

# EYEOPENER

23 March 2018

## US tariff salvo against China

- Risk aversion returns on protectionism fears
- MPC's Żyżyński does not want to change rates
- EURPLN down despite worse global mood, domestic debt stronger on FOMC and lower demand for risk assets
- Today Polish Statistical Bulletin, Moody's might update Polish credit grade in the evening

After Wednesday FOMC decision, on Thursday the market focused again on worries about global growth. Stock prices in Europe were going down due to introduction of US president's directive enacting tariffs on many Chinese products. Additionally, flash PMIs for manufacturing and services in the Euro zone and Germany in March were worse than expected. Moods were not improved by the US declaration that the EU will be exempt from steel and aluminum tariffs. Rising global risk aversion was positive for bonds, supported earlier by the FOMC, and for the dollar, which trimmed a part of losses suffered on Wednesday evening.

Today after close of the session Moody's rating agency is likely to show its assessment of Poland's credit standing. We are expecting no rating or outlook change.

### Negligible correction of business sentiment

While Stats Office business sentiment indicators have recently reached record highs, the March print saw a slight correction. However, the decline was much less pronounced than the decline of manufacturing PMIs for Poland (in January and February) and the euro zone (the flash March reading for the latter was the third consecutive larger-than-expected decline). We believe that economic momentum is strong enough to drive another c5% y/y GDP print in 1Q, even if there seems to be some (so far negligible) moderation of business optimism.

What worsened in m/m terms, although remaining historically high, were the confidence indicators for industry, from 1.38 to 1.05 pts (the weakest year-to-date) and for retail trade, from 1.11 to 0.96 pts (the lowest since September). Industrial sentiment declined as a result of the Stats Office methodology in which the replenishment of finished goods inventories that occurred in March enters the calculations of the confidence indicator with a negative sign, despite potentially supporting March output. The retail sector reported lower sales of goods and saw a correction in its expectations regarding future sales.

The description of barriers to current business activity points to an accumulation of pro-inflationary tension. The problem that intensified the most in March was the shortage of both skilled and unskilled labor. At the same time businesses were less concerned about the broad economic environment and mentioned less

frequently pressure from competition (potentially allowing for price increases) as a barrier to activity. The share of respondents pointing to insufficient demand also decreased, which is confirmed by near-record-high inflows of new orders in industry and construction. The level of seasonally-adjusted capacity utilization in construction decreased in March from 86.2% to 84.6%, but was still near the historical highs that were only seen during several months of 2008.

### Jerzy Żyżyński does not want to change rates

MPC member Jerzy Żyżyński said yesterday in the interview for Reuters that he sees no reason to change interest rates until the end of 2020 and that Polish economy is stable. In his view, excessive credit action would be a reason for tighter monetary policy but for now there is no evidence of this happening. Żyżyński added that he does not exclude that the next move in monetary policy would be a rate cut. His comment comes as no surprise – we perceive him as one of the most dovish MPC members for a long time already. We expect first 25bp rate hike in late 2019 as core inflation will rise.

### Money supply

Growth of M3 money supply accelerated to 4.9% y/y in February with our forecast at 5.1% and market consensus at 5.0%. Total deposits grew by 4.6% y/y while total loans by 3.9% y/y and its fx-adjusted measure by 5.9% y/y (vs. 6.1% in January). Gradual loss of momentum by household deposits was overcome by acceleration from 3.8% y/y in January (the lowest in 12 years) to 4.1% in February. The structure of deposits was still fluctuating towards a higher share of funds on current accounts (58.8% of total deposits vs. 58.1% in January and 54.2% a year ago).

### FX market

EURUSD was falling throughout the session yesterday triggered by data from the EU on worse than expected PMI indices (flash data for March). At the end of the day the rate was close to 1.23 and did not abruptly react to Donald Trump's decision on tariffs.

