

# EYEOPENER

22 March 2018

## Dovish outcome of Fed meeting

- **FOMC raised rates, but stucked to signaling three hikes in 2018**
- **Solid Polish data on retail sales and corporate results**
- **EURPLN went higher, domestic yields climbed ahead of FOMC, decreased afterwards**
- **Today flash PMIs, German Ifo index**

On Wednesday, FX market was waiting for the evening FOMC decision while investors on the fixed income market were again pricing the risk for a hawkish surprise from the US central bank.

In line with expectations, the FOMC raised interest rates by 25bp with the target range now at 1.50-1.75%. The Fed is still planning to hike rates two more times this year, unchanged vs its December expectations, and this was the main reason why the market read yesterday's meeting as dovish. Investors were pricing the risk that rates could go up four times this year and that is why the FOMC rhetoric hit the dollar and pushed US yields lower. Press conference has also sounded dovish, especially given that several weeks ago the new Fed governor Jerome Powell had issued hawkish remarks. Yesterday, he was underlining the low impact of the labour market situation on inflation. Medians for Fed funds rate for 2019 and 2020 were raised as well as forecasts of the GDP (and inflation - but less than the market expected) but this did not change the way market received the outcome of the meeting.

### Freeze supported retail sales

Retail sales in constant prices rose in February by 7.7% y/y, unchanged versus January, in line with market consensus and slightly above our forecast of 7.4% y/y. February saw a slowdown in durable goods sales, especially cars – to 6.9% y/y from 17.9% y/y in January. The lower car growth rate was offset by higher growth of fuel sales, which accelerated to 8.8% y/y in February from 1.3% y/y in January. Fuel sales were boosted by a heavy freeze in late February. Retail sales data support our forecast of robust private consumption (up c5% y/y in 1Q18).

### Margins rose despite higher wage growth

Stats office data on non-financial corporate quarterly earnings showed revenues rising 9.1% y/y in 4Q17 while costs rose 8.3% y/y. The gross financial result was 29.5% higher y/y and the net result was 37.4% higher y/y. The data confirm that the wage bill is rising rapidly, up 10.9% y/y in 4Q17 compared to +8.9% in 3Q and +9.5% in 2Q. Wages once again posted a relatively high contribution (1.6pp) to the overall y/y increase of costs, with the two biggest contributors being materials (3.9pp) and external services (1.9pp). However, the strong growth of the wage bill did not

4.4% in 4Q17 from 4.2% in 3Q17, reaching the highest level since 2012. Thus, companies may not yet be experiencing significant pressure from wage costs which could lead to higher prices of end products. Based on financial results from the largest companies, we estimate that investment rose 12.0% y/y in real terms in 4Q17, as compared to total growth of investment in the economy by 11.3% y/y. This suggests that a recovery of investment occurred in the private sector as well.

### Consumers are still positive

In March, the current sentiment index for Polish consumers dropped from 6.2 to 5.4 points and the leading index from 4.2 to 2.9 points. We assess this deterioration as seasonal only. After months of breaking new records of optimism, the germ of a negative trend appeared in the assessment of the current financial situation by consumers while the index describing the financial situation anticipated in the next 12 months stabilized. A similar phenomenon is not visible in the assessment of the general economic situation where new maxima are still being established and the current situation is still perceived better than the expected economic situation. Very high levels were maintained in terms of consumers' attitude towards important purchases, which implies that the high 5% growth rate of private consumption is likely to be maintained in Q1.

### FX market

Yesterday, EURUSD rebounded to 1.23 from 1.224 ahead of the FOMC decision. After its release, the rate climbed above 1.23 and is close to 1.238 this morning. EURPLN climbed for the fifth session in a row temporarily breaking through 4.24 and setting this year's high. This month, the zloty is the fifth weakest EM currency versus the euro and the dollar. In the CEE region, only the ruble was doing worse in March, but gained yesterday on the back of higher oil prices. The FOMC meeting did not affect EURPLN, while USDPLN slid below 3.42 from 3.45.

### Debt market

On the domestic debt market, IRS rates and yields went up visibly during the day. Since the yesterday morning, the core debt markets were pricing a hawkish surprise from FOMC. As a result, before the Fed conference, the yield of domestic 10Y treasuries broke above the 3.25%-3.35% range in which it moved since the beginning of the month.

The bonds market gained as a reaction to the Fed statement that it still wants to hike rates only three times (25bp each) this year and to the dovish tone of Powell. In our opinion the dovish tone of Fed conference makes room for some gains of domestic bonds today.

