

# EYEOPENER

4 May 2017

## Fed boosted expectations for rate hike in June

- **Polish PMI rose in April thanks to higher orders; employment rising, unemployment record low**
- **Optimistic Fed statement triggered a surge in market expectations for a rate hike in June**
- **Global stock markets rose, core debt markets weakened**
- **Zloty strengthened, Polish bonds weakened at the start of May**
- **Today, European services PMIs, Czech central bank decision, US factory orders**

New month on global markets started with a quite good sentiment. On Tuesday main stock market indexes were going up triggered by, among other things, good financial results of European companies and improving business climate indicators in main European economies, which supported the expectations for the pace of economic growth in Eurozone in the next part of the year. The last worse-than-expected data from the US economy (including GDP growth in 1Q17) went unnoticed in the face of the anticipation of the Federal Reserve's decision on Wednesday. US Treasury Secretary Steven Mnuchin stated that it might be reasonable for the US to issue ultra-long bonds to support expenditure on infrastructure and it resulted with weakening of the US debt market.

On Wednesday evening the FOMC kept the main interest rates unchanged, in line with expectations. According to the Fed, economic slowdown in the USA in 1Q17 was probably temporary and the central bank still expects economic activity to rise at a moderate pace, situation on the job market to further improve and inflation to stabilize around 2% in a medium run. As we expected, the statement was quite positive and left the door open for interest rate hike on June sitting. As a result, the market's expectations for such scenario grew significantly – from c67% to almost 98%. It triggered the rise of yields of US Treasuries and appreciation of the dollar against the euro.

EURUSD was surprisingly stable on Tuesday, consolidating in a narrow range 1.09-1.092 in anticipation of the FOMC meeting. On Wednesday the fluctuations were also quite small and only after the Fed meeting the dollar strengthened more significantly, with EURUSD sliding just below 1.09.

Zloty was overperforming other currencies in the region just after the long weekend. The impulse for the appreciation could be the solid data about the PMI, heralding a strong start of the second quarter in manufacturing. EURPLN approached on Tuesday 4.205, USDPLN decreased to 3.85 and CHFPLN fell temporarily below 3.88. At the same time EURHUF was quite stable near 312, EURCZK rose slightly above 26.9 (probably partly due to information about the government's dismissal). On Wednesday all the CE3 currencies gained, with EURPLN temporarily falling below 4.20 and establishing this year's new low. The sentiment at the start of the day is positive, which may limit the scope for the zloty's weakening, but the approaching second round of the French elections may limit chances for continuation of PLN appreciation.

Bond yields and IRS rose on Tuesday, in line with our expectations, following the trend observed on the core markets. The latter were under the impact of, among others, comment of the US Treasury secretary who said that ultra-long bonds could be issued. After the FOMC meeting the core market rates continued to rise which might weigh on the Polish bonds today.

Polish manufacturing PMI 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) due to rising demand for Polish goods – sales to domestic and export markets rose sharply. Pace of growth of the new orders accelerated thanks to, among others, economic revival seen in Europe. The job creation accelerated as well and was the fastest for four months. At the same time, companies reported slower price growth and weaker cost pressure.

According to the Eurostat, the Poland's seasonally adjusted unemployment rate stayed at its all-time low at 5.3% in March. The number of unemployed reached 906k and was the lowest ever after falling by nearly 200k y/y. At the same time, the number of economically active – estimated using the abovementioned data – fell to 17.02mn, its lowest since December 2010, while the number of employed rose 0.4% y/y. If the pace of the economic growth and demand for jobs is maintained at a current high level in the coming quarters, we think it is highly likely that the LFS unemployment rate could fall below 4% yet before the year-end.

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## FX market

## Today's opening

EURPLN	4.2039	CZKPLN	0.1571
USDPLN	3.8637	HUFPLN*	1.3478
EURUSD	1.0881	RUBPLN	0.0673
CHFPLN	3.8830	NOKPLN	0.4459
GBPPLN	4.9635	DKKPLN	0.5653
USDCNY	6.8974	SEKPLN	0.4362

\*for 100HUF

## Last session in the FX market

03/05/2017

	min	max	open	close	fixing
EURPLN	4.188	4.210	4.205	4.199	4.2226
USDPLN	3.836	3.859	3.856	3.846	3.8675
EURUSD	1.090	1.094	1.091	1.092	-

## Interest rate market

03/05/2017

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

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.99	2	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.91	2	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.46	3	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	0	-0.24	0
2L	1.95	0	1.57	0	-0.16	-1
3L	2.12	0	1.72	0	-0.05	-1
4L	2.29	0	1.84	0	0.07	-1
5L	2.43	0	1.94	0	0.20	-1
8L	2.73	0	2.15	-1	0.57	-1
10L	2.88	0	2.25	-1	0.79	-1

## WIBOR rates

Term	%	Change (bps)
O/N	1.62	8
T/N	1.63	4
SW	1.60	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	1.82	0
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	0
France	33	0	0.47	-1
Hungary	116	1	2.83	-2
Spain	71	-1	1.27	-1
Italy	168	-2	1.92	-1
Portugal	228	2	3.11	-1
Ireland	45	0	0.49	-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



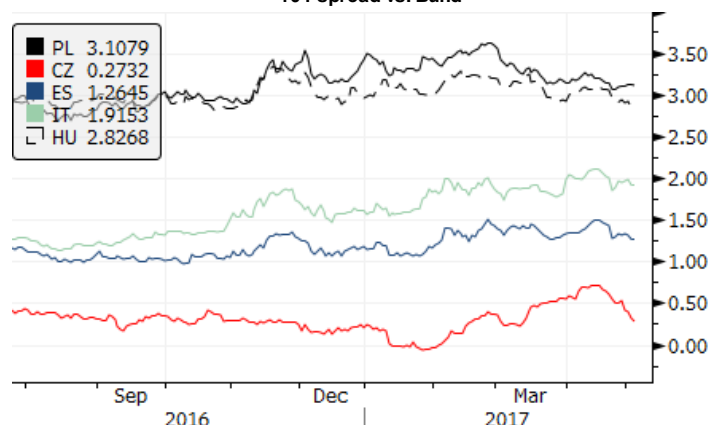
## T-bonds yields



## 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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