

EYEOPENER

31 May 2017

Today GDP data and flash CPI

- Markets undermined by worries about politics in Europe
- Zloty stronger versus main currencies, EURUSD up
- Debt market calmer
- Today data on Polish GDP and CPI

On Tuesday, the global markets were undermined by the political situation in Europe. The stock exchanges closed the day in red due to the rising anxiety about the result of the snap parliamentary election in the UK in the context of narrowing advantage of Theresa May and possible snap election in Italy. The latter factor weighted significantly on the bonds of the EU periphery countries. The crude oil prices dropped dramatically on Tuesday and got close to \$51/bbl. Today morning, German retail sales data below the expectations were published.

According to Politico, the German government is working on a proposal to make the payment of European funds subject to compliance with the rule of law and to accelerate sanctions for countries with excessive fiscal deficits. This first proposal could be negative for Poland, which is subject to the rule of law infringement procedure. It is worth emphasizing, however, that it is to be applied only to the future EU perspective (2021-2027).

Today at 10:00CET we will learn detailed data on Polish GDP that according to the flash estimate grew 4% y/y in 1Q17. We think that all growth engines must have contributed to this figure – consumption, exports and investments. If this is confirmed, then 4% growth in whole 2017 will become quite likely. In the afternoon flash May CPI will be released. We expect the headline figure to be at 1.9% y/y vs market consensus at 2.0%. In our view, there is a risk to the upside due to vegetable and fruit prices. For the better part of the year, inflation should stay near 2% and ease to 1.5% at the year-end.

With British and American investors back on the market, the EURUSD recovered to 1.12 to 1.115. The euro started early to show gains and the positive movement strengthened after

worse-than-expected US consumer confidence (which recorded a second drop, moving farther away from the March top). The data on income and spending in the US were in line with expectations. The exchange rate pushed higher in the middle of May, but has recently lost momentum. It seems that EURUSD needs a new impulse before moving higher. Today we will see a preliminary reading of euro zone inflation in May, pending home sales in the USA and the Fed Beige Book. At the end of the week there's the monthly US labour report.

The EURPLN exchange rate was falling since morning and the dovish tone of the President of the European Central Bank put onus on the single currency. At the end of the day, the euro cost almost PLN4.17. The Polish zloty gained against the dollar even more and USDPLN at the Tuesday closing stood below 3.73. The Czech koruna remained stable and EURCZK is still stable at the level of 26.5. The forint weakened slightly on Tuesday versus the single currency after strong data showing an investment rebound. According to the published data, the 1Q investment went up by 34% y/y after a decline by 20% in 2016. The Hungarian economy is more and more fueled by the inflow of the EU funds, whereas the enterprises boost their manufacturing capacities. The EURHUF exchange rate at the closing stood near to 308.2. Dropping crude oil prices significantly undermined the ruble, which lost against the dollar - USDRUB is heading towards 57.

On Tuesday, the US Treasuries gained and a 10Y benchmark got closer to 2.23%. The US-DE spread has been decreasing since the beginning of the week as the dovish rhetoric of the ECB supports Bunds. The investors' activity on the Polish market remains weak. The bond yields rose by c1bp across the curve. IRS rates remained stable for 3 days in a row. The slope of the swap and bond curves has remained stable since the previous week. Spread asset swap increased on Tuesday by 1bp. In our opinion, the market is waiting for an impulse from main central banks, which is expected to define the direction for the nearest future.

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FX market

Today's opening

EURPLN	4.1757	CZKPLN	0.1576
USDPLN	3.7376	HUFPLN*	1.3557
EURUSD	1.1172	RUBPLN	0.0659
CHFPLN	3.8301	NOKPLN	0.4419
GBPPLN	4.7823	DKKPLN	0.5613
USDCNY	6.8263	SEKPLN	0.4278

*for 100HUF

Last session in the FX market

30/05/2017

	min	max	open	close	fixing
EURPLN	4.169	4.189	4.184	4.172	4.1739
USDPLN	3.724	3.769	3.744	3.734	3.7471
EURUSD	1.111	1.121	1.117	1.118	-

