

# EYEOPENER

13 June 2018

## Time for Fed rate hike

- Markets calm ahead of major central banks meetings
- German data disappointed, no surprise in US inflation
- Zloty a bit weaker to the euro, stable vs the dollar, EURUSD slightly higher yesterday
- Domestic yields down despite weakness of core bonds
- Today Polish C/A data, FOMC decision

On Tuesday the global market was rather calm. Optimism after the meeting of US-North Korea leaders faded somewhat and investors were waiting for the looming central banks decisions. Even the German data did not trigger any meaningful changes. The June ZEW index fell more than expected reaching its fresh 2018 low and questioning the pace of economic growth in the euro zone later in the year. The US inflation was in line with expectations. Yesterday's voting in the UK parliament ended positively for the government, which supported the pound slightly. Today the parliament will discuss the bill that instructs Theresa May to negotiate a customs union with the EU. In the evening, FOMC is likely to hike rates second time this year. The updated economic forecasts and the "dot plot" with expected rates level by FOMC members could help market to assess whether there will be three or four rate hikes in total this year.

**The government presented yesterday macro assumptions for 2019 budget:** GDP growth 3.8%, average inflation 2.3%. According to the government forecasts, the unemployment rate at the end of the next year will drop to 5.6%, wages in the enterprise sector will grow in 2019 by 5.6%, while in the national economy by 6.1%. We assess these assumptions as more less realistic. The crucial government assumptions are slightly more positive than our forecasts (we anticipate GDP growth at 3.5% and inflation at 2.2% next year), however it is balanced by conservative assumptions about wage growth (our forecasts are c7%). Positive surprise in wage bill would give tangible benefits to the budget, as we saw in 2017 and first months of 2018 (in January-April 2018 government transfers to Social Security Fund to cover the Fund gap - was lower by 40% y/y). Therefore we do not see a high risk in the presented budget assumptions.

**EURPLN** has spent the better part of the yesterday's session at just above 4.27. At the end of the Polish session, the exchange rate returned near that level but in the following hours rose to 4.28 as the dollar strengthened. USDPLN was hovering around

3.625 yesterday and today in the morning is PLN0.02 higher. We do not expect today's Poland C/A data to have any material impact on the zloty and the outcome of the FOMC meeting should be crucial for the domestic FX market. Should the dollar gain in the evening, the zloty could depreciate.

**EURUSD** stabilized at just below 1.18 after the morning rise from 1.176. Since last Thursday, the exchange rate has been moving sideways. Looming central bank decisions caused that there was no persistent market reaction to the new Italian government or the outcome of the G7 meeting. Today in the evening FOMC is likely to hike interest rates by 25bp but the new GDP and CPI forecasts as well as updated "dot plot" should be of bigger importance. Today in the morning EURUSD is near 1.175 where it fell after press reported that Fed's Powell considers running a press conference after each FOMC meeting. The market viewed this idea as a signal that rate hikes could be delivered faster than expected so far. Currently the market prices that one or two more 25bp rate hikes will be delivered this year (excluding today's) and should the evening press conference confirm this scenario, the market reaction should be muted before the tomorrow's ECB decision.

**In case of other CEE currencies**, the biggest move was recorded on the Hungarian market where EURHUF fell to c319 from above 321, more than neutralizing Monday's jump. Today in the morning, the exchange rate is back near 320. The Czech koruna lost marginally vs the euro while the ruble was stable intraday vs the dollar amid small changes of the oil price.

**On the domestic interest rate market** 5Y and 10Y bond yields fell by c4bp while the 2Y debt stayed flat. IRS changed in a similar fashion. The foreign market has already discounted today's Fed rate hike and the rates outlook for the coming quarters should be key for the market. In our view, there is little room for a hawkish surprise and so we do not expect the outcome of the FOMC meeting to have a negative impact on the Polish debt.

**Today** at 14:00CET the central bank will release April balance of payments data. In our view, the numbers should look quite positive showing a much lower current account gap than in the last few months and a rebound in export/import growth (even though partly attributable to low base effect). Our forecasts are supported by Monday's trade data released by Statistics Poland.

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## FX market

## Today's opening

EURPLN	4.2807	CZKPLN	0.1665
USDPLN	3.6470	HUFPLN*	1.3375
EURUSD	1.1738	RUBPLN	0.0578
CHFPLN	3.6902	NOKPLN	0.4529
GBPPLN	4.8707	DKKPLN	0.5746
USDCNY	6.4067	SEKPLN	0.4217

\*for 100HUF

## Last session in the FX market

12/06/2018

	min	max	open	close	fixing
EURPLN	4.263	4.279	4.270	4.276	4.2776
USDPLN	3.617	3.634	3.622	3.632	3.6271
EURUSD	1.174	1.181	1.179	1.177	-

## Interest rate market

12/06/2018

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

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0720 (2L)	1.60	3	24-May-18	OK0720	1.637
DS1023 (5L)	2.58	0	24-May-18	PS0123	2.481
WS0428 (10L)	3.23	-5	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	2.60	0	-0.24	0
2L	1.94	-2	2.80	0	-0.12	0
3L	2.14	-3	2.89	0	0.05	0
4L	2.33	-5	2.93	0	0.23	0
5L	2.50	-7	2.95	0	0.39	-1
8L	2.85	-6	2.99	0	0.80	-1
10L	3.02	-7	3.02	-1	1.01	-2

