

# EYEOPENER

21 March 2018

## Fed could surprise with hawkishness

- German ZEW weakened the euro and the zloty
- MPC's Gattar considers need for a rate hike in 2H18
- Domestic yields rose more than core market bonds
- Today Polish retail sales and corporate results for 4Q, FOMC decision

On Tuesday, only German ZEW was on the agenda but this was enough to trigger some noticeable rise in market volatility. Although the current situation subindex fell less than expected, the expectations subindex was much below the consensus after it fell to 5.1pts, its lowest since September 2016. Such disappointing reading had a negative impact on the euro that gave up all of its Monday's gains vs the dollar and lost further vs the pound.

### MPC's Gattar does not exclude a rate hike in 2018

MPC member Eugeniusz Gattar envisages a potential need to hike interest rates in 2H18. In his opinion, this would suit the current trends among central banks and match his inflation predictions. Gattar believes that the scenario of workforce shortage is more likely than the base one presented in the NBP projections. The limited supply on the labour market would lead to further acceleration of wage growth, up to 10%-12% in 2H18 and CPI inflation and core inflation getting close to 3.5% y/y at 2019 year-end (which is the upper threshold of acceptable deviations from the inflation target) and then, exceeding this level in 2020.

### Small deficit in local governments in 2017

Local governments ended the year with deficit at PLN280mn, in line with our expectations. Revenues amounted to PLN229.9 (+7.7% y/y) and spending to PLN230.2bn (+11.9% y/y). In 4Q17 alone, revenues rose by 9.1% y/y and spending by 13.4% y/y. The Finance Ministry did not release a detailed breakdown of revenues and spending, so we do not know exactly what happened to investment. Still, in our view 4Q17 investments in local government may have been close to PLN20bn, rising by no less than 40% y/y. Local government may have been responsible for almost a half of total rise in investment in 4Q17 (11.3% y/y). Based on data from the central and local government budget, we estimate the general government deficit in 2017 at PLN30bn, i.e. 1.5% of GDP.

### FX market

Yesterday, EURUSD fell to 1.226 from 1.235 after data from Germany, offsetting the Monday's euro appreciation. EURPLN

rebounded above 4.23 (the highest level in 4 months) and USDPLN to 3.45 under impact of the stronger dollar. Other CEE currencies were more stable than the zloty.

The FOMC decision is the focal point today. The recent weeks have shown that internal issues related to the outlook for the monetary policy are crucial for the zloty. Today the FOMC decides on the interest rates and its new governor, J. Powell, will hold his first conference where he will present the updated economic forecasts. We see risk for a hawkish surprise after the meeting. The market is now pricing three 25bp rate hikes for this year (the scenario that has been maintained as the most likely by the FOMC in their December dot plot). However, the issue could be next year – currently there is no strong consensus among the FOMC members how many rate hikes may be needed in 2019 and even a few changes in opinion could result in the upside shift for the median for the next year. This is quite likely considering the rotation of seats as hawkish members will enter the Committee.

We assume that the outcome of the today's FOMC meeting might generate an upside pressure on EURPLN and push EURUSD closer to the 1.22 support.

### Debt market

On the domestic interest rate market, IRS rates and yields rose by 2-5bp. The domestic bonds were losing value faster than bonds on the core markets – possibly it was a reaction to the hawkish remarks of MPC member Gattar. As a result, the yield of Polish 10Y bond touched the upper bound of the 3.25-3.35% range (in which it is moving since the beginning of the month). We think that domestic yields will stay at the elevated level, waiting for the FOMC decision this evening. We assume that the tone of the conference will be hawkish, which could moderately and temporarily weigh on longer-dated domestic papers.

### Today February retails sales and enterprise results in 4Q

The previous retail sales data were surprisingly strong and showed an explicit rebound in the sale of durable goods. We assume that the sales remained strong also in February, triggered by consumer optimism and positive job market climate. We predict real sales growth by 7.4% y/y vs. 7.7% recorded previously.

The data on performance of non-financial enterprises expected today will provide us with new details on the rebound of investments (breakdown by sectors) and the scale of labour costs' pressure on the performance of companies.

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## FX market

## Today's opening

EURPLN	4.2294	CZKPLN	0.1664
USDPLN	3.4459	HUFPLN*	1.3587
EURUSD	1.2273	RUBPLN	0.0600
CHFPLN	3.6090	NOKPLN	0.4460
GBPPLN	4.8337	DKKPLN	0.5678
USDCNY	6.3309	SEKPLN	0.4199

\*for 100HUF

## Last session in the FX market

20/03/2018

	min	max	open	close	fixing
EURPLN	4.218	4.233	4.222	4.231	4.2242
USDPLN	3.416	3.454	3.419	3.451	3.4296
EURUSD	1.225	1.236	1.235	1.226	-

## Interest rate market

20/03/2018

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

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.53	3	2/22/18	OK0720	1.741
PS0123 (5L)	2.46	4	2/22/18	PS0123	2.687
WS0428 (10L)	3.32	6	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	2.43	3	-0.27	0
2L	1.90	2	2.64	4	-0.15	0
3L	2.09	2	2.74	4	0.04	0
4L	2.28	3	2.79	4	0.24	1
5L	2.45	5	2.82	4	0.42	1
8L	2.77	5	2.88	3	0.83	1
10L	2.94	5	2.91	3	1.03	1

