

# EYEOPENER

22 February 2018

## Minutes Fed more hawkish

- Risk aversion back to the market, fueled by Fed minutes
- Polish consumer confidence still high
- Zloty under pressure, EURUSD lower
- Domestic yields and IRS rates go down owing to stronger core debt market
- Today: bonds auction in Poland, German and US data abroad

Wednesday session in the global market saw risk aversion, which was beneficial for bonds and the dollar yet harmful for the CEE currencies. The sentiment worsening could have been triggered by EU data, which showed a deeper than expected decline in PMI indices for the industry and services in Germany, France and the entire euro zone. The Fed's minutes were hawkish, which had a negative effect on the stock markets and the bond market.

### Minutes Fed

Fed minutes published yesterday indicate that presently, the bank foresees the risk of inflation growth to ca. 2.0% in 2018 and macroeconomic data stronger than previously expected. In effect, the document states that gradual interest rate hikes would be the adequate approach. As regards the previous statement, the word "subsequent" has been added in relation to future hikes. In our opinion, the message confirms the market expectations of rates hike by Fed in March. It is worth noting that the Fed document mentions wealth effect as one of the elements influencing the positive consumer sentiment and the resultant purchases of durable goods.

### Consumer optimism remains record high

The Central Statistics Office reported that consumer confidence for February remained record-high, both the current assessment indicator (6.2 pts, same as in January) and the expectations indicator covering the next 12 months (4.2 pts vs. 4.3 pts previously). In both cases, the January readings were the highest on record in the 14-year history of this survey. This strong sentiment has stood firmly on both legs – current assessment and expectations – since mid-2017. Prior to that, for a year, the strengthening of consumer confidence came only from improving 'current' components.

In February, consumer opinions about their financial situation declined to the average from 2017, while assessment of the state and outlook of the economy edged higher, setting a new all-time record. At the same time, attitudes toward large expenditures improved in February, almost matching the top readings from June and September 2017, after a decrease in 4Q. At this stage

of the business cycle, we expect durable goods purchases to play a greater role in supporting the strong pace of private consumption. January data on retail sales already signaled such a phenomenon.

Although the Stats Office survey showed one of the highest readings on the ability of consumers to save, we do not see this outcome as a threat to the current pace of consumption – we assume it will continue to grow at c5% this year. The growth rate of consumption should be sustained by the tight labor market and the opinions of consumers about saving are a consequence of how positively they see their financial situation right now, rather than a signal that they are willing to redirect a larger share of their incomes toward boosting their savings..

### FX market

EURUSD went deeper in its downside move that had started on Friday, but the change yesterday was smaller than on Tuesday. The euro felt some pressure due to European data, but the reaction of the market was muted, as investors were waiting for the evening release of FOMC minutes. This morning EURUSD reached 1.2280 in a move triggered by the Fed's document. There is little left in the calendar in terms of data releases, so we expect the fx pair to stay in the 1.22-1.255 range for now.

EURPLN was on the rise for the second day in a row and reached 4.17 while USDPLN climbed above 3.38. In the evening, FOMC minutes put additional pressure on the zloty and today in the morning EURPLN is near 4.18 and USDPLN around 3.40. Polish currency was pressured by investors' retreat from risky assets and dollar appreciation on the global market. The forint and koruna also lost vs the euro while the ruble remained stable vs the dollar. We think it could be difficult for the zloty to recover in the days to come. Strong dollar and shaky global market sentiment might encourage investors to take profit from the EURPLN fall observed in the previous months.

### Debt market

US debt market has reacted nervously to the release of FOMC minutes. Yields in 5-10Y segment rose by 4-5bp, while 2Y decreased slightly after a temporary spike.

On the domestic market, bond yields and IRS rates decreased by 1-4bp amid strengthening on core debt markets and euro zone peripherals. A change in bond yields was bigger than in case of swaps and as a result, the asset swaps narrowed. Moreover, bond yield curve flattened in segments 2-10Y and 2-5Y. Today in the morning we expect to see a slightly negative reaction to yesterday's FOMC minutes. But this effect should be short-lived, in our view.

