

# EYEOPENER

15 February 2018

## Decent GDP result, here comes inflation

- **US CPI higher than expected but retail sales disappointed**
- **Polish 4Q GDP in line with our 5.1% y/y forecast**
- **Zloty temporarily weaker vs EUR and USD**
- **Polish IRS and yields followed core markets higher**
- **Today Polish January CPI, US output and jobless claims**

On Wednesday, trading on global markets was clearly influenced by inflation data from the US. CPI for January was surprisingly high, thus causing a sudden strengthening of the dollar and an increase in bond yields in the core markets and in the euro zone peripheries. Nonetheless, the market reaction was not long-lasting, as the retail sales data published simultaneously, was a disappointment. The end of the day saw increases in major stock market indices, but also higher bond yields globally. Yesterday, market expectations regarding the number of interest rate hikes to be applied by the Fed in 2018 shifted towards four, however the interest rate market still believes that the most likely is the scenario of three hikes by 25bps. Despite this belief, the dollar suffered severe losses in the evening and overnight.

### Polish 4Q GDP - no surprise (yet?)

GDP growth in the final quarter of 2017 reached 5.1% y/y, according to the flash publication. Interestingly, GDP growth was above and below 5% at the same time, as in seasonally adjusted terms it slowed to 4.3% in 4Q17 from 5.2% in 3Q17, after 1.0% q/q increase. We still expect Polish economy to grow around 4.3% in 2018, due to extremely supportive external environment and strong domestic demand.

### January inflation to be released today

Our forecast for January CPI suggest a further slide to 1.8% y/y from 2.1% y/y in December. In our view, January saw an unusually low growth in food prices due to downward tendencies in eggs and butter, earlier driven strongly up. CPI will also be dragged lower by high base effect in energy prices. Core inflation, on the other hand, most likely climbed to 1.1% y/y, the highest since 2014. In our view, inflation is likely to oscillate above 2.0% in the months to come and to temporarily hit 2.5% in mid-2018. We are expecting a further change in its breakdown: from food/energy driven to core driven (we expect core inflation at 2.0% at the end of 2018).

### FX market

EURUSD plunged to 1.228 from 1.234 in reaction to US inflation data yesterday. The market reaction was quick but temporary and the rate rebounded to 1.237 at the end of the session. The rebound was continued after the European session and overnight. As a result, this

morning the pair is close to this year's peak at 1.25. The quick upward march may have been due to weak data on retail sales. Today we will get to see initial jobless claims and January industrial output in the US. If today's data is unanimous, the EURUSD reaction may be stronger and more persistent than yesterday.

EURPLN did not react to domestic GDP data, but in response to the hawkish inflation data from the US, it briefly rebound from 4.17 above 4.18. However, EURUSD rally witnessed overnight, brought EURPLN down to 4.15. After the US inflation data were published, fluctuations intensified also in the case of USDPLN - down to 3.405 from 3.375 and then to 3.32 in the evening and overnight. For other CEE currencies, the pattern was similar: at the closing of the European markets, the forint was weaker against the euro than at the opening, the koruna remained stable, while USDRUB slightly decreased. Overnight, however, the emerging markets currencies strengthened against both the euro and the dollar.

Yesterday EURPLN showed that its negative correlation with EURUSD still holds. Apart from the US data, today the zloty may be affected by January inflation. In our view, CPI fell below 2% y/y, while it was at 2.5% y/y target in November. In our view this reading is likely to strengthen the dovish MPC message and undermine the zloty.

### Debt market

On the Polish interest rate market, IRS and bond yields rose a bit in reaction to the US inflation numbers. 10Y Polish bonds rose stronger than the Bund, but less than Treasuries. Today core markets can again be crucial for the Polish bonds. Decline of January's CPI below 2% can be a strong argument for the MPC to keep its wait-and-see rhetoric unchanged. Thus, in our view the currently high yields can fall on the short end and the belly.

### Important moment for the next EU budget ahead

The European Commission prepared numerous scenarios of multi-year financial frameworks beyond 2020 and released them yesterday. These scenarios are supposed to help EU leaders decide on the direction for the new EU budget, particularly how to balance the budget after the UK leaves the EU and whether the benefits paid from the budget should be linked with respect to the common EU values (the so-called conditionality issue). The latter is important for Poland being in conflict with the EU on the rule-of-law-issue. Informal summit will be convened to make such directional decisions on Feb 23.

The EU commissioner for budget and human resources, Guenther Oettinger, said that the legislative process for introducing conditionality rules has already started, and that further efforts will depend on the scale of support gained from the leaders of member states.

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## FX market

## Today's opening

EURPLN	4.1560	CZKPLN	0.1638
USDPLN	3.3247	HUFPLN*	1.3333
EURUSD	1.2501	RUBPLN	0.0587
CHFPLN	3.5961	NOKPLN	0.4283
GBPPLN	4.6735	DKKPLN	0.5579
USDCNY	6.3415	SEKPLN	0.4198

\*for 100HUF

## Last session in the FX market

14/02/2018

	min	max	open	close	fixing
EURPLN	4.165	4.182	4.167	4.165	4.1716
USDPLN	3.353	3.406	3.374	3.354	3.3769
EURUSD	1.228	1.242	1.235	1.242	-

## Interest rate market

14/02/2018

## T-bonds on the interbank market\*\*

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.73	1	2/8/18	OK0720	1.813
PS0123 (5L)	2.73	-1	2/8/18	PS0123	2.772
WS0428 (10L)	3.50	0	2/8/18	WS0428	3.515

