Bank Zachodni WBK
Grupa Santander

EYEOPENER

3 February 2017

The US job report in the spotlight

- **Dovish FOMC supported demand for risky assets, in China the PBoC tightened monetary policy**
- **Zloty slightly weaker at the start of the session, while EURUSD down, waiting for the job report in USA**
- **Domestic interest rate market gained visibly as a result of core market strengthening and favourable auction results**
- **Today's focus on montly non-farm payrolls in USA, decision on rates in Russia**

At the start of yesterday session, global moods deteriorated, but the FOMC's positive assessment of the US economic conditions and no suggestion of further rate hikes reintroduced sanguine moods to the market. As a result, stock indices in Europe climbed, bond yields fell considerably, CEE currencies were strong. Weekly US labour market data surprised to the upside, but did overshadow the dovish message of the FOMC meeting.

Yesterday the Bank of England kept interest rates on hold, with the main rate at 0.25%. BoE revised its GDP forecast for 2017 up to 2.0% y/y from 1.4% y/y. On the other hand, there was no signal that the increasing inflation may trigger rate hikes, which undermined the British pound yesterday.

Today in the morning, moods are a bit weaker due to events in China. The People's Bank of China unexpectedly raised its interest rates used in open market operations and in Standing Lending Facility (SLF), a mechanism for 1-3 month liquidity provision. 7-, 14- and 28-day reverse repo rates climbed by 10bps to 2.35%, 2.50% and 2.65%, respectively. SLF rate was hiked to 3.10% from 2.75%. Moreover, Chinese data were weak – PMI for manufacturing (released by Caixin and Markit) fell in January to 51pts from 51.9pts in December as compared to market expectations at 51.8pts.

Yesterday EURUSD was oscillating around 1.08 ahead of the US data. The euro kept its gains recorded overnight in reaction to the dovish FOMC and reached its daily maximum at 1.083. This week is the seventh in a row of euro strengthening against the dollar. Last time such a streak was observed in 2004, when EURUSD was climbing by 8 weeks. Today at the opening EURUSD is at 1.076. Today we will get to see the monthly US non-farm payrolls. It seems that the market reaction may be asymmetric – stronger to better than expected data.

EURPLN was hovering just above 4.30 and USDPLN was testing 3.98. The other CEE currencies were gaining – EURHUF fell temporarily to nearly 308 from 309.5 and USDRUB eased to 59.37 from c60. Today in the morning the zloty is slightly weaker vs main currencies – EURPLN is slightly above 4.31 and USDPLN is near 4.01. Polish currency remains sensitive to swings of the global market sentiment that today will be under the impact of the US data. In January the zloty was the best performing EM currency vs the euro, dollar, Swiss franc and British pound. It seems that more positive impulses may be needed to continue the zloty's appreciation trend or at least to help keep the recent gains.

On the domestic interest rate market IRS and bond yields fell noticeably thanks to the strengthening seen abroad and very successful Polish bonds auction (see details below). As a result, the IRS curve shifted 1-4bp down and the bond curve 4-5bp with the biggest changes on the long end. Today investors' attention will focus on the US data. Figures released earlier this week suggest that today's outcome could be pretty strong which could trigger a profit taking after the yesterday's strengthening.

Thursday's bond auction was very successful. The Ministry of Finance sold debt for nearly PLN6bn including PLN5bn at the standard auction and amid total demand at over PLN15bn. Just like we supposed, the 10Y benchmark again attracted the highest demand – PLN2.2bn was collected from the sale of DS0727. Just like in late January, there was a low demand for the OK0419. The Ministry said that 38.8% of this year's gross borrowing needs were covered after yesterday's auction.

Preliminary data on local government's budget performance for December 2016 showed that revenues reached PLN213.4bn, expenditures PLN205.7bn and the budget surplus amounted to PLN7.7bn vs planned deficit at PLN4.8bn. In December investment spending in local governments reached PLN13.6bn (-22.5% y/y) vs PLN24.2bn (-34.9% y/y) in whole 2016. These figures show that local governments' investments started to rebound but were still very low.