Interest rate market

30/05/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.91	1	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.69	2	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.26	1	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	1.36	-1	-0.24	0
2L	1.90	-1	1.52	-2	-0.17	0
3L	2.03	-1	1.65	-2	-0.07	0
4L	2.17	0	1.75	-3	0.04	-1
5L	2.30	-1	1.84	-3	0.17	0
8L	2.60	-1	2.06	-3	0.54	-1
10L	2.76	-2	2.17	-3	0.77	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.54	-7
T/N	1.54	-6
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

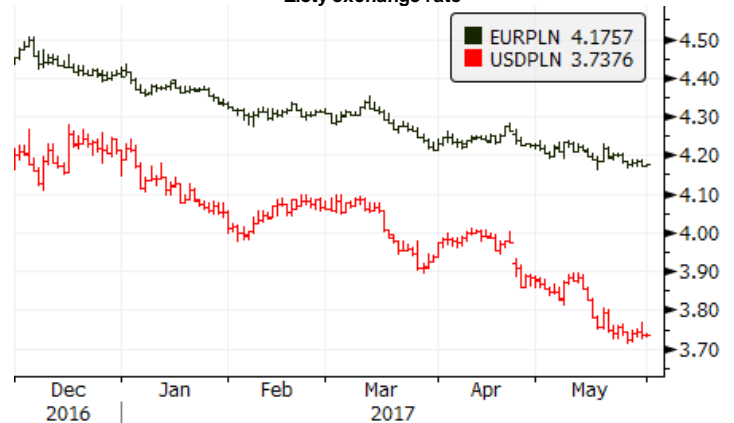
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.97	0
France	26	1	0.43	0
Hungary	116	1	2.75	0
Spain	77	13	1.22	-1
Italy	171	35	1.87	-1
Portugal	199	-1	2.79	0
Ireland	40	1	0.46	-1
Germany	13	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

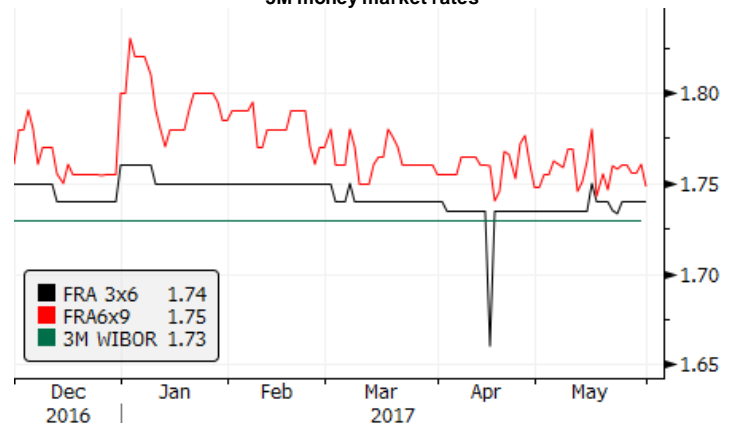
Zloty exchange rate



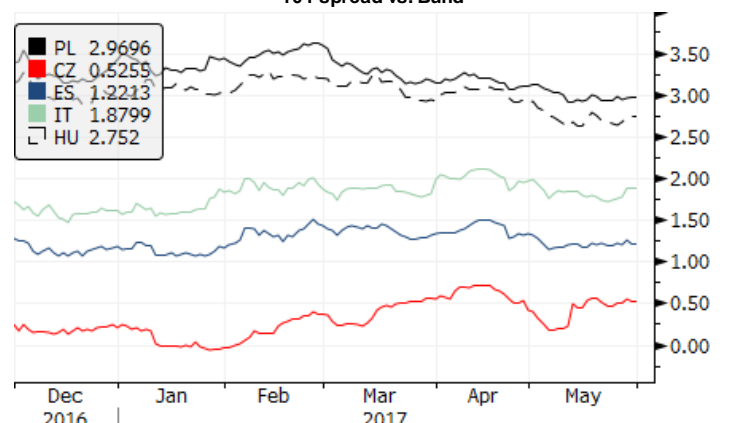
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar								
TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	BZWBK			
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	-	0.4	0.2
14:30	US	Consumer spending	Apr	% m/m	0.4	-	0.4	0.3
16:00	US	Consumer confidence index	May	pts	120.0	-	117.9	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	1.5	-		1.9
14:00	PL	Flash CPI	May	% y/y	2.0	1.9		2.0
16:00	US	Pending home sales	Apr	% m/m	0.4	-		-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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