

EYEOPENER

2 May 2017

PMI in the middle of long weekend

- Inflation in the euro zone surprised to the upside, US GDP to the downside
- CPI in Poland stable in April at 2.0% y/y
- Zloty trimmed some of recent gains, volatility in EURUSD
- Polish IRS and bond yields higher, following markets abroad
- Today, manufacturing activity indicators in Europe

On Friday the global financial markets were under the clear influence of higher than expected inflation data from the euro zone. According to flash estimate, the HICP rose 1.9% y/y in April, slightly above forecast, but even more important was core inflation measure, which rebounded to 1.2% y/y (its highest since June 2013) from 0.7% y/y in March. In reaction to the publication, the euro started appreciating, while the European bonds got under pressure. The first estimate of the US GDP in 1Q17 disappointed slightly, limiting the scale of selloff in the core bond markets. US data released yesterday – personal income and spending plus manufacturing ISM – were also slightly lower than expected. Manufacturing PMI from China released this morning was also below forecast, falling to 50.3.

EURUSD rose on Friday above 1.094 in reaction to HICP data from the euro zone. In the next hours, the upward impulse was not continued and at the end of the day there was a correction to 1.09. On Monday the fluctuations on the market were small, and today in the morning the rate is slightly above 1.09. We think that the EURUSD volatility will remain limited before tomorrow's FOMC meeting.

EURPLN rose on Friday above 4.22 and USDPLN was near 3.87 at the end of the week. The Hungarian forint also gave up some of its recent gains (EURHUF rose from 311 to slightly above 312). On Monday, amid market holiday in Poland, the zloty strengthened to 4.21 versus euro, but the move was only short lived, and today in the morning the EURPLN was above 4.22 again.

Unexpectedly, on Friday the Russian central bank cut interest rates by 50bp to 9.25% while the market expected a 25bp reduction. This decision did not have any significant negative impact on the ruble that was already under negative pressure vs the dollar earlier in the week. USD/RUB rose to 57.3 (its highest since the first half of April) amid falling oil prices.

On the Polish interest rate market bond yields and IRS rates increased slightly, following the trend in core debt markets,

which was triggered by higher than expected euro zone inflation. Polish debt weakened in a similar scale as the German one and slightly more than euro zone peripheral bonds.

The Ministry announced that on May 18 it will offer bonds for PLN3-5bn. On May 25, the switch auction will be held and OK0717 and DS1017 will be repurchased.

According to the data released by the Ministry of Finance, in March the non-residents purchased Polish PLN-denominated marketable bonds worth nearly PLN10bn. After the biggest monthly buying since June 2014, nominal value of foreign investors portfolio rose to cPLN205bn, the highest since December 2015. Foreign central banks purchased debt for PLN4.4bn. This was their first buying after three months of selling and the nominal value of their portfolio reached the highest level (PLN31.7bn) since the data was made available (April 2004)) while the mutual funds added up some PLN1.9bn. Under the geographical criteria, non-residents from Asia (excluding Middle East) purchased bonds for PLN4.9bn and the ones from euro zone for PLN1.9bn..

According to the flash estimate, CPI in Poland in April reached 2.0% y/y, in line with the consensus and vs 2.0% y/y in March. Price growth was most probably contained by a relatively weak increase in food. We expect the headline figure to stay in the horizontal trend slightly below 2.0% in the coming months, with the core CPI climbing slowly towards 1.5% y/y at the year-end. For the central bank, the data justify its wait-and-see approach. No rate hikes are likely this year.

Polish manufacturing PMI, released this morning, increased to 54.1 in April, from 53.5 in March. The report showed a solid output growth (albeit a bit weaker than in March), plus a marked increase in sales to clients in both the domestic and export markets, with new orders increasing at a faster rate than in March. The job creation accelerated, and cost burden increased sharply.

Activity on the Polish financial market in the first week of May will be traditionally subdued. We expect that strong macro data from abroad and the Fed statement leaving the door open for rate hike in June will trigger an upward trend in bond yields in the core euro zone markets, and the Polish bonds may follow this trend. The zloty correction after the long weekend is also quite likely, which in our view, apart from the Fed's rhetoric, will be triggered by a seasonal effect.

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FX market

Today's opening

EURPLN	4.2240	CZKPLN	0.1573
USDPLN	3.8712	HUFPLN*	1.3529
EURUSD	1.0911	RUBPLN	0.0679
CHFPLN	3.8893	NOKPLN	0.4499
GBPPLN	4.9856	DKKPLN	0.5680
USDCNY	6.8971	SEKPLN	0.4376

*for 100HUF

Last session in the FX market

01/05/2017

	min	max	open	close	fixing
EURPLN	4.209	4.237	4.224	4.220	4.217
USDPLN	3.854	3.882	3.874	3.869	3.8696
EURUSD	1.088	1.092	1.090	1.090	-

Interest rate market

01/05/2017

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)	2.87	-2	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.43	0	23.03.2017	DS0727	3.568