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FX market

Today's opening

EURPLN	4.3173	CZKPLN	0.1598
USDPLN	4.0134	HUFPLN*	1.3986
EURUSD	1.0758	RUBPLN	0.0676
CHFPLN	4.0407	NOKPLN	0.4865
GBPPLN	5.0261	DKKPLN	0.5805
USDCNY	6.8686	SEKPLN	0.4585

*for 100HUF

Last session in the FX market 02/02/2017

	min	max	open	close	fixing
EURPLN	4.312	4.327	4.326	4.316	4.3084
USDPLN	3.998	4.023	4.012	4.014	3.9835
EURUSD	1.074	1.081	1.078	1.075	-

Interest rate market 02/02/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	2.19	-1	2.02.2017	OK0419	2.168
PS0422 (5Y)	3.11	-6	2.02.2017	PS0422	3.122
DS0727 (10Y)	3.79	-8	2.02.2017	DS0727	3.809

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.80	0	1.25	-2	-0.22	0
2L	2.04	0	1.50	-3	-0.15	-1
3L	2.25	-1	1.71	-4	-0.06	-1
4L	2.42	-2	1.87	-4	0.05	-2
5L	2.58	-3	2.00	-4	0.18	-2
8L	2.91	-4	2.26	-4	0.58	-3
10L	3.07	-5	2.38	-3	0.81	-3

WIBOR rates

Term	%	Change (bps)
O/N	1.59	0
T/N	1.60	1
SW	1.60	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	0
6x9	1.79	0
9x12	1.88	0
3x9	1.83	0
6x12	1.89	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	3.37	-3
France	45	3	0.62	0
Hungary	116	1	3.06	5
Spain	74	-2	1.21	0
Italy	167	3	1.80	-4
Portugal	280	4	3.67	-5
Ireland	64	0	0.70	-3
Germany	21	1	-	-

