

EYEOPENER

9 June 2017

Draghi stayed cautious, May overbid

- **More optimism on global markets after the ECB**
- **The UK Conservatives lost parliamentary majority**
- **The zloty stronger vs major currencies, EURUSD moved lower**
- **Polish debt resilient to the ECB**
- **Today a bond auction in Poland**

On Thursday, FX and interest rate market was under the influence of the ECB meeting, the snap elections in the UK and the evidence of the ex-director of FBI. The global stock exchanges finished the day in black. In the UK, the Conservative Party led by Theresa May cannot secure an overall majority in the House of Commons any more, in spite of their winning more votes than the Labour Party. Such a result makes Brexit less likely and may lead to current PM's resignation. The ECB communication supported the Euro zone bonds. On Thursday, the crude oil price continued its downward trend and got close to \$47/bbl at the end of the day.

In line with expectations, the ECB left the interest rates unchanged, including the reference interest rate at the level of 0.00% and the deposit rate at -0.40%. In the meeting statement, the ECB informed that they expect the interest rates to remain at the same level in the long-term perspective, even after the termination of asset purchase programme (QE). At the same time, the passage about the possible further decrease of interest rates was erased from the communication. The ECB adjusted its growth forecast in the Euro zone upwards (+0.2pp in 2017 and 2018) but lowered the projected inflation path to 1.5% from 1.7% for this year, 1.3% from 1.6% in 2018 and 1.6% from 1.7% in 2019, i.e. still below the inflation target. The President of the ECB, Mario Draghi, declared during the press conference that the Council did not discuss changes in its approach towards the monetary policy, which weakened the expectations that in the nearest future the ECB could adopt stricter rhetoric. At present, the ECB excludes interest rates cuts, however still considers, as they signaled before, extension of the asset purchase programme, if needed. In response to this statement, the single currency started to weaken vs the greenback, and bond yields on the core markets and the Euro zone periphery declined.

Yesterday the dollar gained vs the euro mostly because of the ECB meeting. The ECB lowered CPI forecasts for the Euro zone, and Draghi's rhetoric during the press conference was rather dovish,

undermining the single currency. The upshot was that EURUSD tested 1.12 but failed to stay below this level for long. Testimony of former FBI director James Comey gave no ground to sell the greenback. There are no important data releases from the US and Euro zone scheduled for today, so results of the ECB meeting on Thursday can be still weighing on the euro. Additionally, investors' focus may slowly shift overseas, as on Wednesday the FOMC is widely expected to raise rates for the second time this year, which may be an additional factor putting a downward pressure on EURUSD.

CEE currencies gained after the ECB meeting. In the morning, EURPLN was testing 4.21, its highest for three weeks but the outcome of the ECB press conference pushed the exchange rate down to just below 4.20. USDPLN was driven mainly by changes of EURUSD and at the end of the day was close to 3.74. Exit polls after the UK parliamentary elections released late in the evening triggered sharp weakening of the pound (by c2% vs the dollar) and GBPPLN fell below 4.77. Positive surprise in today's morning German exports data could support the CEE currencies, but the outcome of the UK elections introduces additional uncertainty on the market.

The Czech koruna was gaining with EURCZK falling to its lowest since the CNB abandoned the floor (26.27). According to the morning data, prices rose 2.4% y/y in May, above consensus at 2.2%, which could be positive for the koruna as chances for a rate hikes later in the year may rise. EURHUF fell below 308 after the Hungarian May CPI (2.1% y/y vs 2.2% in April) but later in the day the exchange rate rebounded slightly above that level. Continued decline of the oil prices weighed on the ruble pushing USDRUB to 57.2, its highest since OPEC decision to prolong the limited oil production until March 2018.

Thursday's debt markets were influenced by the ECB meeting. The central bank dovish rhetoric supported the euro area bonds, particularly Spanish and Italian ones. Polish bonds were weakening in the morning, but after the ECB conference, they began to strengthen. 10Y bond ended the day with a yield of 3.19%. IRS rates fell along the curve, with the strongest drop at the long end (by 2bp), and the 2-10Y slope of the curve decreased to 79bp. The asset swap spread rose to 52 bp, the highest level in two weeks.

At today's auction, the Ministry of Finance will offer bonds OK0419 / PS0422 / WZ1122 / WZ0126 / DS0727 / WS0447 for no more than PLN3bn.

