

# EYEOPENER

14 June 2017

## Fed in the spotlight

- Improvement of market sentiment, mixed German data
- Weak export and import in Poland, but C/A balance did not surprise, core CPI eased unexpectedly
- The zloty was stable against major currencies, small changes on EURUSD
- Polish IRS and bond yields went up this time round
- Today FOMC decision, CPI and retail sales data in the USA

Tuesday's session brought a rebound after higher risk aversion on Monday and indices in Europe inched up supporting some of the CEE currencies. Changes on the debt market were insignificant and lacking a clear direction. Data from Germany sent a mixed message. ZEW index for current situation exceeded market expectations going up higher than expected and reached the highest level since July 2011, but ZEW expectations gauge noted an unexpected decline after three consecutive months of growth.

Yesterday EURUSD was hovering around 1.12 and the range of intraday fluctuations was the smallest since the end of May. Lack of any directional move could have been a result of investors' anticipation for today's evening FOMC decision and the mixed data from Germany. As we were writing in previous reports, in our opinion the widely expected Fed rate hike may strengthen the dollar. The rhetoric of the Fed chairwoman at the press conference and new inflation and GDP forecasts presented by the US central bank will also be important for the market. Today's data on retail sales and CPI from the US and on manufacturing output in the Euro zone should not significantly influence the exchange rate.

Both EURPLN and USDPLN remained stable hovering around 4.195 and 3.74, respectively. Lower volatility was caused by unsurprising Polish C/A data and market waiting for the FOMC decision. Czech koruna also gained vs the euro. In our view there is a risk that Fed rate hike could weigh on the zloty as the still positive PL-US interest rate disparity would narrow. Yesterday's decision of the European Commission to take legal

actions aimed at Poland, Czechia and Hungary in reaction to lack of compliance with the EU rules did not have any material impact on the CEE currencies. This did not prevent forint from reaching its strongest level vs the euro since November. GBPPLN reached 4.78 after media reported that Theresa May advanced coalition talks and after British inflation surprised to the upside (2.9% y/y, its highest in four years).

On the domestic interest rate market IRS and bond yields rose slightly (1-2bp) following Bunds while the Euro zone peripheries gained. Today market volatility should remain subdued as investors are waiting for the FOMC decision. We think that the Fed rate hike could generate an upside pressure on domestic IRS and bond yields and market holiday tomorrow in Poland could intensify this reaction.

The Polish C/A deficit decreased from €738mn to €275mn in April and was in line with expectations. However, the breakdown proved rather surprising, as both exports and imports were weak. The market consensus on exports was clearly overshoot, despite the fact that weak April industrial output (reported earlier) suggested a paltry growth of that measure (+0.6% y/y vs market expectations of +3.8%). It is possible that the same effect dragged imports down (+3.4% y/y, +8.8% was expected), but this low reading came as a surprise to us, given strong private consumption. In our view, the low growth of imports may be suggesting that recovery in investment did not start yet. The 12-month C/A deficit amounted to 0.2% of GDP, according to our estimates, up from 0% in March but still below its path in 2016.

Core CPI (excluding food and energy prices) went back to 0.8% y/y in May from 0.9% in April. The downward pressure on core CPI was due mostly to the lower prices of transport services and health, offsetting the growth of telecom prices. In our view, CPI ex food and energy will remain close to current levels in the months to come and then may climb above 1.0% y/y.

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**FX market**

Today's opening			
EURPLN	4.1965	CZKPLN	0.1604
USDPLN	3.7393	HUFPLN*	1.3713
EURUSD	1.1221	RUBPLN	0.0657
CHFPLN	3.8640	NOKPLN	0.4440
GBPPLN	4.7818	DKKPLN	0.5643
USDCNY	6.7973	SEKPLN	0.4308

\*for 100HUF

Last session in the FX market						13/06/2017
	min	max	open	close	fixing	
EURPLN	4.190	4.198	4.196	4.192	4.1921	
USDPLN	3.734	3.748	3.747	3.742	3.7379	
EURUSD	1.119	1.123	1.120	1.120	-	

**Interest rate market** 13/06/2017

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

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.93	6	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.59	1	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.16	2	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	1	-0.25	0
2L	1.88	1	1.56	2	-0.18	0
3L	1.98	0	1.69	3	-0.09	1
4L	2.09	0	1.79	4	0.02	1
5L	2.21	0	1.87	4	0.14	2
8L	2.49	1	2.08	4	0.53	2
10L	2.64	0	2.18	4	0.76	2

