

EYEOPENER

28 April 2017

Dovish ECB weakened the euro

- **Dovish ECB supported debt markets and weakened the euro**
- **Zloty and forint gain thanks to ECB rhetoric, ruble under pressure of falling oil prices**
- **Polish bond yields down**
- **Today flash CPI in Poland and advance GDP for Q1 in USA**

On Thursday the market was impacted by the disappointing tax reform plan presented by President Donald Trump and by the ECB's rhetorics. Global stock indexes continued Wednesday losses on unconvincing tax overhaul proposed by the US President. Bond yields dropped quite substantially and the euro lost on the EBC's rhetoric. Oil declined for another day in a row on news that oil output in the US increased for a tenth straight week, reaching the highest level since August 2015.

French presidential candidate Emmanuel Macron said in an interview with *Voix du Nord* daily that, when elected, he would support sanctions against Poland, which 'infringed all the EU rules'. Macron added that 'decisions concerning Poland' would be made within three months after being sworn into office. This statement may reduce the scale of strengthening of Polish assets if Macron wins the election.

US President Donald Trump said that for the time being the US will not exit NAFTA but such decision will be made if his country is not granted 'good conditions' during the negotiations with Mexico and Canada. NAFTA renegotiation is one of key elements of Trump's election programme and the market may treat it as a gauge of credibility of the new President of the US.

As expected, the EBC left interest rates unchanged, including the refi rate at 0.00% and the deposit rate at -0.40%. The press release shows that the EBC continues to consider the inflation rebound temporary and will not react on that. The central bank noted that the euro zone economy has continued to strengthen and that economic recovery has been gaining momentum. According to the EBC, the risks to growth persist, albeit they are now lower. The EBC President Mario Draghi said during the press conference that the central bank did not discuss the change in monetary policy, which undermined expectations that the EBC rhetorics could become more hawkish soon. In reaction to the announcement, the euro started to plunge against the US dollar, bond yields declined and CEE currencies advanced.

EURUSD rose to 1.093 after the ECB presented an upbeat assessment of the economic growth in the euro zone, but the dovish rhetoric during the press conference pulled the exchange rate down to 1.086 at the end of the day. Today euro zone's April flash CPI and the US Q1 advance GDP are on the agenda. These figures could determine where EURUSD will end the week.

The yesterday's ECB meeting boosted the zloty and forint. EURPLN fell below 4.22 and EURHUF ended the day below 312. In our view, the zloty could be under pressure in the coming days. Historically, the zloty had depreciated vs the euro at the beginning of May. In the last 11 years, EURPLN fell in May only two times. EURCZK rose yesterday for the third day in a row and was testing 27 in the afternoon. Falling oil prices continued to weigh on the ruble that lost vs the dollar for the third consecutive session.

Yields of Polish bonds and IRS rates declined on Thursday. The dovish rhetoric of the ECB supported the debt market in Europe and the Polish 10Y benchmark yield approached 3.38%. The spread between 10Y Polish and German yields has stabilized near 305 bp since the start of the week. In our view, in the near term the Polish debt may be under pressure of rising yields in core debt markets.

Yesterday the NBP released its quarterly report about business climate. The document says that at the start of the year the companies' situation has improved and the positive trend should continue in the second quarter and in the entire 2017. Firms expect a further rise of output and demand, both on the domestic market and abroad. They also keep planning to raise employment, which may potentially trigger a higher wage pressure. Forecasts for 2Q17 suggest only cautious plans of expansion in private firms, despite a significant revival of investment activity in public companies.

Today at 14:00CET we will learn flash April's CPI in Poland. We expect inflation stayed at March's 2.0% y/y. In our view, gas prices went slightly up due to introduction of new tariffs by the regulator, but on the other hand fuel and food prices remained stable. According to our forecasts, inflation rate will fall, hovering just below 2% for the better part of the year and may slide temporarily below 1.5% in December. Realisation of such an inflation path would support our forecasts that rates will remain unchanged in 2017.

