

EYEOPENER

16 May 2018

Today MPC

- Volatility increases on global markets after the US data and news from Italy
- Polish GDP surprised on positive side
- Strong dollar weighed on zloty and other CEE currencies
- Bond yields on domestic and core markets jumped
- Today: MPC decision and important core markets data release

On Tuesday global market volatility rose and led to US dollar appreciation, significant increase of bond yields and weakness of emerging market currencies. The dollar was supported by good US data releases (upside revision of retail sales and better than expected Empire State sentiment index). Representative of the Italian Northern League, which hopes to enter the coalition government, stated that the rules of creating the EU budget should be rewritten. A Combination of positive signals from the USA and less optimistic ones from Europe sent the dollar higher at the expense of the euro, while global bonds were under pressure. German inflation released this morning was in line with expectations (0% m/m) and the news that the (euro-skeptic) coalition formation process in Italy may soon end in our view lost the ability to weaken the euro.

The flash release showed GDP growth at 5.1% y/y vs 4.9% in 4Q17, while it was broadly expected that Poland already entered the slowdown phase of the cycle. We thought GDP managed to grow at the previously recorded pace of 4.9% y/y. We think the economy will gradually decelerate in the rest of the year, with the next reading around 4.5% y/y. **CPI in April** was confirmed at 1.6% y/y versus 1.3% y/y in March. CPI went up mostly due to higher prices of fuels and food. Core inflation ex food and energy prices fell to 0.6% y/y in April from 0.7% y/y in March. In our view, core inflation will accelerate and exceed 1.5% y/y at the year-end. CPI will continue to climb and may temporarily surpass 2.0% in mid-2018, but will retreat below this level at the end of the year. With CPI below the official target (2.5% y/y), the Monetary Policy Council can feel comfortable and will not change rates until end of 2019, in our view. **Today's decision of the MPC** and the tone of its press conference should go along this line.

Ministry of Finance proposed a new income tax, directed at top earners. The tax base will be incomes from labour contracts, business activity and sale of securities less costs of getting income and social security contributions. A 4% rate will

be imposed on citizens with the annual tax base in excess of PLN1mn. The revenues are to be transferred to a disability fund. The ministry estimates the revenues at cPLN1.15bn per year. The fund will also receive money from the Labour Fund (0.15pp of the 2.45% contribution it receives from personal incomes, cPLN650mn). The new tax is to cover incomes from 2019 on.

EURUSD registered a big decline yesterday, to c1.182, setting a May low. The dollar gained thanks to the US data, the euro was under pressure of news from Italian political front. EURUSD remains low this morning. There are important releases today, which could set a new direction for the fx pair, at least for the duration of this session – euro zone inflation. EURUSD did not react to German inflation released this morning. We think intraday there could be some profit taking through sale of the dollar.

Yesterday, **EURPLN** rose for the third day in a row in reaction to the stronger dollar and set a new record of the month slightly above 4.30. USDPLN also climbed strongly to 3.64 from 3.58 at the start of the day. The better-than-expected data on Polish GDP did not affect the zloty. According to Reuters, this week is the fifth one in the row of PLN weakening. Last time such a long streak was recorded in mid-2017 and before in mid-2012. According to these numbers, since 1993 EURPLN never went up for more than 7 weeks in a row. In our view, short-term chances for a more persistent zloty strengthening (below 4.23 per euro) are slim.

Other CEE currencies were under pressure yesterday. Apart from the strong dollar, the koruna was undermined by weaker data on Czech GDP, while lower oil prices weighed on the ruble.

Yesterday, the positive US data (upward revision of retail sales) **pushed yield curves up on the both sides of the Pond**. As a result, UST 10Y yields almost touched 3.10% (for the first time since 2011), while 10 Bund 0.65%.

On the domestic interest rate market, yields climbed by 4-5bps along the curve due to bond sell-off abroad. GDP data was slightly positive for the front end. IRS followed a similar pattern, with a bit stronger moves in the belly and long end of the curve.

Today we are expecting a decline of core yields and thus an improvement of prices of domestic bonds.

