

# EYEOPENER

17 May 2017

## Trump issues damage market optimism, Polish economy accelerates

- **Positive mood on the markets upset by reports about the US president**
- **All CE3 economies grew stronger than expected in 1Q**
- **Zloty stronger after the GDP data, benefited from a strong rise of EURUSD**
- **Much volatility on Polish FI market, announcement of lower supply sent yields lower**
- **Today Euro zone inflation and Polish MPC decision**

Yesterday the global markets were optimistic and main stock indices posted considerable gains. On the other hand, FX and FI markets were volatile due to turmoil connected to Donald Trump and weaker data from the US housing market. Evening's reports that the House Oversight Committee wants to investigate whether Trump asked the FBI Director James Comey to drop an investigation into former National Security Adviser have seriously undermined sentiments on the global markets.

Yesterday's flash GDP data for 1Q17 in Poland showed a clear acceleration of growth versus 4Q16, from 2.5% to 4.0% y/y. We do not know the breakdown of growth yet at this stage. After the very strong monthly data for March about production and sales, the market consensus moved up to 3.9% y/y, however the yesterday's data about foreign trade suggested a caution about the 1Q17 result. Data from other countries in our region were also very strong – both Czechia (where growth accelerated from 2.3% to 2.9% y/y, versus expected 2.3%) and Hungary (acceleration from 1.6% to 4.1% y/y, expected 3.2%) surprised with the scale of economic rebound in the first quarter.

Now the market will be waiting for the MPC's interpretation of the new data at the today's meeting. In our view, the Council will refrain from any changes in its rhetoric as despite the strong economic performance in 1Q, the upward trend in inflation slowed down and CPI will remain close to 2% y/y in the months to come (and may slip even lower in May). The NBP president is likely to reiterate today that rate hikes are very unlikely this year. We are expecting the first hike in 2H18.

Yesterday the dollar was under pressure of the next weaker-than-expected US data, political turmoil caused by President Trump and doubts about his ability to deliver the stimulus package. The euro

was one of the strongest vs the dollar among the G10 currencies and at the end of the day EURUSD was near 1.108 (after the biggest daily rise since mid-March), its highest since Trump's victory in presidential elections in November last year. Positive euro zone flash 1Q17 GDP data provided additional support for the euro. During the night the upside move continued and the exchange rate rose above 1.11. Today's euro zone inflation numbers should not surprise so the market may be waiting for the US Thursday's jobless claims data and development of the political situation in the US.

Yesterday's publication of flash GDP data in the countries of our region contributed to the morning appreciation of CE3 currencies against the euro. EURCZK has deepened its downward trend since the beginning of the month and tested 26.4 at the end of the day. The Hungarian forint, despite much better data on GDP growth in 1Q17, failed to keep profits until the end of the day. The zloty, after data from the region, began to strengthen and EURPLN temporarily fell below 4.19, but later in the day profits were taken. Despite the volatility, the zloty ended the day at 4.19 per euro. The next day of rising EURUSD supported the zloty against the dollar and at the end of the day the USDPLN was below 3.79, the lowest since August 2016. Continuation of EURUSD movement in the evening and at night brought the zloty to 4.17 against the euro, but it gave back these in the morning. The Russian ruble after Monday's appreciation against the dollar yesterday remained stable with slight fluctuations in the range of 56.2-56.4.

Yields on the core bond markets grew on Tuesday, and the German Bund came close to 0.44%. Better-than-expected Polish GDP data in 1Q17 contributed to morning profit taking in the domestic fixed income market (yields of Polish 10-year bonds rose by 5 bp). In the afternoon, the Ministry of Finance announced that on Thursday's auction it would offer OK0419, PS0422, WZ1122, WZ0126 and DS0727 for no more than PLN3bn (instead of PLN5bn as planned), which could have an impact on the increase in demand for Polish bonds – long end reached 3.33% (down 2 bps) on the closing. The 10-year spread between Polish and German bonds was another day at 290 bps. IRS rates rose yesterday along the curve, with the strongest rises in the middle and the long end (by 2 bp). Spread asset swaps fell on Tuesday below 50 bps, the lowest level since the US elections last year.

