

# EYEOPENER

29 August 2018

## Markets wait for a new impulse

- **Better US consumer sentiment, slower money supply growth in the euro zone**
- **Zloty and domestic bonds stable**
- **NBP report on monetary transmission supports MPC stance**
- **Today second reading of US 2Q GDP**

On Tuesday, after several days of growth on global stock markets and new record highs broken by the US indices, we saw a slow waning of the optimism inspiring the markets since Monday when the preliminary trade agreement was signed between the US and Mexico. Investors slowly came to remember about very stalled US talks with China and Europe. That resulted in stabilization of the dollar and unsuccessful attempts to more dynamically increase yields on the core debt markets. A lower-than-expected growth of money supply in the euro zone weakened a relative hawkish statement of ECB chief economist Peter Praet. The euro was also pressured by reports that Italy, due to a difficult financial situation, allegedly is to push the ECB to activate another series of quantitative easing. The US consumer sentiment went up, however not enough to effectively strengthen the dollar or increase the yields. In Poland, the zloty remained stable vs. the euro and the 5-10L bonds, after some attempts to gain, remained stable at the opening levels.

**Every two years, NBP presents a report about monetary policy transmission mechanism.** The new confirmed one previous estimates of scale and delay of response of inflation and real economy to monetary policy impulses. On the basis of three NBP models, the maximum effect of a 100 bp interest rate hike maintained for a quarter comes to GDP growth after 1-4 quarters lowering it by c0.3%, in case of core inflation it comes after 3-6 quarters (decline of 0.3%). Authors reported that in periods of positive output gap, especially in expansion phase, influence of output gap on consumer prices becomes stronger as enterprises faced with capacity constraints, are more eager to convert rising demand into inflation rather than in higher output. They added that in the expansion phase prices become more sensitive to inflation expectations (more companies seek to optimise price policies) and foreign exchange changes. The report repeats however the finding from the previous edition that the pass-through of FX changes to CPI decreased compared to the previous decades, which is a result of internationalization of production processes. On the other hand, NBP analysts noted that the influence of FX on the prices is relatively high as the economy approaches the peak of the cycle (as it is doing now, in our view).

The empirical finding that effectiveness of monetary policy tools did not decrease due to long period of historically low interest rates and that it did not lead to excessive risk-taking by banks were considered by NBP analysts to be the most important conclusions from the central bank's point of view. What is more, the analysis showed that inflation response to rate decisions is the strongest and the quickest in the expansion phase of the business cycle (ie when the output gap is no longer growing, but remains positive), to be reached by the Polish economy in 2019-2020. The message for the MPC is, as we read it, that keeping rates unchanged at the very low level does not threaten financial stability and even if the CPI outlook deteriorates, the Council will have highly effective tools at hand to correct it in the years to come. We can thus see the NBP report as supportive for the current stance of the MPC.

On Tuesday **EURUSD** increased from 1.167 to 1.173 (the highest level in a month) and in the afternoon it went back to 1.171 (in a reaction on better-than-expected US Conference Board Index). This morning the exchange rate is back at c1.167. The observed weakening of the dollar came as investors continued to price in Monday announcement on US-Mexico trade deal. In our opinion, yesterday data about US consumer sentiment should support a slight correction and drop of EURUSD today.

On Tuesday **EURPLN** stayed low, after it failed to rebound in the morning, and **USDPLN** declined in a response to the dollar weakness (moving to 3.643 from 3.655). Today we expect slight decrease of the zloty's value vs both currencies following the assumed strengthening of the dollar. **GBPPLN** went down to 4.70 for the first time since March after signals that deadline for the Brexit treaty between the UK and the EU was postponed to mid-November and after Theresa May's remark that leaving the EU without a new trade deal would not be a disaster.

Among **other CEE currencies**, **EURCZK** fell to 25.70 from 25.75, while **EURHUF** moved in a narrow range (323.60-324.10) amid lack of important data publications. **USDRUB** rose to 67.90 from 67.50. Rising oil prices were not enough to help the Russian ruble. RUB was still negatively reacting to comments about risk related to the newly-imposed sanctions, its USD debt maturing shortly and internal tensions related to the planned increases of retirement age.

On the **domestic debt market**, yields tried to decrease, despite the rise of core markets yields. However, at the end of the day, the 5-10Y yields returned to the opening level, while 2Y yields declined by 2 bp. Today we expect domestic yields to stabilize.

