

# EYEOPENER

19 April 2017

## Snap election in the UK

- UK PM May announced snap election
- Zloty gained to euro and dollar, EURUSD further up
- Slight changes on the interest rate market
- Today Polish data on employment and wages, final inflation in the euro zone and Fed Beige Book

On Tuesday the information about early parliamentary elections in the UK was the key news. Prime Minister Theresa May filed for a snap general election for June 8, and today the House of Commons is scheduled to vote on this motion. As set out by the Fixed-Term Parliaments Act the majority of 2/3 is required or the government must lose the vote of confidence with a simple majority. Prime Minister May stressed that her country would leave the European Union, but in the process of leaving the EU stability and strong leadership are needed. In the Parliament there are still divisions that hinder its negotiations with the European Union, and recent polls show that the ruling Conservative Party has the longest-standing advantage over the opposition Labour Party (about 20 percentage points). The reaction of British assets was not clear - the pound weakened before Theresa May's speech, but after it strengthened against the main currencies: to the euro by 0.5% to the dollar by 1%, while the FTSE stock index lost about 2 %.

Yesterday most European stock exchanges ended in red. In the US, indices also fell, driven by weaker-than-expected quarterly earnings. As a result, today's market opening is moderately weak.

Data from the US real estate market were mixed. As far as building permits surprised positively, the house starts were below market consensus. March industrial production rose as expected.

EURUSD continued the upside impulse triggered on Monday in reaction to more comments of the US politicians commenting the dollar's strength. As a result, the exchange rate rose above the local peak set during the first week of April and was near 1.069 at the end of the Polish session. During the night the euro continued to gain which to some extent might have been due to the French election polls showing that support for Marine Le Pen is not rising. Today in the morning EURUSD is near 1.072. During the European trading hours, we will get to know the final March HICP for the euro zone but there should be no big market reaction if the flash estimate is confirmed. In the evening, the Fed will release its Beige Book which could have some market impact as investors await French elections.

EURPLN and USDPLN fell yesterday to 4.23 and 3.955, respectively. Zloty's appreciation vs the dollar was boosted by a rising EURUSD. In the case of the other CEE currencies, the forint gained vs the euro after six consecutive sessions of a decline while

falling oil price weighed on the ruble. After the yesterday's session, the Czech koruna gave up already half of its gains recorded vs the euro after the Czech central bank abandoned the floor. Today in the morning EURPLN is near 4.23. Polish labour market data should not have any noticeable market impact. EURPLN remains in a horizontal trend for already fourth week in a row and we think this will not change today.

Investors' activity on the domestic interest rate market was marginal and even low trading was enough to make the yield on the 10-year benchmark drop by ca. 3 b.p. to ca. 3.35%, heading for the lowest level this year. Over the past several days Polish 10-year Treasuries have been advancing more than other CEE notes and yesterday they performed better than bonds of the euro zone. The IRS curve shifted downward by 1-2 b.p.

Yesterday the IMF published its economic outlook report, revising its growth projections. According to the IMF, Poland's economy will grow 3.4% this year and 3.2% next year (in January, the IMF projected 3.3% in 2017 and 2018). The IMF was much surprised by the sharp increase of inflation at the beginning of the year - the projection of average annual inflation was revised up to 2.3% y/y in 2017 and 2018 vs. 1.0% and 1.9%, respectively, projected in January. Global GDP is projected to grow 3.5% in 2017 (vs. 3.4% previously) and 3.6% in 2018 (as forecast in January). The GDP projection for Germany was revised up from 1.4% to 1.6% in 2017. The outlook for the US remained unchanged, assuming 2.3% growth this year and 2.5% next year.

According to Dziennik Gazeta Prawna daily, the updated Convergence Programme will factor in a lower reduction in deficit in 2018 when compared to the previous version of the paper. The previous projections showed GG deficit at 2.0% of GDP in 2018 and 1.3% in 2019. The report from DGP is in line with our expectations as the previous update did not include such aspects as financial burden caused by lower retirement age as of Q4 2017.

Eryk Łon, a member of the MPC, said in an interview with Bloomberg that the July inflation projection will be of great importance and that in his opinion pressure on price growth will not be deep enough to make the MPC increase rates this year. Łon subscribed to the other MPC members' opinion that GDP growth will speed up and inflation will slightly fall, pointing that central bankers should pay more attention to leading indicators. The Łon's statement supports our projection showing that this year interest rate will remain unchanged.

