

EYEOPENER

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Zubelewicz: balance in the MPC has changed

- Risk aversion back on the market, data from Europe below expectations
- Retail sales surprised to the downside, weaker results of Polish companies
- Zubelewicz: balance in the MPC has changed, but there will be no hikes
- Zloty under pressure, EURUSD testing 1.17
- Polish debt gained thanks to Polish and European data

On Wednesday, the global market sentiment was deteriorating hour after hour. Demand for the risky assets was first reduced by the overnight comment of the US president on his dissatisfaction with China trade talks and soon after the session opening we saw stock falling in reaction to data released. Flash May services and manufacturing PMIs for France, Germany and euro zone disappointed again continuing the downtrend observed in the previous months. As a result, the euro was under pressure vs the dollar, core bonds gained while the CEE currencies depreciated. Today's morning final German 1Q GDP was in line with expectations.

According to **FOMC minutes** from the May meeting, the majority of the US central bankers think the next rate hike should be delivered soon. Also, inflation is expected to rise above the target for some time and the market viewed this as a suggestion that tightening cycle will not be aggressive (three hikes, not four this year). As a result, bonds gained after the document was released.

MPC member, Kamil Zubelewicz, said in an interview with Polish Press Agency that chances for a rate hike rose recently but in his view no change should be expected. According to him, the balance of opinions within the Council changed which was reflected in governor Glapiński rejecting the idea of rate cuts at the last press conference. Zubelewicz said that there are fewer reasons for a rate cut now amid higher oil price and bigger budget expenditures. In his view, rates should have been increased long time ago and they should be now at 2.0% with the core CPI above 1.50% being a potential reason for more hikes. He said that the inflation target should be at 2%. With these remarks, Zubelewicz confirmed he is the most hawkish MPC member. We are of the opinion that majority for a hike could materialise in late 2019 at the earliest.

Retail sales decelerated in April from 8.8% y/y to 4.0% y/y, markedly below market expectations at 7.6% y/y. Deceleration versus March was widely expected, given negative base effect due to Easter and Sunday trade ban, which banned sales on all April Sundays but one. Nevertheless, retail sales strongly surprised to the downside due to weak sales of food and in non-specialised stores. Meanwhile, the remaining categories bloomed. We maintain our view that private consumption will remain the main engine of economy growth this year,

as it was in 2017, rising by c5%. We assume that retail sales growth will return to c7.0% y/y in the coming months.

Financial results of non-financial companies employing 50 and more people showed some deterioration at the start of 2018. Revenues rose 4.6% y/y (vs 9.3% in 2017), while costs increased 5.3% y/y (vs. 9.1% y/y). As costs rose faster than revenues, profits decreased, with the gross financial result down 7.7% y/y. Profitability indices also fell, for the first time in 1Q since 2013. The greatest weakening was seen in services. Costs rose mostly due to higher prices of materials (2.1pp contribution to total cost growth), wages (1.3pp) and external services (0.9pp). In our view, firms will continue to operate under cost pressures in the months to come, which is negative for profitability and could exert some pressure on prices.

Investment outlays by the largest enterprises rose 6.6% y/y in 1Q18, below 4Q17's growth (12% y/y). This deceleration was a result of a high base effect while the end-2017 was boosted by poor performance in 4Q16. That said, the level of investment among large enterprises is still lower than in 2015. The largest increase was seen in transport and logistics (+86.8% y/y), while the utilities sector posted a decline of 28.3% y/y.

Statistics Poland's consumer survey found a decline of consumer sentiment in May. However, this was after a month of record-high optimism, so we do not see the May decrease as a negative signal, but rather as a natural fluctuation of the sentiment measure. After all, the synthetic current assessment and expectations indices remained at historically very high levels. In May, a new record was set with respect to consumers' appetite for major purchases which might suggests that private consumption can still help drive economic growth in Poland in this business cycle. We expect it to grow at about 5% y/y this year.

EURUSD dropped sharply after the flash European PMI release and tested 1.17. The attempt proved unsuccessful and at the end of the domestic session, EURUSD rebounded to 1.171. The today's US data release should decide if EURUSD tries to break 1.17 again.

EURPLN noticeably reacted to the worsening of global moods in response to weak European data and rebounded fast to 4.31 from 4.285. **USDPLN** sharply rose to 3.68 from below 3.64. We believe that in the next days USDPLN could stay at an elevated level if the mood on the market will not improve permanently. **Other CEE currencies** stayed under the pressure of the strong US dollar and weak European data. **EURHUF** was nearing 320, while the earlier this week it was below 316. **EURCZK** set this year's new maximum (close to 25.85). The ruble was falling, but the rise of **USDRUB** was relatively small.

On the domestic debt market yields and IRS rates decreased by less than 3bp thanks to strengthening on the core debt markets. Today a regular debt auction is scheduled, the Ministry of Finance plans to sell PLN3bn bonds.

