

EYEOPENER

26 July 2016

Calm start of the week

- **New good data from Germany, start of the week in good moods**
- **EURPLN still close to local low, EURUSD with no major changes awaiting the Fed**
- **Slight changes on the Polish and foreign interest rate market**
- **Today important data from the USA and Hungarian central bank decision**

The moderate optimism from the end of last week continued through Monday. Similarly to Friday, the demand for risky assets was supported by the relatively good readings of sentiment indices in Germany. The Ifo index fell (to 108.3 points from 108.7 points a month earlier) drifting away from the highest level since November 2015; but as in the case of PMI the drop was much lower than expected. In effect, the European indices rose slightly; and the CEE currencies kept close to the local maximum levels (some, like the forint, managed to improve slightly). Strong rises in the US stock exchange triggered profit taking at the opening of the week.

The EURUSD recorded a temporary surge to almost 1.10; but even the German Ifo reading that proved better than expected failed to spark a permanent movement. Important data from the US will be released today (real estate market and consumer sentiment index); however, we do not expect that the readings will have significant impact on the market the day before the FOMC decision.

The EURPLN remained slightly above the local minimum at 4.35; while the USDPLN remained close to the opening level of 3.97. The forint was the best performer in the CEE, strengthening against the euro for the fourth session in a row (EURHUF dropped to nearly 312, hitting lowest level since the end of June). Meanwhile, the ruble weakened to the USD for the fifth consecutive session - USDRUB picked up slightly above 65 (hitting highest level since the end of June), which is

to some extent due to the further depreciation of Brent crude oil whose prices were lowest since early May (nearly \$45 per barrel). We believe that the EURPLN will remain close to current levels in anticipation of tomorrow's FOMC decision. The market situation could be changed if the President presents the draft CHF mortgage relief act.

Monday saw no major developments on the domestic interest rate market; and similarly to the foreign markets, IRS rates yields recorded only slight changes. Today the Ministry of Finance will announce which bonds will be sold at the Thursday's auction. The planned supply amounts to PLN4-9bn, and, in our view, it will include a 5Y benchmark and a floater. The demand should not be a problem as yesterday the market was injected with PLN14bn from OK0716 redemption and coupon payments.

In line with our expectations the unemployment rate fell to 8.8% in June from 9.1%. The number of registered unemployed reached 1392.5k vs. 1456.9k in the previous month. Jobless registrations were at 155.5k in June (+5% y/y and +0.7% m/m). We think it is worth to stress the trend of rising number of people removed from the unemployed rolls due to finding a non-subsidised job (-14% y/y) and rising number of job offers (to 113.6k, its all-time high). This suggests, in our view, rising tensions on the labour market. We expect the unemployment rate to continue falling in the months to come.

Detailed data on June's employment showed that a substantial rise in industrial sector (+19k m/m) stemmed largely from increase in manufacturing (+8k m/m). Such a significant hiring is surprising given the rising tensions in the labour market and weak numbers in the LFS statistics. In our view, this might have partly been due to the change in the form of employment due to the new legal regulations but we expected this might rather be the case for trade and supportive services where the non-typical forms of employment are more common.

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FX market

Today's opening			
EURPLN	4.3643	CZKPLN	0.1615
USDPLN	3.9649	HUFPLN*	1.3986
EURUSD	1.1007	RUBPLN	0.0606
CHFPLN	4.0231	NOKPLN	0.4623
GBPPLN	5.1821	DKKPLN	0.5866
USDCNY	6.6767	SEKPLN	0.4593

*for 100HUF

Last session in the FX market 25/07/2016

	min	max	open	close	fixing
EURPLN	4.351	4.369	4.360	4.365	4.36
USDPLN	3.946	3.984	3.961	3.977	3.9697
EURUSD	1.096	1.104	1.101	1.098	-

Interest rate market 25/07/2016

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0418 (2Y)	1.62	0	7.07.2016	OK1018	1.706
PS0421 (5Y)	2.27	0	25.05.2016	PS0721	2.454
DS0726 (10Y)	2.92	0	7.07.2016	DS0726	3.027

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.66	1	0.89	2	-0.20	0
2L	1.68	1	0.98	2	-0.21	0
3L	1.71	1	1.06	3	-0.21	0
4L	1.79	1	1.12	3	-0.17	0
5L	1.88	1	1.19	3	-0.11	0
8L	2.11	1	1.37	2	0.16	0
10L	2.25	2	1.48	1	0.35	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.62	-5
T/N	1.62	-5
SW	1.60	-1
2W	1.62	0
1M	1.65	0
3M	1.71	0
6M	1.79	0
9M	1.80	0
1Y	1.81	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.70	0
3x6	1.67	1
6x9	1.61	1
9x12	1.59	1
3x9	1.74	1
6x12	1.67	1

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	88	-1	2.96	2
France	33	0	0.24	0
Hungary	142	1	2.95	-3
Spain	89	-2	1.15	1
Italy	134	0	1.28	1
Portugal	273	-5	3.06	-1
Ireland	65	1	0.51	0
Germany	16	-2	-	-

* 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 CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	BZWBK		
FRIDAY (22 July)								
9:30	DE	Flash PMI – manufacturing	Jul	pts.	53.4	-	53.7	54.5
10:00	EZ	Flash PMI – manufacturing	Jul	pts.	52.0	-	51.9	52.8
MONDAY (25 July)								
10:00	PL	Registered unemployment rate	Jun	%	8.8	8.8	8.8	9.1
10:00	GE	Ifo index	Jul	pts.	107.5	-	108.3	108.7
TUESDAY (26 July)								
14:00	HU	Central bank decision	Jul	%	0.90	-		0.90
16:00	US	Consumer confidence index	Jul	pts.	95.5	-		98.0
16:00	US	New home sales	Jun	k	560	-		551
WEDNESDAY (27 July)								
14:30	US	Durable goods orders	Jun	% m/m	-1.0	-		-2.3
16:00	US	Pending home sales	Jun	% m/m	1.8	-		-3.7
20:00	US	FOMC decision		%	0.25-0.50	-		0.25-0.50
THURSDAY (28 July)								
11:00	PL	T-bond auction						
14:30	US	Initial jobless claims	week	k	-	-		253
FRIDAY (29 July)								
11:00	EZ	Flash HICP	Jul	% y/y	0.2	-		-
11:00	EZ	Flash GDP	2Q	% y/y	1.5	-		1.7
14:00	PL	Flash CPI	Jul	% y/y	-	-0.9		-0.8
14:00	PL	Inflation expectations	Jul	% y/y	0.2	0.2		0.2
14:30	US	Advance GDP	2Q	% q/q	2.6	-		1.1
16:00	US	Michigan index	Jul	pts.	90.5	-		89.5

Source: BZ WBK, Reuters, Bloomberg

* in case of the revision, the data is updated

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