

EYEOPENER

8 March 2018

MPC very dovish, now it's ECB turn

- Calm market ahead of the ECB
- NBP governor signalled interest rates could remain stable even until 2020
- Dovish MPC comments pushed lower Polish bond yields
- ECB decision today

As compared to previous days, Wednesday was quite calm in the global markets. Stock indexes were hovering close to the levels from Tuesday session's closing. There were slight changes in the debt market, outside of Euro zone where yields continued to drop. In the fx market, volatility was rather slight and much better data in ADP labour market report did not have a substantial impact on quotations. It seems that investors put their decisions on hold one day before ECB decision. In the evening, the sentiment was supported by signals from the US administration, according to which Donald Trump may soften his plans concerning introduction of tariffs on metal imports, excluding Mexico, Canada and possibly other countries from his plan. The ordinance on tariffs is to be signed today.

According to the Fed's Beige Book published yesterday evening in most regions of the USA, tightening situation on the labour market translated to faster remuneration growth and "moderate inflation". Revival of business activity was also noted. Publication had no significant impact on markets.

MPC decision

The Monetary Policy Council kept the main interest rates unchanged. As we anticipated, the new CPI projection was lower than the previous one of November, even despite the fact that GDP growth was revised up significantly. In 2020, covered for the first time by the projection, inflation is to center around 3%, which does not require change of interest rates, according to the central bank.

The MPC press conference has reinforced further the dovish message sent by the Monetary Policy Council. NBP governor Adam Glapiński admitted that the new projections justify no rate hikes until the end of 2020, even if he is unwilling to state something so far into the future. After such statements we feel that the moment of monetary tightening moves even further away. However, we still believe that the MPC will start hiking interest rates earlier than suggested by the NBP governor. Possibly the first rate hike may take place in mid-2019 and will

be triggered by mounting inflationary and wage pressure and the start of interest rate hikes by the ECB.

Unemployment in February

The Ministry of Labour estimates that in February the registered unemployment rate decreased to 6.8% from 6.9% for January. The number of unemployed fell by 5.9k this February, while in February 2017 it went down by 13.7k. The ministry highlighted that on one hand there was accelerated pace of rising labour participation, while on the other the sudden deterioration of weather conditions influenced negatively the demand for seasonal work. In our view there is still room for a decline of the registered unemployment rate in Poland. It can sink below 6% before the end of 1H18.

FX market

Yesterday EURUSD has stabilised close to the 1,241, after the four days of increases. The US labour market data surprised on the positive side, but not triggered the market significantly. Today ECB decision will be in the spotlight and the tone of the central bank's statement or forecasts may determine changes of the EURUSD rate. The recent political news from the USA may limit the potential for EURUSD decline.

EURPLN was rising over the day and very dovish tone of MPC conference has strengthened this trend at the end of the session. As a result, the EURPLN rate broke 4,21, establishing this year's peak. USDPLN bounced off 3.37 and reached 3.40. Today tone of the ECB conference can influence EURUSD, which will potentially may translate to EURPLN. The room for zloty appreciation will be limited by dovish MPC rhetoric.

In the case of the other CEE currencies, EURHUF drop was continued and broke 312 over the day, EURCZK bounced above 24.43 from 25.38, while USDRUB stabilized close to the 56.9.

Debt market

On the domestic interest rate market IRS and bond curves flattened amid bigger drop on the longer end and on the belly than on the front end. Dovish rhetoric of the Polish MPC had a substantial impact on that move. Today, the outcome of the ECB meeting might be crucial. The recent euro zone economic activity data was somewhat weaker (PMI, Ifo, ZEW, ESI) which seems to reduce chances for more hawkish statement and in turn could have a positive impact on domestic bonds.

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	4.2097	CZKPLN	0.1656
USDPLN	3.3917	HUFPLN*	1.3479
EURUSD	1.2412	RUBPLN	0.0597
CHFPLN	3.5990	NOKPLN	0.4348
GBPPLN	4.7173	DKKPLN	0.5650
USDCNY	6.3284	SEKPLN	0.4121

*for 100HUF

Last session in the FX market

07/03/2018

	min	max	open	close	fixing
EURPLN	4.185	4.214	4.186	4.211	4.1922
USDPLN	3.368	3.402	3.377	3.396	3.3744
EURUSD	1.239	1.244	1.239	1.240	-

Interest rate market

07/03/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.57	-1	2/22/18	OK0720	1.741
PS0123 (5L)	2.53	-4	2/22/18	PS0123	2.687
WS0428 (10L)	3.27	-5	2/22/18	WS0428	3.430

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.76	-1	2.31	1	-0.26	0
2L	1.95	-5	2.53	0	-0.12	0
3L	2.14	-7	2.64	0	0.08	0
4L	2.33	-7	2.71	0	0.28	-1
5L	2.47	-7	2.75	-1	0.46	-2
8L	2.79	-6	2.84	-1	0.88	-2
10L	2.95	-6	2.89	-1	1.08	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.54	-1
T/N	1.54	-1
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	1.74	-1
9x12	1.80	-3
3x9	1.82	1
6x12	1.82	0

