

EYEOPENER

15 May 2017

Positive surprise from Moody's

- **Moody's raised the rating outlook to stable**
- **Zloty slightly stronger after Moody's decision, profit taking possible today; EURUSD higher after US data**
- **Polish debt gained significantly on Friday**
- **Today Polish data about core inflation and balance of payments**

Positive mood was seen on global markets ahead of the weekend. Main indices finished the day in black and euro zone core and peripheral bond yields declined. The CE3 bonds saw big gains, with the largest drop of yields occurring in Romania. Friday was another day of oil price increases with Brent approaching US\$51/bbl. Retail sales data from the US were worse than expected, especially with auto sales excluded (0.3% vs 0.5%), while Michigan consumer sentiment index was slightly better than consensus. Global mood looks quite positive in the morning and the European session could be led by market bulls, thanks to continuing progress on the oil market (as an extension of the OPEC oil deal is more and more expected), among other factors.

On Friday, the Moody's agency confirmed the Poland's credit rating at A2 and raised its outlook to stable from negative. According to the Moody's, fiscal and investment risks as well as political uncertainty decreased. Change of outlook was justified by waning effect of negative fiscal risk factors, which encouraged the agency to downgrade Poland's outlook one year earlier, as well as by favourable debt metrics. The Moody's expects the government to maintain the general government deficit below 3% of GDP, with public debt stabilizing close to 55% of GDP in 2017-2021 and average GDP growth at 3.2% per annum in this period.

April's CPI in Poland stabilized at 2.0% y/y, in line with expectations and flash estimate. On monthly basis prices rose 0.3% m/m. Food prices remained stable vs March as the significant rise in meat prices (+0.9% m/m) was neutralised by a weak increase in vegetables (+0.1% m/m) and fruit (-0.9% m/m). The two latter categories could appear to be key for our inflation path in the coming months if low temperatures observed in May destroyed crops. Still, so far we do not have any reliable data about this and only see an upside risk to our CPI forecasts. The most significant difference between published CPI data and our forecast was that food and fuel prices were lower, but core inflation was higher - we now estimate that it rose to 0.9% y/y in April.

Money supply decelerated from 7.8% y/y to 6.6% which was a big surprise given that the market consensus was at 7.1%. The

previous reading was revised higher, from 7.7% to 7.8% y/y. April M3 growth is the lowest in the last 3 years.

On Friday EURUSD started the session near Thursday's closing level but the US retail sales data release caused the dollar's significant depreciation and the exchange rate reached 1.092. Until the end of the day EURUSD stayed near this level and good Michigan index reading did not manage to change it. This week EURUSD will be probably influenced by the US data but today's volatility could be limited, taking the lack of new signals from the global economy.

EURPLN fell to 4.21 in the first part of the session but despite further strengthening of the Polish bonds the zloty did not manage to keep gains until the end of the day and the exchange rate rebounded to just above 4.22. Polish currency performed better vs the dollar – USDPLN fell temporarily below 3.86 amid rising EURUSD. The other CEE currencies remained fairly stable – Czech koruna and Russian ruble ended the day near Thursday's closing. EURHUF managed to fall below 310 but at the end of the day the exchange rate pulled back to level seen on the previous day. Moody's rating outlook improvement pushed EURPLN down to 4.21 but this proved only short-lived and we think some profit taking could take place later in the day.

On Friday bonds gained. On the core markets Treasuries gained most (the 10Y benchmark yield fell 7bp to 2.34%). In our region, the best performing debt was a Romanian one (yield down by 10bp), Polish long-term benchmark gained 6bp. The 10Y PL-DE bond yield spread continued to narrow and eased to 290bp. On the IRS market, the 5Y and 10Y rates fell by 6bp and 7bp, respectively. The asset swap spread stayed roughly stable.

Today Polish March balance of payments and April core CPI data are due. Our forecast of the current account deficit was lower than the consensus but after the Friday's stat office data on the foreign trade we see a risk for a larger gap (due to higher imports). Core CPI, like already mentioned, most likely made another step higher in April. Before the final CPI data were released, we thought it rose to 0.7% y/y from 0.6% y/y but now we estimate April's core inflation at 0.9% y/y.

Later this week, plenty of Polish and US macro data are on the agenda and the Polish MPC will announce its decision on the interest rates. We do not expect any change neither in monetary policy parameters nor in the Council's rhetoric but members will have a chance to comment on the flash 1Q17 GDP figure that we expect will show a sharp rebound vs 4Q16. We think Polish bonds and the zloty could give up part of their recent gains.

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FX market

Today's opening

EURPLN	4.2101	CZKPLN	0.1585
USDPLN	3.8504	HUFPLN*	1.3593
EURUSD	1.0934	RUBPLN	0.0679
CHFPLN	3.8468	NOKPLN	0.4506
GBPPLN	4.9745	DKKPLN	0.5658
USDCNY	6.8991	SEKPLN	0.4359

*for 100HUF

Last session in the FX market

12/05/2017

	min	max	open	close	fixing
EURPLN	4.211	4.228	4.221	4.213	4.22
USDPLN	3.852	3.892	3.884	3.854	3.8837
EURUSD	1.086	1.093	1.087	1.093	-

Interest rate market

12/05/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.97	-2	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.76	-7	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.30	-5	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	1.36	-4	-0.23	0
2L	1.92	0	1.54	-5	-0.14	-1
3L	2.07	-2	1.70	-6	-0.04	-2
4L	2.22	-4	1.82	-7	0.08	-2
5L	2.35	-4	1.92	-7	0.21	-2
8L	2.64	-4	2.15	-7	0.58	-3
10L	2.80	-4	2.25	-7	0.81	-3

