

EYEOPENER

16 March 2018

Yields down, EURPLN up after CPI data

- EURUSD down after Donald Trump new advisor comment
- Polish inflation fell more than expected in February
- Domestic yields down, EURPLN up after CPI data
- Today in Poland labour market and C/A data, abroad: US Michigan index

On Thursday, Poland low inflation reading in February translated into weaker zloty and lower bonds yields. The zloty depreciation was boosted by the strengthening dollar. Polish Finance Ministry informed it recorded a budget surplus in February amid high level of borrowing needs coverage.

Inflation below forecasts, MPC's Sura sees stable rates

Polish inflation in February was only 1.4% y/y, down from 1.9% y/y. The consensus was 1.7-1.8%, we expected 1.6%. Food was the main culprit of the CPI. It now seems much less likely that CPI could hit the 2.5% y/y inflation target this year. Instead it might remain below 2% for the better part of the year. Read more in our yesterday's [Economic Comment](#). After these numbers, MPC's Rafał Sura said that February CPI does not change his view and he sees rates stable in 12 months' horizon. According to Sura, there are some risk factors for this scenario, including global events, labour market tensions or emerging some housing market imbalance.

Fitch on Poland, no rating revision

Fitch analyst covering Poland, Arnaud Louis, stated that the currently run pro-cyclical fiscal policy is not posing risks to the country's rating. The agency assumes that the general government deficit was 1.8% of GDP in 2017 and will grow to 2.2% and 2.5% in the following years. Our estimates also point to 2.2% in 2018 but to 2.9% in 2019. The agency considers the moderate, in its view, deficit level to be a result of strong economic growth, yielding very solid VAT revenues. The analyst added a comment that unofficial news that debt-to-GDP ratio declined in 2017 to c50% instead of the planned 51.7% (official data to be released still in March) does not give grounds for a revision of Polish credit rating.

Budget surplus after February

Teresa Czerwińska, the Finance Minister, revealed that the central budget recorded a surplus after February, while VAT revenues rose in annual terms. In 2017, VAT rose 25.2% y/y with positive readings throughout the year, while January 2018 saw a plunge by 17% y/y. In our view this fall was a consequence of one-off effects (such as delays in payments triggered by recovery in investment in 4Q17, the government's strategy of shifting the

monthly payments from quarterly payments for some companies. In our view, February is likely to show a result close to PLN2.5bn. The Ministry informed also that it has covered 49% of this year's gross borrowing needs while currency cushion rose to €7.4bn from €6.3bn in January.

FX market

EURUSD was falling since Thursday morning thus positively responding to statements made by the new economic adviser of President Donald Trump, Larry Kudlow, who said that the big country needs a strong currency. On top of that, after a momentary distraction caused by the US administration turmoil, investors have focused on the forthcoming Fed conference. In effect, EURUSD fell from 1.238 in the morning to 1.233 in the afternoon. Today, we expect that the Michigan index may put additional pressure on EURUSD decline.

After overnight decline (to 4.201), EURPLN rebounded to 4.218, thus setting a new maximum this year, triggered mostly by information on lower than expected domestic inflation and the dollar strengthening. At the end of the week, EURPLN will probably remain at an elevated level – our forecasts of wages and employment are above consensus, but we expect a higher current account deficit.

As regards other CEE currencies, EURCZK continued to decline (from 25.44 to 25.42), despite mixed industry and retail sales data. EURHUF decreased from 311.3 to 311.1 while USDRUB climbed from 57.10 to 57.50 due to the strengthening dollar.

Debt market

US yields were rising over the day after the 10Y yield broke 2.80% for a while in the morning – the level last seen at the beginning of March. Technical rebound and the re-focus on the looming Fed conference pushed the US curve by 2-3bp up. In Europe, the German curve was sliding down across the day. The yields decreases were fueled by concerns about the return of inflation in the euro area to too low level. As a result, the Bunds curve shifted down by 2bp in the 5-10Y segment and reached the lowest level since January.

The domestic bonds gained the early Thursday, positively reacting for inflation data. After the switch auction, we saw small yields rebound. Across the day the yields curve eased by 4-6bp, stronger on the long end. The IRS curve slid in the similar scale. On the switch auction the Ministry of Finance sold bonds for PLN5.2bn and bought for PLN5.1bn. Today we expect profit taking on the bond market and continuation of yields rise.

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FX market

Today's opening

EURPLN	4.2161	CZKPLN	0.1659
USDPLN	3.4234	HUFPLN*	1.3542
EURUSD	1.2315	RUBPLN	0.0596
CHFPLN	3.6037	NOKPLN	0.4436
GBPPLN	4.7707	DKKPLN	0.5660
USDCNY	6.3249	SEKPLN	0.4178

*for 100HUF

Last session in the FX market

15/03/2018

	min	max	open	close	fixing
EURPLN	4.198	4.219	4.199	4.214	4.2168
USDPLN	3.392	3.425	3.393	3.416	3.4117
EURUSD	1.231	1.238	1.238	1.234	-

Interest rate market

15/03/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.50	0	2/22/18	OK0720	1.741
PS0123 (5L)	2.41	0	2/22/18	PS0123	2.687
WS0428 (10L)	3.26	-4	2/22/18	WS0428	3.430

