

EYEOPENER

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Hawkish Fed head undermines PLN and equities

- **Hawkish testimony of the new Fed head**
- **EURUSD down, zloty weaker**
- **Core yields up, Polish bonds stronger**
- **Today: GDP in Poland and USA, Euro zone inflation**

Friday stock market sentiment deteriorated in the anticipation of Jerome Powell's speech. The new Fed chair said that his expectations about the pace of US growth had improved, which should translate into inflation returning to the target. Powell's statement was perceived as hawkish, thus pushing UST yields up, strengthening the dollar and weakening the stock exchanges. CEE currencies were depreciating, while Polish bonds remained insensitive to the US impulses. The published ESI business tendency indicators for the domestic industry turned out to be slightly lower than before.

ESI

The European Commission's ESI index for the Polish economy rose in February to 112 pts from 111.7 pts. A slight improvement was seen in retail, services and construction sectors while a slight decline was seen for industry (from -2.1 pts to -2.8 pts, but still near the 10-year high set a month earlier). The decline in industrial sentiment was due to lower production expectations, which is puzzling given that the inflow of new orders, both domestic and foreign, is at record-highs and the index for inventories of finished products is at its lowest in almost 10 years. Retail sector sub-indices also bucked the trend of strong and rising optimism. Despite an overall improvement in retail sentiment, there was a decline in expectations for demand, employment and prices. Meanwhile, the ESI consumer confidence index set a new all-time record for optimism, topping the record set in January (data run back to 2001).

Monetary policy

MPC's Eryk Łon said that currently, keeping the rates flat was the optimal strategy, although in case of any threats to the economy, interest rate cuts or other non-standard steps might be necessary. According to Łon, too strong zloty - already close to the limit of export profitability - might pose a threat to the Polish economy. Eryk Łon's statement does not bring much new to the monetary policy prospects. We still believe that the next step will be rates hike, most likely in early 2019.

FX market

Since Tuesday morning, EURUSD kept sliding down and gaining momentum hour by hour. Investors were making bets on the overtone of the new Fed chair's speech to Congress, anticipating it would be more hawkish. Even weak data on the US industry orders

were not able to hamper the dollar appreciation and the surprisingly high consumer sentiment index data triggered its further strengthening. Eventually, EURUSD closed the day at 1.2230 (against 1.2340 at the opening). The Fed chair's speech (delivered after the publication of the Conference Board data) caused the dollar ascending the local peak.

EURPLN was rising for a better part of the day inspired by a declining EURUSD. Investors were focused on the planned testimony of J. Powell and ignored local events. In effect, EURPLN closed the day at 4.17, touching 4.1750 during the day. USDPLN went up to 3.41.

Today we expect the zloty to strengthen somewhat. Domestic GDP data should be of help, especially the information about investment growth in 4Q. However, given that the data will describe a 'distant past' of 4Q, the FX effect should be weak and short-lived.

Other CEE currencies also weakened. EURCZK was on the rise most of the day, without any local news, and settled at 25.42. EURHUF behaved in the same way, rising from 313.40 to 314.05. The Hungarian central bank kept rate unchanged and declared sticking to loose monetary policy. The same pattern was observed on USDRUB chart (up from 55.6 to 56.3) with cheaper oil adding to the ruble's depreciation.

Debt market

On Tuesday the US yield curve was increasing in anticipation of the first new Fed chairman Jerome Powell testimony in Congress. Bets on the more hawkish testimony tone moved the US yield curve up by 6 bp (at the end of the day the uptick was 4-5 bp). However, yields did not return to the level seen last week, even though consumer confidence was high and investors interpreted Powell's remarks as a signal of a more hawkish policy. The German yield curve reaction was less significant, the Bund curve went up by 2bp.

Domestic bond yields were falling over the day, ignoring the US bonds sell-off. Only in the afternoon the prices of Polish T-bonds went down temporarily. Over the day the Polish yield curve slid by 1bp on the front end and by 3-4 bp on the belly and the long end. The domestic bonds strengthening was a consequence of expectations for the lack of regular bonds auctions in March and limited debt supply in the upcoming months.

Today, we expect bonds' positive reaction to Polish GDP data. Yields could rise later in the week when investors could take profit amid higher yields worldwide. In our view, any debt weakening will be only temporary.

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FX market

Today's opening

EURPLN	4.1751	CZKPLN	0.1642
USDPLN	3.4117	HUFPLN*	1.3286
EURUSD	1.2238	RUBPLN	0.0606
CHFPLN	3.6283	NOKPLN	0.4330
GBPPLN	4.7435	DKKPLN	0.5607
USDCNY	6.3283	SEKPLN	0.4148

*for 100HUF

Last session in the FX market 27/02/2018

	min	max	open	close	fixing
EURPLN	4.165	4.177	4.169	4.167	4.17
USDPLN	3.376	3.418	3.387	3.402	3.3816
EURUSD	1.222	1.235	1.231	1.225	-

Interest rate market

27/02/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.64	0	2/22/18	OK0720	1.741
PS0123 (5L)	2.65	0	2/22/18	PS0123	2.687
WS0428 (10L)	3.38	-1	2/22/18	WS0428	3.430

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.77	-1	2.32	4	-0.25	0
2L	2.00	0	2.55	7	-0.12	0
3L	2.23	0	2.68	8	0.09	0
4L	2.43	-1	2.75	8	0.29	0
5L	2.58	0	2.80	8	0.47	0
8L	2.88	0	2.88	8	0.90	1
10L	3.04	-1	2.93	7	1.10	2

WIBOR rates

Term	%	Change (bps)
O/N	1.50	4
T/N	1.48	0
SW	1.55	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	1.72	-1
6x9	1.75	0
9x12	1.83	1
3x9	1.82	1
6x12	1.83	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.70	-1
France	17	0	0.27	0
Hungary	116	1	1.89	-1
Spain	47	0	0.88	0
Italy	103	-2	1.33	0
Portugal	67	-1	1.32	0
Ireland	25	-1	0.44	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

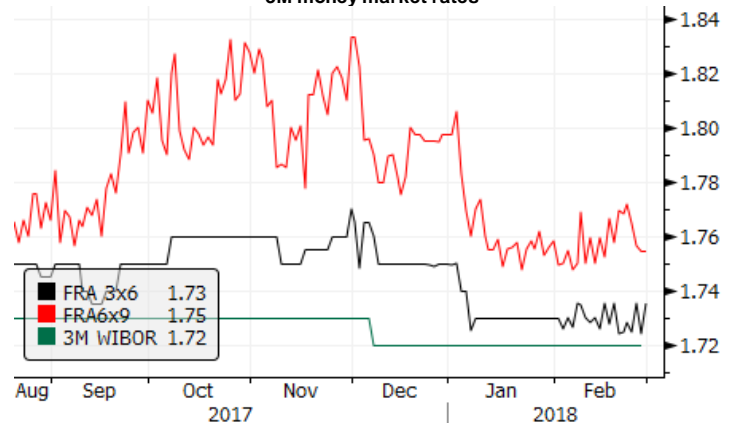
Zloty exchange rate



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	3.5	-	-7.8	-9.3
TUESDAY (27 February)								
14:00	HU	Central Bank Rate Decision	Feb-18	%	0.9	-	0.9	0.9
14:30	US	Durable Goods Orders	Jan	% m/m	-2.3	-	-3.7	2.8
16:00	US	Conference Board index	Feb	pts	126.0	-	130.8	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	54.1		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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