EURPLN fell yesterday below 4.22 and USDPLN stayed near 3.42-3.43. On Thursday, the zloty resisted the negative pressure from the equity market and was the best CEE performing currency.

### Debt market

On Thursday, the yield trend on domestic bond market changed the direction, after two days of increases. Dovish tone of FOMC conference and weak European data pushed the yields of Polish bonds down deeply, the yield of 10Y bonds has moved down by 12bp to c 3.25%. The core markets also gained, however the scale of the move was smaller. This suggested that the domestic bonds were additionally affected by the MPC member's statement about the possibility of rate cuts.

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## FX market

## Today's opening

EURPLN	4.2206	CZKPLN	0.1661
USDPLN	3.4250	HUFPLN*	1.3521
EURUSD	1.2323	RUBPLN	0.0599
CHFPLN	3.6154	NOKPLN	0.4415
GBPPLN	4.8300	DKKPLN	0.5667
USDCNY	6.3278	SEKPLN	0.4147

\*for 100HUF

## Last session in the FX market

22/03/2018

	min	max	open	close	fixing
EURPLN	4.216	4.233	4.229	4.219	4.2261
USDPLN	3.411	3.453	3.443	3.430	3.4264
EURUSD	1.225	1.239	1.228	1.230	-

## Interest rate market

22/03/2018

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

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.52	2	2/22/18	OK0720	1.741
PS0123 (5L)	2.41	-9	2/22/18	PS0123	2.687
WS0428 (10L)	3.23	-13	2/22/18	WS0428	3.430

## IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.73	0	2.42	-3	-0.26	0
2L	1.89	-2	2.61	-4	-0.16	-1
3L	2.07	-4	2.72	-5	0.03	-2
4L	2.24	-6	2.77	-6	0.23	-2
5L	2.39	-7	2.79	-6	0.41	-2
8L	2.71	-8	2.85	-5	0.80	-3
10L	2.88	-7	2.89	-4	1.00	-4

## WIBOR rates

Term	%	Change (bps)
O/N	1.54	0
T/N	1.55	1
SW	1.54	-1
2W	1.60	0
1M	1.64	0
3M	1.70	0
6M	1.78	0
9M	1.80	0
1Y	1.82	-1

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

Term	%	Change (bps)
1x4	1.70	0
3x6	1.71	0
6x9	1.72	0
9x12	1.75	-2
3x9	1.79	-1
6x12	1.79	-1

## Measures of fiscal risk

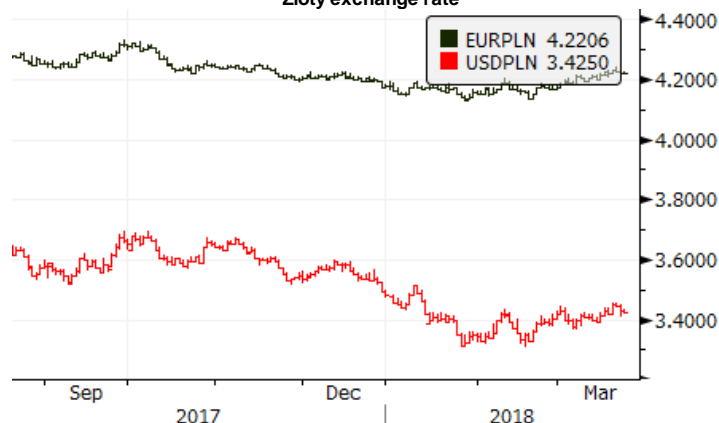
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.72	-12
France	17	0	0.24	0
Hungary	116	1	1.96	1
Spain	41	2	0.76	0
Italy	102	0	1.36	0
Portugal	64	0	1.22	0
Ireland	25	0	0.42	0
Germany	10	0	-	-

