

# EYEOPENER

3 March 2017

## Rising chances for Fed rate hike in March

- **Still positive market sentiment, new US data surprise to the upside**
- **Zloty and other CEE currencies under pressure, EURUSD down**
- **Polish interest rate market stronger thanks to successful bond auction**
- **Today activity indices in services and speech of Janet Yellen**

Following higher optimism on Wednesday, since the beginning of Thursday session the quotations were more calm yet the moods continued to be quite good. The scale of changes on the stock market and bond market was minor in the first part of the session. Later, the afternoon reading of new jobless claims supported the dollar and exerted pressure on the debt market. Last week, the increase in new jobless claims in the US was the lowest since 1973 which was one of the reasons making the market estimates for the likelihood of Fed interest rate hikes in March go up from 80% on Wednesday to 90% on Thursday. Today in the afternoon, the Fed governor Janet Yellen and some other FOMC members will speak which may have a noticeable impact on the market pricing for the March rate hike.

German January retail sales data were better than expected in y/y terms, and the increase was broad-based and partly resulted from positive working day effect. The highest growth was recorded in sales of household devices. German consumers tend to buy more value added goods, and this is a signal of a consumption gaining traction.

EURPLN rose yesterday to 4.30 after two days of a decline so the Polish currency gave up nearly all of its gains vs the euro recorded on Wednesday. The zloty depreciated vs the dollar as well which was also caused by lower EURUSD – USDPLN rose from 4.06 to 4.095. The other CEE currencies have also been under pressure – EURHUF rose to 309 from 307 while USDRUB neared 59 for a while reaching its highest since first decade of February (which might have been due to lower oil price). Today in the morning EURPLN is near 4.30. At the

session opening, the global market sentiment is weaker than in the previous days, futures for European stock indexes are falling, which could generate more negative pressure on the CEE currencies.

On Thursday's session EURUSD fell below Wednesday's low and tested 1.05 as a result of better than expected data from the US labour market. This week is a fourth in a row when the US dollar has gained against the euro. Last time such situation was observed in May 2016 and then the downward move was broken by a significant upward move lasting one week. Today we will get to see the February ISM for the service sector in the US, which in our view, would surprise on the positive side and EURUSD further down

On the domestic interest rate market IRS and yields continued to fall this time with the biggest changes on the long end of bond curve. On the contrary, yields on core markets and in peripheral zone were going up thus the decline of Polish 10Y bond by 8bp might have been caused by the yesterday switching auction (details below), while the good data from the US were ignored.

As we suspected, the switching auction yesterday was successful, the Ministry of Finance purchased the debt maturing in 2017 for PLN 4.77bn and sold bonds for PLN 5.24bn. The demand again focused on the long end – the Ministry gained PLN 2.24bn only from the sale of DS0727.

According to the LFS data, the seasonally-adjusted unemployment rate in Poland decreased in January to 5.4% from 5.5% in December 2016. Eurostat visibly revised downward the number of unemployed for the last few months, bringing it below one million for the first time in the history of the survey. What's interesting, the revised data mean growth in the employment dynamics which in January was at c1.6% y/y while the previous data signaled stagnation. We expect a further decline in the unemployment rate in the upcoming months yet in our opinion it will be getting slower.

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**FX market**

**Today's opening**

EURPLN	4.3007	CZKPLN	0.1592
USDPLN	4.0888	HUFPLN*	1.3889
EURUSD	1.0518	RUBPLN	0.0694
CHFPLN	4.0375	NOKPLN	0.4826
GBPPLN	5.0153	DKKPLN	0.5786
USDCNY	6.9011	SEKPLN	0.4503

\*for 100HUF

**Last session in the FX market 02/03/2017**

	min	max	open	close	fixing
EURPLN	4.283	4.308	4.307	4.285	4.2912
USDPLN	4.053	4.092	4.061	4.056	4.0765
EURUSD	1.051	1.061	1.061	1.056	-

**Interest rate market 02/03/2017**

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

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	2.15	0	16.02.2017	OK0419	2.183
PS0422 (5Y)	3.06	0	16.02.2017	PS0422	3.177
DS0727 (10Y)	3.72	0	16.02.2017	DS0727	3.854

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

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.78	-1	1.39	3	-0.21	0
2L	1.99	-2	1.66	4	-0.15	1
3L	2.18	-3	1.87	5	-0.07	2
4L	2.35	-4	2.03	5	0.03	3
5L	2.50	-4	2.14	5	0.14	4
8L	2.81	-4	2.37	5	0.52	5
10L	2.98	-4	2.47	5	0.75	4

**WIBOR rates**

Term	%	Change (bps)
O/N	1.60	0
T/N	1.60	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	1.74	-1
6x9	1.76	-2
9x12	1.84	-2
3x9	1.81	-2
6x12	1.85	-2

