

EYEOPENER

7 June 2017

MPC to remain sceptical about soon monetary tightening

- Higher risk aversion on global markets
- Zloty stable against main currencies, EURUSD higher
- Polish debt gained slightly
- Government approved assumptions for 2018 budget
- Today the MPC decision and data from CEE region

On Tuesday, main stock markets were still pessimistic and recorded further losses, with DAX falling by 1%. Meanwhile, assets perceived safe havens gained. Gold price approached \$1300/oz, the highest level since October 2016. Rising market uncertainty and expectations for an accumulation of political and economic events on Thursday supported Bunds, Treasuries and the Swiss franc. Oil price stabilised slightly above \$49/bbl despite tensions in the Persian Gulf.

Ahead of the ECB meeting on Thursday and British snap election, yesterday the euro managed to trim its losses versus the dollar suffered on Monday. Yet, changes were minor and EURUSD stayed close to 1.127, Monday's opening level. Today in the morning the rate increased to 1.275 despite weaker than expected data about industrial orders from Germany. We are expecting a profit taking after recent EURUSD rises, especially as in our view the ECB rhetoric will remain dovish and chances for a Fed rate hike next week are still high.

The increasing concern on the global markets triggered the wave of zloty weakening which once again appeared temporary. EURPLN exceeded 4.20 for a while, whereas USDPLN got close to 3.74, however, both rates returned to the Monday closing levels at the end of the day. In attendance on the British snap elections and under the influence of the incoming opinion polls, pound sterling lost and GBPPLN fell one again below 4.8. CHFPLN stood close to 3.87.

The majority of CEE remained quite stable. The EURCZK stood close to 26.3. Today's data on April industrial output in the Czech Republic (which were below forecasts) slightly

negatively affected the koruna. Forint weakened against the single currency on Tuesday due to lower-than-expected data on retail sales in April (increase by 2% y/y after adjusted downwards growth by 5.3% in March), however it was a minor drop. Today we will receive detailed information on the Hungarian 1Q GDP, which in line with flash estimations amounted to 4.1% y/y. We expect that such a high pace was produced by all growth components: consumption, exports and investment. Today, the MNB is supposed to publish the minutes from the last meeting.

On Tuesday, the bonds on the core markets gained. The yield of 10Y German Bund declined by almost 3bp in response to the increasing risk aversion on the global markets. The American Treasuries strengthened even more (4bp). The Polish debt strengthened across the curve. The 10Y bond yield got close to 3.16%, whereas the respective spread to the German Bund remains on the level of 290bp. IRS rates on Tuesday kept their Monday levels.

As expected, yesterday the government approved the macroeconomic assumptions for the 2018 budget. GDP growth was assumed at 3.8%, average inflation is expected to increase to 2.3% and the unemployment rate should decline to 6.4%. We are more cautious than the government when it comes to economic growth, and more optimistic as regards unemployment. Meanwhile, our inflation forecast is similar to the government's prediction. What is important, the structure of inflation may change in favour of the central budget as items with base VAT rate should be getting more expensive faster than the ones charged with a reduced rate.

Today we will know Polish MPC decision. As inflation is in the lower band of acceptable deviations from the target rate of 2.5% and even slightly decreased in May, the MPC will most likely maintain its rhetoric from recent months, and will signal it is not going to rush to raise interest rates. In our view, today's MPC meeting should be neutral for the domestic currency and bond market as investors focus more on the ECB's tomorrow meeting and UK elections.

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	4.1940	CZKPLN	0.1594
USDPLN	3.7224	HUFPLN*	1.3609
EURUSD	1.1267	RUBPLN	0.0658
CHFPLN	3.8637	NOKPLN	0.4398
GBPPLN	4.8048	DKKPLN	0.5638
USDCNY	6.7953	SEKPLN	0.4289

*for 100HUF

Last session in the FX market

06/06/2017

	min	max	open	close	fixing
EURPLN	4.186	4.206	4.192	4.193	4.1916
USDPLN	3.713	3.738	3.725	3.720	3.725
EURUSD	1.124	1.128	1.125	1.127	-

Interest rate market

06/06/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.89	0	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.62	-1	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.18	-1	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	-1	-0.23	0
2L	1.88	0	1.50	-1	-0.16	0
3L	1.99	0	1.61	-2	-0.07	0
4L	2.12	0	1.71	-2	0.04	-1
5L	2.24	-1	1.78	-3	0.16	-1
8L	2.52	-2	1.99	-3	0.53	-2
10L	2.67	-2	2.09	-3	0.77	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.63	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	0
3x6	1.74	0
6x9	1.76	0
9x12	1.78	0
3x9	1.82	0
6x12	1.81	0

