

# EYEOPENER

14 June 2018

## Fed showed its cards, it is ECB's turn

- Rate hike in the USA, two more were signaled, but Jerome Powell's rhetoric was not hawkish
- Polish April C/A balance better than expected due to weak imports
- Zloty stable ahead of ECB, EURUSD somewhat higher
- Domestic debt was stable
- Today Polish May CPI, ECB decision

Wednesday session was calm prior to evening FOMC decision and press conference, with new economic forecasts were due for release. Stock indices in Europe went up, the dollar gave away a part of its gains against the euro and bonds yields went down on the core markets. Recently, leading indicators for the Euro zone have been sliding and yesterday industrial data confirmed that the economy is slowing down – annual growth rate slid below 2%, the lowest since April 2017. Weaker data from China weighed on market mood. Today USA is to decide on tariffs on Chinese goods.

**In line with expectations, FOMC rose rates by 25bps.** The dot chart showed that the central bankers want to hike rates four times this year, not three (with two hikes already delivered). In 2019, three more are expected. Fed head Jerome Powell said that rates will be at a neutral level soon and the sentence mentioning the accommodative policy should be dropped from the statement soon. Already this month the forward guidance part was shortened. Additionally, the Fed head wants to conduct press conference after each meeting from 2019. Fed forecasts for GDP growth and inflation went slightly up for 2018-2020, down for unemployment.

**According to central bank data, in April Poland's C/A balance amounted to -€21mn,** significantly lower than the -c€250mn expected by us and the market. The main source of the surprise was the goods trade balance, which reached +€314mn (we forecasted -€20mn). Nominal value of exports was fairly in line with our forecast (€17.3bn), while imports disappointed (we expected €17.3bn). In annual terms, exports rose 8.6% and imports 9.9%. It seems that the big difference between March and April in terms of y/y growth of exports and imports was the result of Easter holidays being in March this year (instead of in April, as in 2017). Exports accelerated from -2% to 8.6% y/y and imports from 1.6% to 9.9%. Apart from that, the NBP comment accompanying April C/A data mentions good sales of auto parts and accessories and oil-refining products. On the imports side, there was a trace in the data of the higher oil prices pushing up the oil bill. Imports of autos were also highlighted as relatively strong. We expect the deceleration trend to continue this year, particularly on the exports side, although there

could be a spike in the growth rate of trade turnover in the summer months. We assume y/y imports growth might top exports growth in all the remaining months of this year. Services balance rose to €1.7bn, but the revenue side decelerated further in y/y terms, from 6.4% to 6.0%. 12-month current account balance deteriorated to -0.2% of GDP in April from -0.1% of GDP in March.

**Fitch rating agency revised its Poland CPI and GDP forecasts up.** Changes in estimates reflect more supportive conditions from the economic growth point of view (less rate hikes, no zloty appreciation). No rating outlook upgrade last Friday suggests that Fitch needs to see first Poland GDP per capita near its rating peers (currently there is a 33% gap), not only high GDP growth before it considers improving country rating.

**EURUSD** rebounded to 1.178 from 1.174 but held in the range seen for nearly a week. Below-consensus euro zone industrial output data did not have much impact on the market. The exchange rate fell only for a while after the FOMC decision and today in the morning is above 1.18. Today, the ECB takes the center stage with Mario Draghi press conference being the most awaited event. We still think EURUSD could rise in the weeks to come.

**EURPLN** fell yesterday to nearly 4.27 from slightly above 4.28 and USDPLN to 3.63 from 3.65 thanks to positive market mood persisting on the global market and to some extent to Poland C/A data. After the FOMC decision, EURPLN rose temporarily above 4.28 and USDPLN is now below 3.63. Today the market reaction to the outcome of the ECB meeting may have a key impact on the zloty. We think that should the central bank sound dovish, the likely EURUSD down move could be crucial and the zloty might depreciate.

**In the case of other CEE currencies,** the forint and the koruna was under pressure of expected Fed rate hike. The ruble rose against US dollar despite the slight oil prices decline.

**On the domestic debt market** yields and IRS rates stayed near the Tuesday closing. The German and US Treasuries, as well as euro periphery bonds, gained slightly. We expect that the ECB conference will calm the market. We think that if ECB decides to show some details about the tapering of bond buying program, simultaneously they will add commentary that rate hikes are still a distant prospect.

Ministry of Finance said that on Friday switch auction it will offer OK0720, PS0123, WZ0524, WS0428 and WZ0528 bonds.

