

EYEOPENER

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Yuan in focus, remarks of MPC hawks

- Hawkish MPC members signaled the need to hike rates
- Yuan weakness scared the markets, its today's rebound strengthened Asian equities
- Złoty and CEE fx suffered from risk aversion, domestic bonds remained strong
- Today Polish retail sales and business sentiment data

On Thursday, the global market sentiment deteriorated hitting the zloty and its CEE peers. Commodity prices fell as well. This was largely driven by further fast depreciation of the Chinese currency, return of concerns about disruptions that trade tariffs could cause in supply chains and by recent positive comments of Fed's Powell about the US economy. Additional pressure on the equity prices was generated by disappointing US companies earnings. Polish bond yields fell amid stronger bonds on the core markets and outlook for next week's t-bond buyback. In the evening, EURUSD jumped after Donald Trump said that strong dollar and Fed rate hikes undermine his actions to revive the US economy. The zloty was pressured by higher risk aversion and amid solid US data (lower rise of the initial jobless claims and the above-consensus Philly Fed index). In Poland, we saw two members of the hawks' camp in the MPC calling for rate hikes. Today's significant appreciation of the yuan (probably owing to the Chinese authorities intervention) improved global market sentiment and helps the zloty to recover after the yesterday's depreciation.

Two of the most hawkish members of the Monetary Policy Council commented on the monetary policy outlook. **Kamil Zubelewicz said that the new NBP projection shows a worrisome rise of core inflation, which is a strong argument for starting to raise interest rates.** In his opinion, the MPC's rhetoric should become more restrictive, which would be a first step toward considering and then voting on interest rate hikes. The latter should take place, in his view, when core inflation exceeds 2%. The too-soft rhetoric of the central bank is unnecessarily weakening the Polish currency, Zubelewicz said. However, he believes that if the zloty resumes its appreciation trend, the process of interest rate hikes could be delayed.

The MPC's Eugeniusz Gatnar also believes that the time for monetary policy tightening is approaching. In his view, the central bank should act in an anti-cyclical manner to create more room for reaction (interest rate cuts) when the economic slowdown eventually materializes. Gatnar expects faster and stronger inflation than that predicted by the NBP projection (inflation above the upper end of band around the 2.5% inflation target in the next two years) and he believes that the first interest rate hike could

take place at the start of 2019. Interestingly, in his view, the total room for rate hikes in the current cycle is a mere 50 bps.

In our view, such hawkish views still represent a very small minority in the Monetary Policy Council. Meanwhile, NBP Governor Adam Glapiński has built a strong consensus for keeping monetary policy stable for as long as possible. Although Zubelewicz commented that the results of the latest inflation projection have led more MPC members to consider interest rate hikes, we doubt that it was a meaningful change – he made similar comments a few months ago, and since then the MPC's rhetoric has become even more dovish. Moreover, the latest projection showed a lower inflation path than the previous projection. **We maintain our view that the first interest rate hike should not occur earlier than the very end of 2019.**

On Thursday **EURUSD** continued losses driven by the return of fear of negative impact of implemented tariffs on economic growth. As a result EURUSD fell from 1.1650 in the morning to 1.16 in the afternoon. Declining stock indices and industrial commodity prices gave the dollar some support. The rebound of EURUSD after US president's remarks reached 1.165.

The **złoty** lost, similarly as other EM currencies. Fuel for further rise of EURPLN was delivered by worries about rate hikes in the USA and higher risk aversion. As a result, EURPLN climbed to 4.3400 from 4.3090. Jump of EURUSD managed to stop the further PLN depreciation. A rebound was observed this morning with improved market sentiment and halt in CNY depreciation. This allows us to assume that the zloty will focus today on trimming yesterday's losses. Other CEE currencies also weakened given higher risk aversion, with the koruna losing less and the forint more than the zloty. The ruble was a clear underperformer in the region, despite a rebound in the oil prices. All these currencies began Friday with a strengthening.

On the **global debt market**, yields were sliding during the US session, which was a reaction to Trump's remarks against the tightening of US monetary policy. As a result, the US curve slipped by 4-6bp, while the German one by 1-2bp. We do not exclude that the yield curve decreases will continue today.

On the **domestic interest rate market** bond yields were falling following core bonds strengthening and before the next week's bond buyback. As a result, Polish bond curve eased 1-3bp which was accompanied by the rise of short-term IRS. Hawkish comments of the MPC members did not affect the market.

Retail sales data are out today and should show acceleration of growth, as the previous month's outcome was weakened by holidays and weather.

