

# EYEOPENER

15 March 2018

## Bonds stronger after weak US and European data

- EURUSD declined, overcoming the geopolitical stress
- Polish bonds gained, following core markets
- Another dovish message from the MPC
- Today Polish CPI and bond auction

On Wednesday EURPLN was falling, leaving behind the geopolitical stress from the recent days. Domestic bonds prices increased following core markets which positively reacted to the weaker data from the US and euro zone. MPC member Grażyna Ancyparowicz confirmed her dovish stance and Fitch agency raised GDP forecast for Poland. The new economic advisor of Donald Trump, in his first speech pointed to the need to impose duties on goods from China, increasing the risk of a trade war.

### Another dovish message from the MPC

MPC member Grażyna Ancyparowicz said that interest rate hikes will be probably unnecessary until the end of 2019. In her opinion even inflation exceeding 3.5% would not be argument for a rate hike, although a rate hike in the euro zone would be a good reason to tighten policy in Poland. Ancyparowicz's words fit well in NBP governor's rhetoric. We expect the ECB will start lifting rates somewhere in the middle of 2019, which should persuade the MPC to back rate hikes in Poland in 4Q19.

### Fitch raised GDP forecasts for Poland

Fitch rating agency revised up its GDP growth forecast for Poland, from 3.6% to 3.8% in 2018. The forecast is still conservative compared to our prediction (4.3%) or market consensus (4.0% according to Bloomberg). In Fitch's view consumption and investments will be supportive for growth, while the impact of net exports should be neutral. Agency also noticed the depleting labour resources, which could have a negative impact on growth. Fitch lowered its forecast of interest rates, but it still remains well above market (50bp of rate hikes in 2018 and 75bp in 2019, while we expect only one 25bp hike in 2019).

### Gas prices higher, gas bill lower

Energy market regulator URE affirmed the new gas tariff, which lifts prices of gas for households by c.1% since April 1st. But since March 1st the new tariff on distribution is in place (the gasbill consists of gas price, subscription fee and distribution fee), assuming its reduction by c.7%. As a result, the cost of gas supply for households will drop by 1.5%-2.0% as compared to the start of the year, which is going to lower the CPI inflation rate by c.0.03pp.

### FX market

EURUSD was falling since Wednesday morning, thus releasing the stress after changes in the US administration. During the day, EUR appreciation was supported by weaker than expected data on euro zone industrial production (-1.0% m/m vs. -0.5% expected). The exchange rate decline was not stopped even by worse than expected US retail sales data (-0.1% m/m vs. +0.3% expected). Some falls were neutralized only in the afternoon, after rebound on the stock markets, which allowed EURUSD to close at 1.2380 vs. 1.2420 at the opening.

Today, we expect a further decline in EURUSD as a correction following a too strong sell-off caused by replacements in the US administration.

EURPLN was falling throughout the day, as a correction after Tuesday's sell-off of the zloty triggered by fears of an increase in geopolitical risk. This led to EURPLN closing at 4.1980 vs. 4.2120 at the opening.

Today, we expect a slight weakening of the zloty as a reaction to domestic inflation data, due this morning (our forecast is 1.6% y/y vs. market consensus 1.7-1.8% y/y). The data will likely support the stance of NBP governor who wants stabilisation of interest rates for a longer period.

In case of other CEE fx, EURCZK dropped to 25.44 from z 25.48, erasing Tuesday losses. The Czech central bank governor Jiří Rusnok made a remark that room for more hikes is not too large, which did not influence the market though. EURHUF decreased to 311.30 from 311.70 ignoring no mention in the MPC minutes about fine-tuning of monetary policy instruments. USDRUB rose to 57.20 from 57.00. It reacted to the Economy Ministry statement that inflation may decrease in June to 2.0% y/y.

### Debt market

Core bond yields were decreasing after the release of weaker Eurozone industrial production and US retail sales data. As a result, the yields were decreasing by 1-3 bps (stronger on the long end of the curve), on both sides of the Atlantic. The domestic bonds followed the core markets. The domestic yields were shifted down by 3-6 bp (stronger on the long end of the curve), the IRS rates slid by 2 bp across the curve.

Today we expect the drop of domestic yields to continue, helped by the Polish inflation data to be released this morning (we expect CPI for February to come below the market consensus of 1.7-1.8% y/y). We expect the stronger move on the short end of the curve. The switch auction will likely temporarily negatively affect the long end of the curve. The ministry plans to switch OK0720, PS0123, WZ0524, WS0428, WZ0528 for PS0418 (PLN14.60bn), PS0718 (PLN18.7bn), OK1018 (PLN19.7bn).

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## FX market

## Today's opening

EURPLN	4.2033	CZKPLN	0.1653
USDPLN	3.3984	HUFPLN*	1.3500
EURUSD	1.2369	RUBPLN	0.0596
CHFPLN	3.5941	NOKPLN	0.4397
GBPPLN	4.7500	DKKPLN	0.5643
USDCNY	6.3229	SEKPLN	0.4154

\*for 100HUF

## Last session in the FX market

14/03/2018

	min	max	open	close	fixing
EURPLN	4.198	4.216	4.213	4.199	4.2114
USDPLN	3.390	3.409	3.400	3.393	3.4055
EURUSD	1.235	1.241	1.239	1.238	-

## Interest rate market

14/03/2018

## T-bonds on the interbank market\*\*

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.52	1	2/22/18	OK0720	1.741
PS0123 (5L)	2.46	-6	2/22/18	PS0123	2.687
WS0428 (10L)	3.30	-4	2/22/18	WS0428	3.430

## IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.74	-1	2.38	1	-0.26	0
2L	1.93	-3	2.58	-1	-0.14	-1
3L	2.12	-2	2.68	-1	0.05	-1
4L	2.31	-2	2.73	-2	0.25	-1
5L	2.46	-2	2.76	-2	0.42	-1
8L	2.78	-2	2.83	-3	0.83	-3
10L	2.94	-2	2.86	-3	1.03	-2

## WIBOR rates

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

## FRA rates on the interbank market\*\*

Term	%	Change (bps)
1x4	1.70	-1
3x6	1.71	1
6x9	1.73	-1
9x12	1.77	-2
3x9	1.80	0
6x12	1.81	0

## Measures of fiscal risk

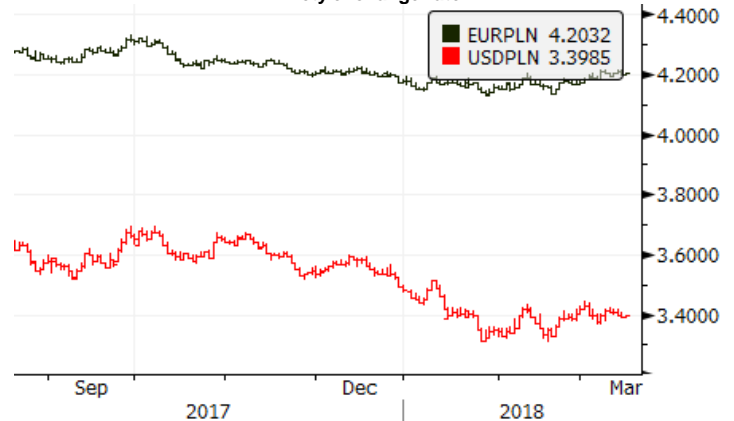
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.71	-4
France	17	0	0.25	0
Hungary	116	1	1.99	-2
Spain	40	0	0.79	-1
Italy	100	2	1.41	-1
Portugal	64	0	1.19	-1
Ireland	25	0	0.44	0
Germany	10	0	-	-

\* 10Y treasury bonds over 10Y Bunds

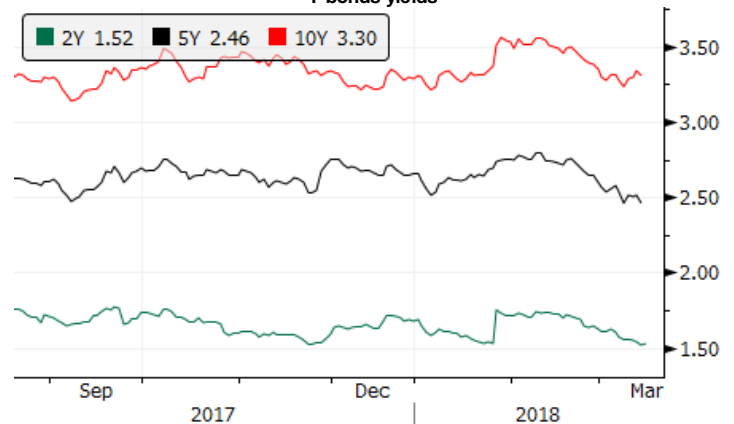
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

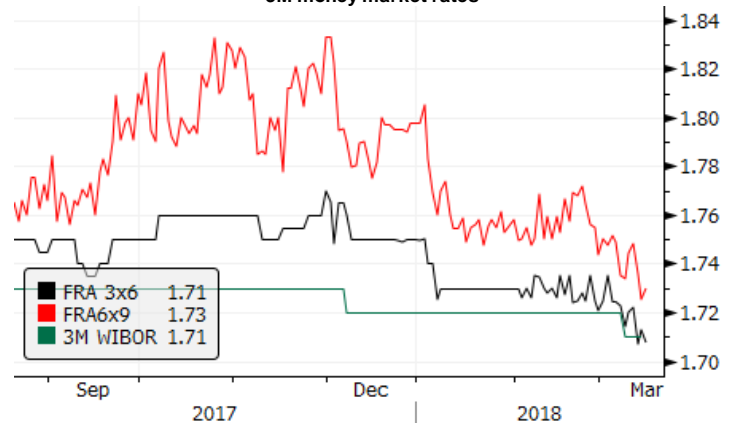
## Zloty exchange rate



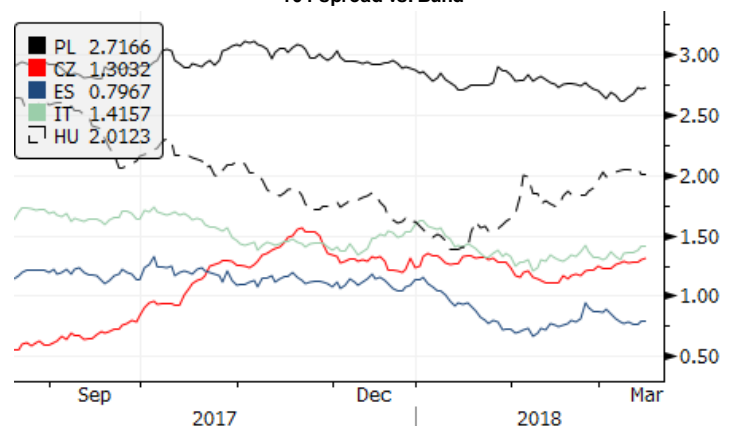
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic calendar

Economic calendar					FORECAST		ACTUAL	LAST
TIME		INDICATOR	PERIOD				VALUE	VALUE
CET					MARKET	BZWBK		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	-	-1.0	0.4
13:30	US	Retail Sales Advance	Feb	% m/m	0.3	-	-0.1	-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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