**WIBOR rates**

Term	%	Change (bps)
O/N	1.56	0
T/N	1.56	0
SW	1.59	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	2.90	2
France	26	0	0.34	0
Hungary	116	1	2.70	-1
Spain	67	0	1.16	0
Italy	143	-3	1.71	0
Portugal	188	-4	2.66	0
Ireland	40	1	0.42	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

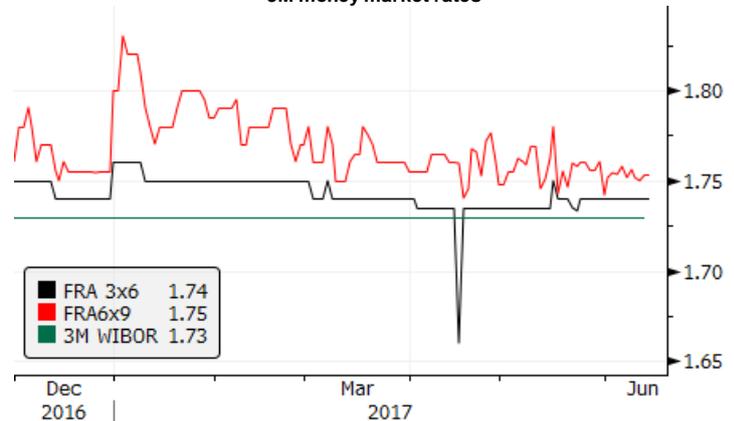
**Zloty exchange rate**



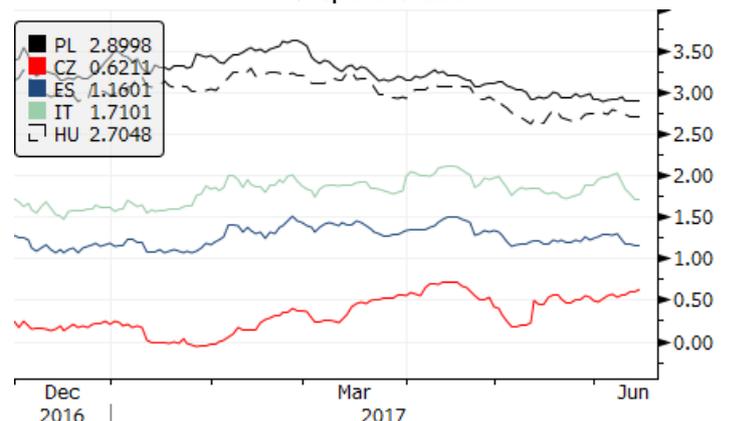
**T-bonds yields**



**3M money market rates**



**10Y spread vs. Bund**



## Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	BZWBK		
<b>FRIDAY (9 June)</b>								
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
<b>11:30</b>	<b>PL</b>	<b>Bond auction</b>						
<b>MONDAY (12 June)</b>								
<b>14:00</b>	<b>PL</b>	<b>CPI</b>	<b>May</b>	<b>% y/y</b>	<b>1.9</b>	<b>1.9</b>	<b>1.9</b>	<b>1.9</b>
<b>TUESDAY (13 June)</b>								
11:00	DE	ZEW index	Jun	pts	85.0	-	88.0	83.9
<b>14:00</b>	<b>PL</b>	<b>Current account</b>	<b>Apr</b>	<b>€mn</b>	<b>+4</b>	<b>-535</b>	<b>-275</b>	<b>-738</b>
<b>14:00</b>	<b>PL</b>	<b>Exports</b>	<b>Apr</b>	<b>€mn</b>	<b>15 712</b>	<b>15 299</b>	<b>15 176</b>	<b>17 798</b>
<b>14:00</b>	<b>PL</b>	<b>Imports</b>	<b>Apr</b>	<b>€mn</b>	<b>15 930</b>	<b>15 869</b>	<b>15 090</b>	<b>18 016</b>
<b>14:00</b>	<b>PL</b>	<b>Core inflation</b>	<b>May</b>	<b>% y/y</b>	<b>1.0</b>	<b>0.9</b>	<b>0.8</b>	<b>0.9</b>
<b>WEDNESDAY (14 June)</b>								
11:00	EZ	Industrial output	Apr	% y/y	0.5	-		-0.1
<b>14:00</b>	<b>PL</b>	<b>Money supply</b>	<b>May</b>	<b>% y/y</b>	<b>6.5</b>	<b>5.7</b>		<b>6.6</b>
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
<b>THURSDAY (15 June)</b>								
	<b>PL</b>	<b>Market holiday</b>						
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
<b>FRIDAY 16 June)</b>								
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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