

EYEOPENER

16 June 2017

Fed not discouraged by weaker data

- Fed raised interest rates and still sees another one coming this year
- Temporary negative reaction on global stock markets
- The zloty weakened vs major currencies, EURUSD sent lower by FOMC
- Polish IRS and bond yields rose gradually from levels depressed by Wednesday weak US data
- Today important data from Euro zone and USA

Wednesday session was supposed to be calm ahead of the evening Fed decision. However a surprisingly weak data on US CPI and retail sales trigger USD weakness and a large drop of yields across the globe. The decision by Fed to hike rates and further indication that another one is still needed in 2017, plus the hawkish rhetoric from Janet Yellen during the press conference made the US dollar regain the lost ground and caused a temporary deterioration of sentiment on global stock markets. Treasuries were however quite resistant, only gradually moving towards the level of 10-year yield seen before the weak data. The yesterday decision of the Bank of England helped the pound to strengthen as three out of nine members did not agree with holding rates unchanged. As in the case of Fed, there were important local data (on wage growth) coming on the softer side ahead of the BoE decision.

Wednesday data on the third quicker-than-expected decline of CPI in the US (already down from 2.7% y/y in February to 1.9%) and on the 0.3% drop of retail sales while 0% was expected caused a sell-off of the dollar and a large drop of yields. But Fed did not pay attention to these outcomes, as well as many others coming weaker than expected of late and continued along the preset course – raised rates by 25bp and kept the same view as in March on the need to deliver another rate hike still this year. What is more Janet Yellen sounded hawkish when explaining that the decline in inflation is regarded as temporary.

EUR/USD went abruptly from 1.12 to 1.13 on Wednesday on the weak US data. But it could not stay close to the year-to-date top when FOMC started to communicate its decision. The rise of fx pair was erased before the end of the day and the decline continued on Thursday despite poor data on US output and positive news on a Greek deal in the Euro zone. The euro

could stay soft for a while due to the dovish rhetoric from the ECB being in contrast with the relatively hawkish stance of the Fed. Today's data on Euro zone inflation could remind that. Later during the year we expect the upward trend to resume on EUR/USD.

EUR/PLN stayed on Wednesday around 4.195, but its volatility was visibly higher than a day before. USD/PLN saw a sudden drop to 3.715 in a reaction to weak data from the US, ahead of FOMC. The koruna and the forint were stable on Wednesday vs the euro and so was USDRUB. As we expected the result of the FOMC meeting was negative for CEE currencies, but the significant sell-off came only yesterday with the start of the US session. The more hawkish than expected Fed sent EUR/PLN above 4.22, at some point to 4.24, while USD/PLN reversed only from below 3.80. The market holiday yesterday in Poland amplified the moves on PLN. The wave of CEE weakness stopped with EUR/CZK at 26.3, while EUR/HUF went from 306 on Wednesday morning to 308 yesterday evening. The news about three dissenters in the BoE together with negative sentiment on the zloty sent GBP/PLN to 4.84.

On the Polish fixed income market, IRS and bond yields dropped 1-5bp on Wednesday afternoon, with 10-year benchmark going to 3.10% and the swap rate close to 2.60%. This move started to be reversed as Janet Yellen was speaking but the rebound was gradual which was in line with our view that Fed would be more significant for the fx market.

M3 money supply grew 6.2% y/y in May, less than the market expected (6.5%), but more than we assumed (5.7%). An important change in its structure was recorded. Data clear of the effect of fx changes showed a decline of household deposits by 0.4% m/m (the largest since May 2013) while enterprise deposits rose 3.3% m/m (the first m/m rise this year). Deposits grew in net terms 0.7% m/m and this made May the strongest month in this respect in 2017. At the same time currency in circulation decreased by 0.8% m/m. This all could indicate that consumer activity increased significantly in May.

Deputy Finance Minister Piotr Nowak signaled limited supply of bonds in July and August due to high liquidity and the large transfer of NBP profit to the central budget.

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FX market

Today's opening

EURPLN	4.2189	CZKPLN	0.1609
USDPLN	3.7818	HUFPLN*	1.3702
EURUSD	1.1156	RUBPLN	0.0655
CHFPLN	3.8815	NOKPLN	0.4457
GBPPLN	4.8295	DKKPLN	0.5674
USDCNY	6.8124	SEKPLN	0.4327

*for 100HUF

Last session in the FX market 15/06/2017

	min	max	open	close	fixing
EURPLN	4.191	4.242	4.193	4.232	4.2025
USDPLN	3.714	3.804	3.719	3.796	3.7497
EURUSD	1.113	1.129	1.127	1.115	-

Interest rate market 15/06/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.91	0	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.57	0	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.13	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	1.40	4	-0.25	0
2L	1.87	3	1.55	7	-0.18	1
3L	1.95	1	1.67	7	-0.09	2
4L	2.06	0	1.76	8	0.02	3
5L	2.17	0	1.85	8	0.15	4
8L	2.44	0	2.04	7	0.52	3
10L	2.59	0	2.15	7	0.75	4