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FX market

Today's opening

EURPLN	4.3337	CZKPLN	0.1672
USDPLN	3.7189	HUFPLN*	1.3291
EURUSD	1.1653	RUBPLN	0.0585
CHFPLN	3.7223	NOKPLN	0.4524
GBPPLN	4.8421	DKKPLN	0.5815
USDCNY	6.7739	SEKPLN	0.4179

*for 100HUF

Last session in the FX market

19/07/2018

	min	max	open	close	fixing
EURPLN	4.306	4.342	4.309	4.342	4.3155
USDPLN	3.695	3.742	3.698	3.740	3.7163
EURUSD	1.158	1.166	1.165	1.161	-

Interest rate market

19/07/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0720 (2L)	1.60	-1	12-Jul-18	OK0720	1.627
DS1023 (5L)	2.46	0	12-Jul-18	PS0123	2.356
WS0428 (10L)	3.12	0	12-Jul-18	WS0428	3.167

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.74	0	2.65	0	-0.26	0
2L	1.92	1	2.82	-1	-0.17	0
3L	2.10	1	2.87	-1	-0.03	0
4L	2.27	0	2.88	-1	0.12	0
5L	2.42	0	2.88	-1	0.26	-1
8L	2.72	0	2.89	-2	0.64	-1
10L	2.88	0	2.91	-2	0.86	-1

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	1.71	0
3x6	1.71	0
6x9	1.73	0
9x12	1.77	0
3x9	1.79	0
6x12	1.81	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.80	1
France	26	0	0.30	1
Hungary	116	1	3.04	1
Spain	67	1	0.97	2
Italy	209	-20	2.24	7
Portugal	64	0	1.44	2
Ireland	25	0	0.47	1
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

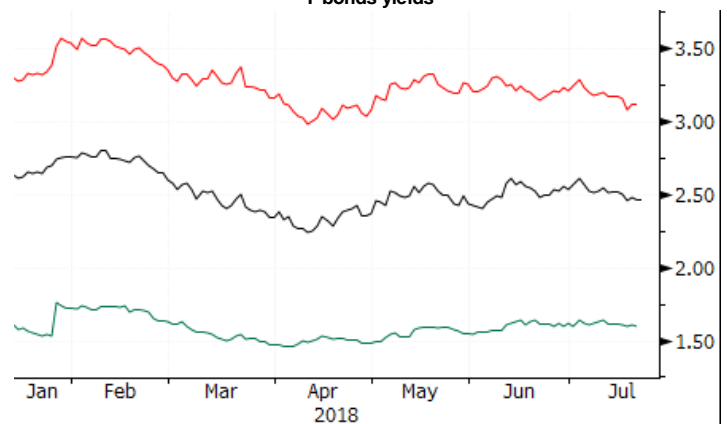
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

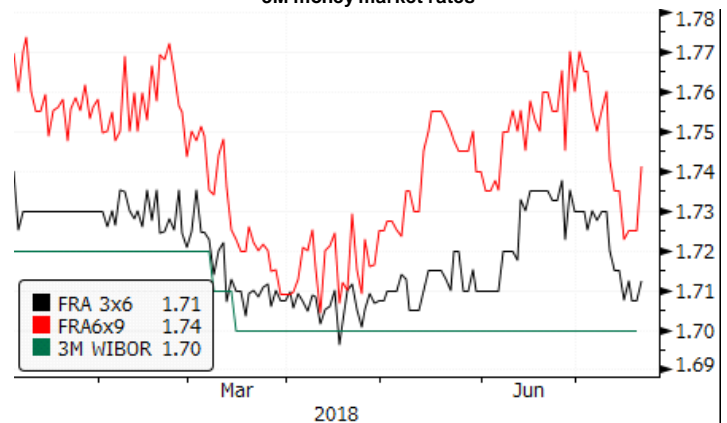
Zloty exchange rate



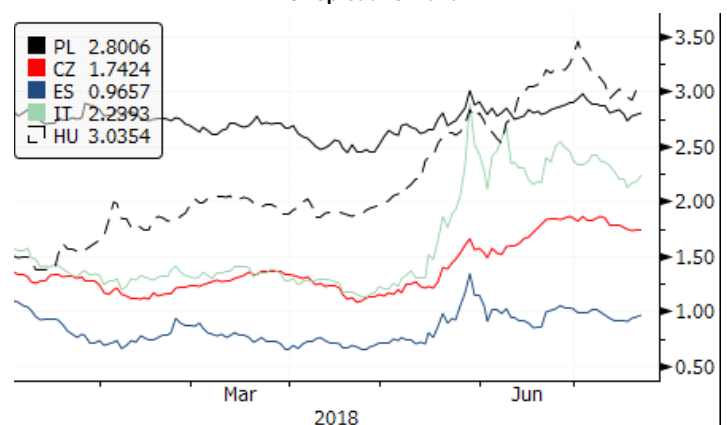
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME	INDICATOR		PERIOD		FORECAST		ACTUAL	LAST
CET					MARKET	BZWBK	VALUE	VALUE
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	3.7
10:00	PL	Average Gross Wages	Jun	% y/y	7.0	7.7	7.5	7.0
15:15	US	Industrial Production	Jun	% m/m	0.55		0.6	-0.09
WEDNESDAY (18 July)								
10:00	PL	Sold Industrial Output	Jun	% y/y	5.95	7.0	6.8	5.4
10:00	PL	Construction Output	Jun	% y/y	20.35	19.5	24.7	20.8
10:00	PL	PPI	Jun	% y/y	3.6	3.5	3.7	2.8
10:00	PL	Consumer Confidence	Mar-01					
11:00	EZ	HICP	Jun	% y/y	2.0		2.0	2.0
14:30	US	Housing Starts	Jun	% m/m	-2.2		12.3	5.0
20:00	US	Beige Book						
THURSDAY (19 July)								
14:30	US	Initial Jobless Claims		k	225.0		207	214.0
14:30	US	Index Philly Fed	Jul		21.5		25.7	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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