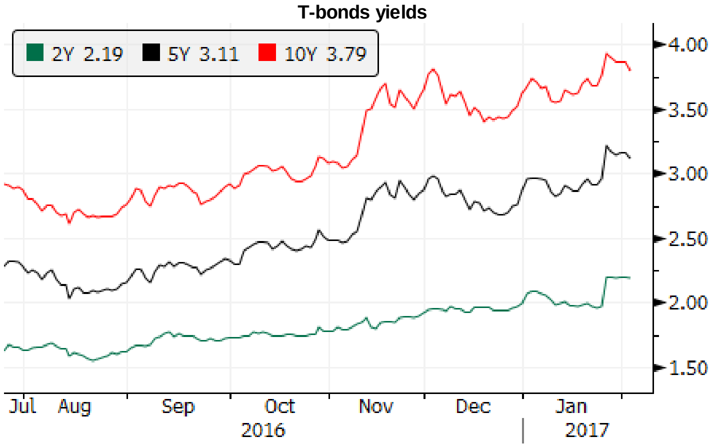
* 10Y treasury bonds over 10Y Bunds

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

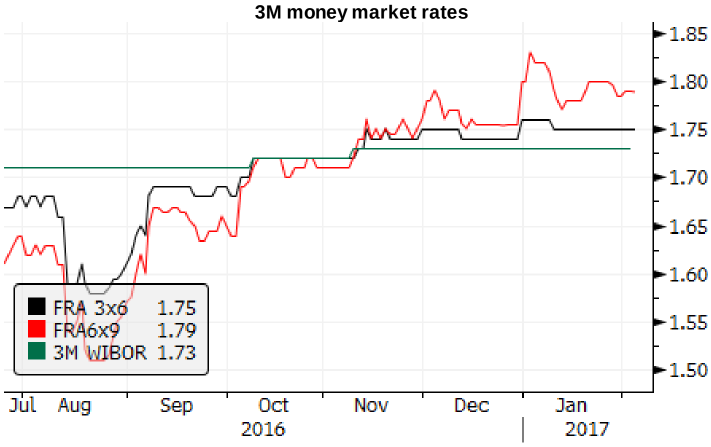
Source: Bloomberg

Zloty exchange rate

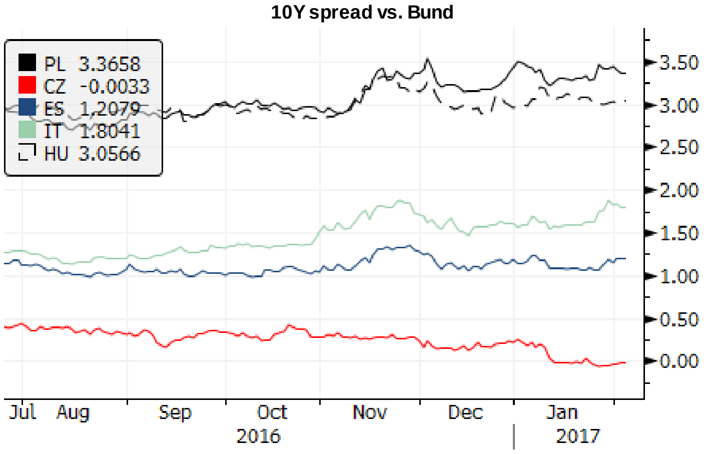
T-bonds yields



3M money market rates



10Y spread vs. Bund



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Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE*
		FRIDAY (27 January)						
14:30	US	Advance GDP	4Q16	q/q	2.1	-	1.9	3.5
14:30	US	Durable goods orders	Dec	% m/m	2.9	-	-0.4	-4.8
16:00	US	Michigan index	Jan	pts	98.1	-	98.5	98.1
		MONDAY (30 January)						
14:30	US	Personal income	Dec	% m/m	0.4	-	0.3	0.1
14:30	US	Consumer spending	Dec	% m/m	0.5	-	0.5	0.2
16:00	US	Pending home sales	Dec	% m/m	1.3	-	1.6	-2.5
		TUESDAY (31 January)						
10:00	**PL**	**Flash GDP**	**2016**	**%**	**2.7**	**2.7**	**2.8**	**3.9**
11:00	EZ	Advance GDP	Q4	% y/y	1.7	-	1.8	1.7
11:00	EZ	Flash HICP	Jan	% y/y	1.5	-	1.8	1.1
16:00	US	Consumer confidence	Jan	pts.	112.7	-	111.8	113.7
		WEDNESDAY (1 February)						
9:00	**PL**	**PMI – manufacturing**	**Jan**	**pts.**	**53.5**	**53.9**	**54.8**	**54.3**
9:55	DE	PMI – manufacturing	Jan	pts.	56.5	-	56.4	56.5
10:00	EZ	PMI – manufacturing	Jan	pts.	55.1	-	55.2	55.1
14:15	US	ADP report	Jan	k	170	-	246	151
16:00	US	ISM – manufacturing	Jan	pts.	55.0	-	56.0	54.5
20:00	US	FOMC decision		%	0.50-0.75	-	0.50-0.75	0.50-0.75
		THURSDAY (2 February)						
11:30	**PL**	**Bond auction**						
13:00	CZ	Central bank decision		%	0.05	-	0.05	0.05
14:30	US	Initial jobless claims	week	k	250	-	246	260
		FRIDAY (3 February)						
9:55	DE	PMI – services	Jan	pts.	53.2	-		53.2
10:00	EZ	PMI – services	Jan	pts.	53.6	-		54.7
14:30	US	Non-farm payrolls	Jan	k	175	-		156
14:30	US	Unemployment rate	Jan	%	4.7	-		4.7
16:00	US	Industrial orders	Jan	%	0.7	-		-2.4

Source: BZ WBK, Reuters, Bloomberg

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

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