

EYEOPENER

7 February 2018

MPC tone likely to remain unchanged

- Equity markets in USA and Asia rebounded
- Zloty only temporarily weaker, bonds strong
- Dollar gained amid higher risk aversion
- Polish MPC decision today

The Tuesday's session in Europe followed the similar scenario to Monday's session. The equity markets continued falling sharply, which positively influenced the core sovereign bond market and Europeriphery bonds. The risk-off wave supported the US dollar and negatively weighted on the emerging markets currencies. The situation changed after the closing of the European market. At the end of the US session, there was a rebound and main indices ended the day on the positive side, despite the high level of volatility over the day. It was followed by improvement of moods on Asian markets, which allows expecting lower risk aversion in Europe today.

FX market

Yesterday, EURUSD dropped for a third time in a row approaching 1.23, the lowest level since the end of January. USD was supported by investor's growing demand for secure assets. In general, the recent EURUSD fluctuations are consistent with the trend unfolding in the recent weeks, which is in opposition to trends visible on stock or debt markets. By the end of the week, no important data will be published and it seems that the pace of changes noted for stock exchange indices will blaze a trail for EURUSD exchange rate in the upcoming days. This morning, EURUSD rebounded to reach almost 1.24 which might have been triggered by growth in the US and Asian stock exchanges.

EURPLN stayed yesterday in the 4.15-4.17 range and USDPLN rose to 3.38 from 3.34 due to a decline of EURUSD. This morning EURPLN turned towards 4.15 again, thanks to more calm on the global equities. Today the MPC decision will be announced and in our view the tone of the press conference may influence the currency. Some investors perceived the last interview of NBP governor as hawkish, while we assume that the MPC rhetoric still remains dovish. If we are correct, the zloty could react to the press conference with some weakening.

Other CEE currencies were doing fine yesterday – the forint was down vs. the euro only for a part of the day, the koruna and the ruble remained stable.

Debt markets

On the Polish interest rate market, IRS rates fell again, mostly on the middle and the longer end of the curve, while bond yields did not change much and fell behind the German debt and Euro zone peripheries, which were strengthening. Today investors' attention is likely to turn towards the Polish MPC and its tone during the conference. In our view, the statement will be dovish, undermining hopes for sooner rate hikes. At the same time, the Polish FI market can be affected by the core markets situation, where we may see some rise in yields after the selloff on the equity markets have stopped.

The Finance Ministry informed that tomorrow it intends to offer OK0720, WZ1122, PS1023, WS0428 and WZ0528 papers worth PLN3-5bn in total. According to the newest data from the Ministry, at the end of December 2017, domestic investors were the biggest holders of bonds offered tomorrow.

Monetary policy

Today the Polish Monetary Policy Council will announce its decision on interest rates. Although we do not expect any changes in monetary policy parameters, the outcome of the meeting could be interesting given the recent comments of NBP's head Adam Glapiński. Seemingly, there was a difference between the governor's attitude during the previous post-meeting press conferences and what he said in Davos and some investors viewed that as a hint of change in the monetary policy bias. In our view, today's MPC press conference will clarify these doubts. We think that Mr. Glapiński views remain dovish and he will stress the conditionality attached to his remarks about the possibility of a rate hike in 2019. Also, the January minutes were an expression of MPC dovishness and less pronounced stance of the hawkish minority. Our guess is that at the press conference the governor will be accompanied by Kamil Zubelewicz (who still seems to stick to his hawkish opinions) and Grażyna Ancyparowicz or Jerzy Osiatyński (both now considered moderate members, but in autumn of 2017 were seen as possible promoters of monetary tightening in 2018).

ECONOMIC ANALYSIS DEPARTMENT:

al. Jana Pawła II 17, 00-854 Warsaw fax +48 22 586 83 40
 email: ekonomia@bzwbk.pl Web site: skarb.bzwbk.pl
 Piotr Bielski +48 22 534 18 87
 Marcin Luźniński +48 22 534 18 85
 Grzegorz Ogonek +48 22 534 19 23
 Konrad Soszyński +48 22 534 18 86
 Marcin Sulewski +48 22 534 18 84

TREASURY SERVICES:

Poznań +48 61 856 5814/30
 Warszawa +48 22 586 8320/38
 Wrocław +48 71 369 9400

FX market

Today's opening

EURPLN	4.1559	CZKPLN	0.1646
USDPLN	3.3532	HUFPLN*	1.3413
EURUSD	1.2394	RUBPLN	0.0589
CHFPLN	3.5883	NOKPLN	0.4294
GBPPLN	4.6840	DKKPLN	0.5584
USDCNY	6.2576	SEKPLN	0.4218

