

# EYEOPENER

20 March 2018

## Return of deflation in PPI

- The euro strengthened by signals from ECB, the pound by agreement on Brexit transition period
- MPC's Osiatyński sees risk of higher-than-projected inflation
- EURPLN stable at an elevated level, domestic bond yields somewhat higher
- Today German ZEW index

On Monday, the FX market stayed under impact of anonymous information from the ECB and news from the United Kingdom. The euro gained versus the dollar due to statement of unnamed ECB officials cited by Reuters, who said the euro zone central bankers see that rate hikes can become necessary in mid-2019 and rate path for the upcoming years should be put under consideration. The pound gained versus the main currencies after the EU and the UK announced an agreement on key points of the transition period, i.e. the first stage of Brexit. Bonds in Europe were in red, possible due to expectations for Wednesday Fed or hawkish ECB.

### Demand boom in construction continues, PPI below zero

Construction output rose in February by 31.4% y/y vs. consensus of 29.8%. Industrial production (+7.4% y/y) was below market expectations (+8.1% y/y), while we forecasted a slowdown to +6.7% y/y. We still do not expect the above-30% pace of construction output growth in the first two months of the year to continue. Going forward, we expect the construction sector to be facing further capacity constraints. February's seasonally-adjusted industrial output grew 7.3% y/y, roughly equal to the 2H17 average and well above January's 6.2%. We maintain our view that the pace of GDP growth in 1Q18 will be comparable or slightly below the +5.1% y/y recorded in 4Q17.

PPI declined to -0.2% y/y in February from +0.2% y/y in January. Thus, PPI returned to deflationary territory for the first time since August 2016. In the coming months, we expect PPI to return to positive growth rates driven by a weaker zloty and an end to the downward trend of commodity prices. In the preceding quarters, PPI was a good predictor of CPI trends. As such, we believe the low PPI readings suggest no major growth in CPI inflation in the coming quarters.

### MPC's Osiatyński on inflation outlook

Yesterday, the MPC member Jerzy Osiatyński said to Reuters that in his opinion inflation may exceed the NBP March

projections. And in that March projection, the central bank reduced the inflation path for this year vs. its November forecasts (the middle of the range from 2.25% to 2.05%). Osiatyński believes that the enterprises' inclination to take on the costs triggered by e.g. higher wages will start to fall at some point, which in turn will lead to a rise in prices. The MPC member is not worried about the impact of low interest rates on household savings or investment decisions of enterprises. Osiatyński said that he was not able to answer the question whether the NBP rates would remain unchanged this year, but the recent weeks - judging by the tone of statements, announcements or minutes of meetings - are clearly not so positive for "hawks", whose voice in the Monetary Policy Council is getting weaker.

### FX market

EURUSD rebounded yesterday to 1.232 from 1.226 amid signals from the ECB. The euro gained vs the dollar after three sessions of depreciation but we do not expect this trend to continue at the same pace in the coming days. Tomorrow FOMC will announce decision on the interest rates and its new governor will present updated CPI and GDP forecasts. As the market awaits this event, EURUSD should stay near current levels.

EURPLN was hovering around 4.125 for the better part of the yesterday session where it jumped on Thursday after the lower-than-expected Polish February CPI data. In the evening, the exchange rate broke 4.22. The other CEE currencies did not move much with only the ruble being under pressure vs the dollar owing to falling oil prices.

Given the rather poor market sentiment persisting during the yesterday's session and below-forecasts Polish industrial output figure, the zloty's performance vs the euro was pretty good during the Monday's session. We think EURPLN should remain relatively stable as investors are waiting for the tomorrow's FOMC decision.

### Debt market

On Monday domestic IRS rates and bond yields rose by 1-2bp. On the core markets, the changes were marginal, the market was mainly driven by the signals from ECB, behavior of equities and the approaching FOMC decision (due Wednesday).

Today calendar is very light (as yesterday), with only the German ZEW index release scheduled. We assume that yields of domestic bonds should remain near the yesterday closing (and are unlikely to go lower), waiting for the Wednesday FOMC decision.

