

EYEOPENER

8 June 2017

What will Mario Draghi say?

- **Mixed sentiment on global markets**
- **Zloty stable against main currencies, more volatile EURUSD, but levels unchanged**
- **Polish debt little changed on the day**
- **Polish May unemployment at 7.5%**
- **Today the ECB decision and UK general elections**

Trading volumes seemed reduced on Wednesday due to today's ECB meeting and parliamentary elections in the UK. Yesterday polls gave the Conservative Party between 1pp and 13pp advantage over the Labour Party. On the day before the elections the pound strengthened slightly vs main currencies. Equity markets behaved in a mixed way and core bond markets weakened a bit. Unexpected big weekly increase of crude and oil products' inventories in the US took down the Brent price to US\$48.5/bbl. The mobilisation of Qatar army and another missile tests in North Korea did not divert the market's attention from the key events today but kept USDJPY below 110. The text of the former FBI chief's speech confirmed accusations vs the US president but did not reveal any new facts, which would trigger changes on the market.

Polish registered unemployment rate fell in May to 7.5%, less than expected (7.4%), according to flash data from the Labour Ministry. The number of jobseekers fell in May by 50k and this was the lowest decline since 2009 (avg in 2010-2016 at 75k). We do not have detailed data on unemployment entries and exits, but we assume that the outflows from unemployment are weakening, as the remaining stock of the unemployed does not fit the employers' needs. This may be the beginning of a major slowdown in the downward march of unemployment in Poland.

The Monetary Policy Council kept the interest rates on hold in June (reference rate at 1.5%). The tone of the statement was the same as in May, suggesting that there is still no need for the Council to change monetary policy parameters in the foreseeable future. NBP Governor Adam Glapiński reiterated that he would be surprised if the Council raised rates before the end of 2018. We still cannot call this MPC meeting and press conference anything else than a non-event from the point of view of interest rate expectations. We still see the first rate hike coming in 2H18.

On Wednesday morning, EURUSD remained under the influence of disappointing April data on the German industrial orders, which dropped by 2.1% y/y vs the expected level of -0.3%. The euro saw the strongest intraday decline since the start of June vs the greenback and EURUSD got close to 1.12. The today's German output print (up from 2.2% y/y to 2.9%, whereas the market expected 2.1%) should offset the impact of weak new orders.

Today's ECB meeting will be crucial for the euro today. For some time, concerns have been growing that due to the positive macroeconomic background and decreasing geopolitical risk (after the Dutch and French elections) the ECB will show signs of withdrawal from its ultra-loose policy. However, the recent dovish rhetoric of Mario Draghi and the last Euro zone inflation drop weakened such concerns. The ECB will probably adjust upward their economic forecasts regarding the Euro zone (however, Bloomberg wrote yesterday that the inflation projection may be lowered to 1.5% in the years to come, from 1.6-1.7%), but we expect that the tone will be still very cautious. If the ECB decided to adopt more hawkish rhetoric the market implications would most likely be significant and negative for the Polish assets.

CEE currencies were stable ahead of the big events today. The zloty did not move away from the previous close vs fx majors during the day. The MPC decision did not affect EURPLN, although in the evening the zloty weakened to 4.21. Today's ECB rhetoric will be crucial for the pair. The morning strengthening of the dollar vs the euro contributed to an increase in USDPLN to over 3.74. On the day before the snap elections, the British pound strengthened slightly and GBPPLN was above 4.82 on Wednesday.

Wednesday's Czech industrial output figure disappointed triggering a morning jump in EURCZK to nearly 26.4. Later in the day, koruna recovered and the exchange rate returned to 26.3. April's reading for Hungarian industrial output was also below consensus (WDA figure showed +2.5% y/y vs 10% y/y in March, after an upward revision) pushing EURHUF above 308. Just like the koruna, the forint also managed to recover at the end of the day.

Yesterday the data about Hungarian GDP in 1Q17 were released. The GDP growth has been revised up from 4.1% to 4.2%. Consumption growth was weaker than in the previous quarter (2.5% vs. 3.9% y/y), but a strong rebound in investments took place (28.4% vs. -19.6% y/y). On the supply side, there was a rise of value added in manufacturing by 6.8% y/y (vs -0.8% in Q4) and in construction by 24.6% y/y (vs -13% in Q4). Yesterday's release of the Hungarian central bank's minutes confirmed the dovish bias and expectations that inflation in Hungary will rise to 3% in 1H18.

On Wednesday the debt market was rather calm while awaiting the today's ECB meeting. Bunds and Treasuries gained c2bps, while 10Y US-DE spread declined to 188bps. The Polish debt also gained somewhat, 10Y benchmark was traded with 3.18% yield. IRS rates remained flat on the middle and the longer end, while curve flattened. 10Y asset swap spread is still below 50bps.

The Finance Ministry informed that the offer on Friday's auction will include OK0419 / PS0422 / WZ1122 / WZ0126 / DS0727 / WS0447 worth up to PLN3.0bn. In line with the previous announcements, T-bond supply will be lower in the second half of the year.