Measures of fiscal risk

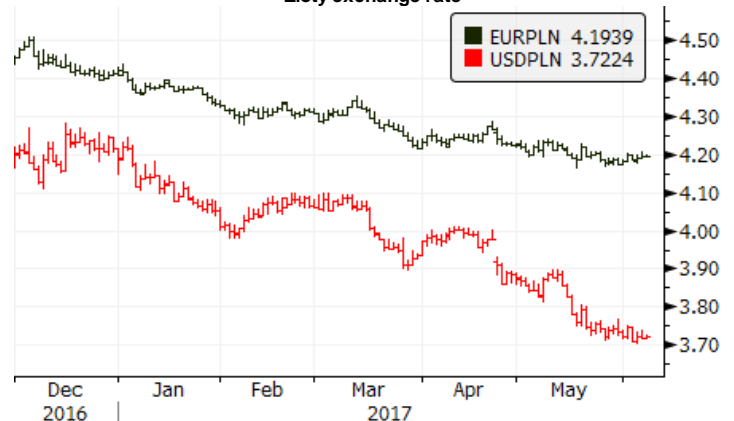
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.92	-2
France	29	0	0.42	0
Hungary	116	1	2.78	-1
Spain	76	-1	1.27	-1
Italy	159	-17	2.00	0
Portugal	198	-1	2.82	0
Ireland	40	1	0.46	-5
Germany	16	-1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

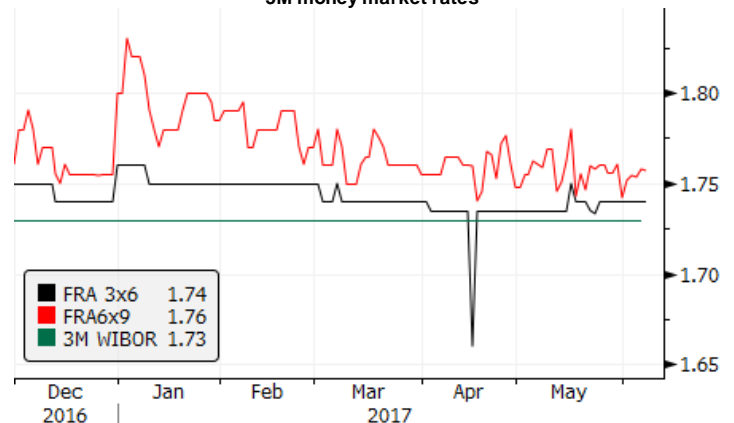
Zloty exchange rate



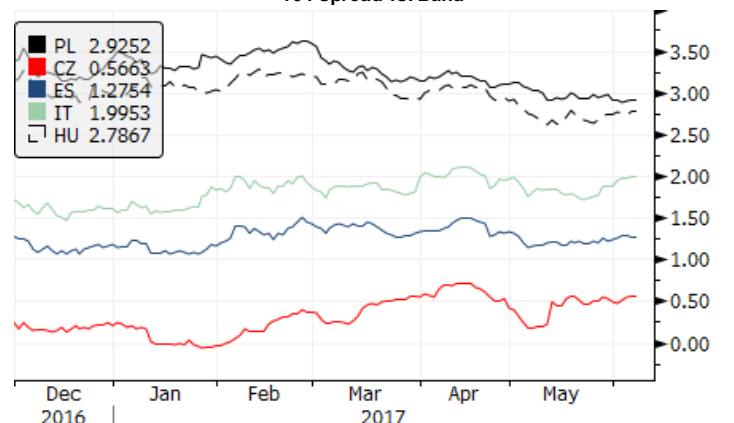
T-bonds yields



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	-	2.5	2.3
WEDNESDAY (7 June)								
	PL	MPC decision			1.5	1.5		1.5
8:00	DE	Industrial orders	Apr	% m/m	-0.3	-	-2.1	1.0
9:00	CZ	Industrial output	Apr	% y/y	-1.0	-	-2.5	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

This publication has been prepared by Bank Zachodni WBK S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Bank Zachodni WBK S.A., its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Bank Zachodni WBK S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Bank Zachodni WBK S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

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.