to 25.20 (the lowest level in five years) thanks to a rate hike in Czechia (from 0.50% to 0.75%). Investors ignored remarks from CNB members, that a strong koruna erases space for further monetary tightening. EURHUF declined from 310.10 to 309.50 thanks to positive PMI (60.9 pts, the 2nd highest level ever). Another day of rising Hungarian yields did not hit the forint. USDRUB dropped from 56.3 to 56.1 in spite of a weaker than expected GDP for 2017 (1.5% vs 1.7% market consensus) and unimpressive PMI (52.1 pts vs 52.0 a month earlier). The ruble was supported by rising oil prices.

US yields rose by 1bp at the long end of the curve, slightly falling in the short end and the belly. German yield curve moved down by 1-2bp. The changes have resulted, in our view, from the correction after the selloff that has started before the ECB meeting and continued until the Wednesday's Fed decision.

Domestic yield curve has been declining after yields rose in the morning, following core markets (the difference between the highest and the lowest yield during the day was 8bp). As a result, at the end of the day yields at the short and long ends were below the Wednesday's close (by 1 and 3bp, respectively) while the belly remained unchanged. The IRS curve behaved in a similar way. Today we think a rise of long-term yields is possible.

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FX market

Today's opening

EURPLN	4.1549	CZKPLN	0.1648
USDPLN	3.3216	HUFPLN*	1.3446
EURUSD	1.2508	RUBPLN	0.0593
CHFPLN	3.5847	NOKPLN	0.4339
GBPPLN	4.7340	DKKPLN	0.5582
USDCNY	6.2748	SEKPLN	0.4229

*for 100HUF

Last session in the FX market

01/02/2018

	min	max	open	close	fixing
EURPLN	4.147	4.161	4.153	4.151	4.1504
USDPLN	3.323	3.353	3.345	3.326	3.3346
EURUSD	1.239	1.250	1.242	1.248	-

Interest rate market

01/02/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.72	0	1/26/18	OK0720	1.823
PS0123 (5L)	2.75	-1	1/26/18	PS0123	2.665
WS0428 (10L)	3.49	-4	1/26/18	WS0428	3.446

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.77	-1	2.11	1	-0.26	0
2L	2.04	-1	2.35	2	-0.13	0
3L	2.29	0	2.49	2	0.09	1
4L	2.50	-1	2.58	2	0.29	1
5L	2.67	-2	2.63	2	0.49	1
8L	2.96	-4	2.74	3	0.89	2
10L	3.11	-3	2.79	3	1.10	3

WIBOR rates

Term	%	Change (bps)
O/N	1.45	1
T/N	1.51	3
SW	1.55	0
2W	1.58	-1
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	1.82	0
6x12	1.84	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.76	-5
France	16	1	0.26	0
Hungary	116	1	1.67	-1
Spain	43	0	0.68	-1
Italy	96	0	1.24	0
Portugal	64	-2	1.22	0
Ireland	25	-1	0.43	1
Germany	9	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

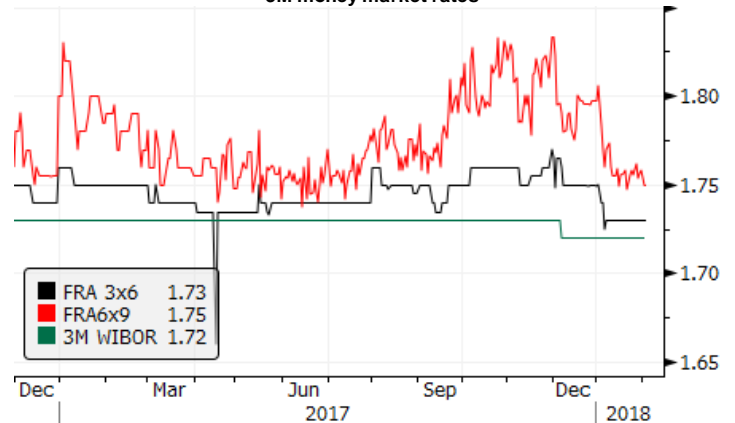
Zloty exchange rate



T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar								
TIME		INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST
CET	MARKET				BZWBK	VALUE		
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	4.6	2.9
11:00	EZ	GDP SA	4Q	% y/y	2.7		2.7	2.8
14:00	HU	Central Bank Rate Decision	Jan-18	%	0.9		0.9	0.9
16:00	US	Conference Board index	Jan	pts	123.0		125.4	123.1
WEDNESDAY (31 January)								
11:00	EZ	Flash HICP	Jan	% y/y	1.2		1.3	1.4
11:00	EZ	Unemployment Rate	Dec	%	8.7		8.7	8.7
14:15	US	ADP report	Jan	k	183		234	250
16:00	US	Pending Home Sales	Dec	% m/m	0.5		0.5	0.2
20:00	US	FOMC decision	Jan-18		1.5		1.5	1.5
THURSDAY (1 February)								
09:00	PL	Poland Manufacturing PMI	Jan	pts	55.2	55.4	54.6	55.0
09:55	DE	Germany Manufacturing PMI	Jan	pts	61.2		61.1	61.2
10:00	EZ	Eurozone Manufacturing PMI	Jan	pts	59.6		59.6	59.6
13:00	CZ	Central Bank Rate Decision	Feb-18		0.75		0.75	0.5
14:30	US	Initial Jobless Claims	Jan-18	k	235.0		230	233.0
16:00	US	ISM manufacturing	Jan	pts	58.95		59.1	59.7
FRIDAY (2 February)								
14:30	US	Change in Nonfarm Payrolls	Jan	k	180		-	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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