

EYEOPENER

21 June 2017

Correction on the FX market continues

- **Markets trimming Monday's gains**
- **Mixed data about production and sales from Poland**
- **Zloty depreciated, EURUSD close to 1.11**
- **Core bonds stronger, in Poland weaker**
- **Today, US data about home sales**

On Tuesday the global markets finished the session in bearish moods. Bonds on core markets were gaining and oil crude price fell significantly to nearly \$45 per barrel, reaching its low since November 2016. Yesterday's speech of the Chairman of the central bank of England on the lack of rate hikes in the near future contributed to the pound's sell-off.

After a decline by 0.6% in April, in May the manufacturing output in Poland rose by 9.1% y/y with market expectations at 8.5% and our forecast at 9.6%. Working days effect played a significant role both in case of a slump in dynamics in April and the scale of a rebound in May. Seasonally adjusted output growth reached 6.5% y/y in May, whereas in April it was 4%. Growth of construction output by 8.4% y/y was disappointing, taking into account the market consensus at 13% and our forecast at 16.2%. After removing the working days effect there was a decline by 3.2% m/m in May (the biggest since June 2016). Weak construction output is yet another signal from the economy that the revival in investment can be delayed. Retail sales grew by 7.4% y/y in real terms, which was a bit below market expectations, but in our view it confirms a continually good state of consumer demand. In sum, May data suggest in our view that the pace of economic growth in 2Q17 might be slightly slower than in 1Q17, but we still assume that growth at nearly 4% is possible within the whole year. Such data should not change the opinion of the Monetary Council on the outlook for monetary policy.

Governor of Boston Fed Eric Rosengren said yesterday in Amsterdam that low rates decrease the ability of monetary policy to respond to shocks, which makes them a risk factor to financial stability in the USA and other countries. The reaction of investors to his words was muted and EURUSD declined to 1.113. The appreciation of the US dollar was limited, with EURUSD moving between 1.114 and 1.116 most of the time. The data from the US to be released today (home sales) and tomorrow (labour market data) and next comments of the FOMC members are the factors that can raise market volatility.

The zloty was losing for the next consecutive day. During the day EURPLN remained near 4.22, but at the end of the session investors started selling Polish currency and the exchange rate broke 4.24. The zloty lost all of its Friday's gains when EURPLN fell to 4.21. Similarly to the situation on Monday USDPLN was systematically going up and broke 3.81 at the end of the day. Sell-off of the zloty influenced CHFPLN, which finished the day above 3.9.

On Tuesday other CE3 currencies also lost. The Czech koruna was heavily sold out and EURCZK gave up the recent gains. At the end of the day, the rate approached 26.3. The dovish rhetoric of the Hungarian central bank contributed to weakening the forint against the euro and EURHUF was at its highest level since mid-May. At the yesterday's meeting the Hungarian Central Bank (MNB) kept main interest rate unchanged at 0.9%, in line with expectations. The MNB repeated its pledge to maintain accommodative monetary policy and to support economy if needed. In May the inflation rate in Hungary fell to 2.1% y/y and the MNB expects that it should remain at such level in the near term. The bank revised its forecasts and expects that inflation would approach the target (3%) in 2019. We think that the dovish attitude of the central bank may weigh on the forint.

Yesterday bonds in the core markets gained. Yields of US Treasuries have fallen despite the hawkish comments of Fed representatives in the recent period, and 10Y benchmark was traded close to 2.17% yesterday. Polish debt weakened along the whole curve, and the prices of Polish 2Y bond fell the most. IRS rates remained stable on Tuesday.

The Ministry of Finance announced yesterday that at the switch auction on June 22, it will repurchase bonds OK0717 / DS1017 / WZ0118. In return the ministry will offer OK0419 / PS0422 / WZ1122 / WZ0126 / DS0727.

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 Luziński +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	4.2479	CZKPLN	0.1616
USDPLN	3.8144	HUFPLN*	1.3746
EURUSD	1.1136	RUBPLN	0.0640
CHFPLN	3.9152	NOKPLN	0.4465
GBPPLN	4.8138	DKKPLN	0.5710
USDCNY	6.8317	SEKPLN	0.4345

*for 100HUF

Last session in the FX market

20/06/2017

	min	max	open	close	fixing
EURPLN	4.213	4.249	4.214	4.247	4.2248
USDPLN	3.776	3.820	3.776	3.818	3.7862
EURUSD	1.112	1.117	1.116	1.113	-

Interest rate market

20/06/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.92	2	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.59	1	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.16	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	-1	1.41	0	-0.26	0
2L	1.88	0	1.55	-1	-0.19	-1
3L	1.98	0	1.66	-1	-0.10	-1
4L	2.10	0	1.76	-1	0.01	-1
5L	2.22	1	1.84	-2	0.13	-1
8L	2.48	1	2.04	-2	0.50	-3
10L	2.63	0	2.14	-2	0.73	-3