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## FX market

## Today's opening

EURPLN	4.2780	CZKPLN	0.1664
USDPLN	3.6219	HUFPLN*	1.3333
EURUSD	1.1811	RUBPLN	0.0580
CHFPLN	3.6824	NOKPLN	0.4522
GBPPLN	4.8527	DKKPLN	0.5742
USDCNY	6.3916	SEKPLN	0.4207

\*for 100HUF

## Last session in the FX market

13/06/2018

	min	max	open	close	fixing
EURPLN	4.271	4.285	4.276	4.272	4.282
USDPLN	3.623	3.652	3.632	3.623	3.6461
EURUSD	1.173	1.179	1.177	1.179	-

## Interest rate market

13/06/2018

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

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0720 (2L)	1.61	1	24-May-18	OK0720	1.637
DS1023 (5L)	2.60	0	24-May-18	PS0123	2.481
WS0428 (10L)	3.24	1	24-May-18	WS0428	3.211

## IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.76	0	2.61	1	-0.24	0
2L	1.95	1	2.82	2	-0.13	-1
3L	2.16	2	2.90	2	0.04	-1
4L	2.36	3	2.94	1	0.22	-1
5L	2.53	3	2.96	1	0.38	-1
8L	2.88	2	2.99	0	0.79	-1
10L	3.04	2	3.02	0	1.00	-1

## WIBOR rates

Term	%	Change (bps)
O/N	1.60	0
T/N	1.60	-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	0
3x6	1.73	1
6x9	1.76	0
9x12	1.81	1
3x9	1.82	2
6x12	1.85	3

## Measures of fiscal risk

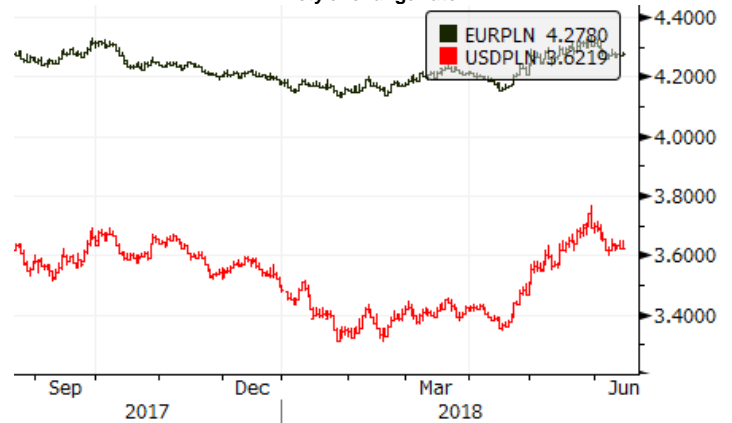
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.76	0
France	27	-1	0.36	1
Hungary	116	1	2.95	-2
Spain	67	0	0.93	1
Italy	229	-3	2.34	3
Portugal	64	0	1.47	1
Ireland	25	0	0.53	1
Germany	12	-1	-	-

\* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

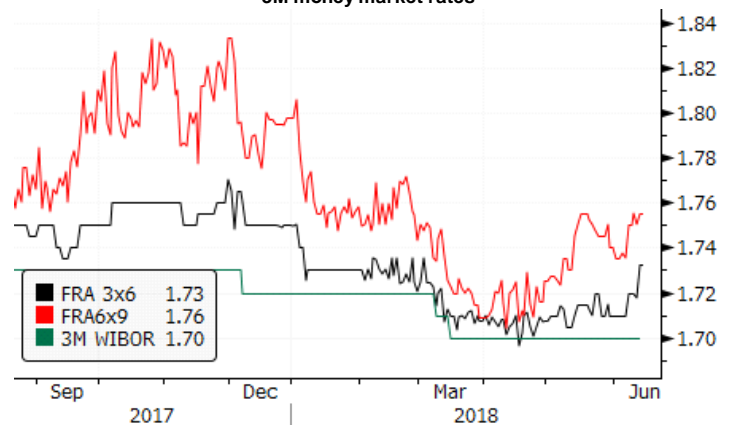
## Zloty exchange rate



## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic calendar

Economic calendar								
TIME		INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE
CET	MARKET				BZWBK			
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	-	-0.9	0.6
14:00	PL	Current Account Balance	Apr	€mn	-253	-237	-21	-982
14:00	PL	Trade Balance	Apr	€mn	-76	-20	314	-317
14:00	PL	Exports	Apr	€mn	17 288	17 288	17 176	18 117
14:00	PL	Imports	Apr	€mn	17 339	17 308	16 862	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	-	0.6	0.6
10:00	PL	CPI	May	% y/y	-	1.7		1.7
13:45	EZ	ECB Main Refinancing Rate		%	0.0	-		0.0
14:30	US	Initial Jobless Claims	week	k	223	-		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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