

EYEOPENER

8 February 2018

MPC got more dovish

- Global equities trying to get their act together
- MPC conference confirmed its dovishness
- Stability of Polish debt
- Poland holds bond auction with decreased supply, US jobless claims

After a few days of a sell-off, on Wednesday the global stock markets were in black again. The rebound in equity prices did not however affect the debt or the FX markets. Despite returning optimism, the dollar not only did not give up recent gains, but even strengthened thanks to budget agreement in the US Senate, securing government financing for the upcoming two years.

Monetary policy – MPC suggests no rate changes in 2018

The Monetary Policy Council kept the main interest rates unchanged, as broadly expected. The official MPC communiqué remained almost the same as in the previous month. At the post-meeting press conference, NBP president Adam Glapiński said that there should be no reason to hike interest rates until the end of 2018, but he thinks it is too early to talk credibly about 2019. Comments of MPC's Jerzy Osiatyński and Łukasz Hardt were in line with Adam Glapiński. Hardt (perceived as hawk) said that in his view, the probability of keeping rates unchanged until the end of this year has increased after recent data releases.

Summing up, the central bank is clearly signaling that interest rate hikes before the end of 2018 are becoming less and less likely. We think that CPI zig-zagging in a horizontal trend below the 2.5% target for the better part of this year will provide the MPC a sufficient argument for keeping monetary policy on hold until the very end of 2018. We wrote more on this issue in [Post-MPC comment: "No rate hikes in 2018. Period."](#)

European Commission upgraded Poland's GDP forecast

The European Commission increased GDP forecast for Poland: for 2018 from 3.8% (shown in the November forecasting round) to 4.2% and for 2019 from 3.4% to 3.6%. CPI forecast for 2018 was maintained at 2.1%, whereas the figure for 2019 was decreased from 2.8% to 2.6%. Forecasts for other variables have not been presented, as the European Commission has switched to updates of all the forecasts (also concerning fiscal parameters of members states) only in spring and autumn. In winter and summer forecasting rounds, only GDP and inflation paths will be subject to update. In the description of 2017, variable behaviour of private investments was depicted (rebound in some services sector and weakness in manufacturing). The projected revival of investment is to be moderate and based on strong rebound in the public

sector, especially in 2018. Shortage of labour and mounting the related wage pressure were presented as the main factors triggering increase of core inflation (to more than 2.5% in 2H19).

Unemployment rate

According to the Ministry of Labour, the registered unemployment rate was 6.9% in January, and the number of the unemployed went up by 54k m/m. It was the lowest seasonal rise of the unemployed count for January since 1997! Survey-based indicators of the labour market confirm that labour demand in the Polish economy remains really high, which should promote further declines of the unemployment rate. The ministerial data are in line with our forecast about the official figure for the unemployment rate to be released by the Stats Office.

FX market

EURUSD was long stable between Tuesday's peak and low but later in the day the downside impulse was resumed. Rebound in stock prices did not have any material impact on the market and did not weigh on the US currency. As a result, the exchange rate was testing important support at 1.23 at the end of the Polish session and eased to 1.225 during the US trading hours. Today, the US weekly initial jobless claims are on the agenda and this is likely the last release that could trigger any market reaction this week.

EURPLN remained near 4.16 and USDPLN rose to 3.386 amid falling EURUSD. Just like we thought, the tone of the MPC press conference was dovish but the impact of the zloty was mild. However, during the night exchange rates climbed to 4.17 and 3.40, respectively, owing to further dollar appreciation. Not many important data are left to be released this week so EURPLN could remain fairly stable. The other CEE currencies, just like the zloty, did not benefit from improvement on the global market sentiment after the recent sharp mood's deterioration. Koruna and ruble gave up Tuesday's gains while the forint did move much.

Debt markets

On the domestic debt market, IRS rates and yields oscillated near to the Tuesday's close. On the core markets, yields of 10Y German bonds rose by 3 bp, while the US one rose by 2.5 bp. The Europeriphery bonds were also clearly stronger (compare to the Tuesday's closing). The dovish MPC rhetoric did not impact Polish yields and swap rates.

Today the most important event for the Polish debt market (except the global trends and events) will be the result of the regular bonds auction. The supply cap was lowered to PLN5bn from PLN6bn originally announced. As we said yesterday it looks like the auction's success will depend on the local investors.

