

# EYEOPENER

5 April 2018

## Where is inflation?

- Inflation fell to 1.3% y/y in March, well below expectations
- PLN weakening along with the dollar amid rising tensions in international trade
- Domestic debt gained after low inflation print, core markets in slight defensive
- Today services PMIs in Europe, retail sales in the euro zone

On Wednesday, the domestic market was taken by surprise by inflation data. Low CPI reading pushed bond yields to the lowest levels since 2016, while the zloty weakened. Core markets were worried about trade war escalation, after information that China plan to impose tariffs on exports from the USA worth about USD50bn. These fears went back a bit after afternoon comments of the US administration, suggesting a readiness to negotiate the trade relations.

### CPI inflation at the lowest level since January 2017

Polish inflation fell unexpectedly in March, to 1.3% from 1.4% y/y. Market consensus was 1.6-1.7% and we expected 1.6%. Unlike in previous periods, the Stats Office provided some additional details in the flash release that allowed us to estimate core CPI (food, fuel and energy prices). Thus, we know that the surprise was only partially due to lower than we expected food prices, and mostly due to lower core inflation, which went back to 0.6% from 0.8% y/y, according to our estimate. We do not know the exact source of this surprise, but the suspects are financial services (Eurostat showed a considerable drop in this category in February's HICP) and clothing/footwear. The prices of the latter usually rise in March, but this time the effect might have been distorted by the long winter, which delayed the introduction of new spring collections to the boutiques. Additionally, the Statistics Office introduced a methodological change in this category. Before we know the detailed data it is too early to change CPI forecast for 2018 dramatically, but the flash March CPI reading is another sign that the inflation path for the upcoming months could be lower. We cannot rule out that CPI will not surpass 2% this year.

### Moody's expects debt to GDP ratio to decrease to 49%

According to Moody's rating agency, the Polish general government debt will drop to 49% of GDP in 2019. The rating agency expects that general government deficit will be 2.2% GDP on average in 2018-2021 while GDP growth would be just below 4.0%.

### FX market

EURUSD was rising throughout most of the Wednesday's session, moving from 1.2270 to 1.2290. USD weakening was supported by weaker than expected services and industrial sector data as well as, by information that China plans to impose tariffs on the American

goods. The trend has reversed at the afternoon reacting for information that USA and China tariffs are just a proposal for negotiations ("none of the tariffs have been put in place yet"). Today, we expect the dollar to strengthen in reaction to hopes for de-escalation of the trade war.

On Wednesday, the EURPLN exchange rate was climbing since the morning hours ahead of the flash inflation data and extended this move after the release. Later profit taking took place. Further in the day EURPLN slid to 4.2010 from 4.2110 (hit shortly after 10:00CET). On a daily chart, EURPLN rose by 0.4bp. USDPLN followed a similar path, ending the day at 3.4160 as compared to 3.4180 at the start of the day, with a temporary hit of 3.4290..

EURHUF fell on Wednesday from 312.10 to 311.60. The forint was not distracted by a rise of general government deficit in 2017 by 0.3pp to 2% GDP vs the 2016 level nor by fears of trade wars. EURCZK rose in the middle of the day from 25.32 to 25.36 and went back to the starting point after that. The temporary weakening of the koruna came despite the morning news about a budget surplus of 1.6% GDP in 2017 (higher than expected), exceeding the 0.7% from 2016. USDRUB was rising during the day observing the further decline of oil prices. The depreciation of the ruble was also sped up by weak composite PMI for March (53.2 pts vs. 55.2 in February). In the second part of the day the ruble gained amid a rebound of oil prices to the opening levels. As a result USDRUB started from 57.55, hit 57.90 and then came back close to the starting point..

### Debt market

Core debt markets were hovering in a narrow range on Wednesday, gaining in the morning amid worries about escalation of trade wars, and weakening in the afternoon as the risk of imposing further sanctions decreased. US 10Y yield climbed to 2.81%, while German yields dropped by 1bp in 5-10Y segment. In the euro zone southern countries yields declined by 2-4bp in reaction to good labour market data from Italy. Today we expect to see higher yields in reaction to decreasing fears about the outlook for international trade.

Polish bonds were gaining on Wednesday, supported by surprisingly low March inflation. Domestic curve moved down by 5bp in 5-10Y segment and by 2bp in 2Y. The yield of 10Y bond decreased to the lowest level since November 2016, 5Y to the lowest since October 2016 and 2Y since January 2016. Long-term IRS rates recorded smaller decreases, so the 10Y asset swap spread narrowed to 28bp, its lowest since November 2015.

Today, there is a switch auction (more on this in yesterday Eyeopener), which, together with a change of global market sentiment, could support a correction of domestic bonds.

