EYEOPENER

23 January 2017

Trump did not boost investors' optimism

- **Good moods of Polish consumers and entrepreneurs at the start of the year**
- **EURPLN still without major changes, EURUSD higher after Trump's inaugural speech**
- **Polish IRS and bond yields up, following core markets**
- **Today Polish bond auction**

Friday session in Europe passed in positive moods. Stock prices went up, while debt instruments were under pressure. Upward movement of yields may have been a continuation of market reaction to Thursday's strong US data. Investors were also hoping that Donald Trump will confirm his plans of economic stimulus, which would accelerate the Fed's hikes. Changes on the FX market were slight during the European trading hours, the dollar was gaining a bit.

In the evening the dollar started to depreciate against the euro after U.S. President Donald Trump struck a protectionist tone in his inauguration speech, which undermined the optimism about the US economic growth. This tendency was not reversed by Trump's promisesm of tax cuts and high public infrastructural investment (which however affected global commodity prices).

EURUSD declined on Friday during Polish trading hours to nearly 1,062 from 1,068. The scope of changes was slightly smaller than the day before as the investors were waiting for the evening speech of Donald Trump. The speech triggered US dollar weakening against euro and today morning EURUSD is close to 1,075. A strong rebound, bigger than the previous upward wave recorded in the second half of November suggests that the series of three consecutive downward weeks will be discontinued. Any lasting strengthening of euro might be determined by important data from the US planned to be announced in the upcoming days.

During Polish session EURPLN oscillated close to 4.37 and USDPLN rebounded to 4.11 from 4.08 following EURUSD decline. As for other CEE currencies, Hungarian forint lost against euro already for the third session in a row and EURHUF reached this year maximum of ca. 309.7. The Russian ruble stayed stable against the US dollar despite the continued growth in oil price. This morning EURPLN is close to 4.37 and USDPLN is ca. 4.06. The sentiment at the session opening is moderately weak which might exert some burden on the domestic currency awaiting the important data from the US planned for the upcoming days.

On the domestic interest rate market yields and IRS were going up by not more than 5bps following the debt weakening observed abroad. Both curves continued to steepen

The MPC member Jerzy Żyżyński said on Friday in an interview for Thomson Reuters that interest rate hikes will have to be considered when inflation hits the target and the economy overheats (although it is not a real threat yet). Meanwhile, the MPC's Łukasz Hardt said in an interview with Parkiet daily that the scenario of stable interest rates is the most likely one, yet he did not rule out rate hikes completely, as there are many uncertainties on the horizon. We are expecting the first hike not earlier than at the end of 2018.

The statistical office released business climate indicators for January. According to our estimate, after the seasonal adjustment the data show an improvement of moods in manufacturing, construction and retail trade, with the latter being a really impressive rebound. This is yet another piece of information suggesting that Polish economy is reviving at the turn of the year. Consumers also started 2017 in positive moods – both current and leading indicators rose in January amid, among others, better assessment of capability for bigger purchases, current country's economic situation, future level of unemployment and future capability of saving money. Assessment for the future economic situation of the country has slightly deteriorated.

According to deputy PM Mateusz Morawiecki, in 2017 GDP will grow by c3% y/y. In his view, in 2014-2015 GDP was even PLN30bn lower than officially reported due to the "fake invoices", which in his opinion means that the pace of growth was also overestimated.

Deputy finance minister, Leszek Skiba, said in the interview for Polish Press Agency (PAP) that Eurostat will probably not take into account the PLN9.2bn revenues from the LTE auction that lowered the 2016 central budget deficit. As a result, the fiscal deficit in 2016 could be higher by 0.46% of GDP than initially estimated and could reach c2.5% of GDP.

We think that this week domestic events are not going to be key for the market. Investors will focus on external factors, including investors' sentiment after Donald Trump's inauguration as the US President and economic activity data from Europe and the USA, with the US advance 4Q16 GDP data as the most crucial. Stronger-than-expected data might imply growing probability of faster rate hikes by the FOMC , and thus could trigger market reaction. This may bring trigger the zloty's more significant move after EURPLN consolidation in the last two weeks and could also influence Poland's debt market.

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FX market

Today's opening

EURPLN	4.3692	CZKPLN	0.1617
USDPLN	4.0656	HUFPLN*	1.4114
EURUSD	1.0747	RUBPLN	0.0684
CHFPLN	4.0700	NOKPLN	0.4853
GBPPLN	5.0657	DKKPLN	0.5875
USDCNY	6.8572	SEKPLN	0.4597

*for 100HUF

Last session in the FX market 20/01/2017

	min	max	open	close	fixing
EURPLN	4.358	4.377	4.367	4.369	4.3658
USDPLN	4.088	4.126	4.088	4.109	4.1005
EURUSD	1.059	1.068	1.068	1.063	-

Interest rate market 20/01/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0418 (2Y	1.99	1	5.01.2017	OK0419	2.324
PS0421 (5Y)	2.96	0	5.01.2017	PS0422	3.159
DS0726 (10Y)	3.73	4	5.01.2017	DS0727	3.757

IRS on the interbank market**

Term	PL %	PL Change (bps)	US %	US Change (bps)	EZ %	EZ Change (bps)
1L	1.80	1	1.27	-1	-0.22	0
2L	2.03	2	1.53	-2	-0.16	1
3L	2.20	3	1.74	-2	-0.07	2
4L	2.36	3	1.90	-2	0.03	2
5L	2.52	4	2.03	-1	0.15	2
8L	2.85	4	2.28	0	0.54	3
10L	3.02	4	2.39	1	0.78	3