The **government agreed** on Employee Capital Plans (PPK) bill, which are to start operating in mid-2019.

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## FX market

## Today's opening

EURPLN	4.2747	CZKPLN	0.1662
USDPLN	3.6626	HUFPLN*	1.3188
EURUSD	1.1671	RUBPLN	0.0539
CHFPLN	3.7479	NOKPLN	0.4376
GBPPLN	4.7072	DKKPLN	0.5732
USDCNY	6.8230	SEKPLN	0.3995

\*for 100HUF

## Last session in the FX market

28/08/2018

	min	max	open	close	fixing
EURPLN	4.266	4.277	4.268	4.268	4.2732
USDPLN	3.637	3.663	3.652	3.642	3.6548
EURUSD	1.166	1.173	1.169	1.172	-

## Interest rate market

28/08/2018

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

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0720 (2L)	1.55	-4	23-Aug-18	OK0720	1.578
DS1023 (5L)	2.48	0	23-Aug-18	PS0123	2.335
WS0428 (10L)	3.15	-1	23-Aug-18	WS0428	3.156

## IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.77	0	2.66	1	-0.25	0
2L	1.92	0	2.84	1	-0.15	0
3L	2.10	0	2.89	1	-0.01	0
4L	2.28	1	2.90	1	0.15	0
5L	2.43	1	2.90	2	0.29	0
8L	2.73	1	2.93	2	0.68	0
10L	2.89	1	2.95	2	0.90	0

## WIBOR rates

Term	%	Change (bps)
O/N	1.16	-17
T/N	1.27	-11
SW	1.54	0
2W	1.60	0
1M	1.64	0
3M	1.71	0
6M	1.79	0
9M	1.82	0
1Y	1.87	0

## FRA rates on the interbank market\*\*

Term	%	Change (bps)
1x4	1.72	0
3x6	1.74	0
6x9	1.77	0
9x12	1.80	0
3x9	1.82	0
6x12	1.86	0

## Measures of fiscal risk

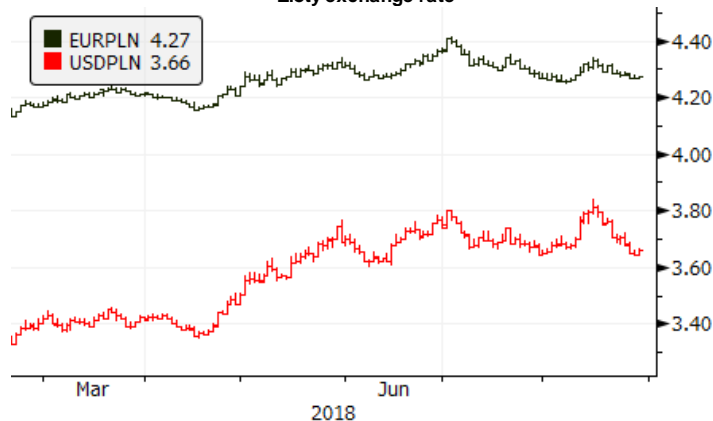
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.78	0
France	26	-1	0.34	0
Hungary	116	1	2.99	1
Spain	70	-1	1.07	0
Italy	253	1	2.79	-1
Portugal	64	0	1.49	0
Ireland	25	0	0.51	0
Germany	11	0	-	-

\* 10Y treasury bonds over 10Y Bunds

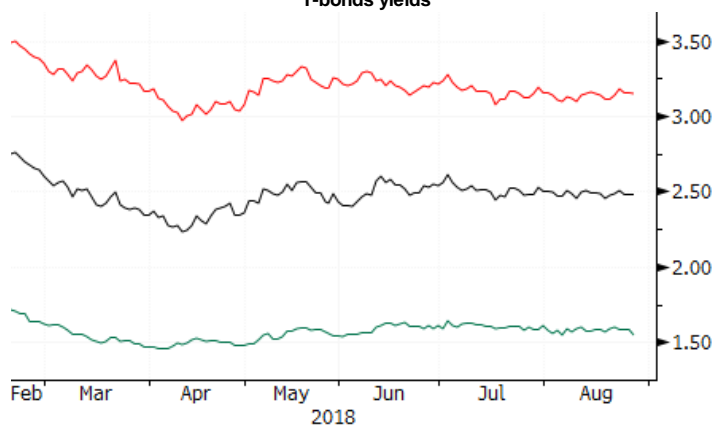
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

