

EYEOPENER

30 May 2017

Dovish Mario Draghi's speech

- **Small market liquidity due to market holiday in US and UK**
- **Zloty stable versus main currencies, EURUSD lower**
- **Clear strengthening on debt markets in Europe after the Mario Draghi's dovish speech**
- **Today US data about personal income and spending, consumer confidence**

Market holidays in the USA, the UK and China caused low liquidity during the Monday session on the global markets. European stock indices ended the day not far of the Friday closing levels while bonds of the euro zone member states got stronger (with the exception of Italy which saw a 7-bp rise in yield). The sentiment in Europe was shaped by rising geopolitical risks (the lack of agreement on Greek debt relief, the risk of snap elections in Italy, declining support for the Conservative Party in the UK). Oil price settled close to US\$52/bbl on Monday after two days of decline.

Yesterday the ECB Governor Mario Draghi met with the Committee on Economic and Monetary Affairs in the European Parliament. He highlighted that the risks to the economic growth outlook continue to decrease, but support from the monetary policy is still needed. In his view it is too early to expect a change in the approach of the ECB. Draghi also said that the economic rebound in the euro zone is getting more solid and is expanding to various sectors and countries. However core inflation remains low and price pressure, especially the wage-based pressure, is still too weak to cause a lasting adjustment of inflation to 2% y/y in the medium term. The speech by the ECB governor dispelled speculations that the central bank might soon signal a reduction of monetary stimulus in the euro zone.

On Monday EURUSD remained stable near 1.12. Dovish rhetoric of the ECB President and no trading on American market on Monday caused the exchange rate to fall to 1.117 and today in the morning this move continued to 1.111. Today's publications of the data on US consumer spending, personal income and consumer confidence index could further support the dollar.

On Monday morning the zloty tested 4.17 versus the euro, but this level failed to hold and in the afternoon EURPLN returned above 4.18. Monday was the third consecutive day when investors tried to break through 4.17 on EURPLN. After Mario Draghi's speech to the European Parliament's Economic Commission, the zloty started to weaken slightly against the euro. In our opinion, low liquidity and higher geopolitical risk may weigh on the zloty and signals from major central banks will be key. USDPLN rate was stable on Monday and approached 3.74 at the end of the day.

The currencies of our region also remained near Friday's closing due to low liquidity and the absence of global investors. EURCZK stabilized near 26.4 and the fluctuations were slight on Monday. The forint slightly weakened after the weekend and EURHUF ended the day at 308. Rising oil prices supported the ruble, which weakened after the announcement of the OPEC decision. USDRUB was close to 56.5 on Monday.

German Bunds benefited from subdued investors' activity and the 10Y benchmark traded at 0.30% yield, its lowest since French presidential elections. Global trends supported Polish bonds – the short end remained fairly stable while the 10Y bond yield reached 3.25%, the lowest since US presidential elections in November. The 10Y PL-DE bond yield spread stayed flat and holds in the 290-295 range. The 2-10Y bond spread narrowed to 86bp, its lowest for a month. IRS stayed near Friday's closing levels amid low investors' activity. The 10Y asset swap spread fell to 49bp at the beginning of the week.

Yesterday the Deputy PM Mateusz Morawiecki in the interview for PAP said that in the budget draft for 2018 the government will assume a GDP growth at 3.8% and inflation at 2.3%. However, the budget deficit limit has not been decided yet. Morawiecki also announced that bond supply in the second half of this year will be significantly lower than in first one and the budget deficit will be for sure at least a few billions PLN lower than planned.

ECONOMIC ANALYSIS DEPARTMENT:

al. Jana Pawła II 17, 00-854 Warsaw fax +48 22 586 83 40

email: ekonomia@bzwbk.pl

Web site: skarb.bzwbk.pl

Piotr Bielski +48 22 534 18 87

Marcin Luziński +48 22 534 18 85

Grzegorz Ogonek +48 22 534 19 23

Izabela Sajdak, CFA +48 22 534 18 86

Marcin Sulewski +48 22 534 18 84

TREASURY SERVICES:

Poznań +48 61 856 5814/30

Warszawa +48 22 586 8320/38

Wrocław +48 71 369 9400

FX market

Today's opening

EURPLN	4.1875	CZKPLN	0.1579
USDPLN	3.7625	HUFPLN*	1.3592
EURUSD	1.1130	RUBPLN	0.0665
CHFPLN	3.8415	NOKPLN	0.4458
GBPPLN	4.8209	DKKPLN	0.5629
USDCNY	6.8555	SEKPLN	0.4306

*for 100HUF

Last session in the FX market

29/05/2017

	min	max	open	close	fixing
EURPLN	4.169	4.189	4.179	4.184	4.1794
USDPLN	3.727	3.752	3.739	3.744	3.7371
EURUSD	1.116	1.119	1.118	1.117	-

Interest rate market

29/05/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.90	-1	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.68	-2	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.25	-2	23.03.2017	DS0727	3.568

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.76	-1	1.36	0	-0.24	0
2L	1.91	0	1.53	0	-0.16	-1
3L	2.04	0	1.67	0	-0.07	-2
4L	2.18	0	1.78	0	0.05	-1
5L	2.31	0	1.88	0	0.17	-1
8L	2.61	0	2.09	0	0.55	-2
10L	2.77	0	2.20	0	0.77	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.59	-5
T/N	1.59	-5
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	1.76	0
9x12	1.80	0
3x9	1.81	0
6x12	1.83	0

