

EYEOPENER

12 June 2017

Polish CPI dimmed by the Fed

- Positive reaction of global markets after the UK elections
- The zloty got stronger, EURUSD recovered above 1.12
- Polish bonds went against the increase of core market yields
- Today inflation from Poland

The surprising outcome of the UK parliamentary elections hit the British pound and this was basically the only significant market reaction to this event. European stock indexes rose quite noticeably while the CEE gained as such outcome of the UK elections made, according to the market, "hard Brexit" less likely. Emmanuel Macron's party won high support in the first round of the French parliamentary elections in France while the National Front (calling for leaving the euro zone) lost some of its support. There should be also some positive market reaction to the outcome of the local government elections in Italy where the Five star movement did not perform well.

EURUSD continued on Friday the downside move triggered after the Thursday's ECB meeting but the scale and pace of move was clearly lower than the day earlier. At the end of the day the exchange rate rebounded somewhat and ended the session above 1.12. Somewhat higher volatility was observed on GBP market where the pound was under pressure of the UK elections.

EURPLN started the day near 4.21 but the positive stock market reaction to the UK elections pushed the exchange rate down to 4.18 at the end of the day. The dollar continued to gain vs the euro which neutralized the effect of lower EURPLN and so USDPLN stayed close to the opening level.

In the case of the other CEE currencies, the forint and koruna also gained vs the euro while the ruble stayed stable vs the dollar. The Czech koruna was supported by the domestic data on May inflation that supported to the upside and strengthened expectations for a rate hike to be delivered later in the day.

At the Friday's auction, the Polish Ministry of Finance sold bonds for PLN3bn amid demand at PLN6.17bn. Similarly to the previous auctions, the ministry raised most funds from the sale of 5Y and 10Y benchmarks (PLN1.085mn from PS0422 and PLN640mn from DS0727). The bid/cover ratio fell to 2.06 vs. 2.29 at the last auction in May. The Ministry of Finance said that this year's borrowing needs are covered in 68%, slightly below the pattern seen in the previous years.

Today at 14:00CET Polish final May CPI is on the agenda. We are expecting the released to confirm the flash estimate at 1.9% y/y, below initial market consensus at 2.0% y/y. Even though the headline CPI fell, in our view food prices recorded the strongest rise in May since 2013, and core increased slightly (it may be visible only in the second digit). According to our forecasts, CPI will remain close to 2.0% y/y in the upcoming months, yet core inflation will be going further up.

Investors were focused on European matters last week. Now it is time to focus on the USA. On Wednesday FOMC will announce its monetary policy decision. It is highly likely that we will see a second 25bp rate hike this year. Such outcome is priced in by the bond market so reaction to a rate increase may be limited. The fx market is more likely to move after the decision as the US dollar has recently been under selling pressure and a reminder that its central bank is still following the agenda of gradual tightening could provide an excuse for a correction. That said, the final reaction of the markets will also depend to a large extent on changes to Fed macroeconomic forecasts presented by Janet Yellen at the press conference. These forecasts could influence market expectations about the pace of monetary policy normalization in the USA. Bear in mind that there is a market holiday in Poland a day after the FOMC meeting so if the markets are disturbed by the communication from the Fed then the reaction of Polish assets and currency may be amplified by the reduced market liquidity.

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FX market

Today's opening

EURPLN	4.1818	CZKPLN	0.1597
USDPLN	3.7291	HUFPLN*	1.3599
EURUSD	1.1214	RUBPLN	0.0654
CHFPLN	3.8530	NOKPLN	0.4399
GBPPLN	4.7533	DKKPLN	0.5623
USDCNY	6.7982	SEKPLN	0.4283

*for 100HUF

Last session in the FX market **09/06/2017**

	min	max	open	close	fixing
EURPLN	4.182	4.210	4.194	4.185	4.1877
USDPLN	3.734	3.762	3.741	3.738	3.7465
EURUSD	1.117	1.124	1.121	1.120	-

Interest rate market **09/06/2017****T-bonds on the interbank market****

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.87	-1	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.61	-1	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.16	-4	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	1.40	2	-0.25	0
2L	1.88	0	1.55	1	-0.18	-1
3L	1.99	0	1.68	1	-0.09	-1
4L	2.11	0	1.78	1	0.02	-1
5L	2.23	0	1.86	1	0.14	-1
8L	2.50	-1	2.07	1	0.52	0
10L	2.66	-1	2.17	0	0.75	0

WIBOR rates

Term	%	Change (bps)
O/N	1.63	0
T/N	1.64	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	0
9x12	1.78	0
3x9	1.82	0
6x12	1.81	0