## WIBOR rates

Term	%	Change (bps)
O/N	1.60	0
T/N	1.61	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	1.71	1
3x6	1.72	0
6x9	1.75	0
9x12	1.80	-1
3x9	1.79	0
6x12	1.83	-1

## Measures of fiscal risk

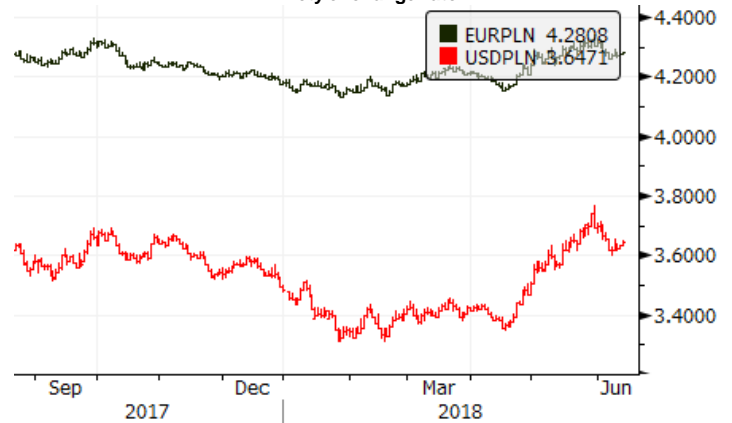
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.76	-4
France	27	-1	0.38	-1
Hungary	116	1	2.81	1
Spain	67	0	0.94	0
Italy	229	-3	2.32	-4
Portugal	64	0	1.50	1
Ireland	25	0	0.55	-1
Germany	12	-1	-	-

\* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

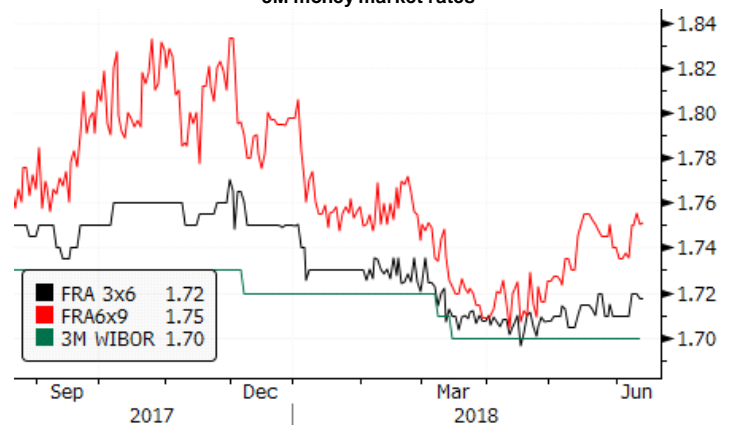
## Zloty exchange rate



## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic calendar

Economic calendar								
TIME		INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST
CET	MARKET				BZWBK	VALUE		
FRIDAY (8 June)								
	PL	Fitch Rating Review						
8:00	DE	Exports SA	Apr	% m/m	-0.3	-	-0.3	1.8
8:00	DE	Industrial Production SA	Apr	% m/m	0.3	-	-1.0	1.7
9:00	HU	CPI	May	% y/y	2.6	-	2.8	2.3
MONDAY (11 June)								
9:00	CZ	CPI	May	% y/y	-	-	2.2	1.9
TUESDAY (12 June)								
11:00	DE	ZEW Survey Current Situation	Jun	pts	85.0	-	80.6	87.4
14:30	US	CPI	May	% m/m	0.2	-	0.2	0.2
WEDNESDAY (13 June)								
11:00	EZ	Industrial Production SA	Apr	% m/m	-0.7	-		0.5
14:00	PL	Current Account Balance	Apr	€mn	-253	-237		-982
14:00	PL	Trade Balance	Apr	€mn	-76	-20		-317
14:00	PL	Exports	Apr	€mn	17 288	17 288		18 117
14:00	PL	Imports	Apr	€mn	17 339	17 308		18 434
20:00	US	FOMC decision		%	1.75-2.0	-		1.50-1.75
THURSDAY (14 June)								
8:00	DE	HICP	May	% m/m	-	-		0.6
10:00	PL	CPI	May	% y/y	-	1.7		1.7
13:45	EZ	ECB Main Refinancing Rate		%	-	-		0.0
14:30	US	Initial Jobless Claims	week	k	220	-		221.0
14:30	US	Retail Sales Advance	May	% m/m	0.4	-		0.2
FRIDAY (15 June)								
11:00	EZ	HICP	May	% y/y	-	-		1.9
14:00	PL	CPI Core	May	% y/y	-	0.6		0.6
15:15	US	Industrial Production	May	% m/m	0.3	-		0.72
16:00	US	Michigan index	Jun	pts	98.2	-		98.0

Source: BZ WBK, Bloomberg, Parkiet

\* in case of the revision the data is updated

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