

EYEOPENER

7 March 2018

Trump's aide resignation sparked concerns

- Signals from the USA determining market moods
- Return of risk appetite only temporarily helped the zloty, even though dollar gets weaker and weaker
- Polish IRS and bond yields stable
- Today Polish MPC decision, US ADP report, Beige Book

In the recent weeks, global sentiment was very volatile and this trend was maintained throughout the last few days. Yesterday, markets saw initial return of risk appetite. This was triggered by the US politicians stating that they would try to convince Donald Trump not to introduce trade barriers. Unfortunately, the trend reversed in the evening, after it was announced that Gary Cohn, the US President top economic adviser, resigned. Cohn is a fierce opponent of economic protectionism and his resignation was perceived as a failure in finding common ground with Donald Trump on customs tariffs. In the wake of Cohn's resignation, USD dropped, similarly as US and Asian stock indices, whereas core market bonds strengthened as a sign of rising risk aversion. Bond yields had dropped even earlier during yesterday's session which could have been triggered by expected ECB decision that is to be published tomorrow. The recent weaker data from Europe and increase of EURUSD may lead to ECB relaxing its rhetoric slightly. US data were in line with the expectations and had no impact on quotations.

FX market

EURUSD rose yesterday for a fourth session in a row and at the end of European session it was close to 1.24. It dynamically crossed the level in the evening on news that Gary Cohn resigns. This afternoon we will get February ADP report on the US labour market. The reading could trigger substantial reaction of the exchange rate, but until the Thursday ECB decision it might stay within the 1.22-1.255 range.

EURPLN declined temporarily yesterday below 4.18, and USDPLN to 3.37 due to an improvement of global sentiment and the rise of EURUSD. The move did not last long and this morning EURPLN is again close to 4.19 as the risk aversion went up. Today, apart from the global sentiment, the zloty could react to the outcome of the MPC meeting. The Council received an update of NBP CPI and GDP projections. We think the forecasted CPI path will be lowered vs. the November version

which will strengthen the MPC's dovish rhetoric and could weigh on the zloty.

Other currencies of the region also felt an improving demand for risk assets – EURHUF dropped to 313, EURCZK declined temporarily to 25.36 from 25.42. Rising oil prices and the dollar weakness put a short-lived appreciation pressure on the ruble. As in the case of the zloty, the strengthening from yesterday could be offset today, when the global mood seems to be worse.

Debt market

On the domestic interest rate market IRS and bond yields ended the Tuesday's session close to Monday closing. Abroad we saw clearly bigger changes – the 10Y Bund yield rose by more than 4bp while the euro zone peripheral bonds gained. US Treasury yields fell amid higher risk aversion that reemerged after Trump's economic advisor stepped down.

We think the outcome of the MPC meeting should not have much impact on the long end of the Polish IRS and bond curves that are likely to be driven by trends on the core market (influenced by ADP report). The MPC rhetoric should stay dovish which may be at least stabilizing for the front end of the curve.

MPC decision today

Today Polish MPC will decide on the interest rates and the broad consensus is that no changes in monetary policy parameters should be expected. The tone of statement and comments about the new CPI and GDP projection (that members will have at disposal at the meeting) will be key in determining the Council's bias. In our view, the new paths of CPI and GDP might reinforce the MPC members' belief that what the governor Adam Glapiński currently communicates is the optimal approach given the NBP's macroeconomic outlook. The NBP governor claims lack of reasons to hike rates at least until 1Q19, and that suggesting how monetary policy should look later is wrong due to economic uncertainty. The projected CPI path saw a significant upward revision in November, and yet it did not influence the Council much. This time a downside adjustment seems more likely, but most of the hawks have already moderated their views. GDP in 3Q-4Q 2017 broke above the NBP projection, but the MPC rhetoric has already focused on the slowdown to come.

