

EYEOPENER

24 April 2017

Relief after election in France

- **Macron won the 1st round of French election, will face Le Pen in the 2nd**
- **Downward revision of Polish GDP for 2016**
- **Zloty under pressure ahead of the weekend, strong rebound this morning, strengthening of euro after French election**
- **Polish interest rate market stays calm**
- **Today German Lifo**

On Friday very good preliminary PMI data for April were published in Germany and in the eurozone. The key currency pairs, bond yields and stock indexes remained steady, awaiting the outcome of the first round of the French presidential election.

According to the final election results published by the French Interior Ministry, Emmanuel Macron with 23.75% votes won the first round, outstripping Marine Le Pen, winning 21.53% votes. The runoff is scheduled for 7 May. Francois Fillon took the third place winning 19.91% votes and Jean-Luc Melenchon was in the fourth place with 19.64% votes. The outcome was very close to the earlier opinion polls. It is worth mentioning that most polls showed the outcome of the second round in favour of Macron. Financial markets sighed with relief on such the outcome and, in consequence, risk appetite increased, as reflected by strong advance of the euro against the US dollar, increasing core bond yields and falling peripheral bond yields. It is also likely to trigger surge in European equities.

Fitch downgraded Italy to BBB from BBB+ due to weak economic growth, fiscal and banking sector problems as well as political risk before the 2018 election. Despite the downgrade, Italian bonds have been strengthening this morning on the outcome of the French election.

The S&P agency kept Polish rating unchanged at BBB+ with a stable outlook. According to the agency, a floating exchange rate, an independent central bank and a credible monetary policy are positive factors for Poland's credit rating. Risks, on the other hand, include the weakening institutional framework as a result of government actions. S&P has also revised its GDP growth forecast for 2017 to 3.3% from 3.2% earlier. The agency expects 3% of public finance deficit this year.

GDP growth in 2016 was revised by the Statistics Office to 2.7% from 2.8%. 4Q16 data went down more considerably than other quarters, to 2.5% from 2.7%. As regards breakdown by categories, the most significant downward revision was applied to investment in 1Q and 4Q16, bringing them both down to -9.8% y/y. Private consumption was corrected slightly to the upside. After full set of monthly data and revised GDP numbers, we raised our 1Q17 GDP growth forecast to 3.7% y/y, with rebound in investment being the main culprit of the recovery. Let us note also that the lower base of investment in 1Q16 explains the relatively quick pace of rebound in this category in 1Q2017.

According to our estimates of seasonally adjusted Statistics Office business climate indices, sentiment improved in industry, construction and retail sales in April. It supports our forecast for further economic revival in Poland in 2Q17.

EURUSD fell to 1.068 in the first part of the Friday's session amid some profit taking after a rally seen earlier last week and on uncertainty related to the French elections. In reaction to the results announced, EURUSD started the Asian session well above Friday's closing and rose slightly above 1.09 reaching its fresh 2017 high. Today in the morning the exchange rate is lower, close to 1.083. The beginning of the week may be pretty volatile. So far we see that there was a significant reaction to the elections result, but the upside move decelerated pretty fast.

EURPLN continued to rise on Friday and reached 4.28. USDPLN broke 4.0 for a while and at the end of the day was just below this level. The other CEE currencies, like the koruna and forint, also lost as the market was waiting for the result of the French elections. EURCZK neared 27.0 and this was already fourth consecutive day when the koruna was giving up its gains recorded after the floor was removed. EURHUF broke 314 and reached its highest since late March. The CEE currencies gained in reaction to the French elections – EURPLN fell to 4.24 early in the morning but soon rebounded to 4.26. Positive market sentiment should support the zloty, but the temporary reaction to the elections results suggests that EURPLN could stay above morning low.

On the domestic interest rate market Friday's session was fairly quiet and both domestic bonds and IRS were not subject to high fluctuations. In the core markets, the changes were minor, while the peripheral markets were under slight pressure. Today morning, the European market is clearly affected by the French election results - the Bunds are losing heavily, while the periphery is clearly gaining. In our opinion, at least in the first part of the session, domestic debt may gain, but less than the Irish or Spanish bonds.

This week the Ministry of Finance will try to sell OK0419/PS0422/WZ1122/WZ0126/DS0727 bonds for the total amount of PLN5-9bn. Currently the borrowing needs are covered in 56%. Liquidity is favourable – in the last week of April around PLN6-9bn from redemptions and coupon payments will flow into the market.

On Friday the minutes from the MPC's meeting in April were published. The majority of MPC members assessed that inflation will stabilize at a moderate level and GDP should further accelerate at a pace close to the one expected in the March projection. Given the available information, the stabilization of interest rates is likely in the quarters to come. However, some MPC members suggested that when new data indicate stronger inflation pressure, taking into consideration interest rate hikes may be justified. In general the document does not change our forecasts for the monetary policy.

