

# EYEOPENER

26 February 2018

## Markets growing more sanguine

- Another day of improving market moods
- Zubelewicz: low chances for the MPC to hike rates by end of 2019
- Zloty and bonds gain
- Today: new home sales in USA

Friday brought improved market sentiment thanks to the reassuring Fed report for the US Congress, which led to the zloty and bonds gaining and the stock exchanges stabilising. The statistical bulletin data showed a robust wage growth across all sectors (even with the mining excluded).

### EU budget

Prime Minister Mateusz Morawiecki said that Poland supported increasing contributions to the EU budget to 1.2% of GNI (from around 1.0% currently). According to our estimates, a pro rata increase of the contributions would be much more favourable for Poland than a pro rata reduction of expenses.

### Monetary policy

MPC member Kamil Zubelewicz said in an interview with the Reuters that it would be impossible to gather the majority supporting the rate hike before the end of 2019. According to Zubelewicz, the MPC members are still afraid of deflation and they would tolerate inflation rise even to 4% y/y and thus, only excessive rise in core inflation, demand for credits or weakening of the currency could incline them to hike the rates. We expect the first hike in early 2019, in effect of the core inflation rise.

### Labour market

Detailed labor market data showed that the strongest employment growth occurred in the transport (4% m/m) and construction (2.8% m/m). As these are readings for January, the annual revision of the sample of businesses by the Stats Office may have affected the results. In January, businesses that in the previous year breached the 10-person threshold of employment are added to the employment statistics. That said, we think labour demand will remain strong in 2018, but the growth of corporate employment may start to trend lower during the year (due to supply constraints). Corporate wages calculated for all sectors, excluding mining, saw an acceleration of y/y growth to 7.5% – the same as in October 2017 and the highest since 2009. The strongest wage acceleration was in 'hotels and restaurants' and 'administrative and support service activities' (both now growing above 10% y/y). Wage growth in the services sector reached 7.5% y/y, the highest since January 2009. We expect it to rise further in the following months, and there is anecdotal evidence of pay raises among large companies (KGHM, Biedronka, Lidl). Rising labour costs will, in our view, contribute to the increase of core inflation.

### LFS – decline of employment ratio in 60/65+ age group

According to Stats Office data on labour activity, in 4Q17 the employment rate in the 60/65+ age group (ie people who reached the retirement age) decreased to 8.2% from 9.0%. It was the first case of its decline in several years and we think it should be linked with the lowering of the retirement age in October 2017. The decrease of the employment ratio means that the number of employed in this age group fell by 60-65k. What is interesting is that the corporate employment data did not show any decline.

### FX market

On Friday, EURUSD returned to Thursday opening levels (1.2290) from an overnight rise to 1.2320. The move was supported by a Fed report suggesting the US economy is in good shape. EURPLN was decreasing on Friday, due to better global market sentiment and strengthening domestic bonds. As a result, the EURPLN moved from 4.1820 to 4.1720, and USDPLN closed at 3.3930 (below opening). Today we expect to see further improvement of market moods and continuation of zloty strengthening to 4.1650 vs euro. Other currencies in the region were hovering in a narrow band around Thursday's close (EURCZK 25.35, EURHUF 313.20), only the USDRUB fell (from 56.5 to 56.3) due to higher prices of crude oil.

### Debt market

At the end of the week, yields on the core markets were decreasing. This was influenced by, among others, information from the February Fed report for Congress, reading that rate hikes are probable this year and the Fed does not see prospects for a sharp rise in inflation. As a result, the US yield curve shifted down by 2, 4, 6 bp, for 2Y, 5Y, 10Y bonds respectively. The yield curve of German bonds also moved down, but at a bit smaller scale. It worth to note that yields of 10Y Bund reached 0.64%, last seen one month ago.

The domestic bond market was following the core markets. The domestic yield curve decreased by 1-5 bp (mostly on the short). Expectations for a lower debt supply and K. Zubelewicz remarks were additionally supporting domestic bonds. Today we expect the downward move of the yield curve to continue, which will likely be supported by expectations for auction plan schedule for March (possibly including only the switch auctions) and a better mood for the interest rates market after Friday Fed remarks.