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## FX market

## Today's opening

|        |        |         |        |
|--------|--------|---------|--------|
| EURPLN | 4.1810 | CZKPLN  | 0.1649 |
| USDPLN | 3.4060 | HUFPLN* | 1.3373 |
| EURUSD | 1.2276 | RUBPLN  | 0.0601 |
| CHFPLN | 3.6227 | NOKPLN  | 0.4319 |
| GBPPLN | 4.7309 | DKKPLN  | 0.5614 |
| USDCNY | 6.3559 | SEKPLN  | 0.4186 |

\*for 100HUF

## Last session in the FX market

21/02/2018

|        | min   | max   | open  | close | fixing |
|--------|-------|-------|-------|-------|--------|
| EURPLN | 4.147 | 4.174 | 4.150 | 4.173 | 4.1562 |
| USDPLN | 3.361 | 3.391 | 3.362 | 3.385 | 3.3697 |
| EURUSD | 1.230 | 1.235 | 1.234 | 1.233 | -      |

## Interest rate market

21/02/2018

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

| Benchmark (term) | %    | Change (bps) | Last auction | Paper offered | Average yield |
|------------------|------|--------------|--------------|---------------|---------------|
| PS0420 (2L)      | 1.70 | -1           | 2/8/18       | OK0720        | 1.813         |
| PS0123 (5L)      | 2.73 | -3           | 2/8/18       | PS0123        | 2.772         |
| WS0428 (10L)     | 3.47 | -3           | 2/8/18       | WS0428        | 3.515         |

## IRS on the interbank market\*\*

| Term | PL   |              | US   |              | EZ    |              |
|------|------|--------------|------|--------------|-------|--------------|
|      | %    | Change (bps) | %    | Change (bps) | %     | Change (bps) |
| 1L   | 1.78 | 0            | 2.28 | 2            | -0.25 | 0            |
| 2L   | 2.03 | -1           | 2.51 | 2            | -0.12 | 0            |
| 3L   | 2.28 | -1           | 2.65 | 1            | 0.09  | 1            |
| 4L   | 2.48 | -2           | 2.72 | 1            | 0.30  | 0            |
| 5L   | 2.64 | -2           | 2.77 | 0            | 0.49  | -1           |
| 8L   | 2.97 | -2           | 2.87 | 0            | 0.92  | -1           |
| 10L  | 3.12 | -2           | 2.92 | 0            | 1.13  | -2           |

## WIBOR rates

| Term | %    | Change (bps) |
|------|------|--------------|
| O/N  | 1.51 | -6           |
| T/N  | 1.53 | -3           |
| SW   | 1.57 | -1           |
| 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  | 1.72 | 0            |
| 6x9  | 1.77 | 0            |
| 9x12 | 1.84 | 0            |
| 3x9  | 1.82 | 0            |
| 6x12 | 1.85 | 1            |

## Measures of fiscal risk

| Country  | CDS 5Y USD |              | 10Y spread* |              |
|----------|------------|--------------|-------------|--------------|
|          | Level      | Change (bps) | Level       | Change (bps) |
| Poland   |            |              | 2.74        | -4           |
| France   | 16         | 0            | 0.27        | 0            |
| Hungary  | 116        | 1            | 1.82        | 0            |
| Spain    | 48         | -1           | 0.79        | 0            |
| Italy    | 103        | 1            | 1.33        | 1            |
| Portugal | 68         | -1           | 1.26        | 0            |
| Ireland  | 25         | -1           | 0.44        | 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