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FX market

Today's opening

EURPLN	4.1887	CZKPLN	0.1649
USDPLN	3.3731	HUFPLN*	1.3371
EURUSD	1.2418	RUBPLN	0.0594
CHFPLN	3.5941	NOKPLN	0.4326
GBPPLN	4.6822	DKKPLN	0.5622
USDCNY	6.3243	SEKPLN	0.4103

*for 100HUF

Last session in the FX market

06/03/2018

	min	max	open	close	fixing
EURPLN	4.179	4.194	4.190	4.186	4.1891
USDPLN	3.368	3.401	3.397	3.377	3.3936
EURUSD	1.232	1.242	1.233	1.239	-

Interest rate market

06/03/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.59	0	2/22/18	OK0720	1.741
PS0123 (5L)	2.57	2	2/22/18	PS0123	2.687
WS0428 (10L)	3.32	0	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	2.30	1	-0.26	0
2L	1.99	1	2.52	1	-0.12	0
3L	2.21	0	2.64	1	0.08	1
4L	2.40	0	2.71	1	0.29	0
5L	2.54	0	2.76	1	0.48	2
8L	2.85	2	2.84	0	0.90	1
10L	3.02	2	2.89	-1	1.10	2

WIBOR rates

Term	%	Change (bps)
O/N	1.55	1
T/N	1.55	1
SW	1.56	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	0
6x9	1.75	0
9x12	1.82	-1
3x9	1.81	0
6x12	1.82	-1

Measures of fiscal risk

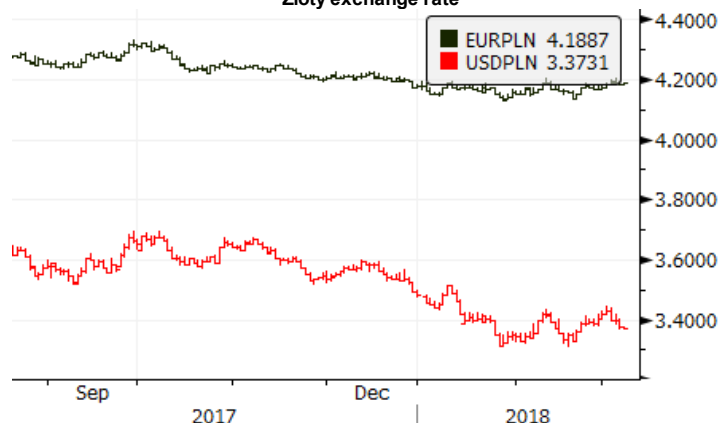
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.66	1
France	17	0	0.25	0
Hungary	116	1	2.03	1
Spain	43	-2	0.81	0
Italy	102	-3	1.32	0
Portugal	68	0	1.23	0
Ireland	25	0	0.40	-1
Germany	10	0	-	-

* 10Y treasury bonds over 10Y Bunds

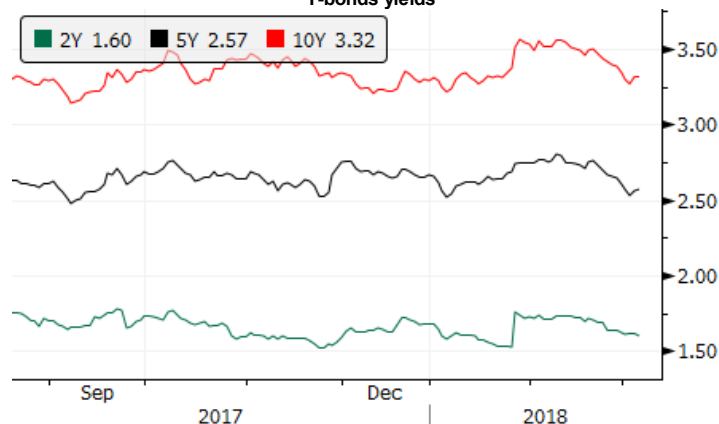
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

