Poland: MPC holds rates flat, keeps dovish stance

The central bank maintained its dovish stance but acknowledged somewhat better growth prospects

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Poland's central bank said incoming data suggests that a recovery in private investment began in 4Q17, but underlined that solid evidence is still needed. The MPC also noted the favourable economic conditions of Poland's key trading partners, particularly Germany. Aside from mentioning slightly better 2018 growth prospects (compared to the previous MPC statement), the tone of the post-meeting comments was largely unchanged. The Council reiterated that mounting wage pressures have so far failed to result in rising core prices (also noting the disinflationary impact of rising labour activity and persistent inflow of migrant workers). Key hawk in the Council Łukasz Hardt noted that the probability of flat rates is currently higher than it was some months ago. Dove Jerzy Osiatyński added that concerns about rising wages have recently diminished.

The Governor added the Council so far sees no tangible negative impact from the appreciation of the zloty on exports. However, he noted that there were voices within the MPC showing concern about the currency's strength.

In our view, the MPC statement and Adam Glapiński's remarks support the case for no more than two rate hikes next year (compared to three fully priced in by the market prior to the meeting). We also see little chance of monetary tightening before 2Q19. Moreover, we see a strong possibility that the next inflation projections (due in March) will show a lower path of both headline and core CPI.

> Consequently, we expect the market pricing of 2019 hikes to go down (by 15-20bps). Given Ministry of Finance intentions to extend public debt duration, this should result in lower yields of short end Polish government bonds. The overall negative impact on the zloty is likely to be limited.

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