

EYEOPENER

12 July 2018

Monetary policy outlook unchanged

- Next episode of trade wars only temporarily rattled stock markets, without major impact on currencies
- Yields of Polish bonds lower despite weakening abroad
- MPC decision did not surprise, the new projection gives no new arguments for raising interest rates
- Today, bond switching auction in Poland, US inflation data

Another exchange of punches in the trade war caused risk aversion on the global markets on Wednesday. Main equity indices and commodity prices declined. The US announcement about intention to put more tariffs on Chinese goods resulted in large losses of equities, but bonds and currencies did not see much action. Stabilization of the latter might have come from lack of data releases and the standby mode ahead of today's US inflation. What is more, even the negative reaction of stock exchanges was just temporary and most indices were already growing during the Asian session today, recovering from yesterday losses. This was probably due to hints from the Chinese administration that trade talks with the USA might still take place to create new trade relations.

The Monetary Policy Council kept interest rates unchanged, as expected. The new NBP projection shows slightly lower path of inflation in 2018 and 2020 as compared to its March version. Yet, CPI is still expected to head above the official 2.5% target in 2019-20 (with mid-point in 2020 at 2.8%). GDP projection has been increased for 2018 and lowered slightly for 2019-20. The new projection gave the MPC absolutely no new arguments to change their view, so the central bank still believes that there are no reasons to mull changes in monetary policy in a foreseeable future. We still believe that the main interest rates will remain on hold at least until November 2019.

EURUSD held within the Tuesday's trading range amid lack of important data releases. Only in the late afternoon the exchange rate eased to 1.168. Today we will see US June CPI

and weekly initial jobless claims. The former release could determine whether EURUSD ends the week above or below resistance at 1.18. The market has largely priced coming Fed rate hikes and so the market response could be bigger if the headline surprises to the downside.

EURPLN remained in the horizontal trend around 4.32 and USDPLN stayed close to 3.68 amid calm session on the global FX market. Slight rebound of EURUSD neutralized the negative impact of falling stock prices and so the zloty remained stable. The MPC decision and comments during the press conference were neutral for the currency. Today in the afternoon the US inflation data is on the agenda that could impact EURUSD and consequently EURPLN. Should the US CPI surprise to the downside, the zloty could gain vs the euro. We think EURPLN will stay above 4.30 until the end of the week.

In case of the **other CEE currencies**, the session was fairly calm as well. EURHUF was hovering around 324, EURCZK remained close to 25.9 while USDRUB did not deviate much from 62.0. Yesterday the oil prices recorded the biggest daily drop for over two years but this did not have big impact on the ruble. Yesterday in the evening the Czech parliament gave a confidence vote to PM Andrej Babis minority government. His ANO party and Social Democrats hold 93 seats in 200-seat parliament and will rely on support from communists. Yesterday's parliament decision did not influence the koruna.

On the **domestic interest rate market** bond yields and IRS were falling since the beginning of the session outperforming core debt (where yields were roughly stable) and euro zone peripheries (where bond prices were falling). The dovish rhetoric of Polish MPC during the press conference provided some marginal support for bonds. Today in Poland the bond switch auction will take place but in our view the US CPI should be more important. Yesterday Poland 10Y bond yield fell below 3.20% support and the down move could continue if the US inflation surprises to the downside.

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FX market

Today's opening

EURPLN	4.3370	CZKPLN	0.1673
USDPLN	3.7125	HUFPLN*	1.3342
EURUSD	1.1682	RUBPLN	0.0596
CHFPLN	3.7298	NOKPLN	0.4586
GBPPLN	4.9058	DKKPLN	0.5819
USDCNY	6.6895	SEKPLN	0.4220

*for 100HUF

Last session in the FX market

11/07/2018

	min	max	open	close	fixing
EURPLN	4.310	4.341	4.318	4.334	4.3322
USDPLN	3.669	3.706	3.680	3.705	3.7
EURUSD	1.170	1.176	1.173	1.170	-

Interest rate market

11/07/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0720 (2L)	1.62	-1	15-Jun-18	OK0720	1.605
DS1023 (5L)	2.51	0	15-Jun-18	PS0123	2.393
WS0428 (10L)	3.17	-3	15-Jun-18	WS0428	3.197

