

# EYEOPENER

17 July 2018

## Core inflation begins to rise

- Core inflation went up, positive C/A surprise due to poor imports
- Significant lowering of core inflation path in NBP projection
- Zloty and CEE fx continue to strengthen
- Domestic yields decline ahead of a buy-back, core yields up
- Today wage and employment data in Poland

On Monday, equity markets were fluctuating, dollar was depreciating, and bonds were weakening on global markets. News from Trump-Putin meeting did not affect markets too much, with the exception of crude oil price, which fell by \$3 yesterday (after Russia declared its readiness to boost oil output and US signalled possible exceptions in Iran's oil ban). US data on retail sales showed that domestic demand is doing fine and the release of Empire State Manufacturing index signalled still weak inflationary pressure. Zloty and other currencies in the region were strengthening and Polish bonds were also gaining. Today the EU-Japan trade deal is to be signed and Fed governor Jerome Powell will have a testimony in the US Congress.

**Core inflation** excluding food and energy prices climbed to 0.6% y/y in June from 0.5% y/y in May. This was the first increase in this gauge this year. Other measures of core inflation also went up in June. In our view, core inflation can reach this year's trough so we are expecting core inflation to further increase this year and to surpass 1% y/y before the year-end. May C/A data unexpectedly showed a surplus. The trade balance surprised to the upside as well but mainly due to disappointing imports.

From the **June NBP Inflation report** we know that the slight downward revision of inflation forecasts for 2018-2020 was a result of a noticeable cut in expected core CPI, by 0.8bp, 0.5bp and 0.3bp to 0.8%, 2.1% and 2.7%, respectively. Estimates for energy and food were revised up. The scale of the downward revision of 2018 core CPI was much larger than the scale of the downside surprises this year. In addition, NBP analysts stressed that the underlying domestic factors remain favorable for a rebound of core CPI – unit labour costs are expected to keep rising, while the output gap is anticipated to remain highly positive throughout the entire projection horizon – but there is a structural change in the response of prices, with globalization and online purchases causing delays in transmission of these domestic factors to CPI. The rebound of core CPI is shown occurring later than in the March projection, but should be steeper, and its growth rate at the end of the projection (4Q20) is forecast to be slightly below 3% y/y.

The NBP expects the labour market to continue to reduce slack, but employment growth should be very low (and achieved mostly by the assumed rise in labor participation rate), while further

unemployment rate decreases will also be limited. Still, wage growth is expected to stay close to 7% throughout the entire projection horizon. Changes to the GDP projection (higher for 2018 and fractionally lower for 2020) came mostly from revisions in public consumption.

The new projections should make the MPC even more focused on keeping rates stable in the foreseeable future, in our view. MPC **Grażyna Ancyparowicz** said that interest rates might stay on hold even until the end of Council's term (2022). She rejected the idea of a rate cut. We think the approach of the Council will change when CPI and core inflation rebound in 2019. In our view, the first rate hike is possible at the very end of 2019, provided that economic growth remains decent by then, inflation exceeds the target with no signs of the upward trend coming to an end, and the ECB starts lifting interest rates as well.

On Monday **EURUSD** was growing driven by the overall improvement of the moods on the market and decreased fears of further uncontrolled development of trade wars. As a result, during the day EURUSD grew from 1.1690 to 1.1720, the level from Thursday. Today, we expect the further increase in EURUSD, caused by good moods holding on the markets.

**EURPLN** was moving down since the beginning of the yesterday session helped by decent global market sentiment (boosted by expectations for US corporate earnings releases). As a result, EURPLN eased to 4.308 from 4.316 reaching 4.30 for a while, its lowest since mid-June. USDPLN recorded a bigger drop, falling from 3.697 to 3.678, owing to higher EURUSD.

In case of **other CEE currencies**, the koruna and the forint were appreciating slightly against EUR. In case of USDRUB, we also observed a decline (from 62.50 to 62.40), despite decreasing prices of petroleum.