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 Łuziński +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	4.1682	CZKPLN	0.1651
USDPLN	3.3963	HUFPLN*	1.3422
EURUSD	1.2273	RUBPLN	0.0589
CHFPLN	3.5993	NOKPLN	0.4299
GBPPLN	4.7191	DKKPLN	0.5600
USDCNY	6.3179	SEKPLN	0.4215

*for 100HUF

Last session in the FX market 07/02/2018

	min	max	open	close	fixing
EURPLN	4.153	4.167	4.156	4.167	4.1593
USDPLN	3.348	3.400	3.354	3.396	3.3677
EURUSD	1.226	1.241	1.239	1.227	-

Interest rate market

07/02/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.71	0	1/26/18	OK0720	1.823
PS0123 (5L)	2.76	1	1/26/18	PS0123	2.665
WS0428 (10L)	3.51	0	1/26/18	WS0428	3.446

IRS on the interbank market**

Term	PL %	PL Change (bps)	US %	US Change (bps)	EZ %	EZ Change (bps)
1L	1.77	0	2.12	3	-0.26	0
2L	2.04	1	2.35	3	-0.12	2
3L	2.30	1	2.49	3	0.08	2
4L	2.52	3	2.57	3	0.30	2
5L	2.69	2	2.63	3	0.48	2
8L	2.99	3	2.77	3	0.90	3
10L	3.14	3	2.83	3	1.11	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	1.74	1
6x9	1.75	0
9x12	1.83	0
3x9	1.82	1
6x12	1.84	0

Measures of fiscal risk

Country	CDS 5Y USD Level	Change (bps)	10Y spread* Level	Change (bps)
Poland			2.77	0
France	17	0	0.24	0
Hungary	116	1	1.83	-2
Spain	46	-1	0.68	1
Italy	98	-3	1.22	2
Portugal	65	-3	1.27	2
Ireland	25	-1	0.37	1
Germany	9	1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

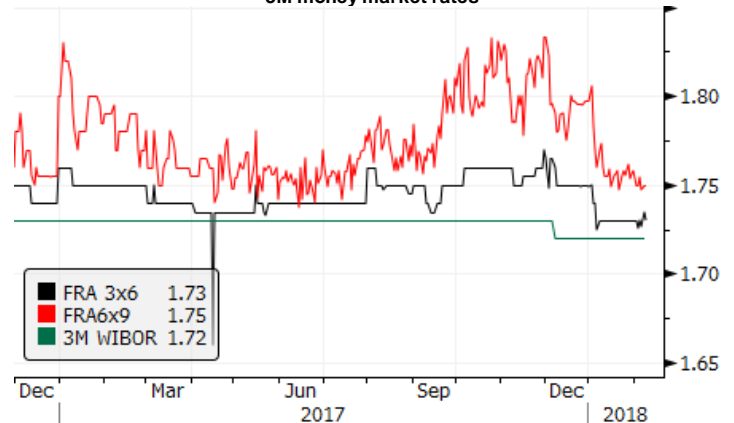
Zloty exchange rate



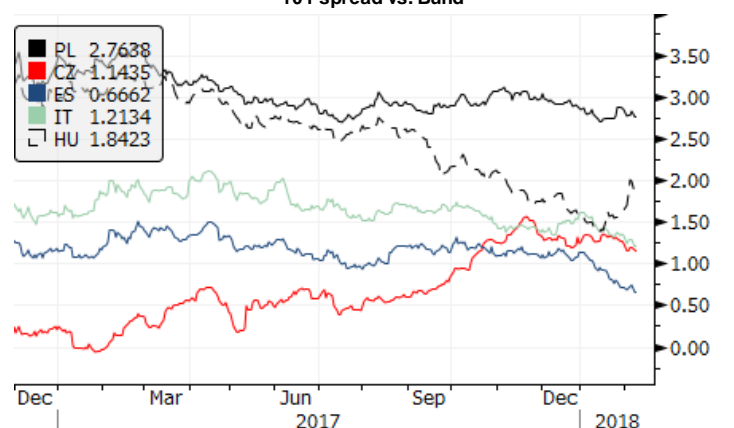
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar									
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		%	1.50	1.50	1.50	1.50	
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	-	4.5	3.6	
THURSDAY (8 February)									
08:00	DE	Exports SA	Dec	% m/m	-1.0	-	0.3	4.1	
11:30	PL	Bond Auction							
14:30	US	Initial Jobless Claims	week	k	232	-	-	230	
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>.