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.76	0	1.39	0	-0.23	0
2L	1.95	0	1.59	1	-0.15	-1
3L	2.11	0	1.74	1	-0.04	0
4L	2.28	0	1.86	2	0.07	0
5L	2.41	0	1.96	2	0.20	1
8L	2.70	0	2.19	2	0.57	0
10L	2.86	0	2.29	2	0.79	0

WIBOR rates

Term	%	Change (bps)
O/N	1.54	0
T/N	1.59	4
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	0
9x12	1.58	-24
3x9	1.80	0
6x12	1.84	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	3.11	-1
France	34	0	0.51	-1
Hungary	116	1	2.89	-1
Spain	71	0	1.33	1
Italy	169	1	1.97	1
Portugal	81	-145	3.23	2
Ireland	46	0	0.52	-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

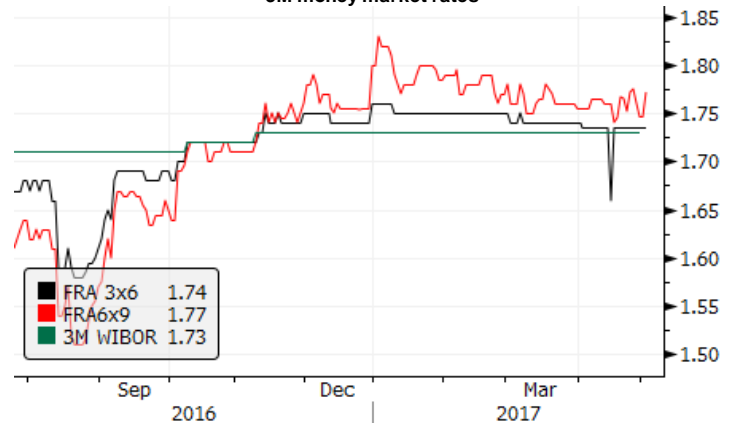
Zloty exchange rate



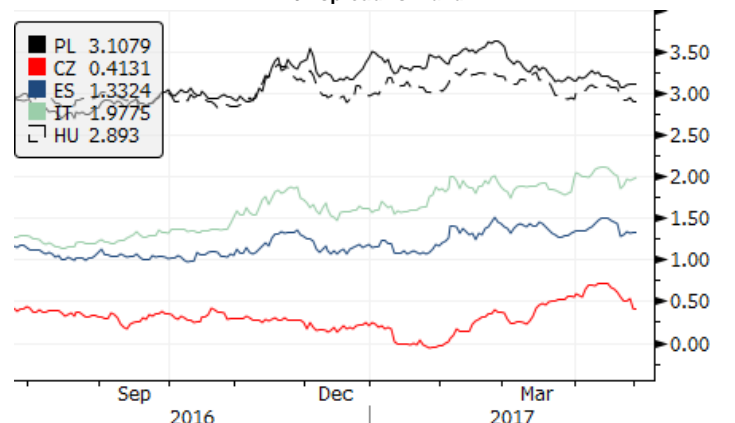
T-bonds yields



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 (28 April)								
11:00	EZ	Flash CPI	Apr	% y/y	1.8	-	1.9	1.5
14:00	PL	Flash CPI	Apr	% y/y	2.0	2.0	2.0	2.0
14:30	US	Advance GDP	Q1	% y/y	1.0	-	0.7	2.1
16:00	US	Michigan index	Apr	pts	98	-	97.0	96.9
MONDAY (1 May)								
	PL	Market holiday						
14:30	US	Personal income	Mar	% m/m	0.3	-	0.2	0.3
14:30	US	Consumer spending	Mar	% m/m	0.2	-	0.0	0.0
16:00	US	ISM – manufacturing	Apr	pts	56.5	-	54.8	57.2
TUESDAY (2 May)								
9:00	PL	PMI – manufacturing	Apr	pts	53.9	53.1	54.1	53.5
9:55	DE	PMI – manufacturing	Apr	pts	58.2	-		58.2
10:00	EZ	PMI – manufacturing	Apr	pts	56.8	-		56.8
WEDNESDAY (3 May)								
	PL	Market holiday						
11:00	EZ	Advance GDP	Q1	% y/y	1.7	-		1.7
14:15	US	ADP report	Apr	k	183	-		263
16:00	US	ISM – services	Apr	pts	56.0	-		55.2
20:00	US	Decyzja FOMC		%	1.00	-		1.00
THURSDAY (4 May)								
9:55	DE	PMI – services	Apr	pts	56.2			56.2
10:00	EZ	PMI – services	Apr	pts	54.7	-		54.7
13:00	CZ	Central bank decision		%	0.05	-		0.05
16:00	US	Industrial orders	Mar	% m/m	0.5	-		1.0
FRIDAY (5 May)								
14:30	US	Non-farm payrolls	Apr	k	193	-		98
14:30	US	Unemployment rate	Apr	% y/y	4.6	-		4.5

Source: BZ WBK, Reuters, Bloomberg

* in case of the revision, the data is updated

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