Measures of fiscal risk

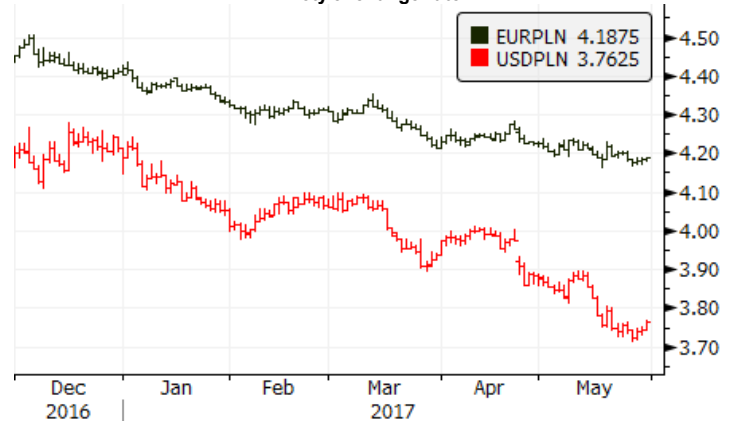
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.96	-2
France	25	-3	0.45	1
Hungary	116	1	2.73	0
Spain	64	-10	1.28	2
Italy	136	-23	1.92	3
Portugal	199	-1	2.86	3
Ireland	40	1	0.48	1
Germany	14	-1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

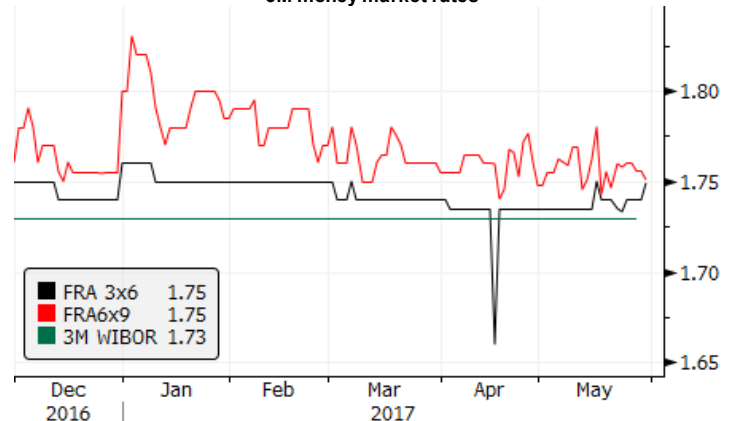
Zloty exchange rate



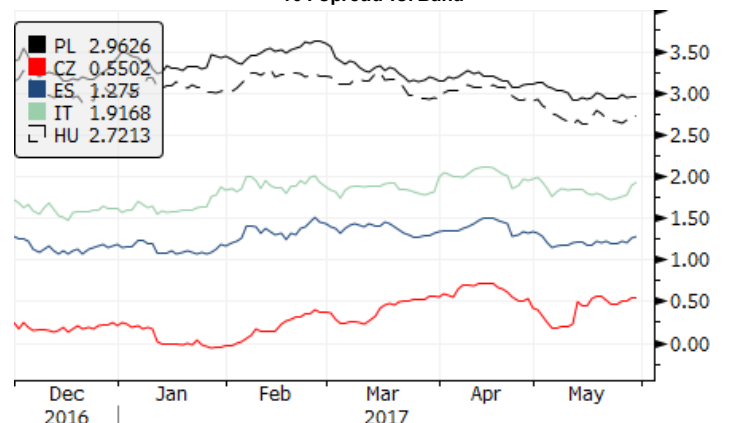
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar								
TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	BZWBK			
THURSDAY (25 May)								
10:00	PL	Unemployment rate	Apr	% y/y	7.7	-	7.7	8.1
14:30	US	Initial jobless claims	week	k	238	-	234	232
FRIDAY (26 May)								
14:30	US	Preliminary GDP	Q1	% y/y	0.9	-	1.2	0.7
16:00	US	Michigan index	May	pts	97.5	-	97.1	97.7
MONDAY (29 May)								
No important data								
TUESDAY (30 May)								
14:30	US	Personal income	Apr	% m/m	0.4	-		0.2
14:30	US	Consumer spending	Apr	% m/m	0.4	-		0.0
16:00	US	Consumer confidence index	May	pts	120.0	-		120.3
WEDNESDAY (31 May)								
10:00	PL	GDP	Q1	% y/y	4.0	4.0		4.0
11:00	EZ	Flash CPI	May	% y/y	-	-		1.9
14:00	PL	Flash CPI	May	% y/y	-	1.9		2.0
16:00	US	Pending home sales	Apr	% m/m	1.0	-		-0.8
20:00	US	Fed Beige Book						
THURSDAY (1 June)								
9:00	PL	PMI – manufacturing	May	pts	-	54.0		54.1
9:55	DE	PMI – manufacturing	May	pts	-	-		59.4
10:00	EZ	PMI – manufacturing	May	pts	-	-		57.0
14:00	PL	MPC minutes						
14:15	US	ADP report	May	k	175	-		177
16:00	US	ISM – manufacturing	May	pts	55	-		54.8
FRIDAY (2 June)								
9:00	CZ	Preliminary GDP	Q1	% y/y	-	-		2.9
14:30	US	Non-farm payrolls	May	k	175	-		211
14:30	US	Unemployment rate	May	% y/y	4.4	-		4.4

Source: BZ WBK, Reuters, Bloomberg

* in case of the revision, the data is updated

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Additional information is available on request. Please contact Bank Zachodni WBK S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@bzwbk.pl, http://www.bzwbk.pl.