

# EYEOPENER

6 June 2017

## Increased risk aversion

- Risk aversion has increased on global markets
- The zloty weakened vs major currencies, EURUSD slightly lower
- Correction on the Polish interest rate market
- Today Euro zone retail sales data are out

The sentiment during the Monday session on the global markets was not very optimistic. Both, mounting tension among Gulf States - a few oil-producing countries have broken diplomatic relations with Qatar - and worse moods after another terrorist attacks contributed to capital outflows from global markets. World indices finished the session in red and gold price set a new 6-week record high breaking US\$1280/oz. At the same time crude prices fell nearing US\$49/bbl. Despite higher risk aversion, bonds on the core markets and the Euro zone peripheries were also under pressure during the day, though the demand for the safest assets grew at night.

On Monday, the May PMIs for services in the Euro zone and the US were released. The German indicator was slightly better than expected, so was the reading for the whole Euro zone and the US. The better-than-expected data confirmed that the economic situation in Europe is improving systematically.

On Monday, EURUSD fell after setting the new seven month high at 1.128. The euro weakened due to the terrorist attack in London and we could see that the slightly better PMIs for services in the Euro zone and Germany failed to support the single currency. As a result, the dollar trimmed a part of its Friday losses and EURUSD ended the session at 1.125. We think that the last rise of EURUSD was fueled by expectations that ECB rhetoric will become more hawkish, but in our view this will not happen this week. If the bank keeps the dovish bias it may encourage investors to take profit from the last rise of the fx pair. Additionally, despite Friday worse-than-expected US labour market data the market still sees a 90% chance of Fed rate hike next Wednesday. Thus, the potential for EUR appreciation may be limited. Some additional volatility might be provided by Thursday's election to the British parliament.

Higher risk aversion weighed on the zloty that lost vs main currencies with EURPLN ending the session above 4.19. We think this week the zloty could be under the spell of global mood as there are no important data releases in Poland (The

MPC tomorrow is unlikely to become a market mover). USDPLN is mainly driven by EURUSD and yesterday the zloty lost vs the dollar as the greenback gained vs the euro. USDPLN tested 3.70 but at the end of the day was near 3.73.

The CE3 currencies remained fairly stable. The forint gained slightly vs the euro and EURHUF ended the day close to 307.5. The Czech koruna continued to appreciate amid sound economic data and yesterday EURCZK was testing 26.28, its lowest since the Czech central bank abandoned the floor. At the end of the day the exchange rate rebounded above 26.3. USDRUB remained stable despite falling oil price. Governor of the Russian central bank said that the bank may consider a rate cut by 25-50bp at its next week's meeting. Last cut was announced in April and rates went down by 50bp to 9.25%.

On Monday the debt market was under pressure. Bonds in both the core and peripheral markets lost. Yields of the Bund and Treasuries, after strong falls last week, rose on Monday by about 2bps. However, in the atmosphere of increased risk aversion at night the US 10-year bond strengthened by more than 2 bp and German by 1 bp. The 10-year US-DE spread has remained stable and slightly below 190bps since the end of May. Polish bonds on Monday gave up part of last week's gains. 10Y yield increased by 3 bps to 3.19%, and the corresponding spread to the Bund remained at Friday's level. IRS rates rose on Monday along the curve. The strongest rise was recorded in the belly and at the end of the curve (c3bps). Asset swap spread has remained stable and is close to 50bp for over a week.

Today in the calendar there is no important data from the global economy. The market is waiting for Thursday's elections in the UK - according to the recent polls, Theresa May's Conservative Party has 42% support, while the Labor Party gets 38%. On Thursday, however, markets will focus on the ECB, which in our opinion will not change its rhetoric at this meeting.

Today, the government will discuss budget assumptions for next year. According to the Dziennik Gazeta Prawna daily, the Ministry of Finance assumes that this year's VAT tax revenues will exceed the budgeted value by 5% and the plan for 2018 will show further increase in this category by 10.6% y/y. This is another good information on the fiscal situation that could immunize the Polish interest rate market to the current global risk aversion environment.

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## FX market

## Today's opening

EURPLN	4.1934	CZKPLN	0.1593
USDPLN	3.7211	HUFPLN*	1.3626
EURUSD	1.1269	RUBPLN	0.0658
CHFPLN	3.8621	NOKPLN	0.4406
GBPPLN	4.8084	DKKPLN	0.5636
USDCNY	6.7957	SEKPLN	0.4301

\*for 100HUF

## Last session in the FX market

05/06/2017

	min	max	open	close	fixing
EURPLN	4.174	4.197	4.181	4.192	4.1781
USDPLN	3.702	3.733	3.709	3.725	3.7066
EURUSD	1.123	1.128	1.128	1.125	-

## Interest rate market

05/06/2017

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

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.88	0	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.62	1	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.18	3	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	1.37	0	-0.24	0
2L	1.88	1	1.52	1	-0.16	1
3L	1.99	1	1.63	1	-0.07	0
4L	2.12	2	1.73	2	0.05	1
5L	2.24	1	1.81	2	0.17	1
8L	2.54	2	2.02	2	0.55	0
10L	2.69	2	2.12	2	0.78	1

## WIBOR rates

Term	%	Change (bps)
O/N	1.62	-1
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	-1
3x6	1.74	0
6x9	1.75	0
9x12	1.78	0
3x9	1.82	1
6x12	1.81	0