**Measures of fiscal risk**

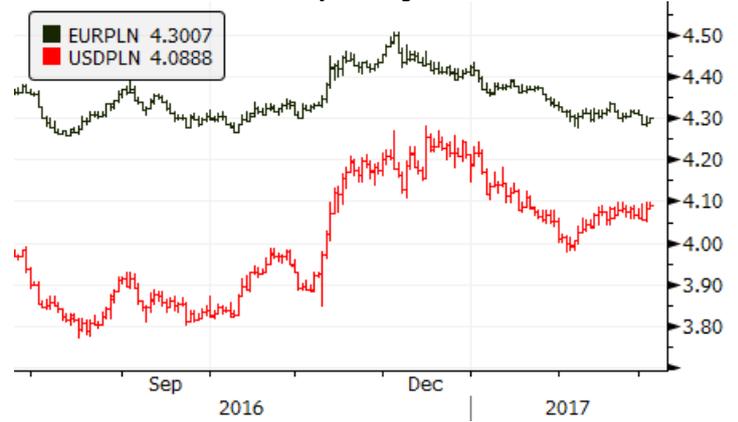
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	3.42	1
France	57	1	0.60	0
Hungary	116	1	3.13	1
Spain	74	-1	1.38	0
Italy	174	-3	1.83	1
Portugal	277	-3	3.62	1
Ireland	66	0	0.65	0
Germany	21	0	-	-

\* 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**



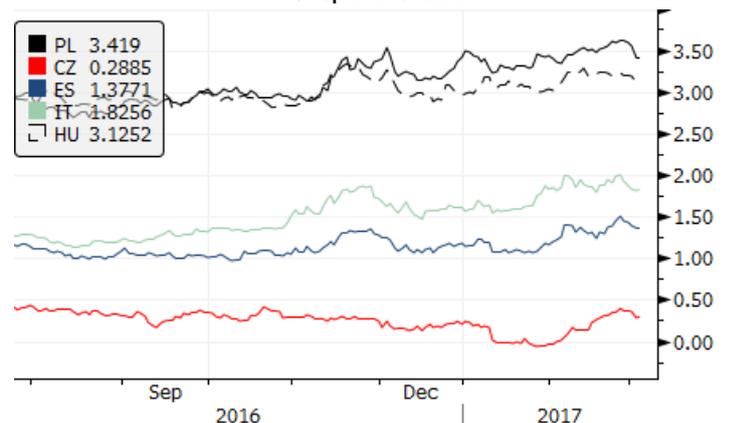
**T-bonds yields**



**3M money market rates**



**10Y spread vs. Bund**



## Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	BZWBK		
<b>FRIDAY (24 February)</b>								
16:00	US	New home sales	Jan	% m/m	7.3	-	3.7	-10.4
16:00	US	Michigan index	Feb	pts	96.0	-	96.3	98.5
<b>MONDAY (27 February)</b>								
14:30	US	Durable goods orders	Jan	% m/m	1.6	-	1.8	-0.8
16:00	US	Pending home sales	Jan	% m/m	0.9	-	-2.8	0.8
<b>TUESDAY (28 February)</b>								
<b>10:00</b>	<b>PL</b>	<b>GDP</b>	<b>Q4</b>	<b>% y/y</b>	<b>2.7</b>	<b>2.7</b>	<b>2.7</b>	<b>2.5</b>
<b>10:00</b>	<b>PL</b>	<b>Private consumption</b>	<b>Q4</b>	<b>% y/y</b>	<b>4.4</b>	<b>4.0</b>	<b>4.2</b>	<b>3.9</b>
<b>10:00</b>	<b>PL</b>	<b>Fixed investment</b>	<b>Q4</b>	<b>% y/y</b>	<b>-5.1</b>	<b>-5.8</b>	<b>-5.8</b>	<b>-7.7</b>
14:00	HU	Central bank decision		%	0.90	-	0.90	0.90
14:30	US	Preliminary GDP	Q4	% q/q	2.1	-	1.9	1.9
16:00	US	Consumer confidence index	Feb	pts	111.0	-	114.8	111.8
<b>WEDNESDAY (1 March)</b>								
<b>9:00</b>	<b>PL</b>	<b>PMI – manufacturing</b>	<b>Feb</b>	<b>pts</b>	<b>54.6</b>	<b>55.1</b>	<b>54.2</b>	<b>54.8</b>
9:55	DE	PMI – manufacturing	Feb	pts	57.0		56.8	56.4
10:00	EZ	PMI – manufacturing	Feb	pts	55.5		55.4	55.2
14:30	US	Personal income	Jan	% m/m	0.3	-	0.4	0.3
14:30	US	Consumer spending	Jan	% m/m	0.3	-	0.2	0.5
16:00	US	ISM – manufacturing	Feb	pts	56.2	-	57.7	56.0
20:00	US	Fed Beige Book						
<b>THURSDAY (2 March)</b>								
<b>11:00</b>	<b>PL</b>	<b>T-bond auction</b>						
14:30	US	Initial jobless claims	week	k	245	-	223	242
<b>FRIDAY (3 March)</b>								
9:00	CZ	GDP	Q4	% y/y	1.7	-		1.7
9:55	DE	PMI – services	Feb	pts	54.4	-		54.4
10:00	EZ	PMI – services	Feb	pts	55.6	-		55.6
16:00	US	ISM – services	Feb	pts	56.5	-		56.5

Source: BZ WBK, Reuters, Bloomberg

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

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