

# EYEOPENER

11 April 2018

## Market on geopolitical swing

- **Member of ECB's governing council Nowotny suggestion of a rise in the deposit rate, risky assets gains thanks to President of China remarks**
- **EURPLN testing 4.19, euro strengthen after Nowotny's remarks**
- **Polish t-bond gains further, core markets yields went up after Nowotny's statement**
- **Today: Polish MPC decision, on core markets US CPI, FOMC minutes**

On Tuesday the global equity markets were gaining amid decreasing worries about world trade after the China's PM comment. It has positively affected CEE currencies and only Russian ruble continued depreciating (due to rising tension in USA-Russia relations in the UN). ECB's Ewald Nowotny, perceived as a monetary centrist, said the bank could lift the deposit rate to -0.2% from current -0.4% and in the next step the reference rate. Although he did not point to the timing of such move, suggestion about rate hikes surprised the market, leading to euro strengthening and rise of bond yields in core markets.

The key publication today for the core markets will be the US inflation. At the same time there are still geopolitical risks hovering above the markets. On one side we have a conflict inside the UN between the USA and Russia on the use of chemical weapons in Syria. On the other side, in a different part of the world a tension is growing due to activity of US and Chinese fleets on the South China Sea (the source of the conflict is control over trade routes and access to oil fields).

### MPC decision today

We do not think the statement requires any changes given what we have recently learned about the economy. The focus at the press conference will be on CPI. Inflation unexpectedly sneaked below the +/-1pp range around the NBP target in February and March. Headline and core CPI already dipped below the March NBP projection, published less than a month ago. The governor might simply repeat that as far ahead as one could rationally look rates should stay unchanged, and what has recently happened to CPI just shows the high uncertainty the MPC has to deal with. Any references to rate cuts now seem unlikely: the MPC did not want to cut rates further in 2016

when deflation lingered and GDP growth was much weaker. What may potentially change is the market perceptopion of the Council's stance, we already have three members who do not exclude that the next move could be a rate cut.

### Lower VAT gap

According to Ministry of Finance estimates, in 2017 the VAT gap fell to 14% of the potential revenues from 20% in 2016. In nominal terms, VAT gap fell by about PLN10bn from PLN32bn estimated for 2016. Such an improvement in tax collection is in line with our estimates, presented in [MACROscope](#) from October 2017.

### FX market

EURUSD climbed for a third session in a row, partially due to words of ECB's Ewald Nowotny. In due course, at the end of the day the rate was close to 1.236. Today we will get to see the US inflation data and minutes from the March FOMC meeting. Recent data from the US labour market were markedly weaker than expected, weighing on the dollar. Today's CPI data may also be important for the trade.

Yesterday EURPLN fell below 4.19 in reaction to higher global risk appetite. USDPLN slid below 3.39 from above 3.40.

The today's MPC meeting is likely to affect the trade. In our view, the low inflation reading in March will encourage the Council to confirm its willingness to keep rates on hold for a longer time, which may undermine the zloty.

### Debt market

Core yields were going up, fueled by ECB's Ewald Nowotny words on rate hikes. Nowotny's impact was more visible in Europe, with German 10Y yields approaching 0.53% (up from 0.49% in the morning), while 10Y UST increased to 2.80% from 2.78%.

On the domestic interest rate markets bond yields and IRS rates declined at a similar pace, against the trends observed on foreign markets (where the remarks of Nowotny set the tone). As a result, spreads to Treasuries and Bunds narrowed again.

Today the MPC press conference will be in focus. We think that regardless of its tone, it is hard to expect that it will have negative impact on the market. Moreover, domestic bonds could be positively affected by situation in core markets, where investors are afraid of tensions in Asia.

#### 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	4.1886	CZKPLN	0.1655
USDPLN	3.3849	HUFPLN*	1.3454
EURUSD	1.2375	RUBPLN	0.0534
CHFPLN	3.5415	NOKPLN	0.4343
GBPPLN	4.8097	DKKPLN	0.5624
USDCNY	6.2760	SEKPLN	0.4078

\*for 100HUF

## Last session in the FX market

10/04/2018

	min	max	open	close	fixing
EURPLN	4.186	4.202	4.192	4.188	4.199
USDPLN	3.386	3.411	3.403	3.394	3.4068
EURUSD	1.230	1.238	1.232	1.234	-

## Interest rate market

10/04/2018

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

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.49	-1	05-Apr-18	OK0720	1.495
PS0123 (5L)	2.27	0	05-Apr-18	PS0123	2.335
WS0428 (10L)	3.02	-2	05-Apr-18	WS0428	3.123

## IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.73	0	2.45	1	-0.26	0
2L	1.87	1	2.61	1	-0.14	1
3L	2.02	0	2.69	1	0.03	1
4L	2.19	0	2.72	1	0.22	1
5L	2.33	0	2.75	0	0.38	1
8L	2.65	1	2.79	0	0.76	0
10L	2.81	-2	2.82	0	0.95	-1

