

# EYEOPENER

19 June 2017

## Macron won another election

- **Mixed market moods**
- **New disappointing data from USA**
- **Zloty corrected its weakening from Thursday, EURUSD again at 1.12**
- **Polish bonds and IRS rates slowly up**
- **Today data on wages and employment in Poland**

It seemed that Friday would be a day of the impulse sent by Fed spreading more across the markets with equity losses and higher yields. After all, FOMC decided to go ahead with its plan of monetary tightening despite a streak of poor US data and reduced hopes of a large fiscal stimulus in the US. The US stock market was dampened by this factor, but not the European one. In the second half of the day there were other disappointing data from the USA (on real estate market and consumer sentiment, which declined to the lowest levels since November). As a consequence core market yields sank below opening levels instead of showing a rebound.

LREM party led by Emmanuel Macron and its prospective coalition partner MoDem are clear winners of Sunday second round of parliamentary elections in France, getting 355-360 seats in a 577-strong National Assembly, which means an absolute majority. No cohabitation in France means a further reduction of political risk in this country.

EURUSD started Friday with a recovery from the losses caused by the FOMC. Then weak US data on real estate market was released (building permits down 4.9% m/m with market expecting at least a partial rebound after -2.5% m/m in the previous month; house starts dropping 5.5% m/m vs. market consensus of +4.1%) and consumer sentiment, which dropped in June from 97.1 pts to 94.5 pts while no change was expected. This made EURUSD climb to 1.12 – the level where it had been on Wednesday morning, before the release of the disappointing US CPI and retail sales. In our view the discrepancy between the rhetoric and intentions of the Fed and the poor performance of the US economy of late make EURUSD sensitive to the many speeches of FOMC members scheduled for this week.

The limited market liquidity on Thursday was to blame for the ride of EURPLN to 4.24, but once the local traders were back from market holiday the pair was quick to correct this move.

The weak US data extended the decline to 4.21. In case of USDPLN the size of the drop on Friday was c4 figures, counting from the peak on Thursday evening (from 3.80 to 3.76). However the exchange rate had difficulties with reentry into to the range where it stayed between May 20 and the FOMC decision (3.70-3.75) which suggests that investors did not want to totally erase the upward reaction to the relatively hawkish Janet Yellen speech at the FOMC press conference. That said, the koruna managed to recover entirely from the Thursday sell-off of CEE currencies. At the same time the recovery of the forint stuck already at 307.4 vs the euro. Another currency that failed to show a quick corrective move was RUB – oil was under further selling pressure, while the Russian central bank cut rates by 25bp (the main rate to 9%) signalling more easing to come in 2H17. The governor declared that from now on the bank will be more focused on 12-month average CPI (at 5.6% vs the 4% inflation target) instead of just the current releases (which already declined to 4.1%), but this did not offer any relief to the ruble.

Polish IRS were trying to establish the week's high, but the upward move has been stopped and reversed, as soon as the trade in Europe commenced. During the day the 2Y and 10Y rates increased by only 1bp and 5Y by 2bp. 10Y bonds weakened since Wednesday until Friday's close by only 3bp. At the same time, yields of German Bunds returned to the levels from the early June. As a result, the spread between Polish and German 10Y bonds reached its lowest level since September 2016. On Friday Greek bonds gained substantially (yields dropped by 17bp) due to the information about the deal with creditors on the EUR8.5bn aid.

Minister of Finance and Development Mateusz Morawiecki said that in 2017 the budget will gain PLN20bn from the improvement in tax collection. In our view, this is exactly the possible increase in VAT revenues this year, but it is hard to explain this entire growth by higher tax collection.

We expect to see good labour market data today: a strong acceleration of wage growth (above 5% y/y, partly due to low base effect) and solid employment growth. However, the disappointing data about May's unemployment generate some downward risk for the employment reading.

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## FX market

## Today's opening

EURPLN	4.2080	CZKPLN	0.1609
USDPLN	3.7558	HUFPLN*	1.3690
EURUSD	1.1204	RUBPLN	0.0651
CHFPLN	3.8590	NOKPLN	0.4448
GBPPLN	4.8005	DKKPLN	0.5658
USDCNY	6.8131	SEKPLN	0.4320

\*for 100HUF

## Last session in the FX market

16/06/2017

	min	max	open	close	fixing
EURPLN	4.206	4.236	4.232	4.210	4.2181
USDPLN	3.756	3.801	3.796	3.761	3.7749
EURUSD	1.114	1.120	1.115	1.120	-

## Interest rate market

16/06/2017

## 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)	2.56	-1	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.14	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	1.87	0	1.53	-2	-0.19	0
3L	1.96	1	1.64	-3	-0.09	0
4L	2.08	2	1.73	-3	0.02	-1
5L	2.19	2	1.82	-3	0.14	-1
8L	2.46	2	2.02	-3	0.52	-1
10L	2.60	1	2.12	-3	0.75	-1

## WIBOR rates

Term	%	Change (bps)
O/N	1.61	4
T/N	1.61	3
SW	1.60	1
2W	1.63	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	1.74	-2
9x12	1.77	0
3x9	1.82	0
6x12	1.80	0

