EYEOPENER

22 February 2017

Next signals of improving business climate in Europe

- **Markets in mixed moods, hawkish comments of Fed members, better than expected data from Europe**
- **Business climate in Poland keeps improving**
- **Zloty stronger against euro, EURUSD lower**
- **Polish bonds under pressure, while core debt market relatively stable**
- **Today next important data from Europe, FOMC minutes**

On Tuesday, moods on world financial markets were generally quite good which was confirmed by, among others, stock prices growth in Europe and the US (Wall Street indices reached new records). Significant increase in the flash PMI indices in manufacturing and services in the euro zone, Germany and France boosted the investors' optimism for the economic growth pace in Europe. In February, the composite PMI for the euro zone has risen to the record high level in 6 years despite the analysts' expectations for a minor decline. However, the good data failed to support the European currency due to the concerns related to the upcoming elections in the Netherlands and France and expectations as to Fed policy.

Despite good data from the euro zone, EUR/USD recorded the biggest fall in more than a month in response to the comments of Fed representatives suggesting the risk of interest rate hikes by FOMC already in March and worries for the growing support for Marine Le Pen in France. Loretta Mester, Fed governor from Cleveland and Patrick Harker from Fed Philadelphia signalled on Tuesday that they did not exclude interest rate hikes on the meeting of Federal Reserve scheduled for mid-March. Today the key event will be publication of minutes from the last meeting of Fed. The investors will seek support for the growing expectations for interest rate hikes in March by FOMC. After the yesterday speeches of Fed representatives, the likelihood of such a scenario estimated by the financial market went up to nearly 40%.

The zloty strengthened against euro on Tuesday, with the biggest move taking place after the session's close. EURPLN fell to 4.295, reaching the lowest level in a week, and today in the morning it was below 4.29. Meanwhile, USDPLN after reaching the session's high at 4,096 (highest level for a month), returned just below 4.08. As regards other currencies in the region, also the Hungarian forint and Russian ruble gained yesterday. EURHUF fell slightly below 307 and is approaching the lower band of 306-310 consolidation channel. Meanwhile, USDRUB reached temporarily 57.5, supported by rising oil prices on the international markets. Today investors will be still focused on Europe and the USA. The stock market optimism and rising appetite for risk are supportive for PLN, but in our view the room for further zloty strengthening is limited in the short run (further worries about rate hike in USA in March can provide an impulse for a correction).

Return of the US investors from the long weekend brought a weakening on the domestic interest rate market. Bond supply was concentrated mostly on the belly and long end of the curve (yields rose by 3-5bps), which caused some steepening. Yields of Italian and Spanish bonds climbed in a similar scale as the Polish benchmark. Investors focused also on rising yields in France and its widening spread to Bund despite good macro data – a situation, which suggests rising political worries. As regards Polish bonds, spread to Bunds also climbed (to 356bp, this year's maximum and the highest level since August 2012). Strengthening expectations for a continuation of economic revival in Poland and abroad and rising expectations for rate hike in the USA (next month) are weighing on the market. Approaching election in Europe is putting an additional pressure on the debt market.

Business climate indices released by the Statistics Office yesterday suggest that February was another month in a row of a marked improvement in retail sales. Manufacturing and construction also saw an improvement, but a less pronounced one. The data suggest that the revival of economic growth in Poland in continued.

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FX market

Today's opening

EURPLN	4.2918	CZKPLN	0.1589
USDPLN	4.0808	HUFPLN*	1.3967
EURUSD	1.0517	RUBPLN	0.0710
CHFPLN	4.0352	NOKPLN	0.4876
GBPPLN	5.0985	DKKPLN	0.5774
USDCNY	6.8794	SEKPLN	0.4540

*for 100HUF

Last session in the FX market 21/02/2017

	min	max	open	close	fixing
EURPLN	4.314	4.335	4.333	4.317	4.3163
USDPLN	4.057	4.086	4.060	4.068	4.0942
EURUSD	1.060	1.064	1.061	1.061	-

Interest rate market 21/02/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	2.24	1	16.02.2017	OK0419	2.183
PS0422 (5Y)	3.22	3	16.02.2017	PS0422	3.177
DS0727 (10Y)	3.86	4	16.02.2017	DS0727	3.854

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.80	0	1.32	2	-0.21	0
2L	2.05	-1	1.57	2	-0.15	0
3L	2.27	0	1.77	2	-0.07	0
4L	2.45	1	1.92	2	0.02	0
5L	2.60	2	2.04	3	0.13	-1
8L	2.91	3	2.28	2	0.52	1
10L	3.07	3	2.40	1	0.76	1

WIBOR rates

Term	%	Change (bps)
O/N	1.64	1
T/N	1.63	0
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	3.55	3
France	63	1	0.80	1
Hungary	116	1	3.21	-1
Spain	79	1	1.37	0
Italy	186	1	1.94	0
Portugal	290	1	3.72	1
Ireland	66	0	0.78	0
Germany	24	0	-	-