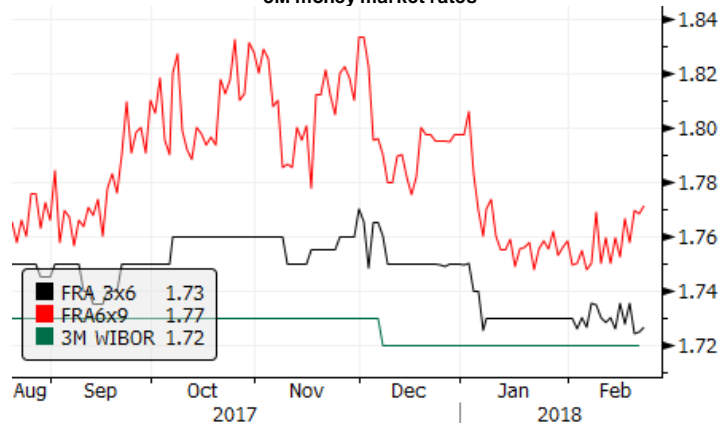
## Zloty exchange rate



## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic calendar

| TIME                           | INDICATOR |                                | PERIOD |       | FORECAST |       | ACTUAL | LAST  |
|--------------------------------|-----------|--------------------------------|--------|-------|----------|-------|--------|-------|
| CET                            |           |                                |        |       | MARKET   | BZWBK | VALUE  | VALUE |
| <b>FRIDAY (16 February)</b>    |           |                                |        |       |          |       |        |       |
| 09:00                          | CZ        | GDP SA                         | 4Q     | % y/y | 5.3      | -     | 5.1    | 5.0   |
| 10:00                          | PL        | Employment in corporate sector | Jan    | % y/y | 3.4      | 3.8   | 3.8    | 4.6   |
| 10:00                          | PL        | Average Gross Wages            | Jan    | % y/y | 6.9      | 7.3   | 7.3    | 7.3   |
| 14:30                          | US        | Housing Starts                 | Jan    | % m/m | 4.52     | -     | 9.7    | -8.2  |
| 16:00                          | US        | Michigan index                 | Feb    | pts   | 96.4     | -     | 99.9   | 95.7  |
| <b>MONDAY (19 February)</b>    |           |                                |        |       |          |       |        |       |
| No important events            |           |                                |        |       |          |       |        |       |
| <b>TUESDAY (20 February)</b>   |           |                                |        |       |          |       |        |       |
| 10:00                          | PL        | Sold Industrial Output         | Jan    | % y/y | 8.5      | 9.3   | 8.6    | 2.7   |
| 10:00                          | PL        | Construction Output            | Jan    | % y/y | 20.35    | 22.8  | 34.7   | 12.7  |
| 10:00                          | PL        | PPI                            | Jan    | % y/y | 0.1      | -0.2  | 0.2    | 0.3   |
| 10:00                          | PL        | Retail Sales Real              | Jan    | % y/y | 6.45     | 7.2   | 7.7    | 5.2   |
| 11:00                          | DE        | ZEW Survey Current Situation   | Feb    | pts   | 94.0     |       | 92.3   | 95.2  |
| <b>WEDNESDAY (21 February)</b> |           |                                |        |       |          |       |        |       |
| 09:30                          | DE        | Flash Manufacturing PMI        | Feb    | pts   | 60.5     | -     | 60,3   | 61.1  |
| 09:30                          | DE        | Flash Services PMI             | Feb    | pts   | 57.0     | -     | 55,3   | 57.3  |
| 10:00                          | EZ        | Flash Manufacturing PMI        | Feb    | pts   | 59.2     | -     | 58,5   | 59.6  |
| 10:00                          | EZ        | Flash Services PMI             | Feb    | pts   | 57.6     | -     | 56,7   | 58.0  |
| 16:00                          | US        | Existing Home Sales            | Jan    | % m/m | 0.9      | -     | -3.2   | -2.8  |
| 20:00                          | US        | FOMC Meeting Minutes           |        |       |          |       |        |       |
| <b>THURSDAY (22 February)</b>  |           |                                |        |       |          |       |        |       |
| 10:00                          | DE        | IFO Business Climate           | Feb    | pts   | 117.0    | -     |        | 117.6 |
| 14:00                          | PL        | Money Supply M3                | Jan    | % y/y | 4.9      | 4.8   |        | 4.6   |
| 14:30                          | US        | Initial Jobless Claims         | week   | k     | 230      | -     |        | 230   |
| <b>FRIDAY (23 February)</b>    |           |                                |        |       |          |       |        |       |
| 10:00                          | PL        | Unemployment Rate              | Jan    | %     | 6.9      | 6.9   |        | 6.6   |
| 11:00                          | EZ        | HICP                           | Jan    | % y/y | 1.3      | -     |        | 1.3   |

Source: BZ WBK, Bloomberg, Parkiet

\* in case of the revision the data is updated

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