## WIBOR rates

Term	%	Change (bps)
O/N	1.54	-1
T/N	1.54	-1
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	1.70	1
3x6	1.71	1
6x9	1.73	1
9x12	1.75	3
3x9	1.78	0
6x12	1.78	0

## Measures of fiscal risk

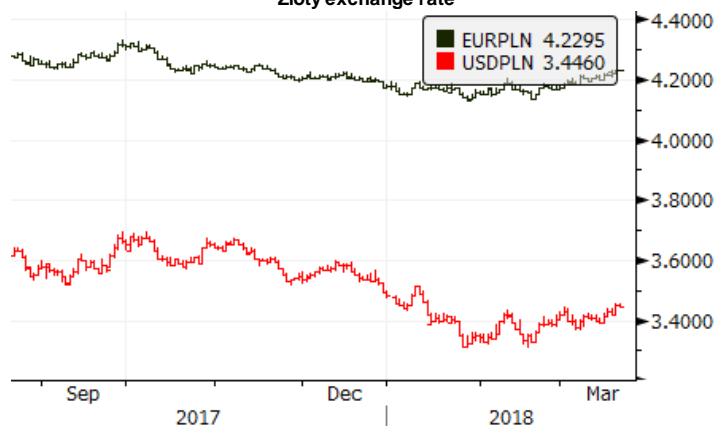
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.74	6
France	17	0	0.24	0
Hungary	116	1	1.99	-1
Spain	39	0	0.72	0
Italy	102	2	1.32	0
Portugal	64	0	1.13	0
Ireland	25	0	0.41	0
Germany	10	0	-	-

\* 10Y treasury bonds over 10Y Bunds

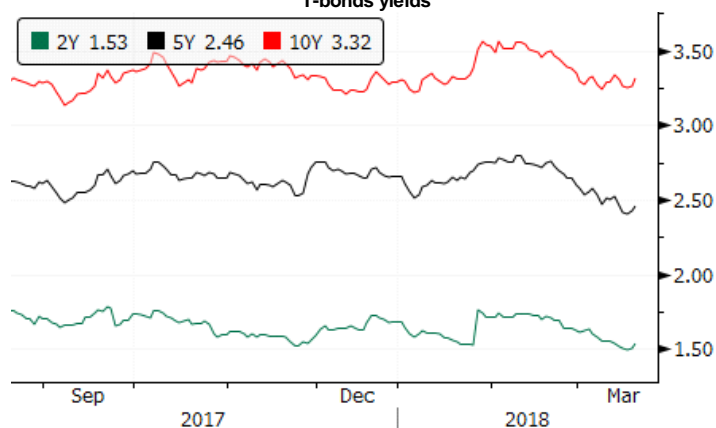
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

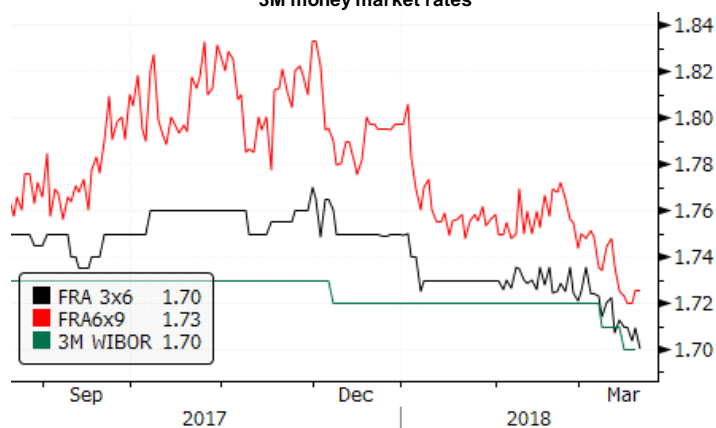
## Zloty exchange rate



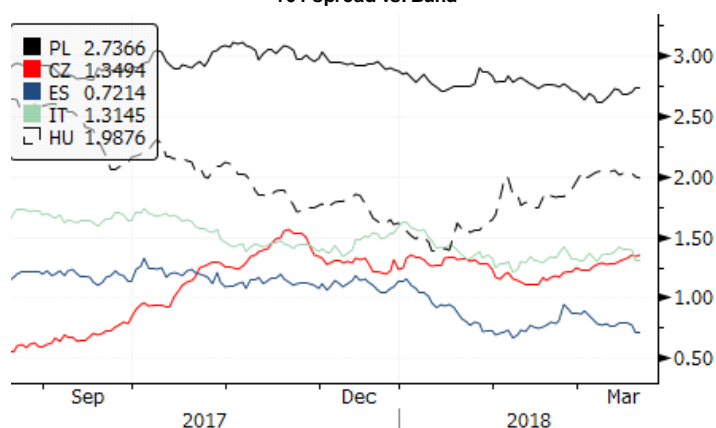
## T-bonds yields



## 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	-	90.7	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	0.4	-		-3.2
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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