#### ECONOMIC ANALYSIS DEPARTMENT:

al. Jana Pawła II 17, 00-854 Warsaw fax +48 22 586 83 40  
 email: [ekonomia@bzwbk.pl](mailto:ekonomia@bzwbk.pl) Web site: [skarb.bzwbk.pl](http://skarb.bzwbk.pl)  
 Piotr Bielski +48 22 534 18 87  
 Marcin Luziński +48 22 534 18 85  
 Grzegorz Ogonek +48 22 534 19 23  
 Konrad Soszyński +48 22 534 18 86  
 Marcin Sulewski +48 22 534 18 84

#### TREASURY SERVICES:

Poznań +48 61 856 5814/30  
 Warszawa +48 22 586 8320/38  
 Wrocław +48 71 369 9400

## FX market

## Today's opening

EURPLN	4.2240	CZKPLN	0.1663
USDPLN	3.4137	HUFPLN*	1.3557
EURUSD	1.2374	RUBPLN	0.0601
CHFPLN	3.6058	NOKPLN	0.4437
GBPPLN	4.8341	DKKPLN	0.5671
USDCNY	6.3198	SEKPLN	0.4177

\*for 100HUF

## Last session in the FX market

21/03/2018

	min	max	open	close	fixing
EURPLN	4.227	4.243	4.231	4.229	4.2416
USDPLN	3.443	3.457	3.451	3.443	3.4544
EURUSD	1.224	1.230	1.226	1.228	-

## Interest rate market

21/03/2018

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

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.53	-1	2/22/18	OK0720	1.741
PS0123 (5L)	2.49	3	2/22/18	PS0123	2.687
WS0428 (10L)	3.37	5	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	2.45	2	-0.26	0
2L	1.92	2	2.66	2	-0.15	0
3L	2.11	2	2.77	3	0.05	1
4L	2.31	2	2.82	3	0.25	1
5L	2.46	2	2.85	3	0.43	1
8L	2.79	2	2.90	2	0.84	1
10L	2.96	2	2.93	2	1.04	1

## WIBOR rates

Term	%	Change (bps)
O/N	1.54	0
T/N	1.54	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	1.70	0
3x6	1.71	0
6x9	1.72	0
9x12	1.77	2
3x9	1.79	1
6x12	1.80	2

## Measures of fiscal risk

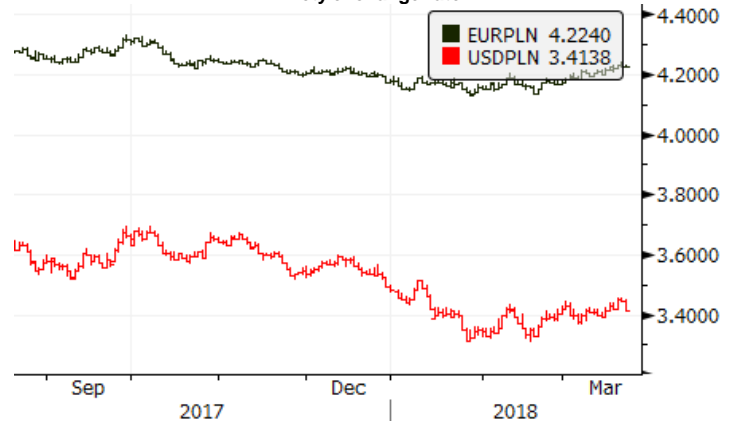
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.80	7
France	17	0	0.24	0
Hungary	116	1	2.01	2
Spain	39	0	0.74	0
Italy	102	0	1.34	0
Portugal	64	0	1.16	0
Ireland	25	0	0.41	0
Germany	10	0	-	-

\* 10Y treasury bonds over 10Y Bunds

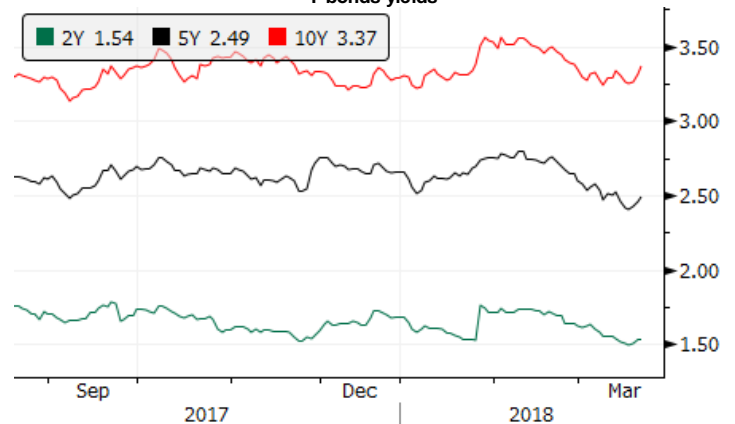
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

