

EYEOPENER

9 March 2018

Dollar stronger after ECB and information from USA

- **ECB optimistic but sees risks**
- **Trump introduced tariffs on steel and aluminum...**
- **... and announced he planned to meet Kim Jong-un**
- **EURUSD and EURPLN down**
- **Polish yields and IRS down, market still under impact of MPC**
- **Today monthly US labour market data**

On Thursday, investors focused on ECB's decision, however the result of central bank's meeting had no significant impact on the market. A statement that the bank is ready to expand its asset purchase programme if such a need should arise was deleted from official communication. This had only a temporary positive impact on Euro zone and negative impact on bonds.

ECB presented new GDP and CPI projections. In the case of inflation, the estimates for 2018 have not changed (1.4%) and the ones for 2019 were slightly reduced (from 1.5% to 1.2%). GDP projections for 2018 were revised from 2.3% to 2.4% and were maintained at 1.9% for 2019. In 2020, CPI and GDP are to increase by 1.7%. According to ECB, Euro zone economy may grow faster than anticipated in the upcoming future. On the other hand, external risks for economic growth scenario such as protectionism and situation in the FX market were highlighted.

Yesterday Donald Trump signed an order imposing tariffs on steel and aluminum (25% and 10%, respectively). Canada and Mexico are exempt from this new regulation. The order allows other countries to renegotiate the tariffs (and exemptions). EU and China announced that they will take actions and measures against the US (which potentially will hit the world trade).

However, the information about Donald Trump and Kim Jong-un meeting in May was more important for the market. The risk appetite rose after release of this news.

FX market

EURUSD reached 1.244, starting from 1.237 in a reaction to the modifications in the ECB statement. The ECB removed the sentence about a possibility of increasing its QE programme. The move was short-lived and at the end of the day the exchange rate dropped substantially, going to 1.2312 this morning. This afternoon we will get monthly data from the US labour market. In our view, the data can trigger larger market adjustment if they are stronger than the consensus than if the come softer.

EURPLN was heading north at the start of the day, to 4.215, but in the following hours the zloty recovered partially from Wednesday losses. As a result, at the end of the day EURPLN was slightly above 4.20. Larger shifts were observed in case of USDPLN, which at first declined quickly to 3.375 responding to a rise of EURUSD, but returned to c3.413. Other CEE currencies were more stable yesterday than the zloty. Today the market focus will be on US labour report. In recent days the correlation of EURPLN and EURUSD weakened, but we still think the moved of the euro vs. the dollar will have a significant influence on the zloty.

Debt market

On the domestic interest rate market, 2- and 10Y IRS and bond yields did not change much. The longer end of curves was going up since the start of the day, but later, after speech of ECB head, the demand side was more active, bringing rates a bit below the post-MPC level. The front end moved by 1bp down. More considerable moves were observed in the 5Y segment, with yields falling by 6bps and IRS rates by 3bps. Trade was quite dynamic abroad, rising in reaction to the ECB statement dropping the pledge to increase QE programme if necessary. However, the ECB conference was generally interpreted as dovish, bringing core and periphery Euro zone yields by 3-6bps down. ECB head's comments of rising protectionism and stronger euro proved most important.

It seems that suggestion of flat NBP rates until 2020 and dovish remarks of Mario Draghi on Thursday will be still important for the Polish debt market. Today in the afternoon US labour market are due for release, but a positive surprise can spark a stronger reaction than a negative.

Labour market

The Stats Office released a quarterly report on labour demand. It showed that the problem of labour shortages grew in 4Q17 and that demand for labour increased further. The number of unfilled vacancies in 4Q17 was 117.8k, 51.5% more than in 4Q16. In 3Q17 the vacancies growth rate was 37.4% and in 2Q 29.4%. Out of new posts created in 4Q17, 17.1% remained unfilled at the end of the quarter, similar to 3Q, but more than in 2Q (15%) and 1Q (12.1%). The job creation-destruction statistics showed a net increase of 80.8k in 4Q, which translated to +36.5% y/y, compared to 30.2% in 3Q and 15.2% in 2Q. Such situation encourages acceleration of wage growth in the enterprise sector, from the current 7.3% y/y to close to 10% near the end of the year, in our view.

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	4.2023	CZKPLN	0.1654
USDPLN	3.4130	HUFPLN*	1.3486
EURUSD	1.2313	RUBPLN	0.0598
CHFPLN	3.5861	NOKPLN	0.4367
GBPPLN	4.7144	DKKPLN	0.5642
USDCNY	6.3359	SEKPLN	0.4130

*for 100HUF

Last session in the FX market

08/03/2018

	min	max	open	close	fixing
EURPLN	4.201	4.217	4.211	4.203	4.2024
USDPLN	3.377	3.418	3.396	3.412	3.3935
EURUSD	1.231	1.245	1.240	1.232	-

Interest rate market

08/03/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.56	0	2/22/18	OK0720	1.741
PS0123 (5L)	2.46	-7	2/22/18	PS0123	2.687
WS0428 (10L)	3.24	-4	2/22/18	WS0428	3.430

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.75	-1	2.32	1	-0.26	0
2L	1.94	-1	2.54	1	-0.13	0
3L	2.12	-2	2.65	1	0.07	-1
4L	2.30	-3	2.71	0	0.28	0
5L	2.44	-4	2.75	0	0.45	-1
8L	2.76	-3	2.83	-1	0.87	-1
10L	2.93	-3	2.87	-1	1.06	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.54	0
T/N	1.54	0
SW	1.55	0
2W	1.60	0
1M	1.65	0
3M	1.71	-1
6M	1.80	-1
9M	1.82	0
1Y	1.84	-1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.72	0
3x6	1.71	-1
6x9	1.73	0
9x12	1.78	-1
3x9	1.80	-2
6x12	1.82	0

