

EYEOPENER

12 April 2018

Surrender of MPC hawks

- Geopolitical tensions weakened the dollar and strengthened core bond markets
- Złoty stronger after MPC press conference, domestic bonds strengthened before and after the event
- Polish MPC even more dovish
- Today euro zone output, US jobless claims

On Tuesday the dollar was weakening and bond yields were decreasing for most of the day in reaction to rising tension in US-China and US-Russia relations. Polish bonds gained in expectation for the MPC decision. Złoty strengthened after the MPC press conference. The MPC did not disappoint the debt market, reinforcing the view that the outlook for interest rate hikes is still very distant. FOMC minutes and US inflation remained in the background.

MPC – some hawks softened their views

Polish MPC kept interest rates on hold, as expected (reference rate at 1.50%). The official statement remained very similar in tone to the previous month's one. The tone of the press conference was even more dovish than before. NBP Governor Adam Glapiński said the timing of possible interest rate changes moved even further away and even those MPC members who earlier saw risk for inflation from the tightening labour market now changed their view. At the same time, Glapiński downplayed suggestions that the next MPC decision could be a rate cut and suggested that if needed the central bank would seek other ways to stimulate economy. We still think that the Polish MPC will keep interest rates stable not only this year, but also until the very late 2019, and the next decision will be a rate hike. More on this in our [Economic Comment](#).

FOMC minutes

Minutes from the March FOMC meeting showed that the majority of the Committee members thought there was no need to change the path of future interest rate hikes. However, some members became more confident that inflation will return to the 2% target in the medium run and therefore thought that the path of rate hikes could be steeper (which was reflected in the dot plot). The equity markets' initial reaction to the document was negative.

FX market

On Wednesday, EURUSD continued to rise amid next phase of the US-rest of the world tensions as news of an increased activity of aircraft carriers on the South China Sea emerged. In the afternoon, there was an information on further escalation of US-Russia conflict regarding recent events in Syria and plans for imposing

sanctions on Iran. As a result, EURUSD rose for the fourth session in a row reaching local peak at 1.239 vs 1.236 in the morning. Today we expect some profit taking. Today's euro zone industrial output data and the US initial jobless claims should not have much impact on the market.

EURPLN was hovering within a 4.19-4.197 range since the beginning of the session and fell to 4.185 after the MPC press conference. This surprising reaction was a result of profit taking after the early-morning rise (awaiting the dovish MPC tone) and partly thanks to market [considering chances for Poland rating/outlook upgrade by S&P on Friday](#). Today we expect further zloty appreciation towards 4.18 per euro given the rating story.

Elsewhere in the CEE region, we saw slight depreciation of koruna (EURCZK rose to 25.33 from 25.32) and EURHUF staying around 311.3-311.8, there was no big market reaction to higher Czech growth forecasts and tone of the Hungarian central bank minutes. In the case of USDRUB, the exchange rate was on the rise in the first part of the day (to 65, its highest since September 2016) owing to higher US-Russia tensions only to neutralize this move later in the day returning to 62.7 amid high rise of oil prices (amid tensions on the Middle East).

Debt market

The yields on the core bonds market were decreasing yesterday (US curve declined by 3-4 bp, as a reaction to rising geopolitical tension). However in the afternoon, shortly after the US March inflation data release (CPI was slightly lower than expected -0.1% m/m, vs 0.0% consensus, core CPI in line with expectations) the market reversed and yields came back to the morning levels. The German curve was copying the US curve's moves however the scale of its moves was limited to 1-2 bp.

The domestic bonds gained further, fueled by good mood on the core debt markets and MPC conference as well as waiting for the rating revision by S&P. As a consequence the domestic curve decreased by 3 bp in the 5-10Y segment and by 1 bp in the 2Y segment. The IRS curve declined by 4-6 bp, stronger on the long end, leading to the upward asset swap spread correction (after the last days' drop). It worth to point out that this time the IRS curve reached a level last seen in the June 2017 (for 2Y) and in September 2017 (for 5-10Y). The 5-10Y yields dropped to the level from the "pre-Trump era" (ie before the series of TV debate between Trump and Clinton in autumn 2016, where Trump criticized Janet Yellen's ultra-low interest rates policy). Today we expect the yield curve downward pressure to maintain, due to the political tension uncertainty.

