

EYEOPENER

10 August 2016

Zloty strongest since April

- **Positive sentiment persists, investors' activity still subdued, mixed inflation data from Hungary and Czechia**
- **EURPLN lowest since April, near important support, EURUSD slightly higher**
- **Polish IRS unchanged but bond yields lower thanks to debt strengthening abroad**
- **No important data releases today**

Yesterday financial markets have generally been calm as holiday period and lack of important macro data releases decreased investors' activity substantially. On the European stock markets equity prices increased slightly and bonds also gained, while currency markets did not change much. Ian McCafferty, considered as the hawk in the Bank of England, said that more quantitative easing may be required if the UK's economic decline worsens as suggested by leading indexes. As a consequence of his comment, the British pound weakened somewhat, but market reaction was limited.

Information on inflation rates were released in the Czechia and Hungary yesterday. While in Hungary deflation deepened slightly in July (to -0.3% y/y, from -0.2% y/y in the previous month), which was the result of a significant drop in fuel prices, in Czechia, the annual CPI rose to 0.5% y/y (with an increase in prices by 0.3% m/m) from 0.1% y/y in June. The greatest impact on the price increase per annum was recorded in the category "alcoholic beverages and tobacco", as well as in "housing, water, electricity, gas and other fuels". In Poland, the final CPI for July will be published on Friday (12 August). In our opinion, it will be in line with the flash reading of -0.9% y/y.

Since the opening of trading on Tuesday EURUSD hovered near 1.108, which was similar to Monday. The scale and dynamics of changes were reminiscent of the stagnation from the beginning of the week. It was not until late hours of the Polish trading session that the FX recorded a clearer move up to 1.112. At night, the dollar fell slightly and today at the

opening EURUSD is close to 1.115. No important world data will be released today, so yesterday's increase in volatility will probably be only temporary in anticipation of the readings from the US scheduled for next week.

EURPLN did not move much yesterday and remained near 4.265. USDPLN was hovering around 3.85 and only at the end of the session it fell below 3.84 on the rising EURUSD. In the case of the other CEE currencies, forint recovered after the Monday's depreciation vs the euro while the ruble pared part of gains vs the dollar earned at the beginning of the week. During the night the EURPLN reached temporarily 4.255, its lowest level since early April, but today at the opening it is hovering slightly above 4.26. Today there will be no new important data releases, so the Polish FX market should remain stable.

On the domestic interest rate market IRS rates remained roughly stable while bond yields fell amid debt strengthening seen abroad. As a result, the yield of 10Y benchmark neared this year's low after falling c50bp yesterday. The 10Y asset swap spread narrowed to c50bp, its lowest since January. Bond curve flattened slightly to 105bp in the 2-10 segment, mainly due to lower 2-5 spread. The 10Y Polish-German bond yield spread remained near 280bp. We think global factors will influence Polish market as domestic investors are waiting for the Friday's Polish macro data (flash GDP, final CPI). Until then, IRS rates and bond yields should stay close to the recent levels.

Today the meeting of the Polish Financial Stability Committee (KSF) will take place, at which the new president's proposal for the FX loans will be discussed. The Committee is supposed to appoint a working group today that will work on the shape of new regulatory requirements for banks. Those requirements are supposed to cause that keeping FX loans in banks' portfolios will be unprofitable. The NBP president Adam Glapiński said earlier that the working group's proposals should be ready by October.

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FX market

Today's opening

EURPLN	4.2650	CZKPLN	0.1578
USDPLN	3.8259	HUFPLN*	1.3737
EURUSD	1.1148	RUBPLN	0.0591
CHFPLN	3.9058	NOKPLN	0.4564
GBPPLN	4.9943	DKKPLN	0.5734
USDCNY	6.6460	SEKPLN	0.4493

*for 100HUF

Last session in the FX market 09/08/2016

	min	max	open	close	fixing
EURPLN	4.266	4.291	4.278	4.266	4.2693
USDPLN	3.851	3.871	3.859	3.851	3.8482
EURUSD	1.107	1.111	1.109	1.108	-

Interest rate market 09/08/2016

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0418 (2Y)	1.66	-1	7.07.2016	OK1018	1.706
PS0421 (5Y)	2.17	-8	28.07.2016	PS0721	2.327
DS0726 (10Y)	2.70	-7	7.07.2016	DS0726	3.027

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.67	0	0.94	1	-0.21	0
2L	1.71	-2	1.01	1	-0.22	-1
3L	1.73	-3	1.07	0	-0.22	0
4L	1.79	-4	1.12	0	-0.19	-1
5L	1.86	-4	1.18	-1	-0.14	-1
8L	2.06	-4	1.36	-2	0.10	-2
10L	2.18	-4	1.45	-3	0.28	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.61	0
T/N	1.61	0
SW	1.60	0
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	1.68	0
6x9	1.63	0
9x12	1.63	0
3x9	1.76	0
6x12	1.70	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	86	0	2.84	2
France	30	-2	0.22	0
Hungary	139	1	2.95	-2
Spain	83	-1	1.08	2
Italy	126	3	1.20	1
Portugal	262	-6	2.86	-1
Ireland	65	1	0.45	-1
Germany	17	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 CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	BZWBK			
FRIDAY (5 August)								
8:00	DE	Factory orders	Jun	% m/m	0.5	-	-0.4	0.1
14:30	US	Non-farm payrolls	Jul	k	180	-	255	292
14:30	US	Unemployment rate	Jul	%	4.8	-	4.9	4.9
MONDAY (8 August)								
8:00	DE	Industrial output	Jun	% m/m	0.7	-	0.8	-0.9
9:00	CZ	Industrial output	Jun	% y/y	2.2	-	3.9	8.6
TUESDAY (9 August)								
8:00	DE	Exports	Jun	% m/m	1.1	-	0.3	-1.9
9:00	CZ	CPI	Jul	% y/y	0.3	-	0.5	0.1
9:00	HU	CPI	Jul	% y/y	-0.2	-	-0.3	-0.2
WEDNESDAY (10 August)								
No important data								
THURSDAY (11 August)								
14:30	US	Initial jobless claims	week	k	-	-		269
FRIDAY (12 August)								
8:00	GE	Flash GDP	2Q	% y/y	-	-		1.3
9:00	HU	Flash GDP	2Q	% y/y	1.7	-		0.9
10:00	PL	Flash GDP	2Q	% y/y	3.3	3.1		3.0
11:00	EZ	Flash GDP	2Q	% y/y	1.6	-		1.7
14:00	PL	CPI	Jul	% y/y	-	-0.9		-0.8
14:00	PL	Money supply M3	Jul	% y/y	11.2	11.2		11.4
14:00	PL	Current account balance	Jun	€ mn	-52	-36		495
14:00	PL	Exports	Jun	€ mn	14 753	14 790		13351
14:00	PL	Imports	Jun	€ mn	14 388	14 607		13224
14:30	US	Retail sales	Jul	% m/m	0.2	-		0.6
16:00	US	Flash Michigan	Aug	pts	92.0	-		90.0

Source: BZ WBK, Reuters, Bloomberg

* in case of the revision, the data is updated

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