Measures of fiscal risk

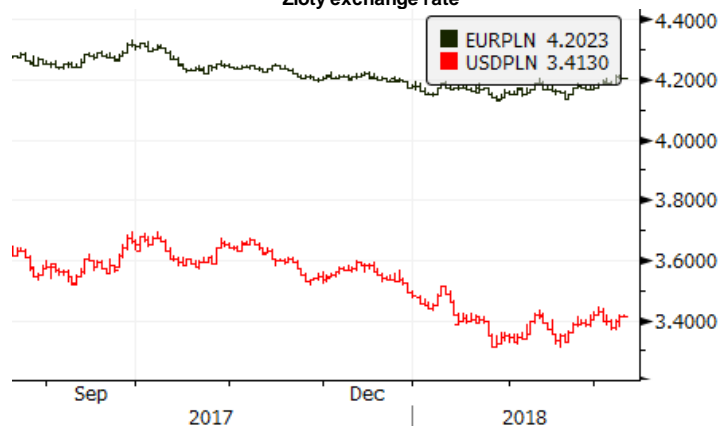
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.60	-5
France	17	0	0.24	0
Hungary	116	1	2.03	-2
Spain	40	-2	0.77	-1
Italy	97	-3	1.35	-1
Portugal	66	-1	1.17	-1
Ireland	25	0	0.40	0
Germany	9	-1	-	-

* 10Y treasury bonds over 10Y Bunds

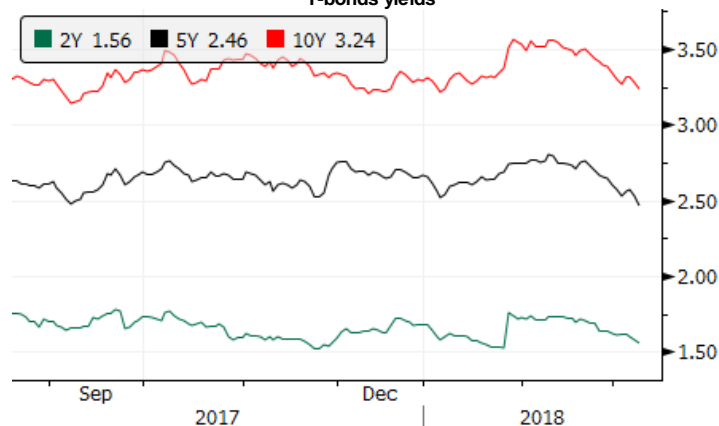
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

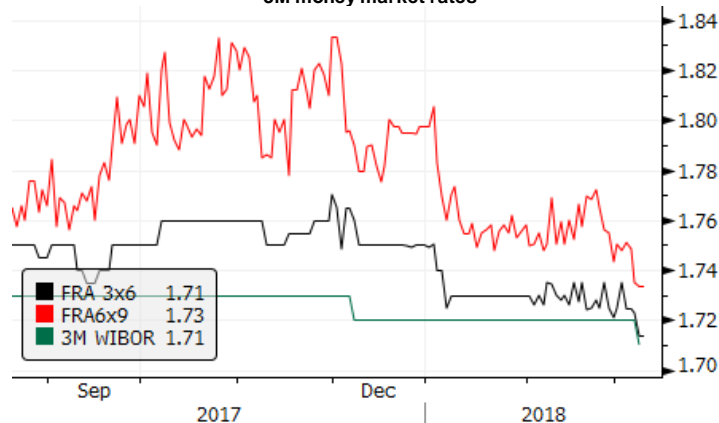
Zloty exchange rate



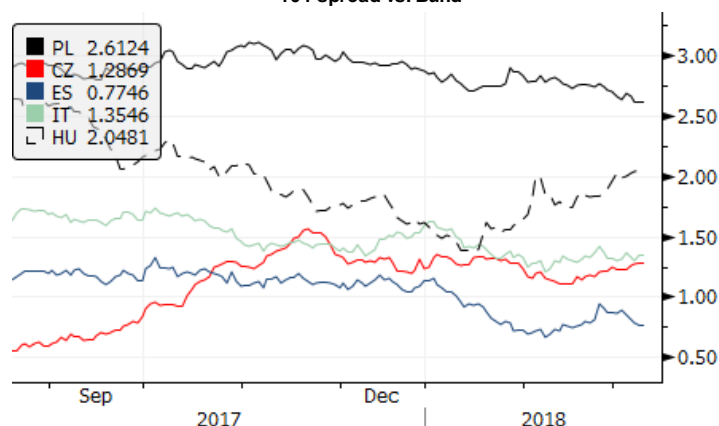
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic Calendar					FORECAST		ACTUAL	LAST
TIME		INDICATOR	PERIOD				VALUE	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	-	1.9	2.1
13:45	EZ	ECB Main Refinancing Rate		%	0.0	-	0.0	0.0
14:30	US	Initial Jobless Claims	week	k	220	-	231	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	0.7	-		-0.6
09:00	CZ	CPI	Feb	% y/y	2.0	-		2.2
14:30	US	Change in Nonfarm Payrolls	Feb	k	200	-		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

This publication has been prepared by Bank Zachodni WBK S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Bank Zachodni WBK S.A., its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Bank Zachodni WBK S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Bank Zachodni WBK S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

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.