On the **domestic debt market** yields of t-bonds were decreasing at a fast pace (despite an increase of yields on the core markets – US curve up 2-4 bp, German 1-2 bp), driven by the expected buy-back of Polish t-bonds next week. As a result the domestic yield curve was shifted down by 2-4bp, stronger on the short end of the curve. Today we expect the decrease of yields to continue, supported by next week sovereign bond redemptions.

**Today** Stat Office will release wages and employment data for June. Employment growth could decelerate to 3.6% y/y. The wages growth should accelerate due to the positive effect of working days (June compare to May) and salary increases in the mining sector.

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## FX market

## Today's opening

EURPLN	4.3056	CZKPLN	0.1664
USDPLN	3.6703	HUFPLN*	1.3329
EURUSD	1.1730	RUBPLN	0.0588
CHFPLN	3.6877	NOKPLN	0.4537
GBPPLN	4.8597	DKKPLN	0.5776
USDCNY	6.6828	SEKPLN	0.4169

\*for 100HUF

## Last session in the FX market

16/07/2018

	min	max	open	close	fixing
EURPLN	4.300	4.326	4.311	4.309	4.3076
USDPLN	3.669	3.700	3.696	3.681	3.6828
EURUSD	1.168	1.173	1.168	1.171	-

## Interest rate market

16/07/2018

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

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0720 (2L)	1.61	0	15-Jun-18	OK0720	1.605
DS1023 (5L)	2.49	-1	15-Jun-18	PS0123	2.393
WS0428 (10L)	3.14	-2	15-Jun-18	WS0428	3.197

## IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.74	-1	2.64	1	-0.26	0
2L	1.93	-2	2.83	2	-0.17	0
3L	2.12	-1	2.88	2	-0.03	0
4L	2.30	-1	2.89	2	0.11	-1
5L	2.46	-2	2.89	2	0.27	1
8L	2.78	-2	2.91	2	0.66	1
10L	2.93	-2	2.93	3	0.88	1

## WIBOR rates

Term	%	Change (bps)
O/N	1.59	-1
T/N	1.59	-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	1.71	-1
6x9	1.72	-1
9x12	1.78	-1
3x9	1.79	0
6x12	1.82	-1

## Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.78	-1
France	26	0	0.29	0
Hungary	116	1	2.98	0
Spain	67	-1	0.91	-1
Italy	229	-3	2.19	-2
Portugal	64	0	1.40	-1
Ireland	25	0	0.46	0
Germany	11	0	-	-

\* 10Y treasury bonds over 10Y Bunds

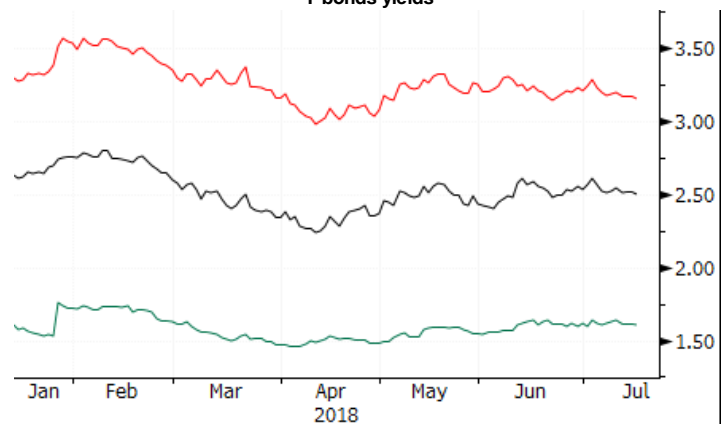
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