WIBOR rates

Term	%	Change (bps)
O/N	1.63	0
T/N	1.63	0
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	1.75	1
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	2.91	-6
France	30	0	0.45	0
Hungary	116	1	2.65	-1
Spain	67	1	1.23	1
Italy	159	0	1.87	1
Portugal	200	-1	2.98	2
Ireland	39	0	0.45	0
Germany	16	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

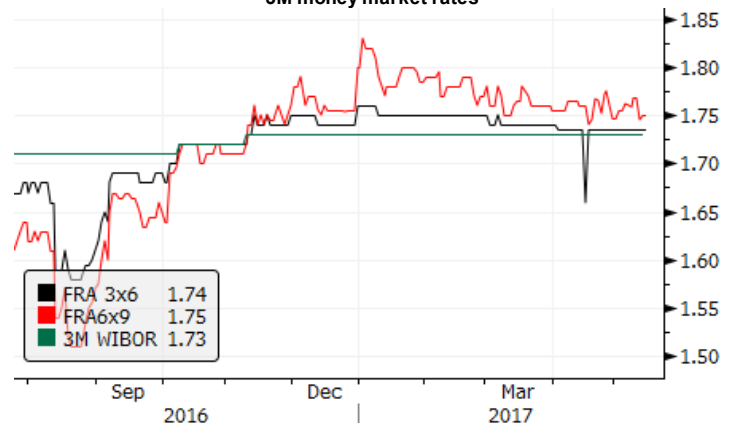
Zloty exchange rate



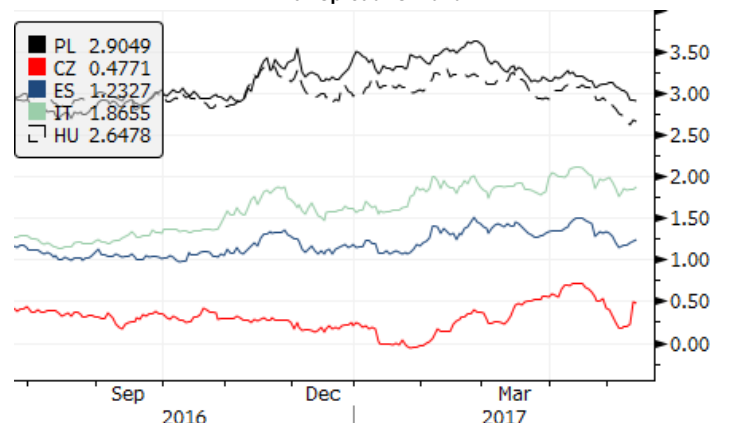
T-bonds yields



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 (5 May)								
	PL	Moody's rating decision						
8:00	DE	Flash GDP	Q1	% y/y	1.7	-	1.7	1.7
11:00	EZ	Industrial output	Mar	% y/y	2.3	-	1.9	1.2
14:00	PL	CPI	Apr	% y/y	2.0	2.0	2.0	2.0
14:00	PL	Money supply	Apr	% y/y	7.2	7.3	6.6	7.7
14:30	US	CPI	Apr	% m/m	0.2	-	0.2	-0.3
14:30	US	Retail sales	Apr	% m/m	0.6	-	0.4	-0.2
16:00	US	Flash Michigan	May	pts	97.0	-		97.0
MONDAY (15 May)								
14:00	PL	Current account	Mar	€m	-319	-177		-860
14:00	PL	Exports	Mar	€m	17 639	18 053		15 044
14:00	PL	Imports	Mar	€m	17 607	17 607		15 581
14:00	PL	Core inflation	Apr	r/r	0.7	0.7		0.6
TUESDAY (16 May)								
9:00	CZ	Flash GDP	Q1	% y/y	2.3	-		1.9
9:00	HU	Flash GDP	Q1	% y/y	3.1	-		1.6
10:00	PL	Flash GDP	Q1	% y/y	3.9	3.7		2.7
11:00	DE	ZEW index	May	pts	80.9	-		80.1
11:00	EZ	Flash GDP	Q1	% y/y	1.7	-		1.7
14:30	US	House starts	Apr	k	1250	-		1215
14:30	US	Building permits	Apr	k	1270	-		1260
15:15	US	Industrial output	Apr	% m/m	0.4	-		0.5
WEDNESDAY (17 May)								
	PL	MPC decision		%	1.50	1.50		1.50
11:00	EZ	CPI	Apr	% y/y	1.9	-		1.5
THURSDAY (18 May)								
11:00	PL	Bond auction						
14:00	PL	Wages in corporate sector	Apr	% y/y	4.3	4.4		5.2
14:00	PL	Employment in corporate sector	Apr	% y/y	4.5	4.5		4.5
14:30	US	Initial jobless claims	week	k	-	-		236
14:30	US	Index Philadelphia Fed	May	pts	19.4	-		22.0
FRIDAY (19 May)								
14:00	PL	PPI	Apr	% y/y	4.5	4.0		4.7
14:00	PL	Industrial output	Apr	% y/y	6.7	-0.2		17.2
14:00	PL	Construction and assembly output	Apr	% y/y	6.8	6.6		11.1
14:00	PL	Real retail sales	Apr	% y/y	7.3	8.8		7.9

Source: BZ WBK, Reuters, Bloomberg

* in case of the revision, the data is updated

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