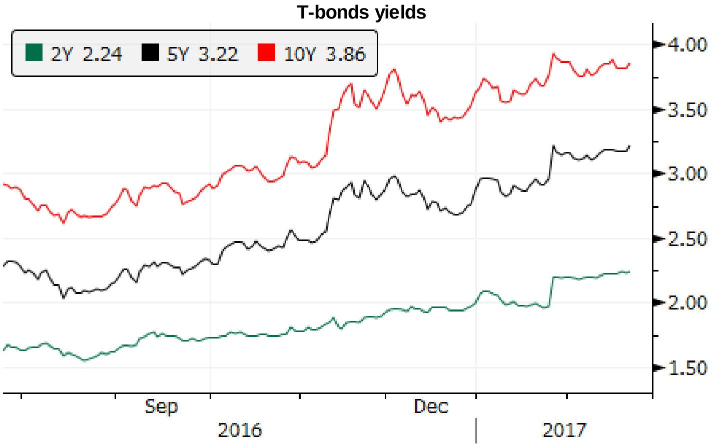
* 10Y treasury bonds over 10Y Bunds

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

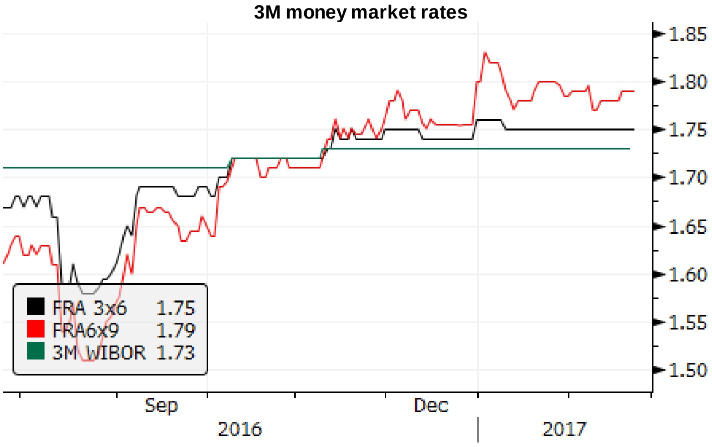
Source: Bloomberg

Zloty exchange rate

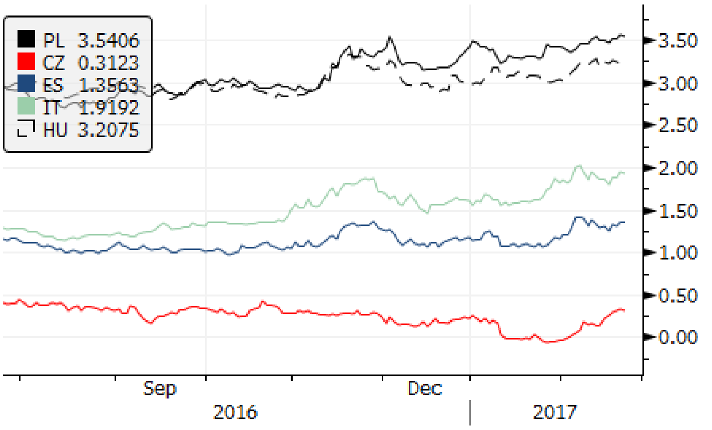
T-bonds yields



3M money market rates



10Y spread vs. Bund



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Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE*
		FRIDAY (17 February)						
14:00	**PL**	**Industrial output**	**Jan**	**% y/y**	**8.1**	**8.0**	**9.0**	**2.3**
14:00	**PL**	**Construction and assembly output**	**Jan**	**% y/y**	**-1.7**	**-1.9**	**2.1**	**-8.0**
14:00	**PL**	**Real retail sales**	**Jan**	**% y/y**	**7.2**	**6.4**	**9.6**	**6.1**
14:00	**PL**	**PPI**	**Jan**	**% y/y**	**3.7**	**3.3**	**4.1**	**3.2**
		MONDAY (20 February)						
	US	Market holiday						
16:00	EZ	Consumer confidence	Feb	pts	-4.8	-	-6.2	-4.8
		TUESDAY (21 February)						
9:30	DE	Flash PMI – manufacturing	Feb	pts	56.2	-	57.0	56.4
10:00	EZ	Flash PMI – manufacturing	Feb	pts	55.0	-	55.5	55.2
		WEDNESDAY (22 February)						
10:00	DE	Ifo	Feb	pts	109.7	-		109.8
11:00	EZ	CPI	Jan	% y/y	1.8	-		1.8
16:00	US	Existing home sales	Jan	% m/m	1.1	-		-2.8
20:00	US	FOMC minutes	Feb					
		THURSDAY (23 February)						
8:00	DE	GDP	Q4	% y/y	1.2	-		1.5
10:00	**PL**	**Registered unemployment rate**	**Jan**	**%**	**8.7**	**8.6**		**8.3**
14:00	**PL**	**MPC minutes**						
14:30	US	Initial jobless claims	week	k	-	-		239
		FRIDAY (24 February)						
16:00	US	New home sales	Jan	% m/m	7.3	-		-10.4
16:00	US	Michigan index	Feb	pts	96.0	-		98.5

Source: BZ WBK, Reuters, Bloomberg

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

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