Measures of fiscal risk

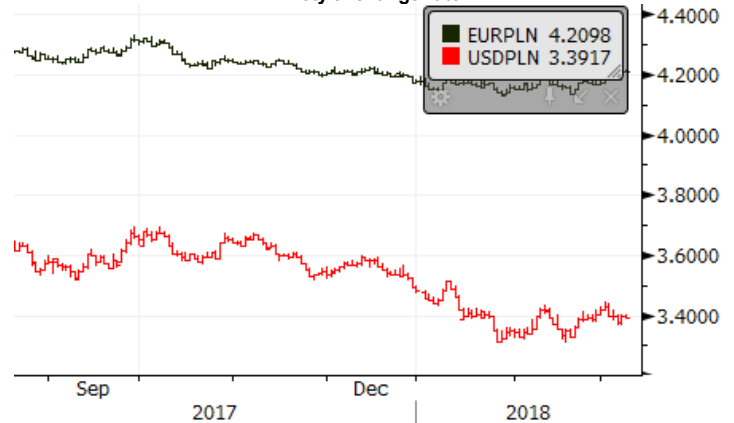
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.62	-5
France	17	0	0.24	0
Hungary	116	1	2.03	-1
Spain	42	-1	0.80	2
Italy	100	-2	1.41	11
Portugal	67	-2	1.20	1
Ireland	25	0	0.40	0
Germany	10	0	-	-

* 10Y treasury bonds over 10Y Bunds

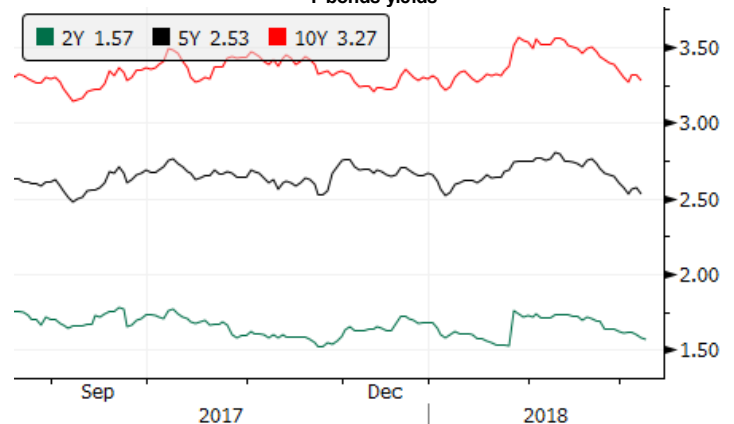
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

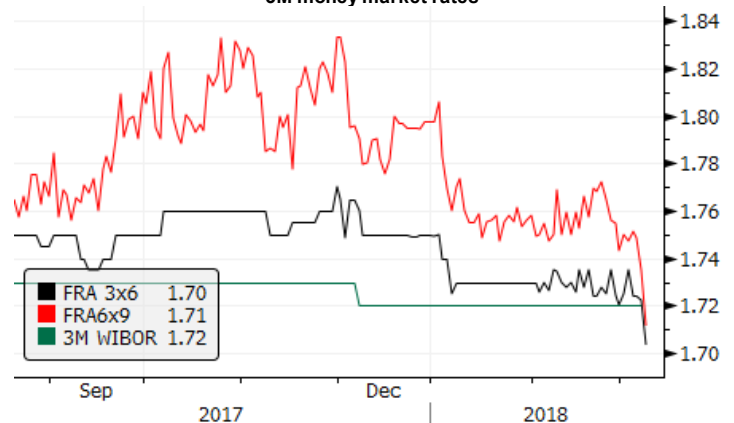
Zloty exchange rate



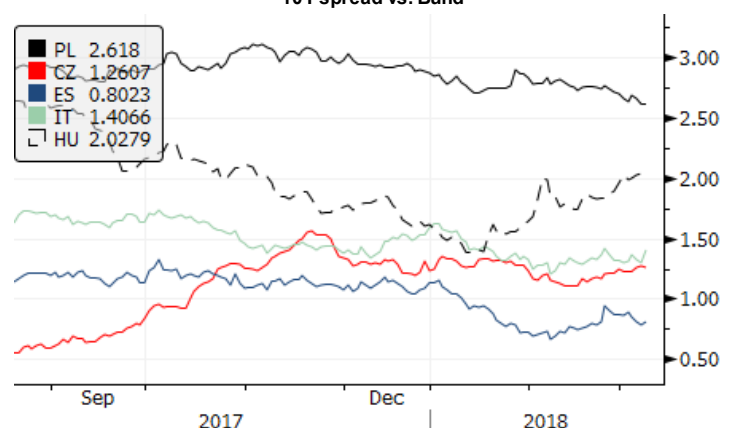
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar								
TIME		INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE
CET					MARKET	BZWBK		
FRIDAY (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		%	1.50	1.50	1.50	1.50
09:00	HU	Industrial Production SA	Jan	% y/y	-	-	6.7	5.0
11:00	EZ	GDP SA	4Q	% y/y	2.7	-	2.7	2.7
14:15	US	ADP report	Feb	k	200	-	235	244
20:00	US	Beige Book						
THURSDAY (8 March)								
08:00	DE	Factory Orders	Jan	% m/m	-1.5	-	-3.9	3.0
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	220	-		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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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.