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FX market

Today's opening

EURPLN	4.2076	CZKPLN	0.1600
USDPLN	3.7367	HUFPLN*	1.3645
EURUSD	1.1260	RUBPLN	0.0655
CHFPLN	3.8738	NOKPLN	0.4409
GBPPLN	4.8442	DKKPLN	0.5658
USDCNY	6.7941	SEKPLN	0.4303

*for 100HUF

Last session in the FX market

07/06/2017

	min	max	open	close	fixing
EURPLN	4.189	4.212	4.193	4.210	4.1943
USDPLN	3.717	3.745	3.720	3.737	3.7241
EURUSD	1.120	1.128	1.127	1.127	-

Interest rate market

07/06/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.89	1	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.63	1	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.19	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	1.37	1	-0.24	0
2L	1.88	0	1.51	1	-0.17	-1
3L	1.99	1	1.63	2	-0.09	-2
4L	2.12	1	1.73	2	0.03	-1
5L	2.25	1	1.81	3	0.15	-1
8L	2.53	1	2.02	3	0.53	0
10L	2.69	1	2.12	3	0.76	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.63	0
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	1.75	-1
9x12	1.78	0
3x9	1.82	0
6x12	1.81	0

Measures of fiscal risk

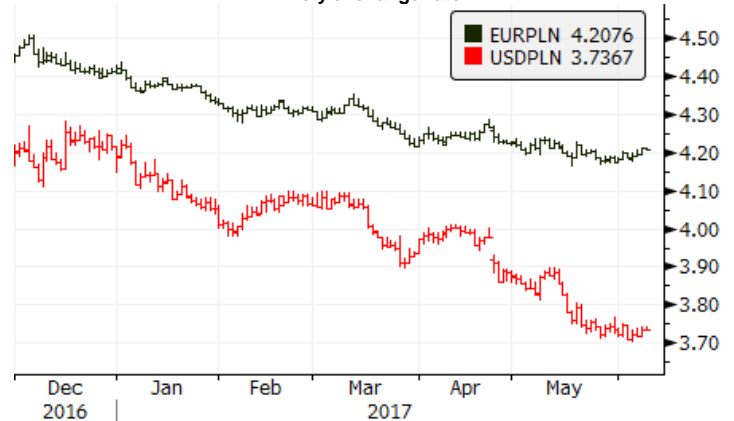
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.92	-1
France	29	0	0.43	1
Hungary	116	1	2.77	-2
Spain	76	-1	1.29	2
Italy	160	1	2.02	3
Portugal	198	0	2.80	-1
Ireland	40	1	0.46	-1
Germany	16	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

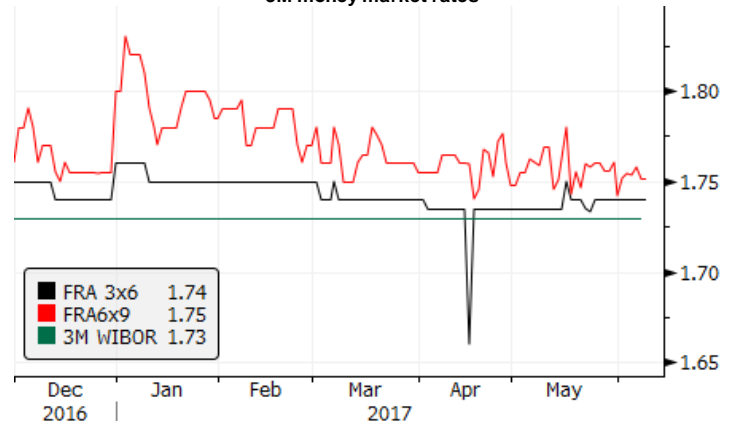
Zloty exchange rate



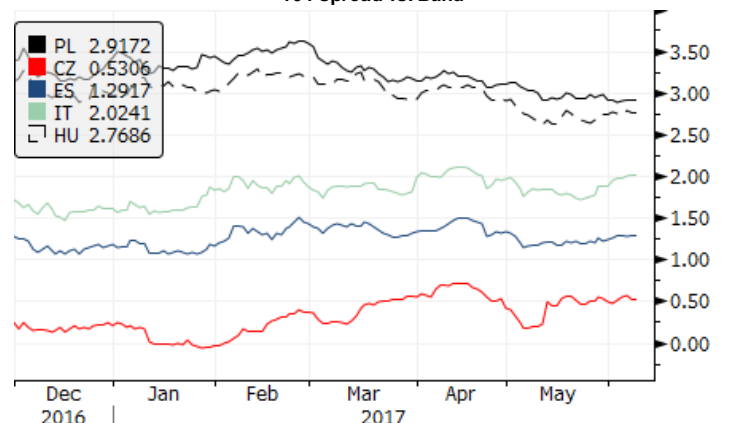
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

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	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
THURSDAY (8 June)								
8:00	DE	Industrial output	Apr	% m/m	0.5	-	0.8	-0.1
9:00	HU	CPI	May	% y/y	2.2	-		2.2
11:00	EZ	GDP	Q1	% y/y	1.7	-		1.7
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
11:30	PL	Bond auction						

Source: BZ WBK, Reuters, Bloomberg

* in case of the revision, the data is updated

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