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## FX market

## Today's opening

EURPLN	4.1836	CZKPLN	0.1583
USDPLN	3.7667	HUFPLN*	1.3511
EURUSD	1.1107	RUBPLN	0.0665
CHFPLN	3.8328	NOKPLN	0.4462
GBPPLN	4.8685	DKKPLN	0.5623
USDCNY	6.8881	SEKPLN	0.4295

\*for 100HUF

## Last session in the FX market

16/05/2017

	min	max	open	close	fixing
EURPLN	4.187	4.204	4.198	4.189	4.1902
USDPLN	3.780	3.830	3.825	3.782	3.7932
EURUSD	1.097	1.109	1.097	1.108	-

## Interest rate market

16/05/2017

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

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.98	1	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.79	-2	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.34	-1	23.03.2017	DS0727	3.568

## IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.78	1	1.36	0	-0.23	0
2L	1.95	1	1.53	0	-0.14	1
3L	2.10	2	1.68	0	-0.03	1
4L	2.26	2	1.80	0	0.10	2
5L	2.40	2	1.91	-1	0.23	1
8L	2.71	2	2.14	0	0.61	1
10L	2.86	2	2.25	0	0.84	2

## WIBOR rates

Term	%	Change (bps)
O/N	1.64	2
T/N	1.63	1
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	1.75	2
6x9	1.78	2
9x12	1.82	1
3x9	1.82	1
6x12	1.85	1

## Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.94	3
France	30	0	0.45	-1
Hungary	116	1	2.68	5
Spain	70	-1	1.19	0
Italy	161	-1	1.79	0
Portugal	199	-2	2.84	0
Ireland	40	1	0.45	-1
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

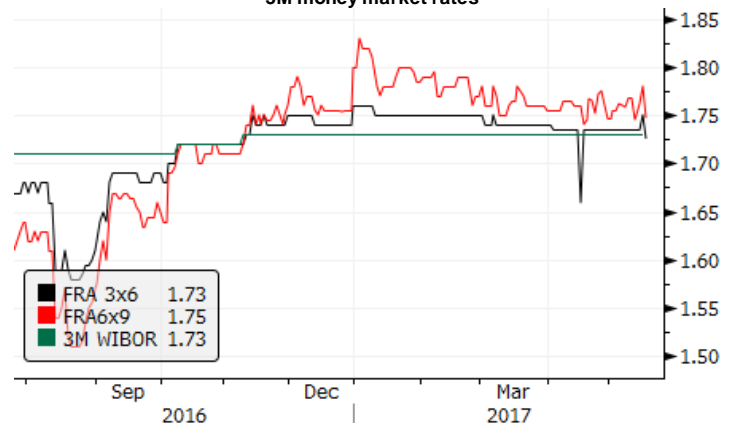
## Zloty exchange rate



## 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	-738	-825
14:00	PL	Exports	Mar	€m	17 639	18 053	17 798	15 193
14:00	PL	Imports	Mar	€m	17 607	17 607	18 016	15 696
14:00	PL	Core inflation	Apr	r/r	0.7	0.9	0.9	0.6
TUESDAY (16 May)								
9:00	CZ	Flash GDP	Q1	% y/y	2.3	-	2.9	1.9
9:00	HU	Flash GDP	Q1	% y/y	3.1	-	4.1	1.6
10:00	PL	Flash GDP	Q1	% y/y	3.9	3.7	4.0	2.7
11:00	DE	ZEW index	May	pts	80.9	-	83.9	80.1
11:00	EZ	Flash GDP	Q1	% y/y	1.7	-	1.7	1.7
14:30	US	House starts	Apr	k	1250	-	1172	1215
14:30	US	Building permits	Apr	k	1270	-	1229	1260
15:15	US	Industrial output	Apr	% m/m	0.4	-	1.0	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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