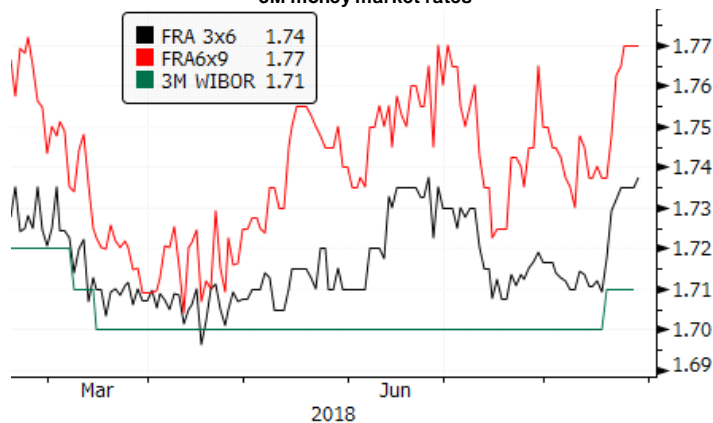
## Zloty exchange rate



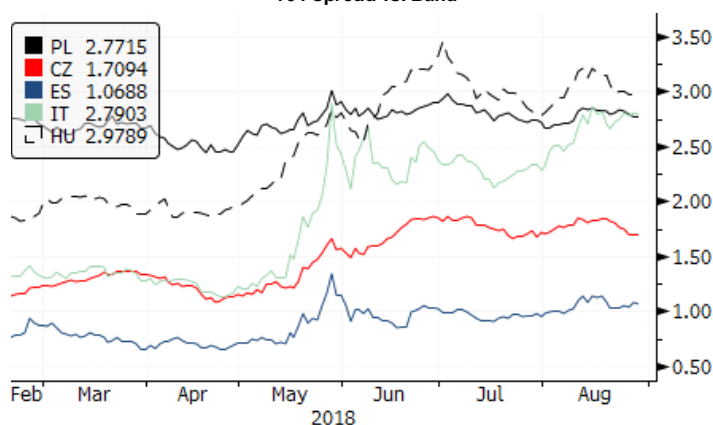
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic calendar

TIME		INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST
CET	MARKET				BZWBK	VALUE		
FRIDAY (24 August)								
08:00	DE	GDP WDA	% y/y	2.0		2.0	2.0	
10:00	PL	Unemployment Rate	%	5.9		5.9	5.9	
16:00	US	Durable Goods Orders	% m/m	-1.0		-1.7	0.8	
MONDAY (27 August)								
10:00	DE	IFO Business Climate	Aug pts	101.8		103.8	101.7	
TUESDAY (28 August)								
16:00	US	Consumer Conference Board	Aug pts	126.6		-	127.4	
WEDNESDAY (29 August)								
	PL	Central Budget Cumul.	Jul mIn PLN	-			9535.5	
14:30	US	GDP Annualized	2Q % Q/Q	4.0		-	4.1	
16:00	US	Pending Home Sales	Jul % m/m	0.25		-	0.9	
THURSDAY (30 August)								
11:00	EZ	ESI	Aug pct.	111.88		-	112.1	
14:00	DE	HICP	Aug % m/m	0.2		-	0.4	
14:30	US	Initial Jobless Claims	Aug-18 k	213.0		-	210.0	
14:30	US	Personal Spending	Jul % m/m	0.4		-	0.4	
14:30	US	Personal Income	Jul % m/m	0.4		-	0.4	
14:30	US	PCE Deflator SA	Jul % m/m	0.12		-	0.1	
FRIDAY (31 August)								
08:00	DE	Retail Sales	Jul % m/m	-0.15		-	0.9	
09:00	CZ	GDP SA	2Q % y/y	2.3		-	2.3	
10:00	PL	CPI	Aug % y/y	2.0	1.8	-	2.0	
10:00	PL	GDP	2Q % y/y	-	5.1	-	5.1	
11:00	EZ	Flash HICP	Aug % y/y	2.1		-	2.1	
11:00	EZ	Unemployment Rate	Jul %	8.2		-	8.3	
16:00	US	Michigan index	Aug pts	95.5		-	95.3	

Source: BZ WBK, Bloomberg, Parkiet

\* in case of the revision the data is updated

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