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FX market

Today's opening

EURPLN	4.2995	CZKPLN	0.1682
USDPLN	3.6344	HUFPLN*	1.3580
EURUSD	1.1830	RUBPLN	0.0582
CHFPLN	3.6342	NOKPLN	0.4475
GBPPLN	4.9100	DKKPLN	0.5772
USDCNY	6.3695	SEKPLN	0.4178

*for 100HUF

Last session in the FX market

15/05/2018

	min	max	open	close	fixing
EURPLN	4.268	4.302	4.273	4.291	4.2823
USDPLN	3.566	3.638	3.568	3.616	3.5931
EURUSD	1.182	1.198	1.198	1.187	-

Interest rate market

15/05/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.58	1	10-May-18	OK0720	1.580
PS0123 (5L)	2.55	6	10-May-18	PS0123	2.490
WS0428 (10L)	3.28	5	10-May-18	WS0428	3.242

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.75	0	2.55	2	-0.25	0
2L	1.94	3	2.79	4	-0.12	0
3L	2.13	4	2.90	5	0.07	1
4L	2.35	6	2.96	5	0.27	1
5L	2.53	6	2.99	6	0.46	3
8L	2.88	6	3.06	8	0.87	3
10L	3.05	7	3.10	8	1.08	4

WIBOR rates

Term	%	Change (bps)
O/N	1.54	-1
T/N	1.55	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	1.72	0
6x9	1.75	0
9x12	1.79	2
3x9	1.80	0
6x12	1.83	1

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.66	7
France	17	0	0.22	1
Hungary	116	1	2.38	1
Spain	43	0	0.74	3
Italy	98	0	1.38	7
Portugal	64	0	1.14	5
Ireland	25	0	0.41	5
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 (11 May)								
16:00	US	Michigan index	May	pts	98.3	-	98.8	98.8
MONDAY (14 May)								
14:00	PL	Current Account Balance	Mar	€mn	-1 088	-1 184	-982	-972
14:00	PL	Trade Balance	Mar	€mn	-502	-625	-317	-573
14:00	PL	Exports	Mar	€mn	18 075	18 230	18 117	16 239
14:00	PL	Imports	Mar	€mn	18 522	18 855	18 434	16 840
TUESDAY (15 May)								
08:00	DE	GDP WDA	1Q	% y/y	2.4	-	2.3	2.9
09:00	CZ	GDP SA	1Q	% y/y	4.8	-	4.5	5.5
09:00	HU	GDP	1Q	% y/y	4.2	-	4.4	4.4
10:00	PL	CPI	Apr	% y/y	1.6	1.6	1.6	1.4
10:00	PL	GDP	1Q	% y/y	4.8	4.9	5.1	4.9
11:00	EZ	GDP SA	1Q	% y/y	2.5	-	2.5	2.5
11:00	EZ	Industrial Production SA	Mar	% m/m	0.7	-	0.5	-0.9
11:00	DE	ZEW Survey Current Situation	May	pts	85.5	-	87.4	87.9
14:30	US	Retail Sales Advance	Apr	% m/m	0.3	-	0.3	0.8
WEDNESDAY (16 May)								
	PL	Poland Base Rate Announcement		%	1.5	1.5		1.5
08:00	DE	HICP	Apr	% m/m	0.0		0.0	-0.1
11:00	EZ	HICP	Apr	% y/y	1.2			1.2
14:00	PL	CPI Core	Apr	% y/y	0.6	0.6**		0.7
14:30	US	Housing Starts	Apr	% m/m	-0.7			1.9
15:15	US	Industrial Production	Apr	% m/m	0.6			0.51
THURSDAY (17 May)								
14:30	US	Index Philly Fed	May	pts	21.7	-		23.2
14:30	US	Initial Jobless Claims	week	k	219	-		211
FRIDAY (18 May)								
10:00	PL	Employment in corporate sector	Apr	% y/y	3.7	3.7		3.7
10:00	PL	Average Gross Wages	Apr	% y/y	7.1	7.4		6.7

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

**estimate after CPI data

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