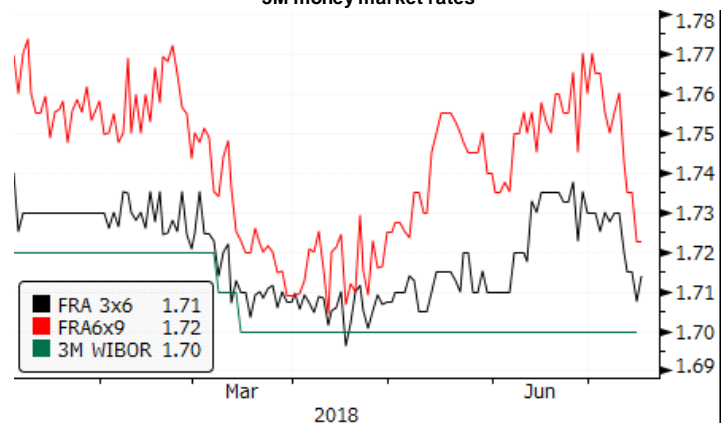
## Zloty exchange rate



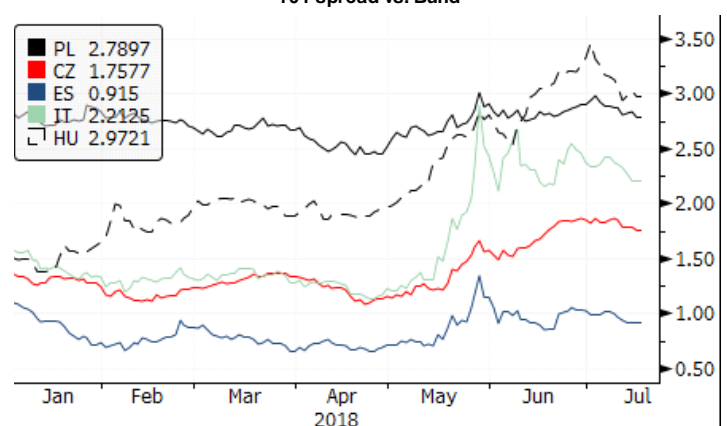
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic calendar

Economic calendar								
TIME		INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE	
CET				MARKET	BZWBK			
FRIDAY (13 July)								
09:00	CZ	CNB minutes	Mar-01		-			
10:00	PL	CPI	Jun	% y/y	-	1.9	2.0	1.9
16:00	US	Michigan index	Jul	pts	98.0	-	97.1	98.2
MONDAY (16 July)								
14:00	PL	CPI Core	Jun	% y/y	0.6	0.5	0.6	0.5
14:00	PL	Current Account Balance	May	€mn	-153.0	-563.3	42	-21.0
14:00	PL	Trade Balance	May	€mn	-25.0	-272.0	98	314.0
14:00	PL	Exports	May	€mn	17325.0	17148.0	17251	17176.0
14:00	PL	Imports	May	€mn	17410.0	17420.0	17153	16862.0
14:30	US	Retail Sales Advance	Jun	% m/m	0.5	-	0.5	0.8
TUESDAY (17 July)								
10:00	PL	Employment in corporate sector	Jun	% y/y	3.7	3.62	-	3.7
10:00	PL	Average Gross Wages	Jun	% y/y	7.0	7.7	-	7.0
15:15	US	Industrial Production	Jun	% m/m	0.55		-	-0.09
WEDNESDAY (18 July)								
10:00	PL	Sold Industrial Output	Jun	% y/y	5.95	7.0	-	5.4
10:00	PL	Construction Output	Jun	% y/y	20.35	19.5	-	20.8
10:00	PL	PPI	Jun	% y/y	3.6	3.5	-	2.8
10:00	PL	Consumer Confidence	Mar-01					
11:00	EZ	HICP	Jun	% y/y	2.0		-	2.0
14:30	US	Housing Starts	Jun	% m/m	-1.7		-	5.0
20:00	US	Beige Book						
THURSDAY (19 July)								
14:30	US	Initial Jobless Claims		k	225.0		-	214.0
14:30	US	Index Philly Fed	Jul		20.5		-	19.9
FRIDAY (20 July)								
10:00	PL	Retail Sales Real	Jun	% y/y	6.8	7.3	-	6.1
10:00	PL	Stats Poland business sentiment	Jul-18	pts				

Source: BZ WBK, Bloomberg, Parkiet

\* in case of the revision the data is updated

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