## WIBOR rates

Term	%	Change (bps)
O/N	1.59	0
T/N	1.59	0
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	1.72	-1
9x12	1.73	-1
3x9	1.78	-1
6x12	1.79	-1

## Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.51	-1
France	17	0	0.24	0
Hungary	116	1	1.86	0
Spain	40	0	0.73	-1
Italy	102	2	1.27	-1
Portugal	64	0	1.19	-1
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

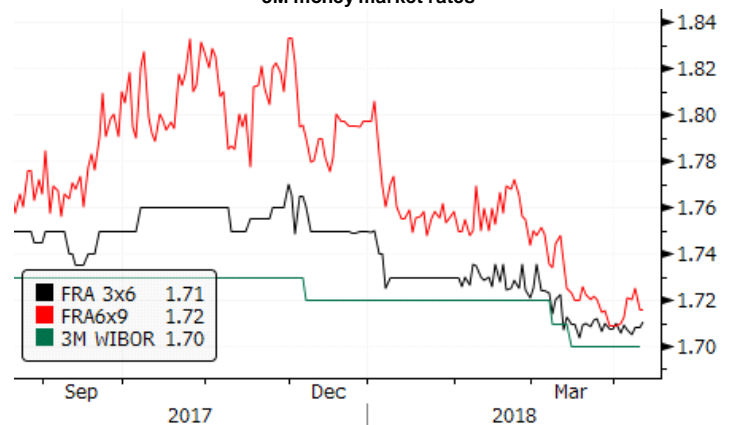
## Zloty exchange rate



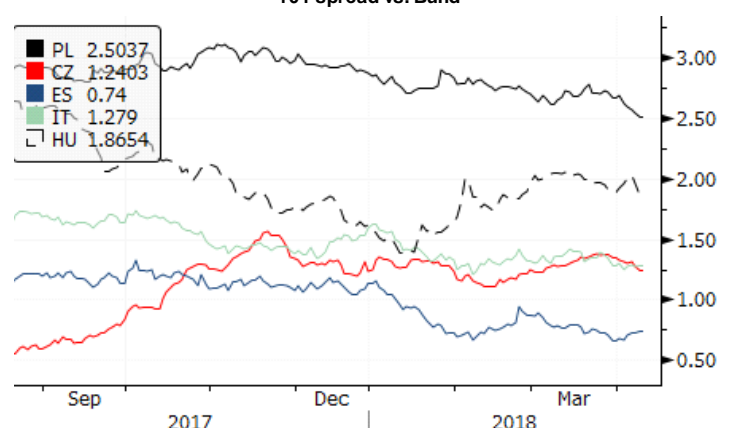
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic calendar

TIME	INDICATOR		PERIOD		FORECAST		ACTUAL	LAST
CET					MARKET	BZWBK	VALUE	VALUE
<b>FRIDAY (6 April)</b>								
08:00	DE	Industrial Production SA	Feb	% m/m	0.2		-1.6	-0.1
09:00	CZ	Industrial Production	Feb	% y/y	5.9		2.7	5.5
09:00	HU	Industrial Production SA	Feb	% y/y	4.3		4.1	6.7
14:30	US	Change in Nonfarm Payrolls	Mar	k	185.0		103.0	313.0
14:30	US	Unemployment Rate	Mar	%	4.0		4.1	4.1
<b>MONDAY (9 April)</b>								
08:00	DE	Exports SA	Feb	% m/m	0.4		-3.2	-0.4
<b>TUESDAY (10 April)</b>								
09:00	CZ	CPI	Mar	% y/y	1.7		1.7	1.8
09:00	HU	CPI	Mar	% y/y	2.1		2.0	1.9
<b>WEDNESDAY (11 April)</b>								
	PL	Poland Base Rate Announcement		%	1.5	1.5	-	1.5
14:30	US	CPI	Mar	% m/m	0.0		-	0.2
20:00	US	FOMC Meeting Minutes	Mar-18		-		-	0.0
<b>THURSDAY (12 April)</b>								
11:00	EZ	Industrial Production SA	Feb	% m/m	-		-	-1.0
14:30	US	Initial Jobless Claims		k	225.0		-	215.0
<b>FRIDAY (13 April)</b>								
08:00	DE	HICP	Mar	% m/m	-		-	0.4
10:00	PL	CPI		% y/y	1.3		1.3	1.4
14:00	PL	CPI Core	Mar	% y/y	0.9	0.92	-	0.8
14:00	PL	Current Account Balance	Feb	€mn	-411.5	-544.24	-	2005.0
14:00	PL	Trade Balance	Feb	€mn	-468.0	-310.0	-	-204.0
14:00	PL	Exports	Feb	€mn	16687.5	16792.0	-	16853.0
14:00	PL	Imports	Feb	€mn	17220.5	17102.0	-	17057.0
16:00	US	Michigan index	Apr	pts	101.0		-	101.4

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.