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FX market

Today's opening

EURPLN	4.2585	CZKPLN	0.1585
USDPLN	3.9306	HUFPLN*	1.3633
EURUSD	1.0834	RUBPLN	0.0703
CHFPLN	3.9468	NOKPLN	0.4591
GBPPLN	5.0222	DKKPLN	0.5726
USDCNY	6.8872	SEKPLN	0.4430

*for 100HUF

Last session in the FX market

21/04/2017

	min	max	open	close	fixing
EURPLN	4.252	4.275	4.252	4.275	4.2705
USDPLN	3.956	3.978	3.970	3.978	3.9841
EURUSD	1.071	1.078	1.071	1.075	-

Interest rate market

21/04/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.96	-2	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.88	-1	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.41	1	23.03.2017	DS0727	3.568

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.77	0	1.35	-1	-0.22	0
2L	1.94	2	1.52	-1	-0.15	0
3L	2.10	2	1.67	-1	-0.05	1
4L	2.25	2	1.78	-1	0.06	2
5L	2.38	1	1.88	-1	0.18	2
8L	2.66	1	2.09	-1	0.53	3
10L	2.83	1	2.19	-2	0.75	3

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	0
3x6	1.74	0
6x9	1.77	0
9x12	1.81	0
3x9	1.80	0
6x12	1.83	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	3.06	-9
France	56	-1	0.47	-21
Hungary	116	1	2.94	-10
Spain	80	0	1.27	-15
Italy	186	-2	1.81	-19
Portugal	251	2	3.28	-19
Ireland	51	0	0.58	-8
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

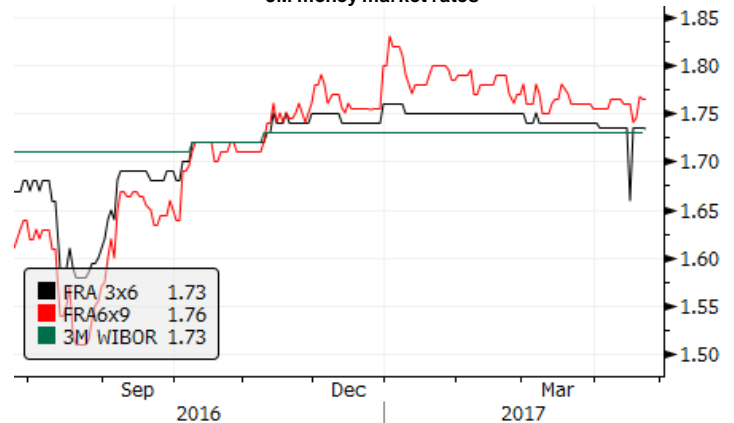
Zloty exchange rate



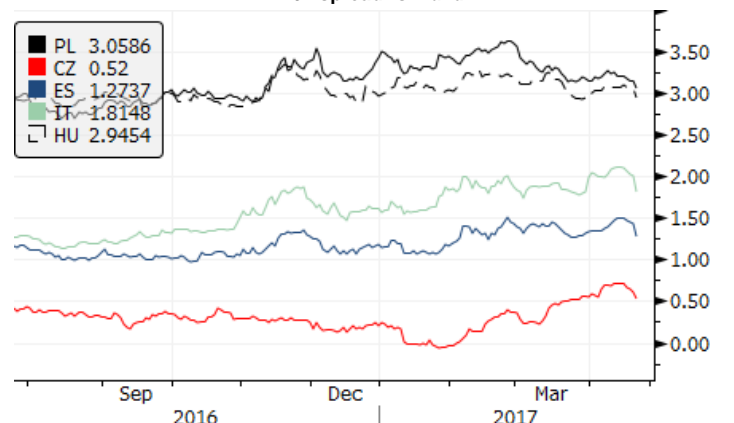
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar								
TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	BZWBK		
FRIDAY (21 April)								
9:30	DE	Flash PMI – services	Apr	pts	55.5	-	54.7	55.6
9:30	DE	Flash PMI – manufacturing	Apr	pts	58.0	-	58.2	58.3
10:00	EZ	Flash PMI – services	Apr	pts	56.0	-	56.2	56.0
10:00	EZ	Flash PMI – manufacturing	Apr	pts	56.0	-	56.8	56.2
14:00	PL	MPC minutes						
16:00	US	Home sales	Mar	m	5.6	-	5.71	5.47
MONDAY (24 April)								
10:00	DE	Ifo index	Apr	pts	112.3	-		112.3
TUESDAY (25 April)								
11:00	PL	Bond auction				-		
14:00	HU	Central bank decision		%	0.90	-		0.90
16:00	US	New home sales	Mar	% m/m	-0.3	-		6.1
16:00	US	Consumer confidence index	Apr	pts	124.0	-		125.6
WEDNESDAY (26 April)								
10:00	PL	Unemployment rate	Mar	%	8.2	8.2		2.0
THURSDAY (27 April)								
13:45	EZ	Central bank decision		%	?	-		?
14:30	US	Durable goods orders	Mar	% m/m	1.2	-		1.8
14:30	US	Initial jobless claims	week	k				
16:00	US	Pending home sales	Mar	% m/m	-	-		5.5
FRIDAY (28 April)								
14:00	EZ	Flash CPI	Apr	% y/y	1.7	-		1.5
14:00	PL	Flash CPI	Apr	% y/y	-	2.0		2.0
14:30	US	Advance GDP	Q1	% y/y	1.2	-		2.1
16:00	US	Michigan index	Apr	pts	98.5	-		96.9

Source: BZ WBK, Reuters, Bloomberg

* in case of the revision, the data is updated

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