## IRS on the interbank market\*\*

Term	PL %	PL Change (bps)	US %	US Change (bps)	EZ %	EZ Change (bps)
1L	1.77	0	2.20	4	-0.26	0
2L	2.03	0	2.43	7	-0.13	1
3L	2.28	0	2.57	7	0.08	1
4L	2.49	0	2.66	7	0.30	1
5L	2.65	-2	2.72	7	0.50	1
8L	2.97	0	2.85	6	0.95	1
10L	3.13	-1	2.91	6	1.16	1

## WIBOR rates

Term	%	Change (bps)
O/N	1.63	0
T/N	1.63	0
SW	1.59	0
2W	1.60	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	1.76	1
9x12	1.83	0
3x9	1.81	-1
6x12	1.84	0

## Measures of fiscal risk

Country	CDS 5Y USD Level	Change (bps)	10Y spread* Level	Change (bps)
Poland			2.73	-2
France	17	0	0.24	0
Hungary	116	1	1.75	1
Spain	51	0	0.74	-1
Italy	101	-2	1.29	-1
Portugal	69	-3	1.29	-2
Ireland	25	-1	0.39	0
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

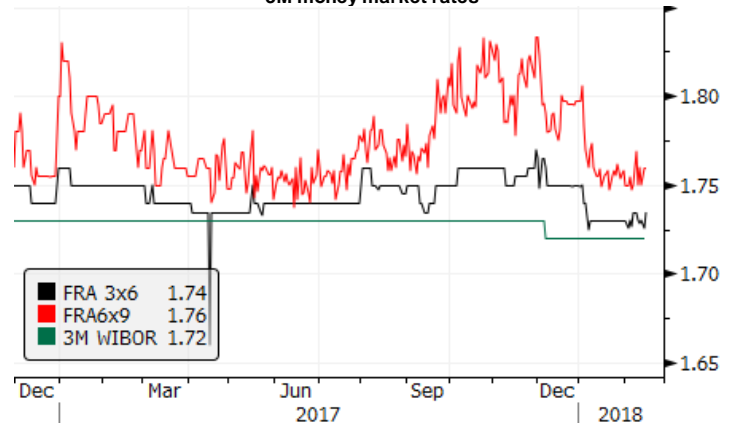
## Zloty exchange rate



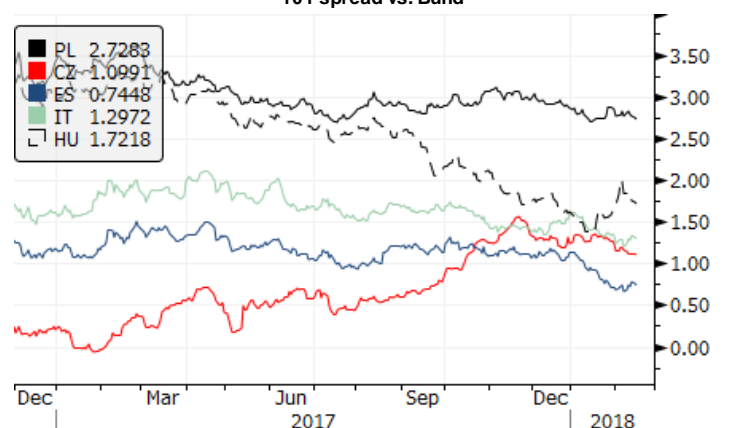
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic calendar

Economic calendar								
TIME		INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE	
CET				MARKET	BZWBK			
FRIDAY (9 February)								
No important events								
MONDAY (12 February)								
10:00	PL	Trade Balance	Dec	€mn	-	-	-1400	-170
TUESDAY (13 February)								
09:00	HU	CPI	Jan	% y/y	2.0	-	2.1	2.1
14:00	PL	Current Account Balance	Dec	€mn	-425	15	-1 152	272
14:00	PL	Trade Balance	Dec	€mn	-377	-200	-1268	150
14:00	PL	Exports	Dec	€mn	15,950	15,802	15 232	18 253
14:00	PL	Imports	Dec	€mn	16,272	16,002	16 500	18 103
WEDNESDAY (14 February)								
09:00	CZ	CPI	Jan	% y/y	2.2	-	2,2	2.4
09:00	HU	GDP	4Q	% y/y	4.3	-	4,4	3.9
10:00	PL	GDP	4Q	% y/y	5.2	-	5,1	4.9
11:00	EZ	GDP SA	4Q	% y/y	2.7	-	2,8	2.7
11:00	EZ	Industrial Production SA	Dec	% m/m	0.1	-	0,4	1.0
14:30	US	CPI	Jan	% m/m	0.3	-	0,5	0.2
14:30	US	Retail Sales Advance	Jan	% m/m	0.2	-	-0,3	0.4
THURSDAY (15 February)								
10:00	PL	CPI	Jan	% y/y	1.8	1.8		2.1
14:30	US	Initial jobless claims	week	k	228	-		221
15:15	US	Industrial Production	Jan	% m/m	0.2	-		0.89
FRIDAY (16 February)								
09:00	CZ	GDP SA	4Q	% y/y	1.0	-		5.0
10:00	PL	Employment in corporate sector	Jan	% y/y	3.1	3.7		4.6
10:00	PL	Average Gross Wages	Jan	% y/y	6.9	7.3		7.3
14:30	US	Housing Starts	Jan	% m/m	2.77	-		-8.2

Source: BZ WBK, Bloomberg, Parkiet

\* in case of the revision the data is updated

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