

EYEOPENER

14 March 2018

US politics weigh on the zloty

- EURUSD up on US political concerns
- Polish bonds and zloty under pressure after US state secretary dismissed and global market deteriorates
- Support for rate hike in Poland fades
- Today, US and euro zone data, many ECB members speeches on agenda

On Tuesday, EURPLN was on the rise since the beginning of the session due to deteriorated sentiment in the global markets that resulted from information about dismissal of the US Secretary of State, Rex Tillerson. This information pressured the dollar. Core market debt was gaining, whereas domestic bonds were falling on the long end due to higher global political risk. Łukasz Hardt from MPC stated that the risk of interest rates increase in 2018 had dropped.

Yesterday the EU finance ministers said that will prepare an adequate response to US tariffs on steel and aluminum. The 'trade wars' issue might be weighing on global sentiment.

New OECD's growth projections

OECD increased its forecasts for global GDP growth: from 3.7% to 3.9% in 2018 and from 3.6% to 3.9% in 2019. Amongst the main markets, estimates for the US were subject to a most substantial increase due to fiscal stimulation (lower taxes and higher spendings) and despite seven interest rates hikes assumed by Fed by the end of 2019. According to OECD, the fiscal policy in Germany will also be relaxed. Protectionism in international trade is the main risk factor for higher projections according to the Organisation. OECD is prudent about projecting rebound of inflation noting that, similarly as on NBP's projections authors did on Monday, the dynamics of prices became less sensitive to fluctuations of unused market resources.

Likelihood of NBP interest rate hikes decreased

Łukasz Hardt said in TOK FM radio that an interest rate hike in 2018 still cannot be ruled out, but in his view the probability of such move has decreased recently. In his view, the MPC's reaction will depend mainly on core inflation and the NBP projection suggests it will be on the rise. MPC member does not feel comfortable with negative real interest rates, which adversely affects the structure of deposits, in his view. We think that regardless of this lack of comfort, the MPC's rhetoric will remain very dovish in the coming months, which will be supported by low CPI prints. The first rate hike is not going to happen before the end of 2019, in our opinion.

FX market

On Tuesday, in the first hours of trade, EURUSD remained fairly stable because investors were waiting for the US inflation data. In the afternoon, EURUSD went from 1.234 to 1.24 when the information came that US state secretary was dismissed. Inflation for February was in line with expectations and did not impress investors.

Today we expect some correction of the yesterday's EURUSD rise, as the market may have already priced the US heightened political risk.

EURPLN was on the rise since Tuesday morning, amid expectations for the US inflation data, the exchange rate has still been under the impact of the MPC dovish rhetoric. In early afternoon the trend accelerated due to the news about the dismissal of the US secretary of state. As a result, EURPLN moved from 4.204 in the morning to 4.213 in the afternoon (and intraday came close to 4.215).

Today we expect some correction of EURPLN, down to 4.21. At the start of the session the sentiment on the market is slightly negative, which taken together with tomorrow's CPI release in Poland can limit the zloty's appreciation potential.

In the case of other CEE currencies, EURCZK moved to 25.48 from 25.44, while EURHUF was oscillating in 311.50-311.80 range, USDRUB stayed near 56.90 and did not react to the cheaper oil.

Debt market

Tuesday on the debt market was dominated by global politics. The yields of US Treasuries was decreasing since early morning and accelerated after information that Donald Trump has fired his secretary of state, Rex Tillerson. As a result, the US curve was shifted down by 2-3 bps and German by 1-2 bps, on the short ends of both curves, the move was neutralized fast.

The long end of the domestic curve was rising over the day, negatively reacting to among others information about changes in US administration. As a result, the long end closed 4bp above the opening level, while the short end decreased by 2bp, the belly stayed stable. The IRS curve lifted by 2bp in the 5-10Y segment. Today we anticipate bonds' yields drop waiting for the CPI reading (scheduled for tomorrow) and after the remarks of MPC member Łukasz Hardt.

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FX market

Today's opening

| | | | |
|--------|--------|---------|--------|
| EURPLN | 4.2088 | CZKPLN | 0.1652 |
| USDPLN | 3.3962 | HUFPLN* | 1.3508 |
| EURUSD | 1.2393 | RUBPLN | 0.0596 |
| CHFPLN | 3.5979 | NOKPLN | 0.4395 |
| GBPPLN | 4.7418 | DKKPLN | 0.5650 |
| USDCNY | 6.3183 | SEKPLN | 0.4138 |

*for 100HUF

Last session in the FX market

13/03/2018

| | min | max | open | close | fixing |
|--------|-------|-------|-------|-------|--------|
| EURPLN | 4.203 | 4.216 | 4.205 | 4.213 | 4.2097 |
| USDPLN | 3.394 | 3.417 | 3.411 | 3.400 | 3.4143 |
| EURUSD | 1.232 | 1.241 | 1.233 | 1.239 | - |

