

EYEOPENER

16 February 2018

Inflation slowed down, labour market data today

- **Weak print of US industrial production**
- **Polish inflation smaller than in December, as expected**
- **Domestic interest rate market gained after the US data, zloty stronger**
- **Today Polish wages and employment for January, US consumer confidence**

The zloty kept strengthening since Thursday morning. After the weak US industry data were published, the zloty was followed by bonds (domestic and foreign). Domestic CPI data was not surprising with the drop below 2% and we assume another fall in February, followed by a mid-year rise to 2.5%. Today, there is publication of data on domestic wages and employment (unlikely to affect the market) and data on consumer sentiment in the US - University of Michigan index (this should help the debt).

Upcoming wages and employment data

In January, the Statistics Office is revising the covered population of surveyed companies employing more than 9 people. This is why every year January readings of wages and employment may deviate much more than usually from market consensus. In our view, the positive economic situation means that potentially many companies will enter the survey so we are likely to see a strong jump in employment statistics. As regards wages, we see a stabilisation at 7.3% y/y amid wage hikes in retail trade and a bit weaker working-day effect.

The government draft of the Employer Pension Plans

On 15 February, the government presented assumptions behind the introduction of Employee Capital Plans (PPK), a new element of the pension system. PPK are to be created to enable building the national savings and increasing future retirement benefits. PPK will be introduced gradually - first, the largest companies will offer their employees a plan, then smaller entities will gradually follow the pattern. Finally, the public finance sector units will also join the project. In total, as estimated by the Ministry of Finance, PPK will be available to 11 million employees.

Inflation down in January

Polish inflation decreased in January from 2.1% y/y to 1.9%, in line with market expectations and slightly above our 1.8% forecast. Food prices contributed to bringing CPI lower, but did rise more than we expected (1.1% m/m including alcohol and tobacco, we assumed 0.7% m/m which explains the deviation of the headline figure from our call). The release did not specify the fuel and energy price inflation so it is hard to get a precise estimate of core CPI out of these data, but we stick to our call that core inflation went in January to the highest level since 2014, but possibly to 1.0% instead of our

earlier estimate of 1.1% y/y. CPI should stay close to 2% in the coming months, possibly rising to about 2.5% in the middle of the year only to drop back to c2% in late 2018. What could be more important is the expected growing input of core categories to overall inflation. Such January reading and CPI outlook are no arguments for less dovish rhetoric from the MPC. More in our yesterday [Instant Comment](#)

FX market

On Thursday EURUSD rose after weaker-than-expected US retail sales. As a result, EURUSD climbed to 1.2510 and then corrected a bit. However, the correction was stopped in the afternoon by the weaker-than-expected leading indicators and negative surprise in industrial output. This pushed EURUSD to close at 1.2480, but today in the morning it is again above 1.25.

EURPLN was falling for the better part of Thursday, only at the end of the day we saw some zloty depreciation. This development was accompanied by rising EURUSD. As a result, EURPLN closed at 4.1580 as compared to 4.1680 at the end of Wednesday. USDPLN was stable for the better part of the day, oscillating around 3.33. Release of Poland's inflation data did not affect the domestic currency.

The strengthening ruble was outperforming other CEE currencies, supported by higher oil price and positive industrial output (+2.9% in January vs expectations at -0.5% y/y). As a result, USDRUB moved from 57.13 at the Wednesday close to 56.60 at the end of Thursday. EURCZK was oscillating around 25.35, while EURHUF fell to 311.40 from 312.30.

Today we are expecting EURPLN to rise towards 4.1600-4.1650. This should be supported by the strengthening dollar, correcting after yesterday developments. In our view, this process will be accompanied by weaker zloty against the dollar. Polish data should not affect the Polish currency.

Debt market

On Thursday the core bond markets rebounded after the Wednesday sell-off. The US and Germany curves were shifted down by 4bp in the 5-10Y segment and by 2bp on the short end, as a reaction to the weaker-than-expected industrial production data for January (-0.1% m/m vs. +0.2% expectations).

The domestic yield curve (and IRS curve) were shifted down by 2-3 bp in the 5-10Y segment and remained stable on the front end. This move was helped by core markets, the domestic inflation data did not affect domestic treasuries.

Today we expect the downward movement on the Polish curve to continue in the 5—10Y segment in the slow pace and the IRS curve will following them. This process will likely be supported by expected lower readings of Univ. of Michigan sentiment indices.

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 Luziński +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	4.1560	CZKPLN	0.1639
USDPLN	3.3148	HUFPLN*	1.3355
EURUSD	1.2538	RUBPLN	0.0588
CHFPLN	3.6036	NOKPLN	0.4282
GBPPLN	4.6818	DKKPLN	0.5580
USDCNY	6.3415	SEKPLN	0.4189

*for 100HUF

Last session in the FX market

15/02/2018

	min	max	open	close	fixing
EURPLN	4.147	4.167	4.165	4.160	4.153
USDPLN	3.319	3.354	3.354	3.336	3.3259
EURUSD	1.242	1.251	1.242	1.247	-

Interest rate market

15/02/2018

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)	3.49	-1	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	2.23	3	-0.26	0
2L	2.02	0	2.46	3	-0.12	1
3L	2.26	-2	2.60	3	0.10	2
4L	2.47	-2	2.68	2	0.31	1
5L	2.63	-2	2.74	2	0.51	1
8L	2.96	-1	2.85	0	0.96	1
10L	3.12	-1	2.91	-1	1.17	1

WIBOR rates

Term	%	Change (bps)
O/N	1.62	-1
T/N	1.62	-1
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	1.73	0
3x6	1.74	1
6x9	1.75	-1
9x12	1.84	1
3x9	1.82	1
6x12	1.83	0

Measures of fiscal risk

Country	CDS 5Y USD Level	Change (bps)	10Y spread* Level	Change (bps)
Poland			2.72	-2
France	17	0	0.24	0
Hungary	116	1	1.73	-1
Spain	48	-3	0.74	0
Italy	97	-4	1.29	-1
Portugal	66	-2	1.27	-1
Ireland	25	-1	0.40	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

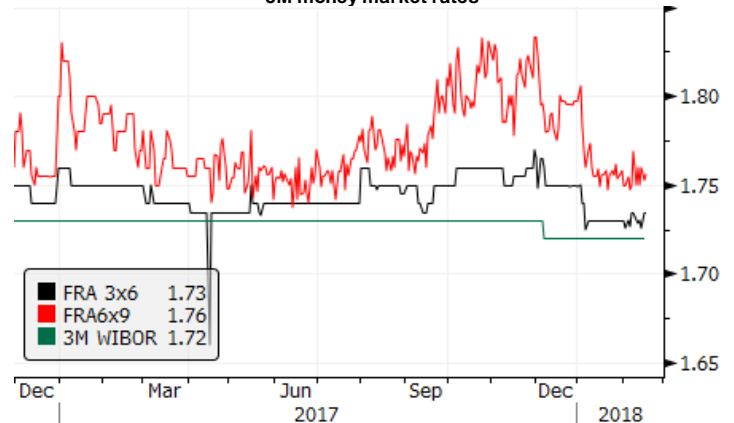
Zloty exchange rate



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	1.9	1.8	1.9	2.1
14:30	US	Initial jobless claims	week	k	228	-	230	221
15:15	US	Industrial Production	Jan	% m/m	0.2	-	-0.1	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

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.