## Measures of fiscal risk

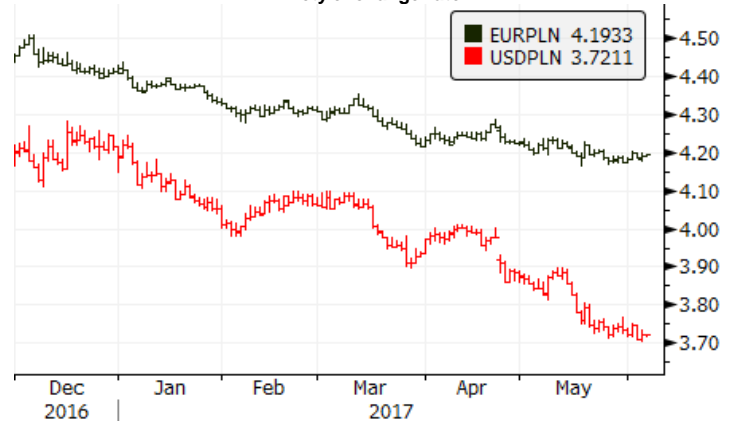
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.91	4
France	29	0	0.43	-1
Hungary	116	1	2.75	1
Spain	78	0	1.27	-1
Italy	176	18	1.97	-1
Portugal	199	0	2.74	-1
Ireland	40	1	0.48	0
Germany	16	1	-	-

\* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

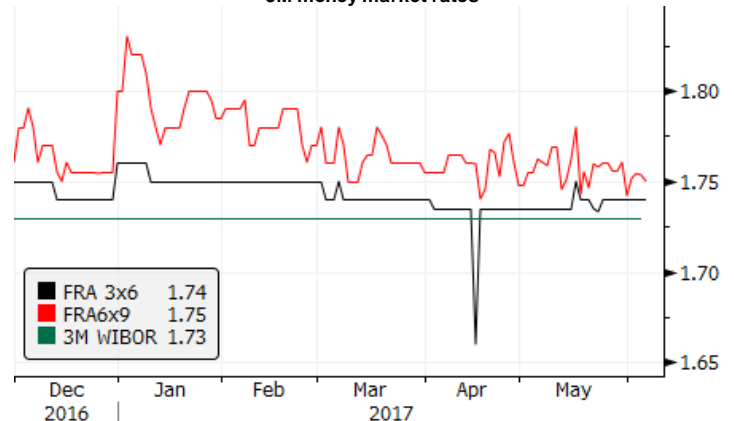
## Zloty exchange rate



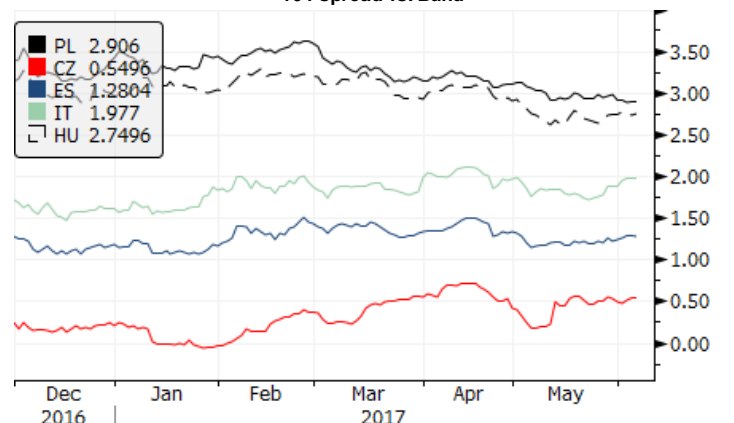
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic calendar

Economic calendar								
TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	BZWBK		
FRIDAY (2 June)								
9:00	CZ	Preliminary GDP	Q1	% y/y	2.9	-	2.9	2.9
14:30	US	Non-farm payrolls	May	k	182	-	138	174
14:30	US	Unemployment rate	May	% y/y	4.4	-	4.3	4.4
MONDAY (5 June)								
9:55	DE	PMI – services	May	pts	55.2	-	55.4	55.2
10:00	EZ	PMI – services	May	pts	56.2	-	56.3	56.2
16:00	US	ISM – services	May	pts	57.0	-	56.9	57.5
16:00	US	Industrial orders	Apr	% m/m	-0.2	-	-0.2	0.2
16:00	US	Durable goods orders	Apr	% m/m	-0.6	-	-0.8	-0.7
TUESDAY (6 June)								
11:00	EZ	Retail sales	Apr	% y/y	2.1	-		2.3
WEDNESDAY (7 June)								
	PL	MPC decision			1.5	1.5		1.5
8:00	DE	Industrial orders	Apr	% m/m		-		1.0
9:00	CZ	Industrial output	Apr	% y/y	-1.0	-		10.9
11:00	EZ	GDP	Q1	% y/y		-		1.7
THURSDAY (8 June)								
8:00	DE	Industrial output	Apr	% m/m		-		-0.4
9:00	HU	CPI	May	% y/y	2.2	-		2.2
11:30	PL	Bond auction						
13:45	EZ	Central bank decision			0.0	0.0		0.0
FRIDAY (9 June)								
9:00	DE	Exports	Apr	% m/m		-		0.4
9:00	CZ	CPI	May	% y/y	2.1	-		2.0

Source: BZ WBK, Reuters, Bloomberg

\* in case of the revision, the data is updated

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