Today at 14:00CET we will get to know data from Polish labour market in March. We think the data stayed strong in March and growth rates were close to these witnessed in February. Favourable labour market conditions were a strong supporter of private consumption in 1Q2017, which rose by about 4.0% y/y, according to our estimates.

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## FX market

## Today's opening

EURPLN	4.2382	CZKPLN	0.1582
USDPLN	3.9519	HUFPLN*	1.3520
EURUSD	1.0724	RUBPLN	0.0703
CHFPLN	3.9629	NOKPLN	0.4639
GBPPLN	5.0688	DKKPLN	0.5698
USDCNY	6.8831	SEKPLN	0.4412

\*for 100HUF

## Last session in the FX market

18/04/2017

	min	max	open	close	fixing
EURPLN	4.229	4.254	4.235	4.249	4.2401
USDPLN	3.981	3.999	3.989	3.989	3.98
EURUSD	1.060	1.067	1.062	1.065	-

## Interest rate market

18/04/2017

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

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.98	0	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.85	-1	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.36	-4	23.03.2017	DS0727	3.568

## IRS on the interbank market\*\*

Term	PL %	Change (bps)	US %	Change (bps)	EZ %	Change (bps)
1L	1.75	-1	1.33	-2	-0.23	0
2L	1.88	-4	1.49	-2	-0.16	-1
3L	2.03	-3	1.62	-3	-0.09	-2
4L	2.17	-4	1.73	-4	0.00	-1
5L	2.30	-4	1.83	-4	0.11	0
8L	2.59	-5	2.04	-5	0.45	-1
10L	2.75	-5	2.15	-5	0.66	-2

## WIBOR rates

Term	%	Change (bps)
O/N	1.64	-1
T/N	1.64	-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	3
3x6	1.74	7
6x9	1.74	-2
9x12	1.79	21
3x9	1.81	8
6x12	1.82	16

## Measures of fiscal risk

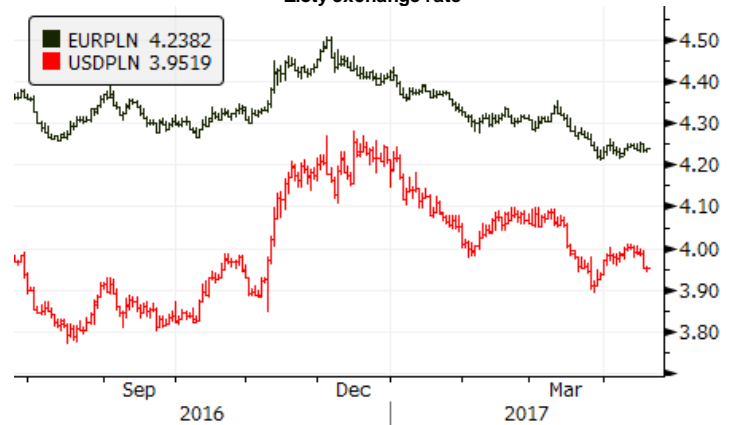
Country	CDS 5Y USD Level	Change (bps)	10Y spread* Level	Change (bps)
Poland	71	-1	3.18	-6
France	54	11	0.79	6
Hungary	116	1	3.09	-1
Spain	83	1	1.49	-2
Italy	191	1	2.08	-1
Portugal	253	0	3.63	-1
Ireland	51	0	0.71	-1
Germany	18	0	-	-

\* 10Y treasury bonds over 10Y Bunds

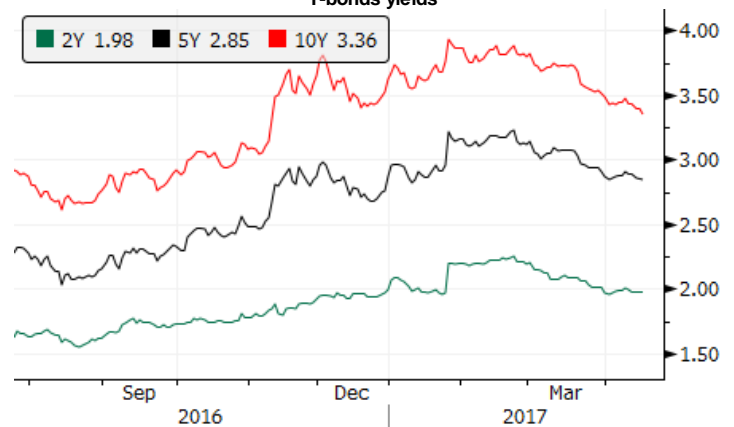
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

