

# EYEOPENER

17 May 2018

## Nihil novi from MPC

- **Dollar gains further but CEE currencies recover**
- **Next signals from Italy weigh on Eurozone peripheries, Polish debt supported by Bund**
- **Polish MPC slightly more dovish**
- **Today: next US data**

The dollar appreciated further on Wednesday, but at a slower pace which allowed the CEE currencies to recover to some extent from the Tuesday losses. In Europe, yields went down on the core markets but rose in peripheral countries, after news from Italy. The two parties trying to form a government coalition were reported to consider asking ECB to redeem Italian debt worth €250bn it holds on its balance sheet. The uncertainty about future shape of Italian politics is weighing on bonds of the euro zone peripheries and on the single currency. US data released yesterday were mostly better than expected which also help the dollar to gain versus the euro.

**The MPC left rates unchanged, as broadly expected.** The statement was even shorter than before, and brought no significant changes. The Council still sees the current level of rates as adequate given the economic outlook, promoting macroeconomic stability and the return of inflation to the 2.5% target. In the statement, a hope is expressed that the slowdown in the euro zone in 1Q was temporary. It again stresses that CPI remains moderate, and that core inflation has remained low despite the relatively high economic growth with wages rising faster than last year.

Osiatyński was reluctant to make such far-reaching statements, noting that wages are growing faster than labor productivity and that risks are present in some real estate segments, but in general he did not disagree with the governor's claim. He also commented that he believes destabilizing factors would most likely come from abroad. Glapiński acknowledged that there are no imbalances in the economy.

We continue to assume that inflation and wage pressure will intensify this year, but expect rates to remain unchanged until late 2019.

**Core CPI inflation** excluding food and energy prices decreased in April to 0.6% y/y from 0.7% in March, while the Eurostat measure – HICP excluding food, energy, alcohol and tobacco prices – went from -0.1% y/y to -0.2%. In our view the decrease of core inflation came from lower price changes of car insurance, airline fares and broadcasting services. Alternative

indicators of core CPI calculated by NBP increased in April: CPI excluding administered prices from 1.5% y/y to 1.7%, inflation excluding most volatile components from 1% to 1.2% and a 15% trimmed mean change of prices from 1.2% to 1.5%. We expect the main measure of core inflation to rise to c1.5% y/y in late 2018.

Yesterday, **EURUSD** fell for the third time in a row, but at a smaller scale than one day before. The rate reached 1.175 and has set a new this year's low. Still, at the end of the day the rate corrected to 1.18. Today we will get to see new important US data. Yesterday's readings were mixed, so supported the dollar only temporarily. If today's readings surprise to the upside, then EURUSD is likely to approach December through at 1.17.

**EURPLN** offset about half of the Tuesday's upward move and was close to 4.28 at the end of the day. USDPLN remained near 3.63. There was no important information on Wednesday, so the yesterday's zloty strengthening seems to be only a technical correction, not a start of downward trend that could pull the rate below 4.23. **Other CEE currencies** also gained a bit.

**On the core markets**, the upside pressure for UST yields continued amid Tuesday's comment of Fed's Williams. As a result, the 10Y UST yield rose 3bp to 3.09% while the 5Y yield rose at a slightly smaller scale. Bund yields were on the downside 2-3bp along the curve owing to detailed release of euro zone inflation that confirmed lower annual April headline reading. Today in the morning we saw strong European data on new car registrations that pushed 10Y Bund yield up by 3bp.

**On the domestic interest rate market** IRS and bond yields fell 1-2bp, less than in the case of Bund. It appeared that the room for Polish debt strengthening following the core markets was limited by Tuesday's better-than-expected flash 1Q GDP data and the perspective of the MPC press conference. Today we think Polish bond yields might rise amid weaker sentiment on the core markets and rising oil prices but the scale of move should not be big.

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## FX market

## Today's opening

EURPLN	4.2780	CZKPLN	0.1675
USDPLN	3.6224	HUFPLN*	1.3520
EURUSD	1.1810	RUBPLN	0.0587
CHFPLN	3.6192	NOKPLN	0.4482
GBPPLN	4.9035	DKKPLN	0.5744
USDCNY	6.3635	SEKPLN	0.4167

\*for 100HUF

## Last session in the FX market

16/05/2018

	min	max	open	close	fixing
EURPLN	4.276	4.300	4.291	4.276	4.2893
USDPLN	3.615	3.649	3.616	3.620	3.6241
EURUSD	1.176	1.187	1.187	1.181	-

## Interest rate market

16/05/2018

## 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)	2.50	-4	10-May-18	PS0123	2.490
WS0428 (10L)	3.26	-2	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	2.57	2	-0.25	0
2L	1.94	0	2.80	2	-0.13	-1
3L	2.12	-1	2.92	2	0.06	-1
4L	2.34	-1	2.97	2	0.25	-2
5L	2.51	-2	3.01	2	0.43	-3
8L	2.86	-2	3.08	1	0.85	-2
10L	3.03	-2	3.11	1	1.06	-2

## WIBOR rates

Term	%	Change (bps)
O/N	1.54	0
T/N	1.54	-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	1.72	0
6x9	1.76	0
9x12	1.80	0
3x9	1.80	0
6x12	1.83	0

## Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.62	-5
France	18	1	0.24	0
Hungary	116	1	2.37	-4
Spain	46	3	0.78	-2
Italy	112	14	1.48	-3
Portugal	64	0	1.16	-3
Ireland	25	0	0.42	0
Germany	11	1	-	-

\* 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		%	1.50	1.50	1.50	1.50
08:00	DE	HICP	Apr	% m/m	0.0	-	0.0	-0.1
11:00	EZ	HICP	Apr	% y/y	1.2	-	1.2	1.2
14:00	PL	CPI Core	Apr	% y/y	0.6	0.6**	0.6	0.7
14:30	US	Housing Starts	Apr	% m/m	-0.7	-	-3.7	1.9
15:15	US	Industrial Production	Apr	% m/m	0.6	-	0.7	0.7
THURSDAY (17 May)								
14:30	US	Index Philly Fed	May	pts	21.0	-		23.2
14:30	US	Initial Jobless Claims	week	k	215	-		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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