WIBOR rates

Term	%	Change (bps)
O/N	1.58	-2
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	1.74	-2
9x12	1.78	1
3x9	1.82	0
6x12	1.81	1

Measures of fiscal risk

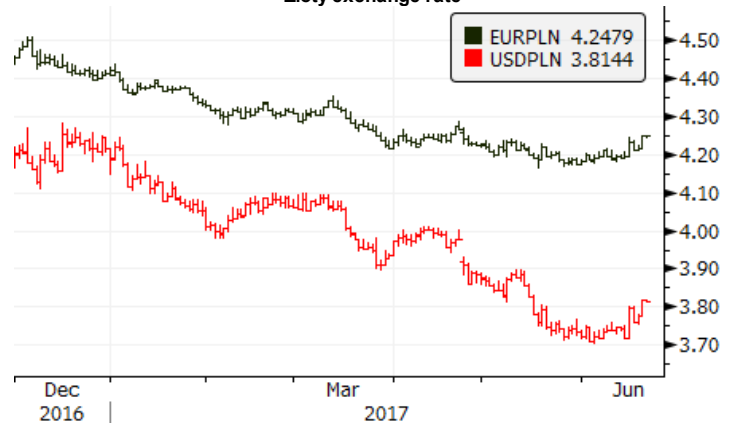
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.90	0
France	25	0	0.35	1
Hungary	116	1	2.69	1
Spain	65	-1	1.12	1
Italy	133	-2	1.65	1
Portugal	186	2	2.59	0
Ireland	40	1	0.38	-3
Germany	15	1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

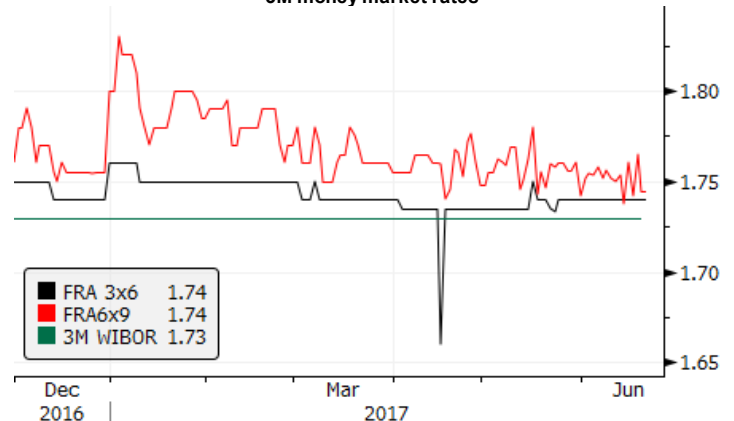
Zloty exchange rate



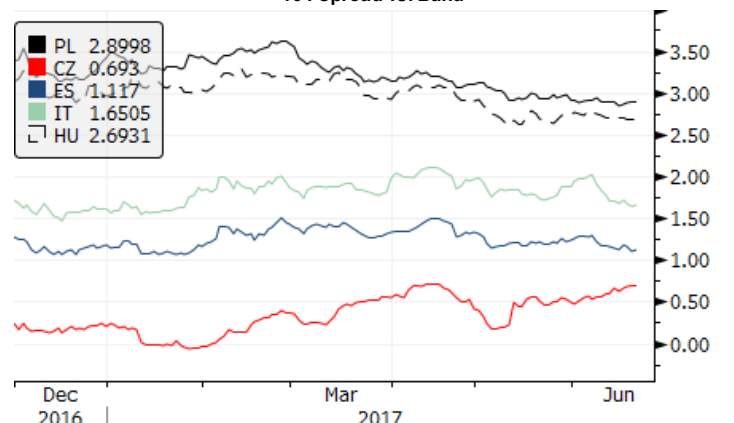
T-bonds yields



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	5.4	4.1
14:00	PL	Employment in corporate sector	May	% y/y	4.6	4.6	4.5	4.6
TUESDAY (20 June)								
14:00	HU	Central bank decision		%	0.90	-	0,90	0.90
14:00	PL	Industrial output	May	% y/y	7.0	9.6	9.1	-0.6
14:00	PL	Construction and assembly output	May	% y/y	13.0	16.2	8.4	4.3
14:00	PL	PPI	May	% y/y	2.9	2.8	2.5	4.3
14:00	PL	Real retail sales	May	% y/y	7.8	7.1	7.4	6.7
WEDNESDAY (21 June)								
16:00	US	Home sales	May	% m/m	-0.5	-		-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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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.