WIBOR rates

Term	%	Change (bps)
O/N	1.57	1
T/N	1.58	2
SW	1.59	0
2W	1.62	-1
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	2
9x12	1.77	0
3x9	1.82	0
6x12	1.80	0

Measures of fiscal risk

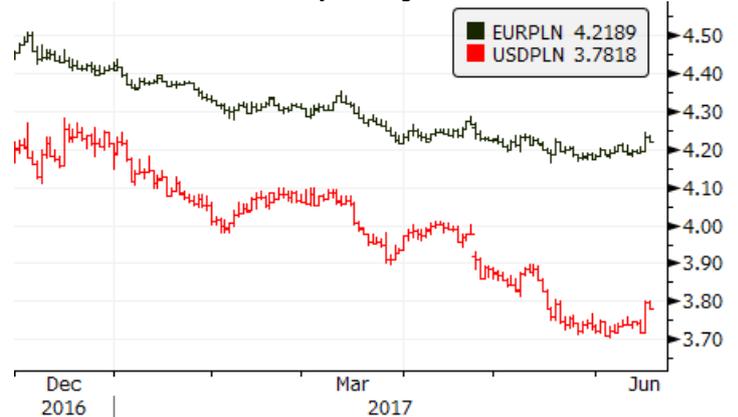
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.84	0
France	25	0	0.34	0
Hungary	116	1	2.69	-1
Spain	68	1	1.13	0
Italy	140	-1	1.67	0
Portugal	188	0	2.56	0
Ireland	40	1	0.39	-1
Germany	15	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

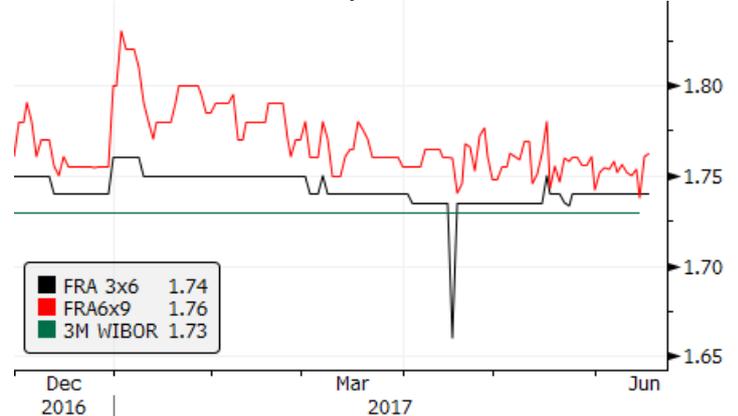
Zloty exchange rate



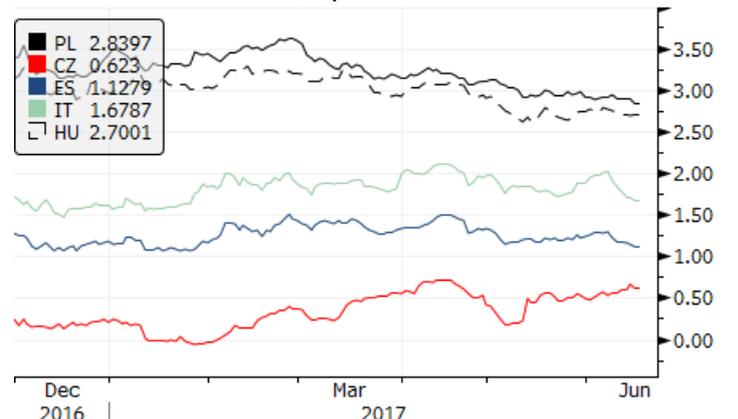
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	BZWBK			
FRIDAY (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	1.9
TUESDAY (13 June)								
11:00	DE	ZEW index	Jun	pts	85.0	-	88.0	83.9
14:00	PL	Current account	Apr	€mn	+4	-535	-275	-738
14:00	PL	Exports	Apr	€mn	15 712	15 299	15 176	17 798
14:00	PL	Imports	Apr	€mn	15 930	15 869	15 090	18 016
14:00	PL	Core inflation	May	% y/y	1.0	0.9	0.8	0.9
WEDNESDAY (14 June)								
11:00	EZ	Industrial output	Apr	% y/y	0.5	-	0.5	0.2
14:00	PL	Money supply	May	% y/y	6.5	5.7	6.2	6.7
14:30	US	Retail sales	May	% m/m	0.1	-	-0.3	0.4
14:30	US	CPI	May	% y/y	2.0	-	1.9	2.2
20:00	US	FOMC decision		%	1.0-1.25	-	1.0-1.25	0.75-1.00
THURSDAY (15 June)								
	PL	Market holiday						
14:30	US	Initial jobless claims	week	k	241	-	237	245
14:30	US	Philly Fed index	Jun	pts	25.0	-	27.6	38.8
15:15	US	Industrial output	May	% m/m	0.1	-	0.0	1.1
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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