## Measures of fiscal risk

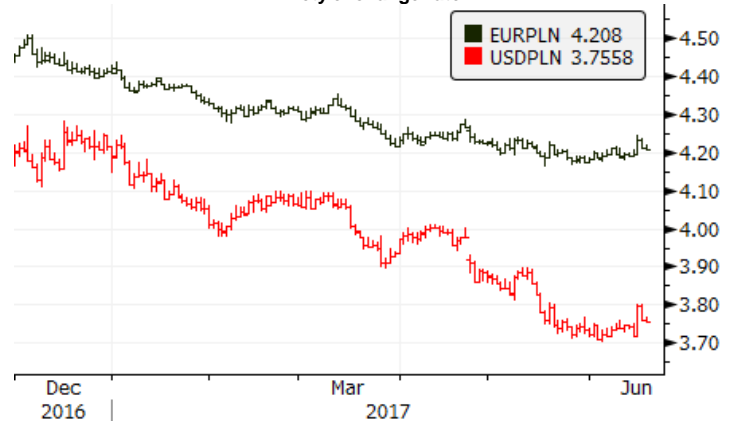
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.87	2
France	25	0	0.35	0
Hungary	116	1	2.70	0
Spain	69	2	1.17	-1
Italy	138	-1	1.70	0
Portugal	187	-2	2.61	-1
Ireland	40	1	0.41	1
Germany	15	0	-	-

\* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

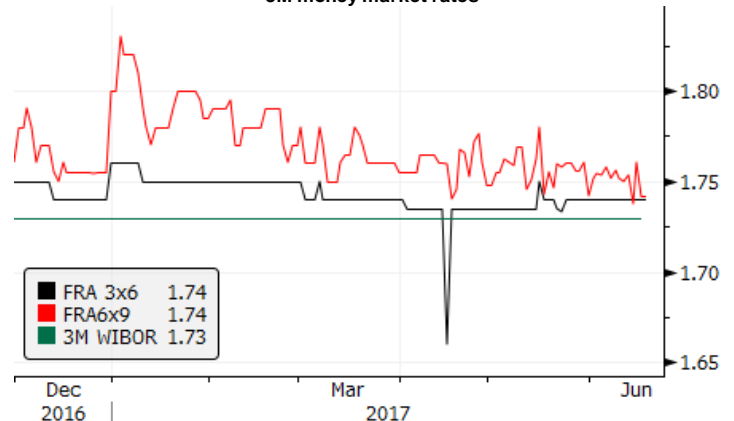
## Zloty exchange rate



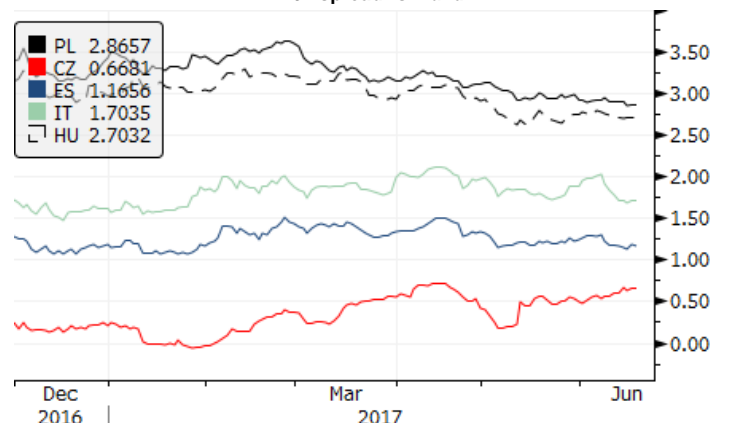
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic calendar

Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	BZWBK		
FRIDAY 16 June)								
11:00	EZ	CPI	May	% y/y	1.4	-	1.4	1.9
14:30	US	House starts	May	k	1225	-	1092	1172
14:30	US	Building permits	May	k	1250	-	1168	1229
16:00	US	Flash Michigan	Jun	pts	97.0	-	94.5	97.1
MONDAY (19 June)								
14:00	PL	Wages in corporate sector	May	% y/y	4.5	5.3		4.1
14:00	PL	Employment in corporate sector	May	% y/y	4.6	4.6		4.6
TUESDAY (20 June)								
14:00	HU	Central bank decision		%	0.90	-		0.90
14:00	PL	Industrial output	May	% y/y	7.0	9.6		-0.6
14:00	PL	Construction and assembly output	May	% y/y	13.0	16.2		4.3
14:00	PL	PPI	May	% y/y	2.9	2.8		4.3
14:00	PL	Real retail sales	May	% y/y	7.8	7.1		6.7
WEDNESDAY (21 June)								
16:00	US	Home sales	May	% m/m	-0.4	-		-2.3
THURSDAY (22 June)								
14:00	PL	MPC Minutes						
14:30	US	Initial jobless claims	week	k	-	-		237
FRIDAY (23 June)								
9:30	DE	Flash PMI – manufacturing	Jun	pts	59.0	-		59.5
		Flash PMI – services	Jun	pts	55.4	-		55.4
10:00	EZ	Flash PMI – manufacturing	Jun	pts	56.7	-		57.0
		Flash PMI – services	Jun	pts	56.2	-		56.3
16:00	US	New home sales	May	% m/m	5.5	-		-11.4

Source: BZ WBK. Reuters. Bloomberg

\* in case of the revision. the data is updated

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