*for 100HUF

Last session in the FX market

06/02/2018

	min	max	open	close	fixing
EURPLN	4.149	4.172	4.150	4.156	4.1547
USDPLN	3.339	3.386	3.339	3.354	3.3498
EURUSD	1.231	1.243	1.243	1.239	-

Interest rate market

06/02/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.71	-1	1/26/18	OK0720	1.823
PS0123 (5L)	2.75	-2	1/26/18	PS0123	2.665
WS0428 (10L)	3.52	-1	1/26/18	WS0428	3.446

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.78	-1	2.09	-2	-0.27	0
2L	2.03	-2	2.32	-3	-0.14	-2
3L	2.28	-2	2.46	-4	0.07	-1
4L	2.49	-4	2.55	-5	0.27	-2
5L	2.66	-4	2.61	-5	0.46	-1
8L	2.96	-6	2.74	-6	0.88	-3
10L	3.10	-5	2.80	-6	1.08	-3

WIBOR rates

Term	%	Change (bps)
O/N	1.56	0
T/N	1.56	0
SW	1.55	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	1.72	0
3x6	1.73	0
6x9	1.75	-1
9x12	1.83	-2
3x9	1.81	0
6x12	1.84	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.81	-2
France	17	0	0.26	0
Hungary	116	1	1.97	-1
Spain	47	2	0.72	-1
Italy	101	2	1.28	-1
Portugal	68	0	1.35	-1
Ireland	25	-1	0.41	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

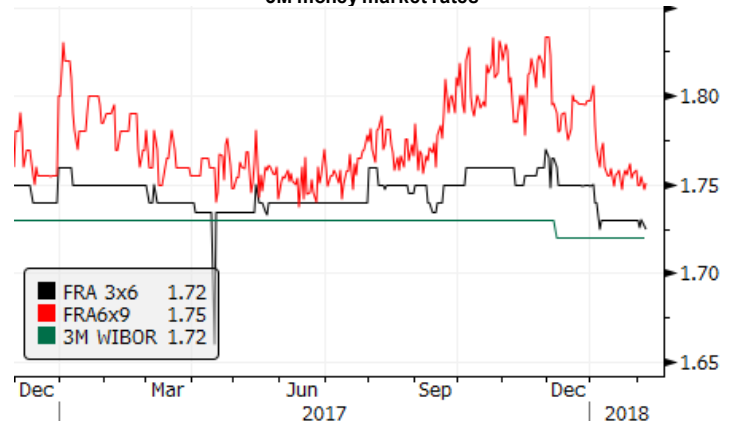
Zloty exchange rate



T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic Calendar								
TIME		INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST
CET	MARKET				BZWBK	VALUE		
FRIDAY (2 February)								
14:30	US	Change in Nonfarm Payrolls	Jan	k	180.0		200.0	148.0
14:30	US	Unemployment Rate	Jan	%	4.1		4.1	4.1
16:00	US	Michigan index	Jan	pts	95.0		95.7	94.4
16:00	US	Durable Goods Orders	Dec	% m/m	0.0		2.8	2.9
16:00	US	Factory Orders	Dec	% m/m	1.5		1.7	1.3
MONDAY (5 February)								
02:45	CH	Caixin China PMI Services	Jan	pts	53.5		54.7	53.9
09:55	DE	Markit Germany Services PMI	Jan	pts	57.0		57,3	57.0
10:00	EZ	Eurozone Services PMI	Jan	pts	57.6		58,0	57.6
11:00	EZ	Retail Sales	Dec	% m/m	-1.0		-1,1	2.0
16:00	US	ISM services	Jan	pts	56.5		59,9	56.0
TUESDAY (6 February)								
08:00	DE	Factory Orders	Dec	% m/m	0.7		3.8	-0.1
09:00	CZ	Industrial Production	Dec	% y/y	3.65		2.7	8.5
WEDNESDAY (7 February)								
	PL	Poland Base Rate Announcement		%	1.5	1.5		1.5
08:00	DE	Industrial Production SA	Dec	% m/m	-0.7	-	-0.6	3.4
09:00	HU	Industrial Production SA	Dec	% y/y	5.05	-		3.4
THURSDAY (8 February)								
08:00	DE	Exports SA	Dec	% m/m	-1.0		-	4.1
11:30	PL	Bond Auction			-			
14:30	US	Initial Jobless Claims	Feb-18	k	232.0		-	230.0
FRIDAY (9 February)								
No important events								

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

This publication has been prepared by Bank Zachodni WBK S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Bank Zachodni WBK S.A., its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Bank Zachodni WBK S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Bank Zachodni WBK S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

Additional information is available on request. Please contact Bank Zachodni WBK S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@bzwbk.pl, <http://www.bzwbk.pl>.