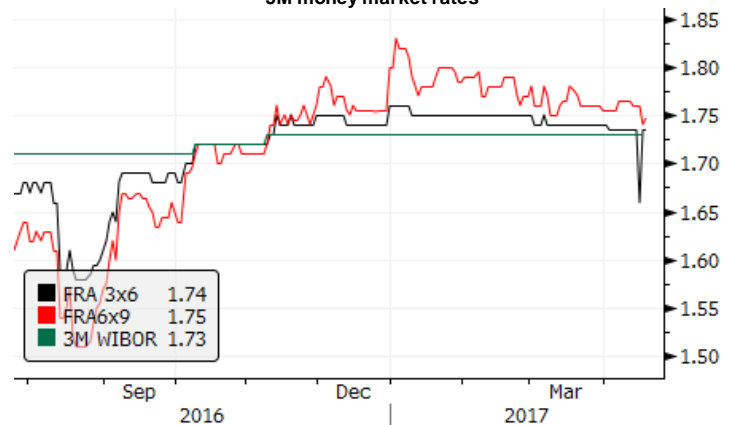
## Zloty exchange rate



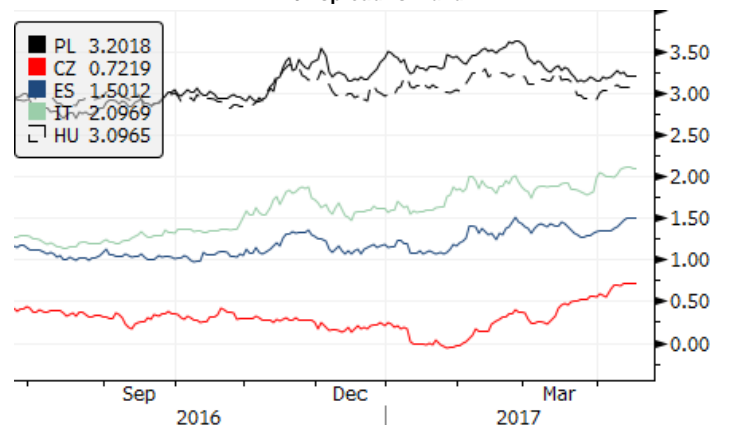
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic calendar

Economic calendar								
TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		REALIZACJA	LAST VALUE*	
				MARKET	BZWBK			
FRIDAY (14 April)								
14:00	PL	Money supply	Mar	% r/r	8.7	8.3	7.7	8.2
14:30	US	CPI	Mar	% m/m	0.0	-	-0.3	0.1
14:30	US	Retail sales	Mar	% m/m	0.0	-	-0.2	-0.3
MONDAY (17 April)								
No important data releases								
TUESDAY (18 April)								
14:30	US	House starts	Mar	k	1253	-	1215	1303
14:30	US	Building permits	Mar	k	1250	-	1260	1216
15:15	US	Industrial output	Mar	%	0.5	-	0.5	0.1
WEDNESDAY (19 April)								
11:00	EZ	CPI	Mar	% y/y	1.5	-		2.0
14:00	PL	Wages in corporate sector	Mar	% y/y	4.3	4.2		4.0
14:00	PL	Employment in corporate sector	Mar	% y/y	4.6	4.6		4.6
20:00	US	Fed Beige Book						
THURSDAY (20 April)								
14:00	PL	Real retail sales	Mar	% y/y	6.6	7.0		5.2
14:00	PL	Industrial output	Mar	% y/y	7.4	8.7		1.2
14:00	PL	Construction and assembly output	Mar	% y/y	0.8	2.1		-5.4
14:00	PL	PPI	Mar	% y/y	4.6	4.6		4.4
14:30	US	Initial jobless claims	week	k	-	-		234
14:30	US	Philly Fed index	Apr	pts	25.0	-		32.8
FRIDAY (21 April)								
9:30	DE	Flash PMI – services	Apr	pts	55.5	-		55.6
9:30	DE	Flash PMI – manufacturing	Apr	pts	58.0	-		58.3
10:00	EZ	Flash PMI – services	Apr	pts	56.0	-		56.0
10:00	EZ	Flash PMI – manufacturing	Apr	pts	56.0	-		56.2
14:00	PL	MPC minutes						
16:00	US	Home sales	Mar	m	5.6	-		5.48

Source: BZ WBK, Reuters, Bloomberg

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

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