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.75	-1	2.63	0	-0.26	0
2L	1.96	-1	2.82	0	-0.17	0
3L	2.14	-2	2.88	-1	-0.02	0
4L	2.32	-2	2.89	-1	0.13	0
5L	2.47	-2	2.90	-1	0.27	-1
8L	2.79	-2	2.91	-1	0.66	-1
10L	2.95	-2	2.93	-2	0.87	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.60	1
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	1.70	0
3x6	1.72	-1
6x9	1.74	-2
9x12	1.80	-2
3x9	1.80	0
6x12	1.85	-1

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.80	-3
France	26	0	0.28	0
Hungary	116	1	2.93	-1
Spain	68	1	0.93	-1
Italy	229	-3	2.31	-1
Portugal	64	0	1.39	-1
Ireland	25	0	0.44	0
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

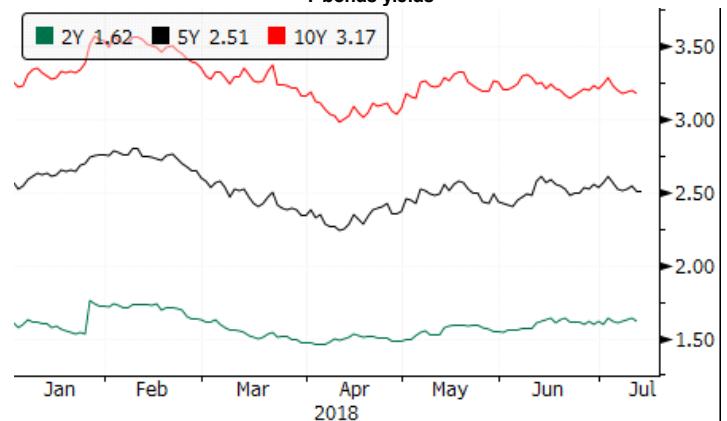
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

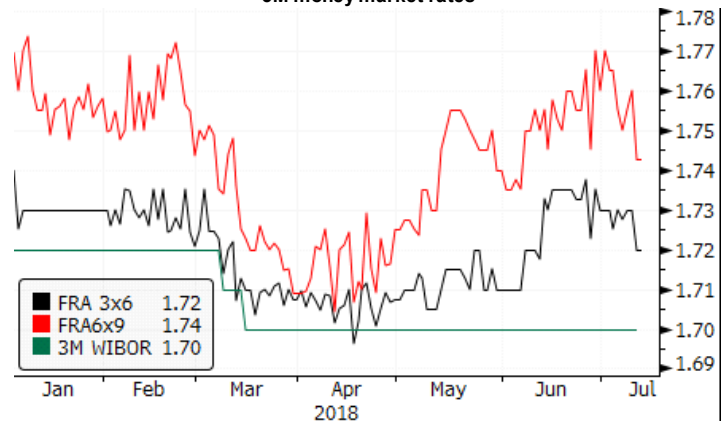
Zloty exchange rate



T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar									
TIME		INDICATOR		PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE
CET	MARKET					BZWBK			
FRIDAY (6 July)									
08:00	DE	Industrial Production SA	May	% m/m	0.3	-	2.6	-1.0	
09:00	HU	Industrial Production SA	May	% y/y	2.1	-	3.8	2.9	
14:30	US	Change in Nonfarm Payrolls	Jun	k	195	-	213	244	
14:30	US	Unemployment Rate	Jun	%	3.8	-	4.0	3.8	
MONDAY (9 July)									
08:00	DE	Exports SA	May	% m/m	0.3	-	1.8	-0.3	
09:00	CZ	Industrial Production	May	% y/y	-	-	1.4	5.5	
TUESDAY (10 July)									
09:00	HU	CPI	Jun	% y/y	3.1	-	3.1	2.8	
11:00	DE	ZEW Survey Current Situation	Jul	pts	78.1	-	72.4	80.6	
WEDNESDAY (11 July)									
	PL	MPC decision		%	1.50	1.50	1.50	1.50	
09:00	CZ	CPI	Jun	% y/y	2.5	-	2.6	2.2	
THURSDAY (12 July)									
08:00	DE	HICP	Jun	% m/m	0.1	-	0,1	0.1	
10:00	PL	GUS Trade Balance	May	€mn					
11:00	EZ	Industrial Production SA	May	% m/m	1.2	-		-0.9	
11:30	PL	Bond Switch Auction							
14:30	US	CPI	Jun	% m/m	0.2	-		0.2	
14:30	US	Initial Jobless Claims	week	k	225	-		227	
FRIDAY (13 July)									
09:00	CZ	CNB minutes			-				
10:00	PL	CPI	Jun	% y/y	1.9	1.9		1.6	
16:00	US	Michigan index	Jul	pts	98.2	-		98.2	

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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