Interest rate market

13/03/2018

T-bonds on the interbank market**

| Benchmark (term) | % | Change (bps) | Last auction | Paper offered | Average yield |
|------------------|------|--------------|--------------|---------------|---------------|
| PS0420 (2L) | 1.55 | 1 | 2/22/18 | OK0720 | 1.741 |
| PS0123 (5L) | 2.52 | 2 | 2/22/18 | PS0123 | 2.687 |
| WS0428 (10L) | 3.34 | 5 | 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 | 2.37 | 1 | -0.26 | 0 |
| 2L | 1.95 | 1 | 2.58 | 0 | -0.13 | 0 |
| 3L | 2.15 | 1 | 2.69 | -1 | 0.06 | 0 |
| 4L | 2.33 | 2 | 2.75 | -1 | 0.26 | -1 |
| 5L | 2.48 | 2 | 2.78 | -1 | 0.44 | -1 |
| 8L | 2.80 | 3 | 2.85 | -2 | 0.86 | -1 |
| 10L | 2.96 | 2 | 2.89 | -2 | 1.05 | -1 |

WIBOR rates

| Term | % | Change (bps) |
|------|------|--------------|
| O/N | 1.51 | 1 |
| T/N | 1.52 | 0 |
| SW | 1.55 | 0 |
| 2W | 1.60 | 0 |
| 1M | 1.64 | -1 |
| 3M | 1.71 | 0 |
| 6M | 1.79 | 0 |
| 9M | 1.81 | -1 |
| 1Y | 1.84 | 0 |

FRA rates on the interbank market**

| Term | % | Change (bps) |
|------|------|--------------|
| 1x4 | 1.71 | 0 |
| 3x6 | 1.71 | -1 |
| 6x9 | 1.74 | -1 |
| 9x12 | 1.79 | 0 |
| 3x9 | 1.80 | 0 |
| 6x12 | 1.81 | -1 |

Measures of fiscal risk

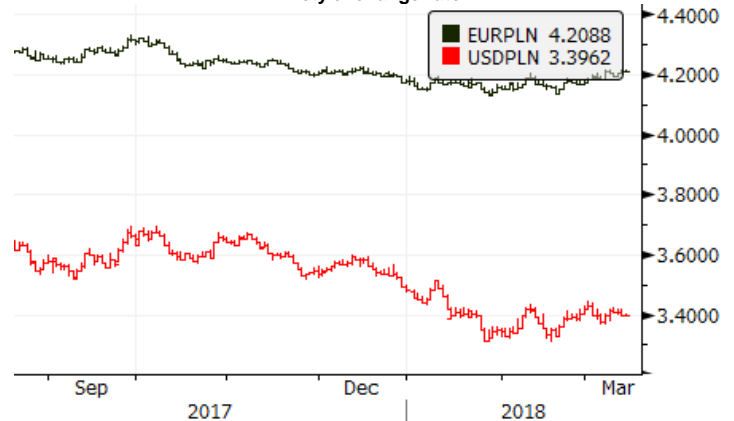
| Country | CDS 5Y USD | | 10Y spread* | |
|----------|------------|--------------|-------------|--------------|
| | Level | Change (bps) | Level | Change (bps) |
| Poland | | | 2.73 | 6 |
| France | 17 | 0 | 0.24 | 0 |
| Hungary | 116 | 1 | 2.06 | 0 |
| Spain | 39 | 0 | 0.78 | 0 |
| Italy | 98 | 0 | 1.38 | 1 |
| Portugal | 64 | 0 | 1.17 | 0 |
| Ireland | 25 | 0 | 0.42 | 0 |
| Germany | 10 | 0 | - | - |

* 10Y treasury bonds over 10Y Bunds

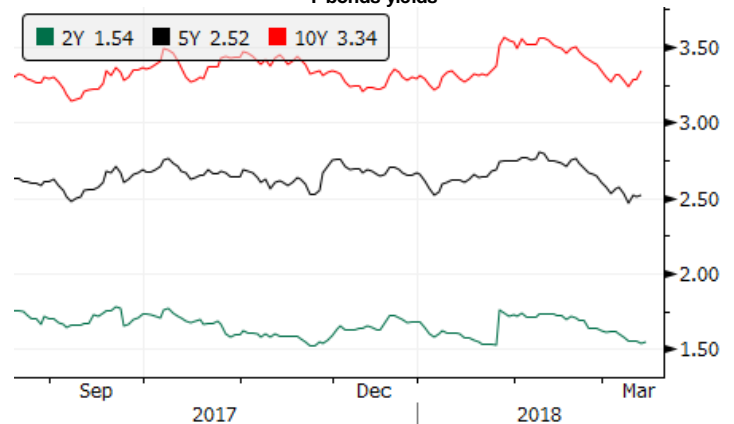
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