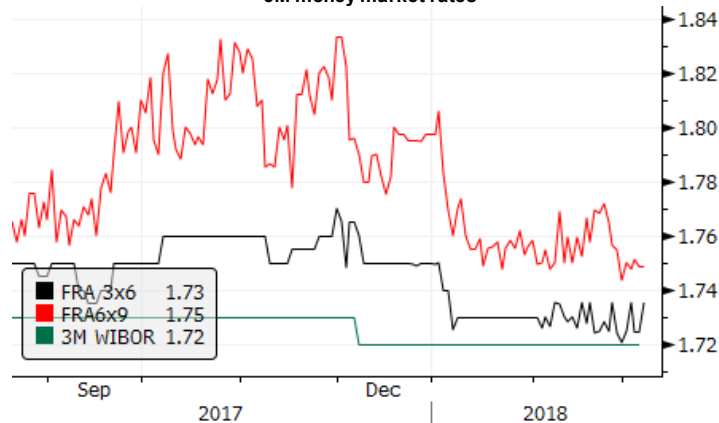
Zloty exchange rate



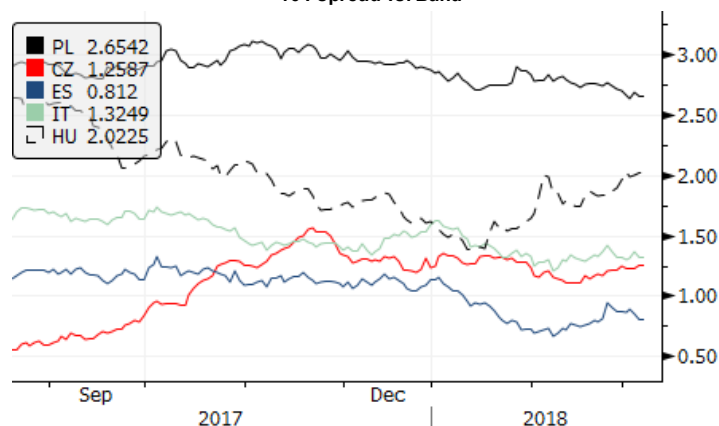
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar								
TIME		INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE
CET					MARKET	BZWBK		
FRIDAY (2 March)								
09:00	CZ	GDP SA	4Q	% y/y	5.1		5.2	5.1
16:00	US	Michigan index	Feb	pts	99.5		99.7	99.9
MONDAY (5 March)								
02:45	CH	Caixin China PMI Services	Feb	pts	54.3	-	54.2	54.7
09:55	DE	Markit Germany Services PMI	Feb	pts	55.3	-	55.3	55.3
10:00	EZ	Eurozone Services PMI	Feb	pts	56.7	-	56.2	56.7
11:00	EZ	Retail Sales	Jan	% m/m	0.6	-	-0.1	-1.0
16:00	US	ISM services	Feb	pts	58.5	-	59.5	59.9
TUESDAY (6 March)								
09:00	HU	GDP	4Q	% y/y	4.4	-	4.4	4.4
16:00	US	Durable Goods Orders	Jan	% m/m	-3.6	-	-3.6	-3.7
16:00	US	Factory Orders	Jan	% m/m	-1.4	-	-1.4	1.8
WEDNESDAY (7 March)								
	PL	Poland Base Rate Announcement		%	1.5	1.5		1.5
09:00	HU	Industrial Production SA	Jan	% y/y	-	-		4.5
11:00	EZ	GDP SA	4Q	% y/y	2.7	-		2.7
14:15	US	ADP report	Feb	k	200	-		233
20:00	US	Beige Book						
THURSDAY (8 March)								
08:00	DE	Factory Orders	Jan	% m/m	-1.5	-		3.8
09:00	HU	CPI	Feb	% y/y	2.0	-		2.1
13:45	EZ	ECB Main Refinancing Rate		%	0.0	-		0.0
14:30	US	Initial Jobless Claims	week	k	225	-		222
FRIDAY (9 March)								
08:00	DE	Exports SA	Jan	% m/m	0.3	-		0.0
08:00	DE	Industrial Production SA	Jan	% m/m	0.5	-		-0.6
09:00	CZ	CPI	Feb	% y/y	1.9	-		2.2
14:30	US	Change in Nonfarm Payrolls	Feb	k	195	-		200
14:30	US	Unemployment Rate	Feb	%	4.0	-		4.1

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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