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## FX market

## Today's opening

EURPLN	4.2038	CZKPLN	0.1660
USDPLN	3.4286	HUFPLN*	1.3504
EURUSD	1.2261	RUBPLN	0.0596
CHFPLN	3.5638	NOKPLN	0.4389
GBPPLN	4.8182	DKKPLN	0.5643
USDCNY	6.3033	SEKPLN	0.4083

\*for 100HUF

## Last session in the FX market

04/04/2018

	min	max	open	close	fixing
EURPLN	4.192	4.211	4.200	4.202	4.2065
USDPLN	3.413	3.430	3.424	3.418	3.4224
EURUSD	1.226	1.232	1.227	1.229	-

## Interest rate market

04/04/2018

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

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.47	1	27-Mar-18	OK0720	1.494
PS0123 (5L)	2.33	-5	27-Mar-18	PS0123	2.358
WS0428 (10L)	3.11	-7	27-Mar-18	WS0428	3.196

## IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.72	0	2.44	1	-0.26	0
2L	1.87	-1	2.60	1	-0.15	0
3L	2.04	-2	2.68	1	0.02	0
4L	2.21	-3	2.72	1	0.20	0
5L	2.36	-3	2.74	2	0.36	0
8L	2.67	-5	2.79	2	0.75	-1
10L	2.85	-4	2.82	2	0.95	-1

## WIBOR rates

Term	%	Change (bps)
O/N	1.59	-1
T/N	1.59	-1
SW	1.56	0
2W	1.60	0
1M	1.64	0
3M	1.70	0
6M	1.78	0
9M	1.79	0
1Y	1.82	0

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

Term	%	Change (bps)
1x4	1.70	0
3x6	1.71	0
6x9	1.71	0
9x12	1.73	0
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			2.60	-8
France	17	0	0.22	0
Hungary	116	1	1.94	-2
Spain	39	0	0.65	-1
Italy	101	0	1.23	-1
Portugal	64	0	1.11	-1
Ireland	25	0	0.38	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

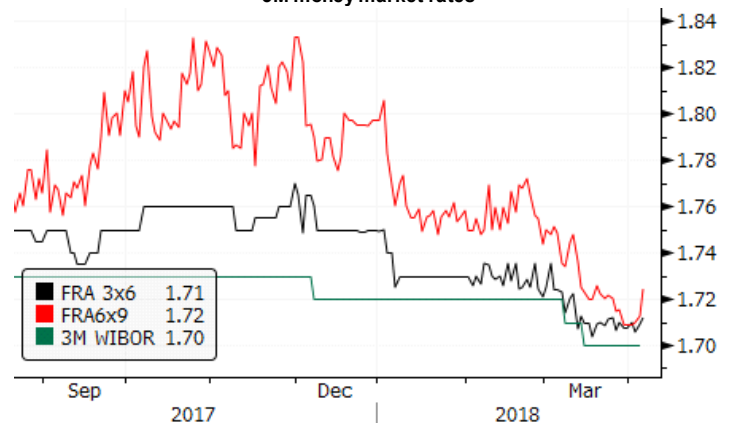
## Zloty exchange rate



## 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 (30 March)								
09:34	PL	Central Budget Cumul.	Feb	bn PLN	-		4.461	8.562
MONDAY (2 April)								
16:00	US	ISM manufacturing	Mar	pts	59.6		59.3	60.8
TUESDAY (3 April)								
08:00	DE	Retail Sales	Feb	% m/m	0.65		-0.7	-0.3
09:00	CZ	GDP SA	4Q	% y/y	5.2		5.5	5.2
09:00	PL	Poland Manufacturing PMI	Mar	pts	53.0	53.5	53.7	53.7
09:55	DE	Germany Manufacturing PMI	Mar	pts	58.4		58.2	60.6
10:00	EZ	Eurozone Manufacturing PMI	Mar	pts	56.6		56.6	58.6
10:00	PL	GG deficit	2017	% GDP	1.8	1.6	1.5	2.5
WEDNESDAY (4 April)								
03:45	CH	Caixin China PMI Services	Mar	pts	54.5		52.3	54.2
10:00	PL	CPI	Mar	% y/y	1.7	1.6	1.3	1.4
11:00	EZ	Flash HICP	Mar	% y/y	1.4		1.4	1.2
11:00	EZ	Unemployment Rate	Feb	%	8.5		8.5	8.6
14:15	US	ADP report	Mar	k	210.0		241.0	234.7
16:00	US	Durable Goods Orders	Feb	% m/m	-		3.0	3.1
16:00	US	ISM services	Mar	pts	59.0		58.8	59.5
16:00	US	Factory Orders	Feb	% m/m	1.7		1.2	-1.4
THURSDAY (5 April)								
08:00	DE	Factory Orders	Feb	% m/m	1.5		0.3	-3.9
09:55	DE	Markit Germany Services PMI	Mar	pts	54.2		-	55.3
10:00	EZ	Eurozone Services PMI	Mar	pts	55.0		-	56.2
11:00	EZ	Retail Sales	Feb	% m/m	0.55		-	-0.1
14:30	US	Initial Jobless Claims	Mar-18	k	230.0		-	215.0
FRIDAY (6 April)								
08:00	DE	Industrial Production SA	Feb	% m/m	0.2		-	-0.1
09:00	CZ	Industrial Production	Feb	% y/y	5.75		-	5.5
09:00	HU	Industrial Production SA	Feb	% y/y	4.3		-	6.7
14:30	US	Change in Nonfarm Payrolls	Mar	k	189.0		-	313.0
14:30	US	Unemployment Rate	Mar	%	4.0		-	4.1

Source: BZ WBK, Bloomberg, Parkiet

\* in case of the revision the data is updated

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