

EYEOPENER

25 April 2017

Investors still in good moods

- **Optimism after the first round of the French elections persists**
- **Zloty gains versus main currencies, EURUSD holds above 1.08**
- **Polish bond yields pretty stable, Bunds and Treasuries weaker**
- **Today Polish bond auction, decision of the Hungarian central bank and important data from the US**

On Monday, global markets remained under strong impact of the first round of the French elections. Risk appetite persisted during the session as evidenced by gaining equities (the French CAC40 surged more than 4%, while the German DAX added 3.4%) and increasing bond yields in the core markets. Gold prices fell. The euro soared much against the US dollar.

As a result of the French elections, the core debt markets lost owing to lower demand for safe assets – yesterday yields of Bunds and Treasuries increased across the curve by 9-10bp and 4.5-6bp, respectively. German data showing improvement in economic sentiment (Ifo index reached the highest since July 2011) was not supportive for debt either. Bonds in the eurozone peripheral countries strengthened. Yields on the French notes dropped 11bp on the short end, while the 10-year benchmark gained c9bp. The spread between the French and German 10-year bonds dropped to 50bp on Monday, the lowest since January. The Italian bonds also gained despite Friday's downgrade by Fitch (the middle of the curve gained the most, noting a 4bp drop).

EURUSD increased slightly above 1.09 at the opening of the session on Emmanuel Macron's victory in the first round of the French elections. However, the impulse did not continue over the following hours and the rate was close to 1.086 at the end of the day. Important US data will be published today and we believe that the market's response may be limited in

anticipation of the presentation of Donald Trump's tax reform plan scheduled for Wednesday and the Thursday ECB meeting.

After a short correction at the start of the session, EURPLN and USDPLN continued to decline for the next hours in reaction to the outcome of the French elections. The former reached 4.22, whereas the latter temporarily fell below 3.90. The other CEE currencies also strengthened – EURCZK reached 26.75 after the last week's rise up to c27 and EURHUF broke 311 reaching its lowest for two weeks. In our opinion, the good sentiment on the global markets and Thursday's EBC meeting shall support the zloty this week.

The meeting of the Central Bank of Hungary (MNB) will take place today. Despite rising inflation in March to 2.7% y/y, acceleration in industrial output and a strong labor market, last month the central bank reiterated its readiness to loose monetary policy if necessary. We expect inflation in Hungary to remain stable in the coming months and stay close to the lower end of the tolerance band around the inflation target (3% +/- 1pp). Since the MNB was dovish when inflation was rising strongly, we expect the bank to maintain this easing bias also now, which could weigh on the forint a bit.

On the domestic interest rate market there was no noticeable reaction to the French elections and investor's activity remained subdued. Bond yields rose at the opening, following Bunds, but later in the day debt recovered. The biggest move was recorded for the belly of the curve where the 5Y bond yield fell 2bp to 2.84%. IRS curve moved slightly down, by up to 2bp.

Today the Ministry of Finance will offer bonds for the total amount of PLN6-9bn. We expect the auction to be successful as the this year's borrowing needs are now covered in 56% and the liquidity situation is supportive (today cPLN15bn will flow into the market from coupon payments and redemptions).

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FX market

Today's opening

EURPLN	4.2386	CZKPLN	0.1578
USDPLN	3.9011	HUFPLN*	1.3610
EURUSD	1.0865	RUBPLN	0.0700
CHFPLN	3.9189	NOKPLN	0.4557
GBPPLN	4.9915	DKKPLN	0.5698
USDCNY	6.8847	SEKPLN	0.4402

*for 100HUF

Last session in the FX market

24/04/2017

	min	max	open	close	fixing
EURPLN	4.259	4.284	4.275	4.263	4.241
USDPLN	3.973	4.004	3.978	3.976	3.906
EURUSD	1.068	1.075	1.075	1.073	-

Interest rate market

24/04/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.96	-1	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.84	-4	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.40	-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	1.38	4	-0.22	0
2L	1.94	0	1.57	4	-0.13	1
3L	2.08	-2	1.71	5	-0.04	1
4L	2.23	-1	1.83	5	0.08	2
5L	2.37	-1	1.93	5	0.20	3
8L	2.66	-1	2.14	5	0.55	2
10L	2.81	-2	2.24	4	0.77	2

WIBOR rates

Term	%	Change (bps)
O/N	1.53	-11
T/N	1.54	-10
SW	1.59	-1
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	1.75	-1
9x12	1.82	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	-2
France	31	-25	0.48	-2
Hungary	116	1	2.93	-2
Spain	67	-13	1.26	-1
Italy	164	-22	1.84	-1
Portugal	240	-11	3.20	-1
Ireland	51	0	0.51	-1
Germany	17	-1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

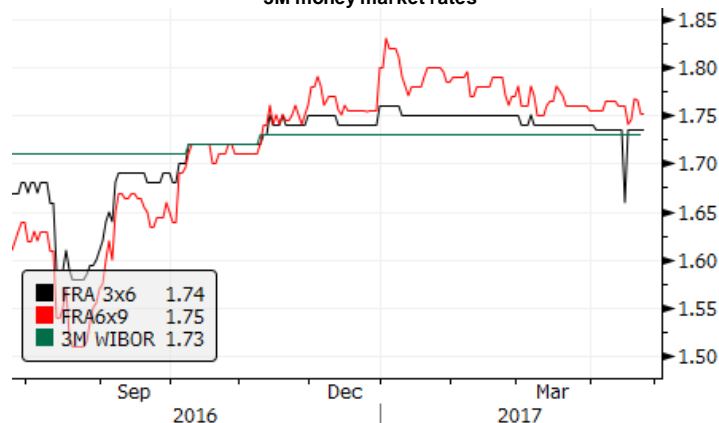
Zloty exchange rate



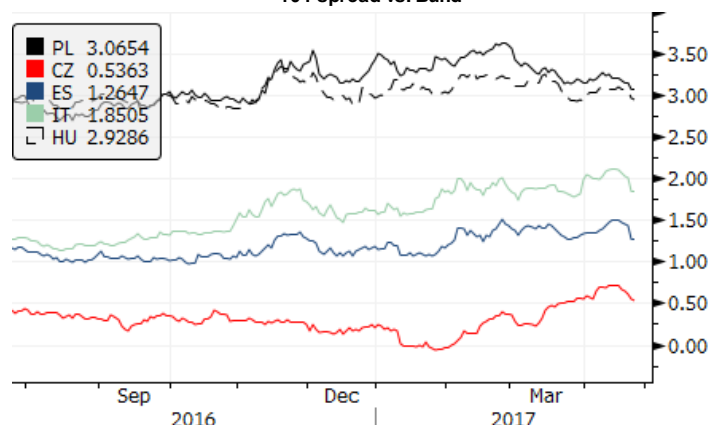
T-bonds yields



3M money market rates



10Y spread vs. Bund



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	-	112.9	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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