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## FX market

## Today's opening

EURPLN	4.2240	CZKPLN	0.1662
USDPLN	3.4199	HUFPLN*	1.3573
EURUSD	1.2352	RUBPLN	0.0592
CHFPLN	3.5955	NOKPLN	0.4438
GBPPLN	4.8057	DKKPLN	0.5671
USDCNY	6.3312	SEKPLN	0.4190

\*for 100HUF

## Last session in the FX market

19/03/2018

	min	max	open	close	fixing
EURPLN	4.203	4.231	4.229	4.222	4.2176
USDPLN	3.418	3.442	3.432	3.419	3.4341
EURUSD	1.226	1.235	1.230	1.235	-

## Interest rate market

19/03/2018

## 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)	2.42	2	2/22/18	PS0123	2.687
WS0428 (10L)	3.26	2	2/22/18	WS0428	3.430

## IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.72	0	2.40	-1	-0.27	0
2L	1.88	0	2.60	-2	-0.15	-1
3L	2.07	0	2.70	-2	0.04	1
4L	2.25	0	2.75	-2	0.24	1
5L	2.40	0	2.78	-2	0.40	0
8L	2.72	0	2.84	-1	0.82	1
10L	2.89	0	2.88	-1	1.01	0

## WIBOR rates

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

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

Term	%	Change (bps)
1x4	1.69	0
3x6	1.70	-1
6x9	1.72	0
9x12	1.73	0
3x9	1.78	-1
6x12	1.78	-2

## Measures of fiscal risk

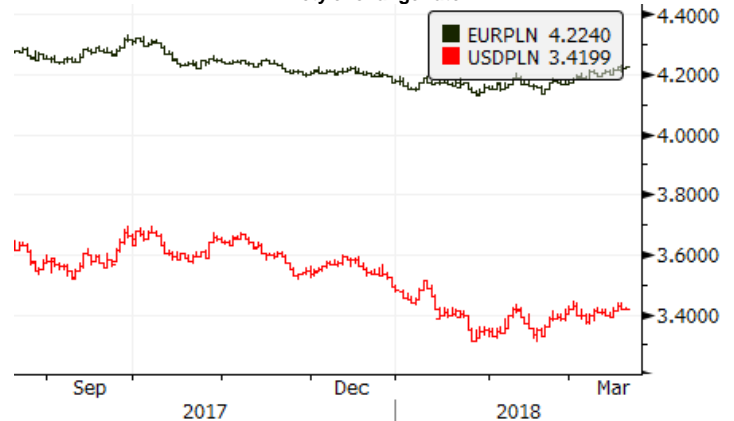
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.68	1
France	17	0	0.25	0
Hungary	116	1	2.01	-1
Spain	39	0	0.75	-1
Italy	100	0	1.38	-2
Portugal	64	0	1.14	-2
Ireland	25	0	0.43	0
Germany	10	0	-	-

\* 10Y treasury bonds over 10Y Bunds

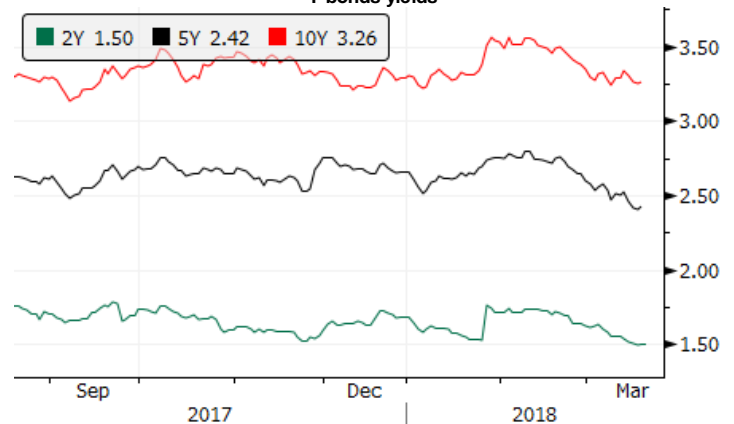
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

