

# EYEOPENER

11 August 2016

## 10Y bond yield at lowest level this year

- **Correction of optimism abroad, but holiday moods still predominating**
- **MPC's Łon sees no reason to cut rates now, but does not rule out such move**
- **Zloty stable against euro and stronger vs. dollar thanks to higher EURUSD**
- **Bonds still gaining, yield of Polish 10Y benchmark at this year's new low**
- **Today weekly initial jobless claims data in the USA**

Wednesday saw a correction of optimism that has been prevailing on the global market since the beginning of the week. The European stock markets fell slightly and this – next to hopes for more monetary policy easing by the ECB, Bank of England and Bank of Japan – proved supportive for bonds that continued to gain. On the FX market, the dollar was under pressure yesterday.

EURUSD rose on Wednesday during the Polish trading hours and reached nearly 1.12. The yesterday's rise was the second biggest this month but it had not been triggered by data release or any other particular factor that we could point. Today's session will be the first this week when we will learn important data during the session – the US weekly initial jobless claims are due in the afternoon. The most recent US monthly labour market data was very strong, but today the dollar is weaker than on the day of their release. Investors are in a holiday mood and so the potential impact of the today's publication could also be only temporary.

Yesterday EURPLN rose to 4.27, but it was only short-lived upward move, and at the end of Polish session rate back near 4.26. Meanwhile, USDPLN fell to 3.81 thanks to the rebound in EURUSD. In the case of other CEE currencies, the Hungarian forint remained stable against the euro, while the Russian ruble temporarily strengthened versus the US dollar as a result of short-lived oil prices increase. In our view, minor changes on the stock markets support stabilisation of the zloty, which did

not gain significantly even despite the Polish bonds' strengthening. Today we will know the weekly labour market data in the USA, but we think that the impact on the Polish zloty will be rather limited.

On the domestic interest rate market yields and IRS rates recorded a further significant decline. At long ends of the curve the drop reached 5 bps. As a result, both curves flattened even more, and the yield on 10Y bonds hit this year's lowest level just below 2.70%. This was the result of a considerable rise in bond prices in the core markets, after the Bank of England failed to purchase enough gilts under the QE program. In effect, the yield on 10Y Bunds German fell to -0.12%, the peripheral debt markets strengthened, including the yield on the 10Y Spanish bonds that reached a historical low of nearly 1%. The situation on the core markets is still crucial for the valuation of national curves.

In an interview with Reuters, Eryk Łon, MPC Member, said that in his view stock prices are likely to continue to go up, which could in turn lead to an upward revision of GDP forecasts for Poland. NBP interest rate cuts would then be unnecessary. He noted, however, that the monetary easing cannot be completely ruled out, and that downward revision of GDP forecasts by the central bank in July is a warning sign, especially if we consider the recent significant decline in the PMI for the Polish industry. His statement does not change our view on the outlook for the monetary policy as most MPC members represent more hawkish views than Łon, and expect a fairly robust economic growth (outperforming NBP forecast) in the coming quarters.

As expected, the Financial Stability Committee decided yesterday to summon a special working group that is supposed to prepare draft recommendations for banks holding FX loans that would lead to restructuring of banks' portfolios through voluntary agreements between banks and their customers (by making holding FX loans unattractive for banks). The results of the taskforce's work should be known by October.

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**FX market**

**Today's opening**

EURPLN	4.2675	CZKPLN	0.1579
USDPLN	3.8215	HUFPLN*	1.3747
EURUSD	1.1167	RUBPLN	0.0587
CHFPLN	3.9211	NOKPLN	0.4614
GBPPLN	4.9743	DKKPLN	0.5737
USDCNY	6.6424	SEKPLN	0.4517

\*for 100HUF

**Last session in the FX market 10/08/2016**

	min	max	open	close	fixing
EURPLN	4.259	4.273	4.266	4.264	4.2632
USDPLN	3.832	3.857	3.851	3.840	3.825
EURUSD	1.107	1.112	1.108	1.110	-

**Interest rate market 10/08/2016**

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

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0418 (2Y)	1.65	-2	7.07.2016	OK1018	1.706
PS0421 (5Y)	2.15	-3	28.07.2016	PS0721	2.327
DS0726 (10Y)	2.67	-2	7.07.2016	DS0726	3.027

**IRS on the interbank market\*\***

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.66	-2	0.91	-3	-0.21	0
2L	1.70	-1	0.97	-5	-0.23	-1
3L	1.71	-1	1.02	-5	-0.23	-1
4L	1.78	-1	1.07	-5	-0.21	-2
5L	1.85	-1	1.13	-5	-0.17	-2
8L	2.04	-2	1.30	-5	0.07	-3
10L	2.16	-3	1.41	-5	0.25	-3

**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	1.66	-2
6x9	1.61	-2
9x12	1.60	-3
3x9	1.74	-2
6x12	1.68	-3

**Measures of fiscal risk**

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	72	-14	2.81	-4
France	30	0	0.21	-1
Hungary	137	-3	2.92	-3
Spain	81	-2	1.05	-2
Italy	127	1	1.19	-1
Portugal	264	2	2.85	-2
Ireland	65	1	0.44	0
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			
<b>FRIDAY (5 August)</b>								
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
<b>MONDAY (8 August)</b>								
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
<b>TUESDAY (9 August)</b>								
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
<b>WEDNESDAY (10 August)</b>								
No important data								
<b>THURSDAY (11 August)</b>								
14:30	US	Initial jobless claims	week	k	265	-		269
<b>FRIDAY (12 August)</b>								
8:00	GE	Flash GDP	2Q	% y/y	-	-		1.3
9:00	HU	Flash GDP	2Q	% y/y	1.7	-		0.9
<b>10:00</b>	<b>PL</b>	<b>Flash GDP</b>	<b>2Q</b>	<b>% y/y</b>	<b>3.3</b>	<b>3.1</b>		<b>3.0</b>
11:00	EZ	Flash GDP	2Q	% y/y	1.6	-		1.7
<b>14:00</b>	<b>PL</b>	<b>CPI</b>	<b>Jul</b>	<b>% y/y</b>	<b>-</b>	<b>-0.9</b>		<b>-0.8</b>
<b>14:00</b>	<b>PL</b>	<b>Money supply M3</b>	<b>Jul</b>	<b>% y/y</b>	<b>11.2</b>	<b>11.2</b>		<b>11.4</b>
<b>14:00</b>	<b>PL</b>	<b>Current account balance</b>	<b>Jun</b>	<b>€ mn</b>	<b>-52</b>	<b>-36</b>		<b>495</b>
<b>14:00</b>	<b>PL</b>	<b>Exports</b>	<b>Jun</b>	<b>€ mn</b>	<b>14 753</b>	<b>14 790</b>		<b>13351</b>
<b>14:00</b>	<b>PL</b>	<b>Imports</b>	<b>Jun</b>	<b>€ mn</b>	<b>14 388</b>	<b>14 607</b>		<b>13224</b>
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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