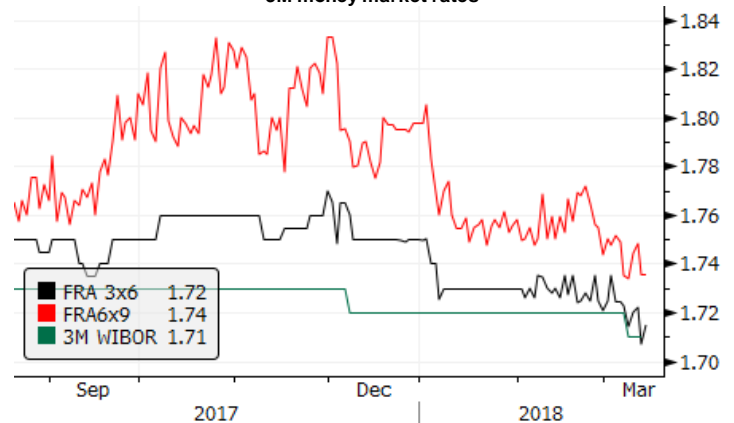
Zloty exchange rate



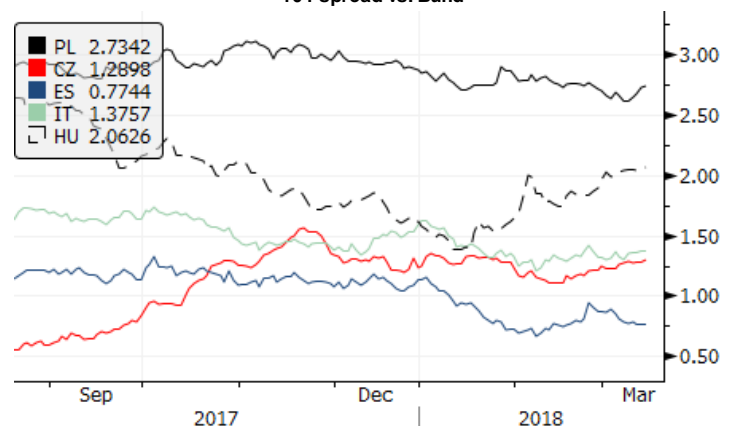
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

| Economic calendar | | | | | | | | | |
|----------------------|--------|--------------------------------|--------|--------|--------|----------|-------|--------|------|
| TIME | | INDICATOR | | PERIOD | | FORECAST | | ACTUAL | LAST |
| CET | MARKET | | | | | BZWBK | VALUE | VALUE | |
| FRIDAY (9 March) | | | | | | | | | |
| 08:00 | DE | Exports SA | Jan | % m/m | 0.3 | - | -0.5 | 0.3 | |
| 08:00 | DE | Industrial Production SA | Jan | % m/m | 0.6 | - | -0.1 | -0.6 | |
| 09:00 | CZ | CPI | Feb | % y/y | 2.0 | - | 1.8 | 2.2 | |
| 14:30 | US | Change in Nonfarm Payrolls | Feb | k | 205 | - | 313 | 200 | |
| 14:30 | US | Unemployment Rate | Feb | % | 4.0 | - | 4.1 | 4.1 | |
| MONDAY (12 March) | | | | | | | | | |
| No important events | | | | | | | | | |
| TUESDAY (13 March) | | | | | | | | | |
| 13:30 | US | CPI | Feb | % m/m | 0.2 | - | 0.2 | 0.5 | |
| WEDNESDAY (14 March) | | | | | | | | | |
| 11:00 | EZ | Industrial Production SA | Jan | % m/m | -0.5 | - | - | 0.4 | |
| 13:30 | US | Retail Sales Advance | Feb | % m/m | 0.3 | - | - | -0.3 | |
| THURSDAY (15 March) | | | | | | | | | |
| 09:00 | CZ | Industrial Production | Jan | % y/y | 5.4 | - | - | 2.7 | |
| 10:00 | PL | CPI | Feb | % y/y | 1.8 | 1.6 | - | 1.9 | |
| 11:30 | PL | Bond Switch Auction | | | - | | | | |
| 13:30 | US | Initial Jobless Claims | Mar-18 | k | 228 | - | - | 231 | |
| FRIDAY (16 March) | | | | | | | | | |
| 10:00 | PL | Employment in corporate sector | Feb | % y/y | 3.7 | 3.8 | - | 3.8 | |
| 10:00 | PL | Average Gross Wages | Feb | % y/y | 7.3 | 7.5 | - | 7.3 | |
| 11:00 | EZ | HICP | Feb | % y/y | 1.2 | - | - | 1.2 | |
| 13:30 | US | Housing Starts | Feb | % m/m | -2.71 | - | - | 9.7 | |
| 14:00 | PL | CPI Core | Feb | % y/y | 1.0 | 1.0 | - | 0.9 | |
| 14:00 | PL | Current Account Balance | Jan | €mn | 980 | 1 889 | - | -1 152 | |
| 14:00 | PL | Trade Balance | Jan | €mn | -47 | -330 | - | -1 268 | |
| 14:00 | PL | Exports | Jan | €mn | 16 986 | 16 238 | - | 15 232 | |
| 14:00 | PL | Imports | Jan | €mn | 17 184 | 16 568 | - | 16 500 | |
| 14:15 | US | Industrial Production | Feb | % m/m | 0.3 | - | - | -0.1 | |
| 15:00 | US | Michigan index | Mar | pts | 99.5 | - | - | 99.7 | |

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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