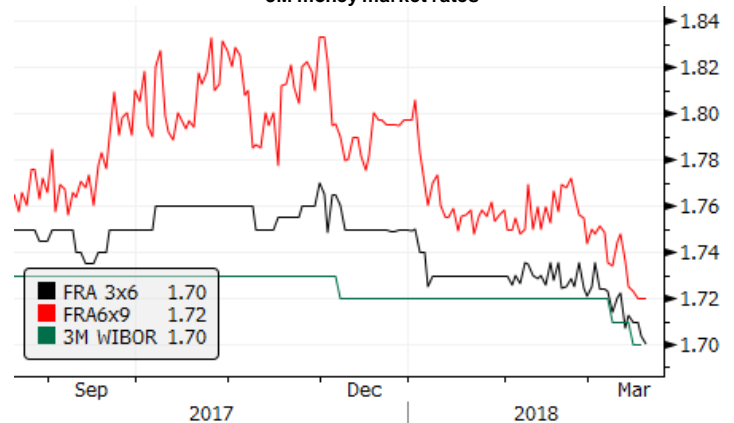
## Zloty exchange rate



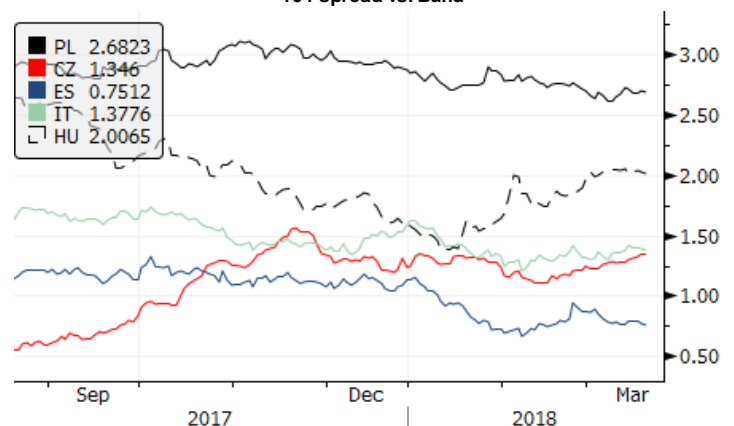
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic calendar

Economic calendar								
TIME		INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE
CET					MARKET	BZWBK		
FRIDAY (16 March)								
10:00	PL	Employment in corporate sector	Feb	% y/y	3.7	3.8	3.7	3.8
10:00	PL	Average Gross Wages	Feb	% y/y	7.3	7.5	6.8	7.5
11:00	EZ	HICP	Feb	% y/y	1.2	-	1.1	1.3
13:30	US	Housing Starts	Feb	% m/m	-2.71	-	-7.0	10.1
14:00	PL	CPI Core	Feb	% y/y	1.0	0.8	0.8	0.9
14:00	PL	Current Account Balance	Jan	€mn	965	1889	2005	-1152
14:00	PL	Trade Balance	Jan	€mn	-35	-330	-204	-1268
14:00	PL	Exports	Jan	€mn	16986	16238	16 685	15232
14:00	PL	Imports	Jan	€mn	17184	16568	17 057	16500
14:15	US	Industrial Production	Feb	% m/m	0.4	-	1.1	-0.3
15:00	US	Michigan index	Mar	pts	99.3	-	102.0	99.7
MONDAY (19 March)								
10:00	PL	Sold Industrial Output	Feb	% y/y	8.4	6.7	7.4	8.6
10:00	PL	Construction Output	Feb	% y/y	28.7	28.1	31.4	34.7
10:00	PL	PPI	Feb	% y/y	0.1	0.2	-0.2	0.2
TUESDAY (20 March)								
11:00	DE	ZEW Survey Current Situation	Mar	pts	90.0	-		92.3
WEDNESDAY (21 March)								
10:00	PL	Retail Sales Real	Feb	% y/y	7.7	7.4		7.7
10:00	PL	Enterprises Financial Results						
15:00	US	Existing Home Sales	Feb	% m/m	0.93	-		-3.24
19:00	US	FOMC decision	Mar-18		1.75	-		1.5
THURSDAY (22 March)								
09:30	DE	Germany Manufacturing PMI	Mar	pts	59.8	-		60.6
09:30	DE	Markit Germany Services PMI	Mar	pts	55.2	-		55.3
10:00	DE	IFO Business Climate	Mar	pts	114.6	-		115.4
10:00	EZ	Eurozone Manufacturing PMI	Mar	pts	58.2	-		58.6
10:00	EZ	Eurozone Services PMI	Mar	pts	56.0	-		56.2
13:30	US	Initial Jobless Claims	week	k	227.5	-		226.0
14:00	PL	Money Supply M3	Feb	% y/y	5.0	5.1		4.8
FRIDAY (23 March)								
	PL	Rating Review Moodys						
10:00	PL	Unemployment Rate	Feb	%	6.8	6.8		6.9
13:30	US	Durable Goods Orders	Feb	% m/m	1.6	-		-3.6
15:00	US	New Home Sales	Feb	% m/m	4.55	-		-7.8

Source: BZ WBK, Bloomberg, Parkiet

\* in case of the revision the data is updated

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