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FX market

Today's opening

EURPLN	4.2152	CZKPLN	0.1561
USDPLN	3.8740	HUFPLN*	1.3532
EURUSD	1.0880	RUBPLN	0.0680
CHFPLN	3.8973	NOKPLN	0.4524
GBPPLN	4.9966	DKKPLN	0.5667
USDCNY	6.8955	SEKPLN	0.4383

*for 100HUF

Last session in the FX market

27/04/2017

	min	max	open	close	fixing
EURPLN	4.217	4.231	4.229	4.224	4.2296
USDPLN	3.860	3.894	3.888	3.884	3.8776
EURUSD	1.085	1.093	1.088	1.088	-

Interest rate market

27/04/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.97	0	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.86	-2	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.40	-5	23.03.2017	DS0727	3.568

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.77	-1	1.39	-2	-0.23	-1
2L	1.95	-2	1.57	-3	-0.15	-2
3L	2.11	-1	1.72	-4	-0.06	-4
4L	2.25	-3	1.84	-5	0.06	-3
5L	2.38	-2	1.94	-5	0.18	-4
8L	2.67	-2	2.16	-5	0.55	-5
10L	2.83	-2	2.27	-4	0.77	-4

WIBOR rates

Term	%	Change (bps)
O/N	1.54	1
T/N	1.55	0
SW	1.58	2
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	1.76	-2
9x12	1.82	-1
3x9	1.80	0
6x12	1.84	-1

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	3.09	-7
France	33	0	0.52	-1
Hungary	116	1	2.91	-2
Spain	72	0	1.32	0
Italy	172	0	1.95	0
Portugal	228	-4	3.14	0
Ireland	46	-1	0.53	-1
Germany	17	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

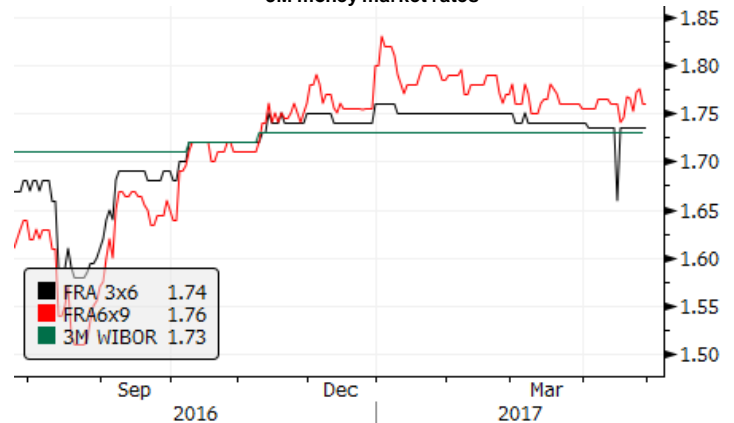
Zloty exchange rate



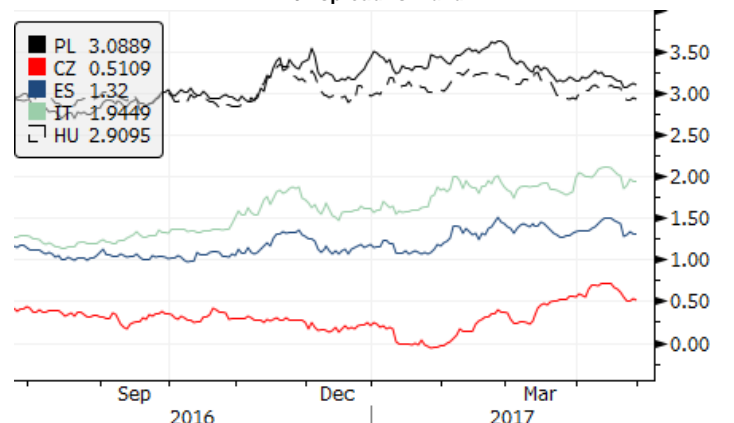
T-bonds yields



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	-	112.9	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	8.1	8.5
THURSDAY (27 April)								
13:45	EZ	Central bank decision		%	0.0	-	0.0	0.0
14:30	US	Durable goods orders	Mar	% m/m	1.2	-	0.7	1.8
14:30	US	Initial jobless claims	week	k			257	244
16:00	US	Pending home sales	Mar	% m/m	-1,0	-	-0.8	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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