\* 10Y treasury bonds over 10Y Bunds

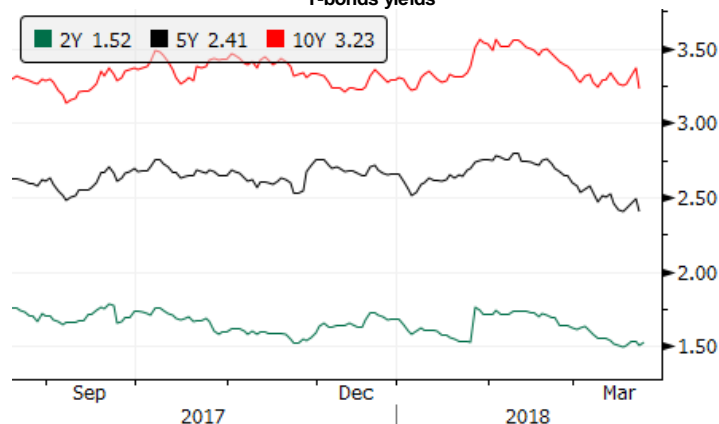
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

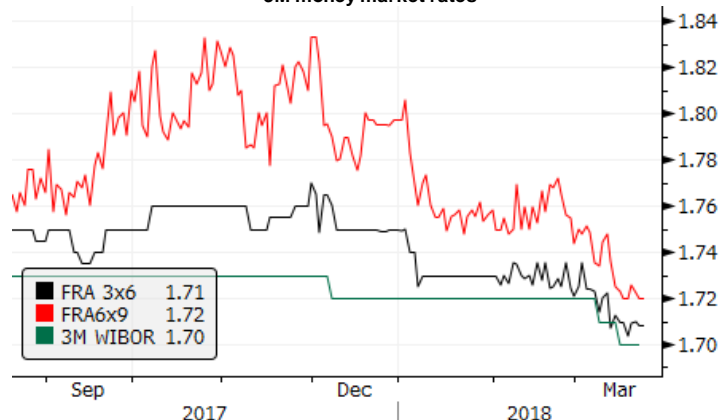
## Zloty exchange rate



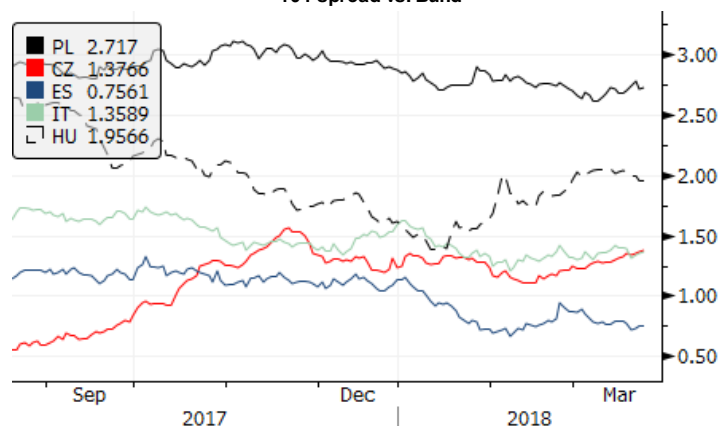
## T-bonds yields



## 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	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
THURSDAY (22 March)								
09:30	DE	Flash Manufacturing PMI	Mar	pts	59.8	-	58.4	60.6
09:30	DE	Flash Services PMI	Mar	pts	55.0	-	54.2	55.3
10:00	DE	IFO Business Climate	Mar	pts	114.6	-	114.7	115.4
10:00	EZ	Flash Manufacturing PMI	Mar	pts	58.1	-	56.6	58.6
10:00	EZ	Flash Services PMI	Mar	pts	56.0	-	55.0	56.2
13:30	US	Initial Jobless Claims	week	k	225	-	229	226
14:00	PL	Money Supply M3	Feb	% y/y	5.0	5.1	4.9	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	4.6	-		-7.8

Source: BZ WBK, Bloomberg, Parkiet

\* in case of the revision the data is updated

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