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 Luźniński +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	4.2081	CZKPLN	0.1603
USDPLN	3.7600	HUFPLN*	1.3659
EURUSD	1.1191	RUBPLN	0.0659
CHFPLN	3.8777	NOKPLN	0.4411
GBPPLN	4.7676	DKKPLN	0.5658
USDCNY	6.7972	SEKPLN	0.4307

*for 100HUF

Last session in the FX market

08/06/2017

	min	max	open	close	fixing
EURPLN	4.194	4.213	4.210	4.194	4.2071
USDPLN	3.733	3.754	3.737	3.741	3.74
EURUSD	1.120	1.127	1.127	1.121	-

Interest rate market

08/06/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.88	-1	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.62	-1	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.20	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	1.38	1	-0.24	0
2L	1.88	0	1.54	2	-0.17	-1
3L	1.99	-1	1.66	3	-0.08	0
4L	2.11	-1	1.77	4	0.03	0
5L	2.23	-2	1.85	4	0.15	0
8L	2.51	-2	2.06	4	0.52	-1
10L	2.67	-2	2.17	4	0.76	0

WIBOR rates

Term	%	Change (bps)
O/N	1.63	0
T/N	1.64	1
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

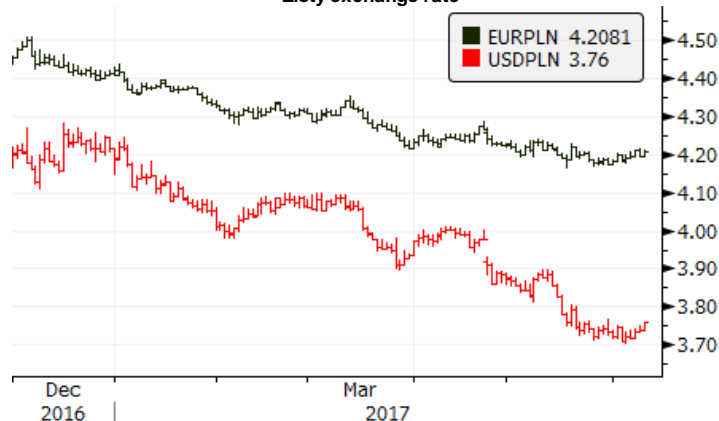
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.94	1
France	27	-1	0.38	-1
Hungary	116	1	2.75	0
Spain	72	-3	1.21	-1
Italy	156	-5	1.91	0
Portugal	195	-3	2.75	-1
Ireland	40	1	0.41	-2
Germany	16	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

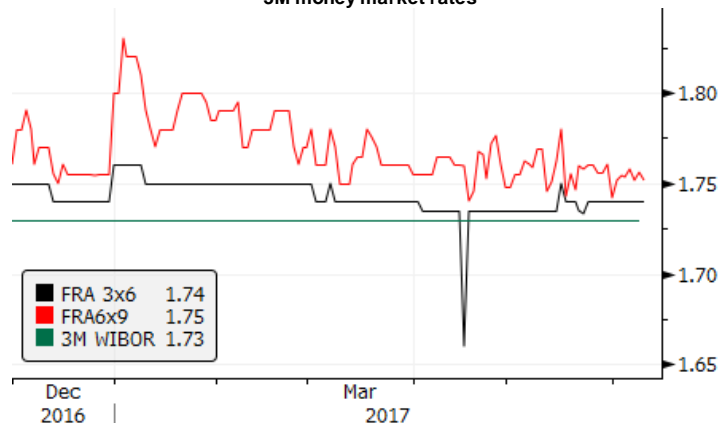
Zloty exchange rate



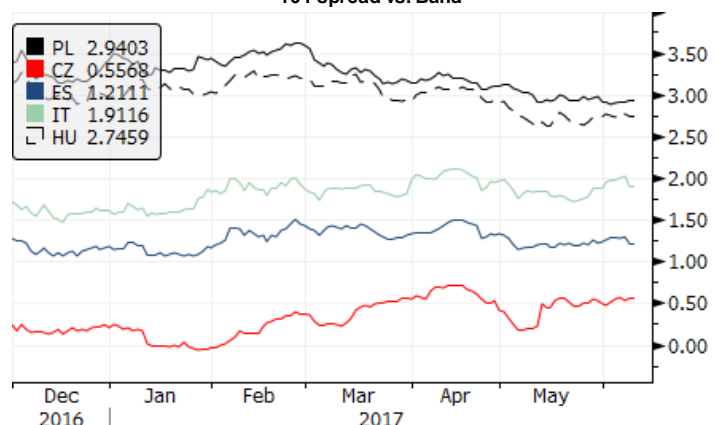
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

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	-	2.1	2.2
11:00	EZ	GDP	Q1	% y/y	1.7	-	1.9	1.7
13:45	EZ	Central bank decision			0.0	0.0	0.0	0.0
FRIDAY (9 June)								
9:00	DE	Exports	Apr	% m/m	0.3	-	0.9	0.4
9:00	CZ	CPI	May	% y/y	2.1	-	2.4	2.0
11:30	PL	Bond auction						

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.