ECONOMIC ANALYSIS DEPARTMENT:

al. Jana Pawła II 17, 00-854 Warsaw fax +48 22 586 83 40
 email: ekonomia@bzwbk.pl Web site: 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	4.1859	CZKPLN	0.1653
USDPLN	3.3834	HUFPLN*	1.3437
EURUSD	1.2372	RUBPLN	0.0538
CHFPLN	3.5291	NOKPLN	0.4351
GBPPLN	4.8016	DKKPLN	0.5622
USDCNY	6.2788	SEKPLN	0.4055

*for 100HUF

Last session in the FX market

11/04/2018

	min	max	open	close	fixing
EURPLN	4.183	4.197	4.188	4.185	4.1911
USDPLN	3.378	3.394	3.394	3.382	3.3859
EURUSD	1.234	1.240	1.234	1.238	-

Interest rate market

11/04/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.48	-1	05-Apr-18	OK0720	1.495
PS0123 (5L)	2.23	-4	05-Apr-18	PS0123	2.335
WS0428 (10L)	2.97	-4	05-Apr-18	WS0428	3.123

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.72	-1	2.46	1	-0.26	0
2L	1.85	-2	2.62	1	-0.14	0
3L	1.99	-4	2.70	1	0.03	0
4L	2.13	-5	2.73	1	0.21	-1
5L	2.28	-5	2.75	1	0.37	-1
8L	2.59	-6	2.79	0	0.75	-1
10L	2.74	-7	2.82	0	0.94	-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	1.70	-1
6x9	1.70	-1
9x12	1.72	-1
3x9	1.79	0
6x12	1.79	0

Measures of fiscal risk

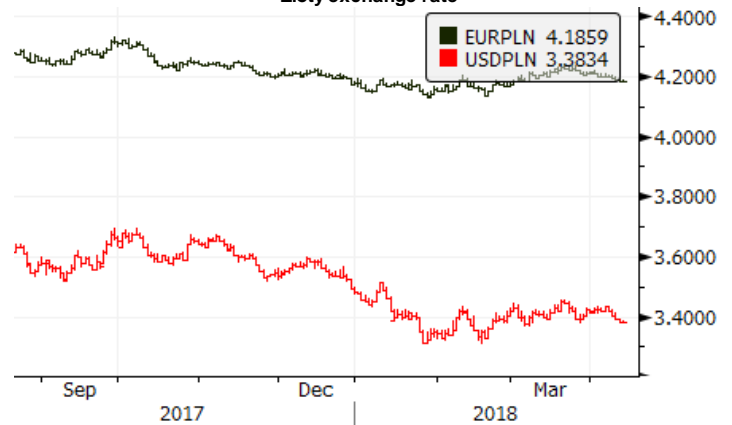
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.48	-4
France	17	0	0.24	0
Hungary	116	1	1.87	0
Spain	40	0	0.77	0
Italy	102	2	1.31	1
Portugal	64	0	1.20	0
Ireland	25	0	0.42	0
Germany	10	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

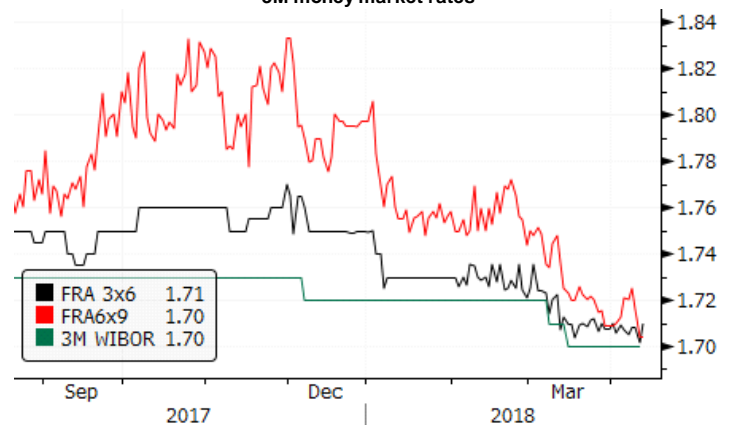
Zloty exchange rate



T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME		INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE
CET				MARKET	BZWBK		
FRIDAY (6 April)							
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
MONDAY (9 April)							
08:00	DE	Exports SA	Feb	% m/m	0.4	-3.2	-0.4
TUESDAY (10 April)							
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
WEDNESDAY (11 April)							
	PL	Poland Base Rate Announcement		%	1.5	1.5	1.5
14:30	US	CPI	Mar	% m/m	0.0	-0.1	0.2
20:00	US	FOMC Meeting Minutes	Mar-18		-	-	-
THURSDAY (12 April)							
11:00	EZ	Industrial Production SA	Feb	% m/m	-	-	-1.0
14:30	US	Initial Jobless Claims		k	225.0	-	215.0
FRIDAY (13 April)							
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

This publication has been prepared by Bank Zachodni WBK S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Bank Zachodni WBK S.A., its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Bank Zachodni WBK S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Bank Zachodni WBK S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

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.