

# EYEOPENER

7 June 2018

## MPC maintained the dovish tone

- **MPC sees no reason to change interest rates**
- **Zloty stronger, bonds weaker thanks to global moods improvement**
- **Euro keeps gaining after ECB's Praet suggestion about starting discussion on QE end**
- **Today GDP data in the euro zone**

The Wednesday MPC decision, as well as the press conference, did not bring surprises, as the council maintained the declaration to hold interest rates at the current level at least until the 2H19. ECB chief economist Peter Praet suggested that next ECB meeting scheduled for June 14<sup>th</sup> will be a good opportunity for the discussion of further ECB monetary policy normalization as inflation is nearing the ECB target. Moreover, there was information that China was offering to buy more American products and that US Treasury Department prepared a report about reducing restrictions for Asian investments. Zloty was strengthening, tracking the rising EURUSD, while the domestic bonds were slightly losing following the core bonds.

**The MPC left rates unchanged**, in line with expectations. The statement was shortened further, which we read as a signal that the internal consensus in the Council to keep rates stable for a prolonged period is quite broad. CPI is still seen by the MPC as moderate and core inflation is still viewed as low. During the press conference, NBP governor Adam Glapiński stated that higher oil prices, wage growth and a weaker zloty have not put upward pressure on inflation. In the central bank governor's view, July's NBP projection for the CPI path could be lower than the previous projection from March, and we read this remark as an attempt to add a more dovish tone to the press conference. Glapiński commented that wage growth has decreased recently, which is not what we saw in the data (corporate wage growth up from 6.7% y/y to 7.8% in April, more than expected). In his view, stable rates in the monetary policy horizon are obvious, unless there are new shocks. Eugeniusz Gatnar, considered a hawk, said during the post-MPC meeting press conference that he would consider a rate hike if inflation intensified, but that there are no signs this could happen any time soon, and that wage pressure is weaker than he had expected. We maintain our view that the next rate adjustment could be a rate hike in late 2019.

Sejm, the lower chamber of Polish parliament, **passed yesterday the bill introducing the so-called emission charge**. Since January 1, 2019 the sale of fuel will be charged by an additional fee of PLN0.10/litre (PLN0.08/litre + VAT). If as a result

retail prices rise proportionally by PLN0.10 (c2%) it would add 0.1pp to CPI inflation. However the transmission of the extra charge to retail prices will most likely be spread over time as state-owned refineries Orlen and Lotos declared they will not burden clients with additional costs. Thus, it seems likely the refineries will not raise prices immediately after the introduction of the emission charge.

On Wednesday **EURUSD** continued to rise, supported by remarks from ECB chief economist Peter Praet. The exchange rate moved from 1.1730 in the morning to 1.1780 in the afternoon and went above 1.18 overnight. The appreciation of the euro was also based on lower US trade deficit and news about China becoming more open to US goods. Today the euro could strengthen a bit more amid expectations that at the next meeting the ECB could signal its plans to end QE.

**EURPLN** resumed the down move on Wednesday amid euro appreciation vs the dollar and improved global market sentiment. As a result, the exchange rate fell from 4.278 to 4.263, its lowest since first decade of May. USDPLN fell as well, to 3.62 from 3.65. Today we expect the zloty appreciation to continue amid still supportive global market mood.

In case of the **other CEE currencies**, the koruna depreciated after weaker-than-expected industrial output data (EURCZK rose to 25.67 from 25.62). At the same time, EURHUF fell to 318.8 from 318.9 amid higher demand for the risky assets. Investors ignored the Hungarian central bank minutes which showed unanimous decision to sustain ultra-loose monetary policy conditions. USDRUB was easing gradually to 61.9 from 62.2 benefiting from better market mood and weaker dollar. The ruble did not react to signals from the Russian central bank calling for next rate cuts.

On Wednesday **core debt markets** were dominated by the ECB chief economist's comment. As a result, the German yield curve moved 3-6bp with the long-term rates returning to the levels last time seen before the "Italian crisis" (late May). The US yield curve shifted up 2-4bp. Today we expect some rise in yields fueled by market talking about next steps in the ECB policy normalisation.

**Polish bond yields** followed core market changes amid low trade volumes. As a result, the yield curve moved up by 3bps in 5-10Y segment. The MPC meeting did not affect the trade. Today, we expect some downward technical correction of yields.

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## FX market

## Today's opening

EURPLN	4.2689	CZKPLN	0.1663
USDPLN	3.6153	HUFPLN*	1.3433
EURUSD	1.1808	RUBPLN	0.0585
CHFPLN	3.6731	NOKPLN	0.4490
GBPPLN	4.8604	DKKPLN	0.5734
USDCNY	6.3928	SEKPLN	0.4159

\*for 100HUF

## Last session in the FX market

06/06/2018

	min	max	open	close	fixing
EURPLN	4.263	4.285	4.280	4.263	4.2829
USDPLN	3.618	3.655	3.653	3.620	3.647
EURUSD	1.171	1.180	1.172	1.178	-

## Interest rate market

06/06/2018

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

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.55	0	24-May-18	OK0720	1.637
PS0123 (5L)	2.44	3	24-May-18	PS0123	2.481
WS0428 (10L)	3.24	2	24-May-18	WS0428	3.211

## IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.75	0	2.59	3	-0.24	1
2L	1.92	2	2.79	5	-0.12	3
3L	2.09	3	2.88	6	0.05	5
4L	2.28	5	2.93	7	0.23	6
5L	2.46	6	2.95	7	0.40	8
8L	2.80	6	3.00	7	0.81	8
10L	2.97	6	3.03	7	1.01	8

## 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	1.74	0
9x12	1.79	0
3x9	1.79	0
6x12	1.82	0

## Measures of fiscal risk

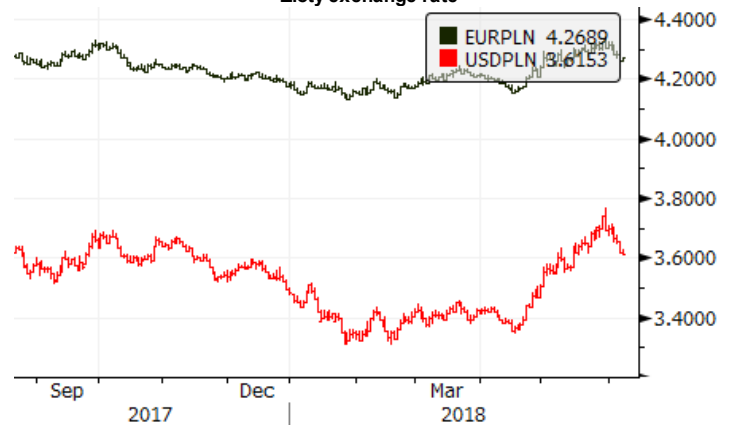
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.73	-2
France	26	1	0.34	0
Hungary	116	1	2.54	-4
Spain	69	3	1.00	-2
Italy	233	27	2.43	-3
Portugal	64	0	1.45	-2
Ireland	25	0	0.57	0
Germany	12	0	-	-

\* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

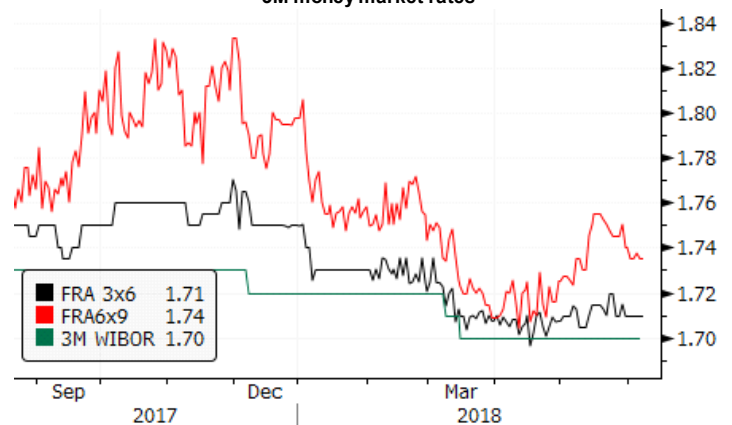
## Zloty exchange rate



## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic calendar

Economic calendar			TIME	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
	CET					MARKET	BZWBK		VALUE
FRIDAY (1 June)									
09:00	CZ	GDP SA	1Q	% y/y	4.5	-		4.4	4.5
09:00	PL	Poland Manufacturing PMI	May	pts	53.2	52.9		53.3	53.9
09:55	DE	Germany Manufacturing PMI	May	pts	56.8	-		56.9	58.1
10:00	EZ	Eurozone Manufacturing PMI	May	pts	55.5	-		55.5	56.2
14:00	PL	MPC minutes	May/18		-	-			
14:30	US	Change in Nonfarm Payrolls	May	k	190.0	-		223	159
14:30	US	Unemployment Rate	May	%	3.9	-		3.8	3.9
16:00	US	ISM manufacturing	May	pts	58.2	-		58.7	57.3
MONDAY (4 June)									
16:00	US	Durable Goods Orders	Apr	% m/m	-	-		-1.6	-1.7
16:00	US	Factory Orders	Apr	% m/m	-0.5	-		-0.8	1.6
TUESDAY (5 June)									
03:45	CH	Caixin China PMI Services	May	pts	52.9	-		52.9	52.9
09:00	HU	GDP	1Q	% y/y	4.4	-		4.4	4.4
09:55	DE	Markit Germany Services PMI	May	pts	52.1	-		52.1	53.0
10:00	EZ	Eurozone Services PMI	May	pts	53.9	-		53.8	54.7
11:00	EZ	Retail Sales	Apr	% m/m	0.6	-		0.1	0.4
16:00	US	ISM services	May	pts	57.4	-		58.6	56.8
WEDNESDAY (6 June)									
	PL	MPC decision		%	1.50	1.50		1.50	1.50
09:00	CZ	Industrial Production	Apr	% y/y	9.0	-		5.5	-1.1
THURSDAY (7 June)									
08:00	DE	Factory Orders	Apr	% m/m	0.8	-		-2.5	-1.1
11:00	EZ	GDP SA	1Q	% y/y	2.5	-			2.5
14:30	US	Initial Jobless Claims		k	-	-			221.0
FRIDAY (8 June)									
	PL	Fitch Rating Review							
08:00	DE	Exports SA	Apr	% m/m	-0.4	-			1.7
08:00	DE	Industrial Production SA	Apr	% m/m	0.4	-			1.0
09:00	HU	CPI	May	% y/y	2.8	-			2.3

Source: BZ WBK, Bloomberg, Parkiet

\* in case of the revision the data is updated

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