WIBOR rates

Term	%	Change (bps)
O/N	1.55	0
T/N	1.55	-1
SW	1.59	0
2W	1.63	0
1M	1.66	0
3M	1.73	0
6M	1.81	0
9M	1.83	0
1Y	1.85	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.74	0
3x6	1.75	-1
6x9	1.80	0
9x12	1.89	1
3x9	1.84	1
6x12	1.91	1

Measures of fiscal risk

Country	CDS 5Y USD Level	CDS 5Y USD Change (bps)	10Y spread* Level	10Y spread* Change (bps)
Poland	71	-1	3.34	7
France	39	0	0.49	1
Hungary	116	1	3.09	1
Spain	72	-4	1.08	1
Italy	150	-6	1.60	1
Portugal	269	0	3.44	1
Ireland	64	0	0.62	1
Germany	20	0	-	-

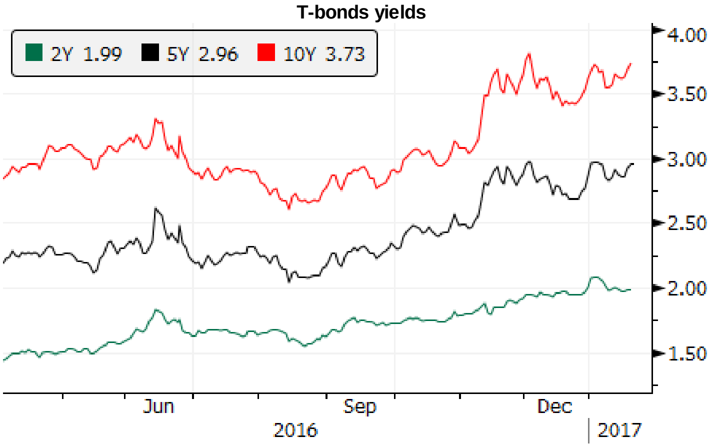
* 10Y treasury bonds over 10Y Bunds

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

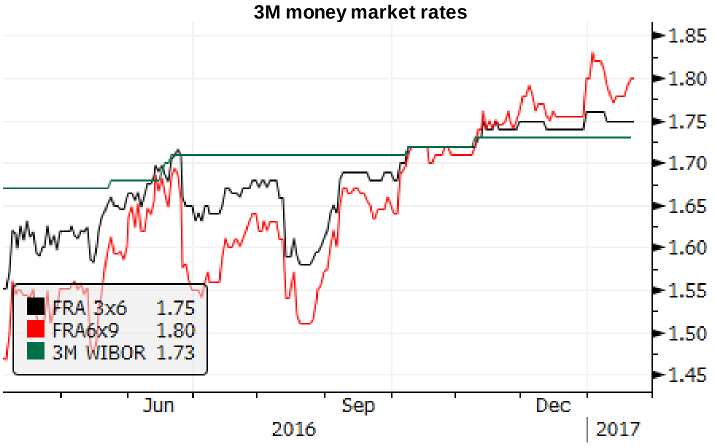
Source: Bloomberg

Zloty exchange rate

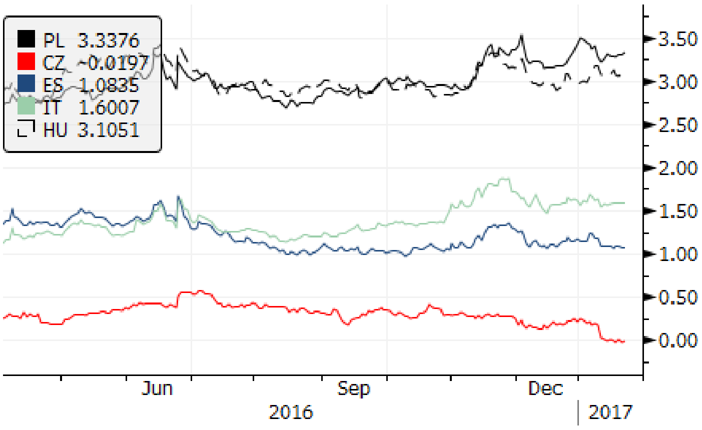
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE*
		FRIDAY (20 January)						
		No important data releases						
		MONDAY (23 January)						
11:30	**PL**	**T-bonds auction**						
		TUESDAY (24 January)						
9:30	GE	Flash PMI – manufacturing	Jan	pts	55.4	-		55.6
10:00	EZ	Flash PMI – manufacturing	Jan	pts	54.8	-		54.9
14:00	HU	Central bank decision	Jan	%	0.90	-		0.90
16:00	US	Home sales	Dec	m	5.55	-		5.61
		WEDNESDAY (25 January)						
10:00	**PL**	**Registered unemployment rate**	**Dec**	**%**	**8.3**	**8.3**		**8.2**
10:00	GE	Ifo index	Jan	pts	111.3	-		111.0
		THURSDAY (26 January)						
14:00	**PL**	**MPC minutes**						
14:30	US	Initial jobless claims	week	k	-	-		234
14:30	US	New home sales	Dec	k	586	-		592
		FRIDAY (27 January)						
14:30	US	Advance GDP	4Q16	q/q	2.1	-		3.5
14:30	US	Durable goods orders	Dec	% m/m	2.9	-		-4.5
16:00	US	Michigan index	Jan	pts	98.1	-		98.1

Source: BZ WBK, Reuters, Bloomberg

** in case of the revision, the data is updated*

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