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.72	-1	2.38	0	-0.26	0
2L	1.89	-3	2.57	0	-0.15	-1
3L	2.08	-4	2.67	-1	0.04	-1
4L	2.26	-4	2.72	-1	0.23	-1
5L	2.41	-4	2.75	-1	0.40	-2
8L	2.73	-4	2.82	-1	0.81	-2
10L	2.90	-4	2.85	-1	1.01	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.53	1
T/N	1.55	3
SW	1.55	0
2W	1.60	0
1M	1.64	0
3M	1.70	-1
6M	1.78	-1
9M	1.80	-1
1Y	1.83	-1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.69	-1
3x6	1.71	0
6x9	1.72	0
9x12	1.73	-4
3x9	1.79	-1
6x12	1.80	-1

Measures of fiscal risk

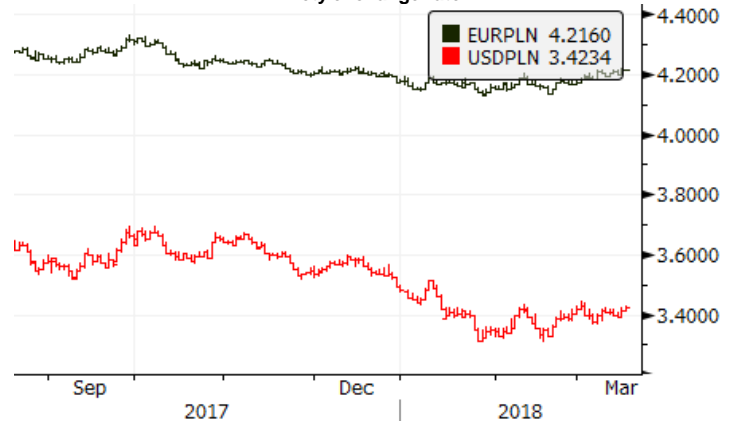
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.69	-3
France	17	0	0.24	1
Hungary	116	1	2.01	1
Spain	40	0	0.79	1
Italy	102	2	1.40	1
Portugal	64	0	1.20	0
Ireland	25	0	0.43	1
Germany	10	0	-	-

* 10Y treasury bonds over 10Y Bunds

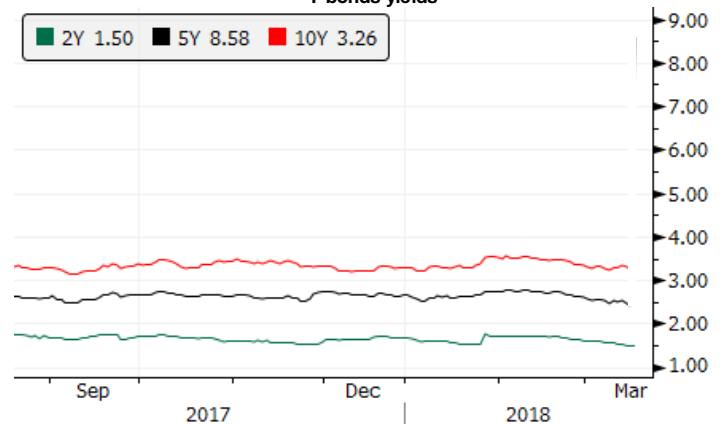
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

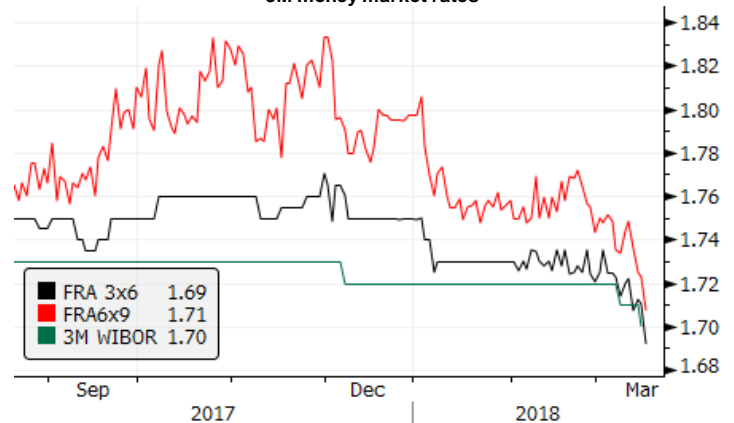
Zloty exchange rate



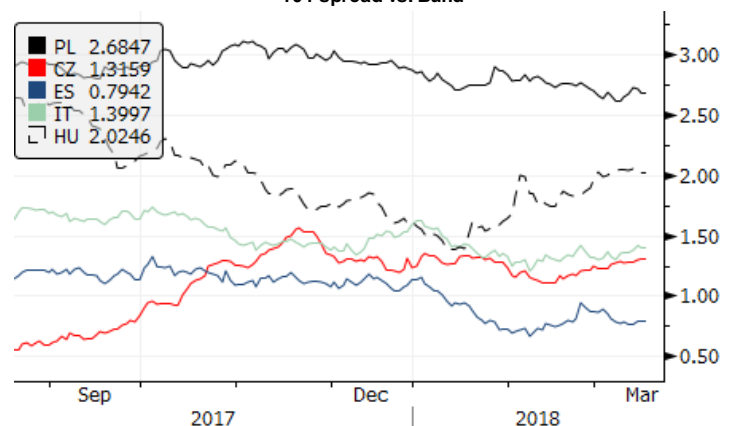
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar									
TIME		INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE		
CET				MARKET	BZWBK				
FRIDAY (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	-	5.5	2.7	
10:00	PL	CPI	Feb	% y/y	1.8	1.6	1.4	1.9	
11:30	PL	Bond Switch Auction			-				
13:30	US	Initial Jobless Claims	Mar-18	k	228	-	226	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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