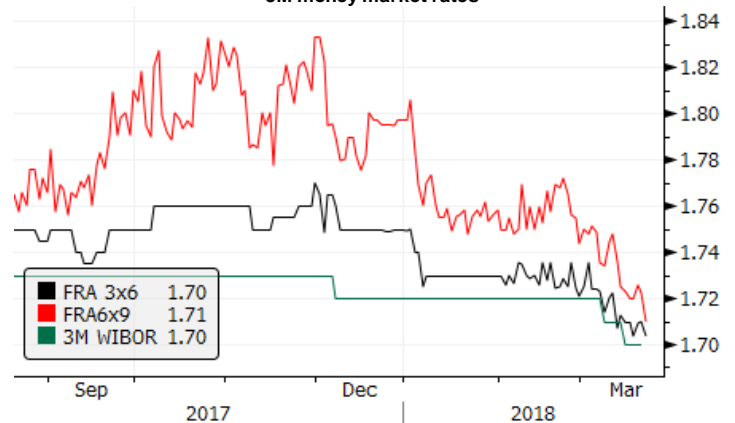
## Zloty exchange rate



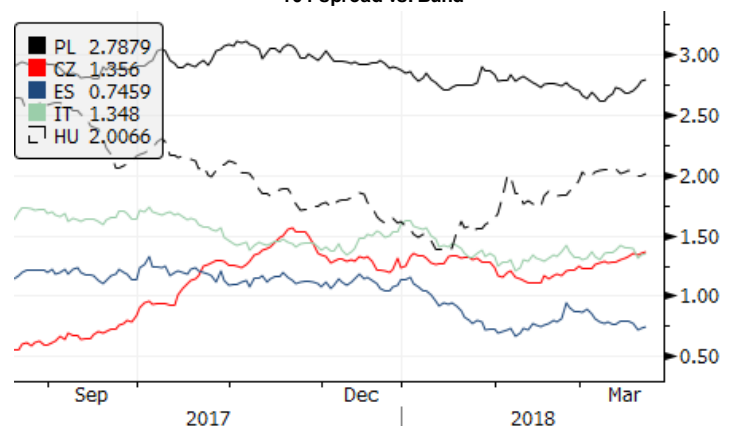
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic calendar

TIME	INDICATOR		PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE
					MARKET	BZWBK		
CET								
<b>FRIDAY (16 March)</b>								
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
<b>MONDAY (19 March)</b>								
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
<b>TUESDAY (20 March)</b>								
11:00	DE	ZEW Survey Current Situation	Mar	pts	90.0	-	90.7	92.3
<b>WEDNESDAY (21 March)</b>								
10:00	PL	Retail Sales Real	Feb	% y/y	7.7	7.4	7.7	7.7
10:00	PL	Enterprises Financial Results						
15:00	US	Existing Home Sales	Feb	% m/m	0.4	-	3.0	-3.2
19:00	US	FOMC decision		%	1.50-1.75	-	1.50-1.75	1.25-1.50
<b>THURSDAY (22 March)</b>								
09:30	DE	Flash Manufacturing PMI	Mar	pts	59.8	-		60.6
09:30	DE	Flash Services PMI	Mar	pts	55.0	-		55.3
10:00	DE	IFO Business Climate	Mar	pts	114.6	-		115.4
10:00	EZ	Flash Manufacturing PMI	Mar	pts	58.1	-		58.6
10:00	EZ	Flash Services PMI	Mar	pts	56.0	-		56.2
13:30	US	Initial Jobless Claims	week	k	225	-		226.0
14:00	PL	Money Supply M3	Feb	% y/y	5.0	5.1		4.8
<b>FRIDAY (23 March)</b>								
	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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Additional information is available on request. Please contact Bank Zachodni WBK S.A. Financial Management Division. Economic Analysis Department. al. Jana Pawła II 17. 00-854 Warsaw, Poland. phone +48 22 534 18 87. email ekonomia@bzwbk.pl. http://www.bzwbk.pl.