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FX market

Today's opening

EURPLN	4.3046	CZKPLN	0.1666
USDPLN	3.6748	HUFPLN*	1.3508
EURUSD	1.1714	RUBPLN	0.0597
CHFPLN	3.6972	NOKPLN	0.4543
GBPPLN	4.9126	DKKPLN	0.5779
USDCNY	6.3896	SEKPLN	0.4193

*for 100HUF

Last session in the FX market 23/05/2018

	min	max	open	close	fixing
EURPLN	4.282	4.314	4.286	4.305	4.3037
USDPLN	3.633	3.687	3.637	3.681	3.6693
EURUSD	1.169	1.179	1.179	1.169	-

Interest rate market 23/05/2018

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	-3	10-May-18	PS0123	2.490
WS0428 (10L)	3.22	-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	-1	-0.25	0
2L	1.93	-1	2.78	-3	-0.14	-1
3L	2.12	-2	2.88	-4	0.03	-2
4L	2.31	-3	2.93	-4	0.21	-3
5L	2.49	-3	2.96	-4	0.38	-3
8L	2.83	-5	3.01	-5	0.80	-3
10L	3.00	-6	3.05	-6	1.00	-3

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	1.71	0
3x6	1.72	1
6x9	1.75	0
9x12	1.80	0
3x9	1.79	-1
6x12	1.82	-1

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.70	-3
France	21	0	0.29	-1
Hungary	116	1	2.61	-3
Spain	60	4	0.87	-6
Italy	150	10	1.79	-10
Portugal	64	0	1.36	-7
Ireland	25	0	0.49	-1
Germany	12	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

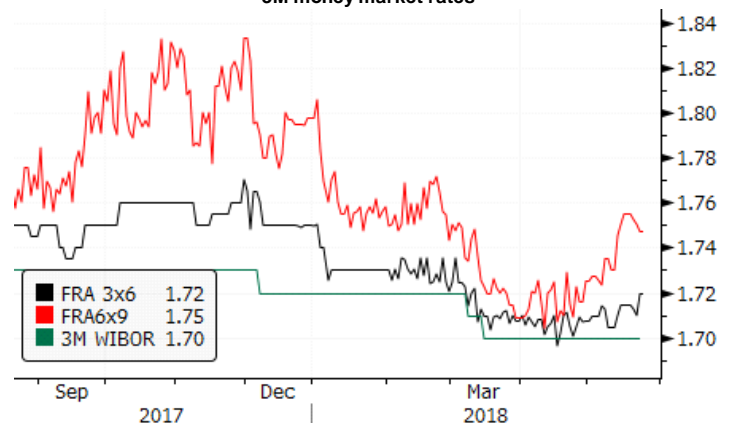
Zloty exchange rate



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 (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	7.2	7.4	7.8	
MONDAY (21 May)								
10:00	PL	Sold Industrial Output	Apr	% y/y	8.5	8.1	9.3	
10:00	PL	Construction Output	Apr	% y/y	24.5	22.2	19.7	
10:00	PL	PPI	Apr	% y/y	0.9	1.0	1.1	
TUESDAY (22 May)								
10:00	PL	Stats Office business sentiment	May	pts				
14:00	HU	Central Bank Rate Decision		%	0.90	-	0.90	
WEDNESDAY (23 May)								
09:30	DE	Germany Manufacturing PMI	May	pts	57.9	-	56.8	
09:30	DE	Markit Germany Services PMI	May	pts	53.2	-	52.1	
10:00	EZ	Eurozone Manufacturing PMI	May	pts	56.1	-	55.5	
10:00	EZ	Eurozone Services PMI	May	pts	54.5	-	53.9	
10:00	PL	Retail Sales Real	Apr	% y/y	7.6	7.7	4.0	
10:00	PL	Enterprises Financial Results	1Q					
10:00	PL	Consumer Confidence	May					
16:00	US	New Home Sales	Apr	% m/m	-2.0	-	-1,5	
20:00	US	FOMC Meeting Minutes						
THURSDAY (24 May)								
08:00	DE	GDP WDA	1Q	% y/y	2.3	-	2.3	
11:30	PL	Bond Auction			-			
14:00	PL	Money Supply M3	Apr	% y/y	5.8	5.9	5.8	
14:30	US	Initial Jobless Claims	week	k	220	-	222	
16:00	US	Existing Home Sales	Apr	% m/m	-0.9	-	1.1	
FRIDAY (25 May)								
10:00	DE	IFO Business Climate	May	pts	101.9	-	102.1	
10:00	PL	Unemployment Rate	Apr	%	6.3	6.3	6.6	
14:30	US	Durable Goods Orders	Apr	% m/m	-1.5	-	2.6	
16:00	US	Michigan index	May	pts	98.8	-	98.8	

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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