### This week

In Poland, we will see detailed 4Q17 GDP release and we see some down risk to this final number. We also expect some drop of Polish manufacturing PMI owing to slower economic activity in the euro zone (as indicated by recent data). We think the dollar may (still) weigh strongly on the zloty. Polish yields could rise slightly in reaction to the US data.

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## FX market

## Today's opening

EURPLN	4.1700	CZKPLN	0.1644
USDPLN	3.3816	HUFPLN*	1.3315
EURUSD	1.2332	RUBPLN	0.0605
CHFPLN	3.6251	NOKPLN	0.4331
GBPPLN	4.7473	DKKPLN	0.5600
USDCNY	6.3077	SEKPLN	0.4159

\*for 100HUF

## Last session in the FX market

23/02/2018

	min	max	open	close	fixing
EURPLN	4.168	4.184	4.178	4.173	4.1738
USDPLN	3.386	3.404	3.387	3.393	3.3911
EURUSD	1.228	1.234	1.234	1.230	-

## Interest rate market

23/02/2018

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

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.64	-5	2/22/18	OK0720	1.741
PS0123 (5L)	2.67	-2	2/22/18	PS0123	2.687
WS0428 (10L)	3.41	-3	2/22/18	WS0428	3.430

## IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.78	0	2.26	-2	-0.25	0
2L	2.01	-2	2.48	-3	-0.12	0
3L	2.25	-2	2.60	-4	0.08	-1
4L	2.45	-3	2.68	-5	0.28	-2
5L	2.59	-3	2.72	-5	0.46	-3
8L	2.90	-3	2.83	-5	0.89	-3
10L	3.07	-2	2.88	-5	1.09	-4

## WIBOR rates

Term	%	Change (bps)
O/N	1.37	-4
T/N	1.44	-9
SW	1.55	-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	1.76	-1
9x12	1.83	-1
3x9	1.82	0
6x12	1.83	0

## Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.76	-3
France	16	-1	0.28	0
Hungary	116	1	1.83	-1
Spain	50	1	0.93	-1
Italy	108	2	1.41	0
Portugal	69	0	1.37	0
Ireland	25	-1	0.47	0
Germany	10	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 (23 February)								
08:00	DE	GDP WDA	4Q	% y/y	2.9		2.9	2.9
10:00	PL	Unemployment Rate	Jan	%	6.9	6.9	6.9	6.6
11:00	EZ	HICP	Jan	% y/y	1.3		1.3	1.4
MONDAY (26 February)								
16:00	US	New Home Sales	Jan	% m/m	4.0	-		-9.3
TUESDAY (27 February)								
14:00	HU	Central Bank Rate Decision	Feb-18	%	0.9	-		0.9
14:30	US	Durable Goods Orders	Jan	% m/m	-2.25	-		2.8
16:00	US	Conference Board index	Feb	pts	126.0	-		125.4
WEDNESDAY (28 February)								
10:00	PL	Private Consumption	4Q	% y/y	-	5.0		4.8
10:00	PL	Investments	4Q	% y/y	-	11.8		3.3
10:00	PL	GDP	4Q	% y/y	5.1	5.1		4.9
11:00	EZ	Flash HICP	Feb	% y/y	1.2	-		1.3
14:30	US	GDP Annualized	4Q	% Q/Q	2.5	-		2.6
16:00	US	Pending Home Sales	Jan	% m/m	0.4	-		0.5
THURSDAY (1 March)								
09:00	PL	Poland Manufacturing PMI	Feb	pts	54.2	55.2		54.6
09:55	DE	Germany Manufacturing PMI	Feb	pts	60.3	-		60.3
10:00	EZ	Eurozone Manufacturing PMI	Feb	pts	58.5	-		58.5
11:00	EZ	Unemployment Rate	Jan	%	8.6	-		8.7
14:30	US	Initial Jobless Claims	Feb-18	k	225.5	-		222.0
14:30	US	Personal Spending	Jan	% m/m	0.2	-		0.4
14:30	US	Personal Income	Jan	% m/m	0.3	-		0.4
16:00	US	ISM manufacturing	Feb	pts	58.8	-		59.1
FRIDAY (2 March)								
09:00	CZ	GDP SA	4Q	% y/y	5.1	-		5.1
16:00	US	Michigan index	Feb	pts	99.0	-		99.9

Source: BZ WBK, Bloomberg, Parkiet

\* in case of the revision the data is updated

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