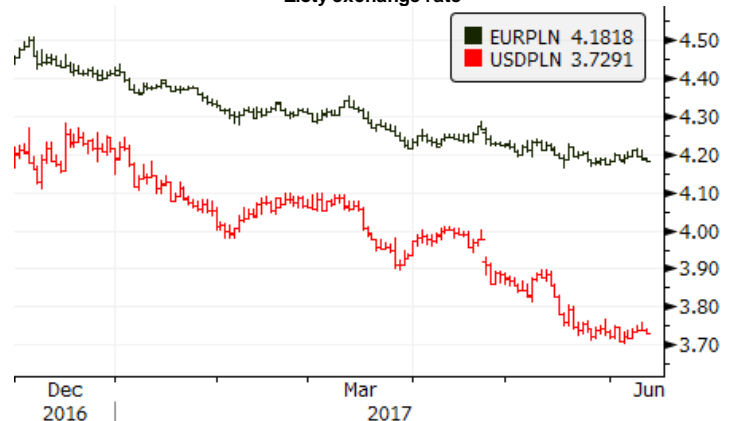
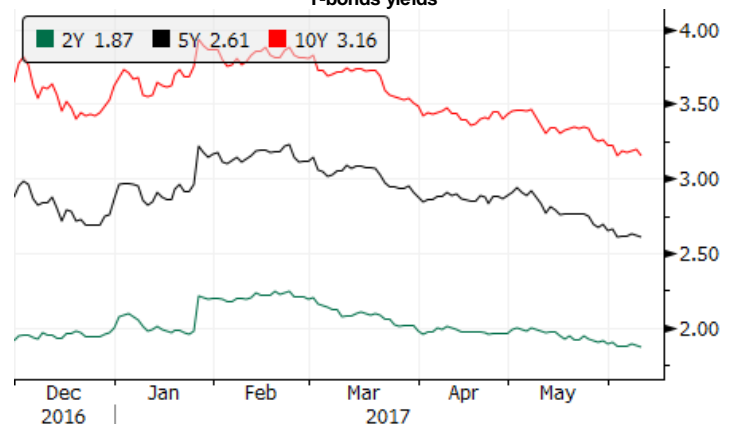
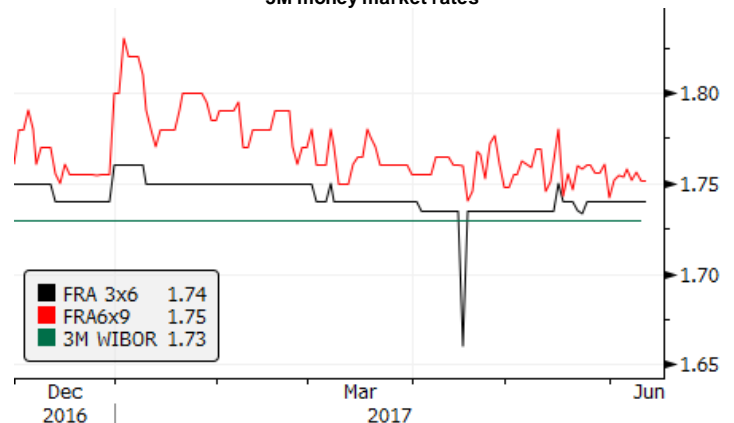
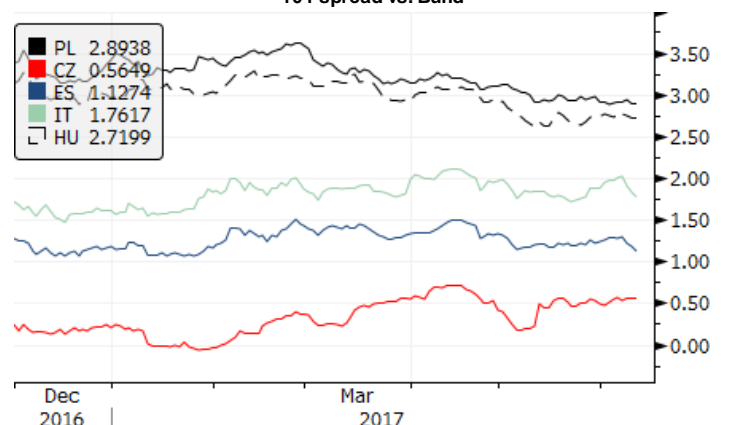
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.89	-4
France	27	0	0.36	-2
Hungary	116	1	2.72	-1
Spain	70	-3	1.13	-4
Italy	150	-5	1.77	-6
Portugal	192	-3	2.68	-5
Ireland	40	1	0.41	-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

Economic calendar								
TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	BZWBK			
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						
MONDAY (12 June)								
14:00	PL	CPI	May	% y/y	1.9	1.9		1.9
TUESDAY (13 June)								
11:00	DE	ZEW index	Jun	pts	85.0	-		83.9
14:00	PL	Current account	Apr	€mn	+4	-535		-738
14:00	PL	Exports	Apr	€mn	15 712	15 299		17 798
14:00	PL	Imports	Apr	€mn	15 930	15 869		18 016
14:00	PL	Core inflation	May	% y/y	1.0	0.9		0.9
WEDNESDAY (14 June)								
11:00	EZ	Industrial output	Apr	% y/y	0.5	-		-0.1
14:00	PL	Money supply	May	% y/y	6.5	5.7		6.6
14:30	US	Retail sales	May	% m/m	0.1	-		0.4
14:30	US	CPI	May	% y/y	2.0	-		2.2
20:00	US	FOMC decision		%	1.0-1.25	-		0.75-1.00
THURSDAY (15 June)								
	PL	Market holiday						
14:30	US	Initial jobless claims	week	k	-	-		245
14:30	US	Philly Fed index	Jun	pts	25.0	-		38.8
15:15	US	Industrial output	May	% m/m	0.1	-		1.0
FRIDAY 16 June)								
11:00	EZ	CPI	May	% y/y	1.4	-		1.9
14:30	US	House starts	May	k	1225	-		1172
14:30	US	Building permits	May	k	1250	-		1229
16:00	US	Flash Michigan	Jun	pts	97.1	-		97.1

Source: BZ WBK. Reuters. Bloomberg

* in case of the revision. the data is updated

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