

# EYEOPENER

26 June 2017

## MPC hawk sees strong opposition to rate hikes

- Some gloom on the markets on Friday, but oil recovery bodes well
- Zloty gained vs main currencies, EURUSD close to 1.12
- Global bond yields moved higher
- PMIs from the Euro zone remained strong
- Today Polish May unemployment data

Friday's session in the global markets ended with mixed moods. Asian markets gained slightly, while European indices ended in red after the entire week of declines. On Friday the prices of crude oil have stabilised after dropping in the previous five days, and this week starts with a rise. Asian markets were doing fine on Monday and the positive moods may shift to Europe.

Before the weekend the euro was appreciating against dollar due to better than expected PMI in the euro zone and in Germany. EURUSD was rising since morning and at the end of Friday's session it approached 1.12. Moreover, euro was supported by weaker manufacturing PMI in the USA, which reached 51.1 in June, versus expected 53 and May's reading 52.7. On Friday the euro positively reacted to Mario Draghi's words at the EU summit in Brussels about rising Euro zone economy and decreasing unemployment. ECB president stressed that the core inflation remains low and the central bank will keep accommodative policy. EURUSD remains also under the influence of the FOMC members. This week the US inflation data will be key for investors, as they may be the hint about the next interest rate hike by Fed. Today in the evening the ECB conference about central banking will start and will be opened by the Mario Draghi's speech. Today in the morning the Fed's John Williams had a speech and he underlined the need to continue interest rate hikes, as the strength of the labour market is generating risks. EURUSD remains close to 1.12.

EURPLN managed to stabilize on Friday. In the morning EURPLN tested even 4.22 and after good data from the Euro zone it reacted back above 4.23. However, in the afternoon the zloty started to gain against the main currencies. Weaker than expected data from the US real estate market contributed to the rise in EURUSD and as a result the zloty gained vs the dollar and returned below 3.78.

Other currencies of our region were stable on Friday. The Czech koruna closed for the third day in a row close to 26.3 against the euro. EURHUF was near Thursday's closing on

Friday. Last week the Hungarian press reported that before next year's elections in the country, the government is considering reducing the personal income tax from 15% to less than 10% currently. The possible reduction depends on the economic growth in Hungary and improvement in tax collection. With the stabilization of oil prices on the world's stock exchanges, USDRUB has been steady. On Friday Russia placed 10Y Eurobonds with a yield of 4.25% and 30Y bonds with a yield of 5.25%. Investors' structure was dominated by Americans (32%), investors from UK (31%) and continental Europe (15%).

Ahead of data from the US economy and the FOMC members' speeches, US bonds weakened on Friday by 2bps to 2.16%. The Polish debt significantly weakened on Friday and 10Y bond yielded 3.22%, the highest this month. IRS rates remained stable at the short end and rose at the long end by almost 2bps. Asset swap spread has further widened and on Friday it was at the highest level since the French presidential election.

The MPC's Kamil Zubelewicz said in an interview published in today's Dziennik Gazeta Prawna Daily that inflation target should be lower, and this would be positive for the economic growth. According to Zubelewicz (who is one of the most hawkish MPC members, in our view), interest rates in Poland should be "slightly higher" with positive real interest rates. At the same time, Zubelewicz stated that rates are likely to remain on hold "even until 4Q19" – mostly due to overwhelming majority of central bankers with opposite views. In general, this interview confirmed our assessment of monetary policy prospects in Poland – most MPC members are ready to keep rates unchanged for a long time and only a strong rise in MPC would make them consider a shift in their bias (Zubelewicz suggested that CPI above 3.5% would be a trigger).

According to our estimates, registered unemployment rate fell to 7.4% in May from 7.7% in April. We see some upward risk after the Labour Ministry released its estimate at 7.5%. May's data showed some deceleration in downward march of unemployment and we are curious to see whether this was only a one-off or a beginning of a shift in unemployment tendencies.

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## FX market

## Today's opening

EURPLN	4.2200	CZKPLN	0.1606
USDPLN	3.7683	HUFPLN*	1.3634
EURUSD	1.1199	RUBPLN	0.0638
CHFPLN	3.8854	NOKPLN	0.4467
GBPPLN	4.8056	DKKPLN	0.5675
USDCNY	6.8428	SEKPLN	0.4326

\*for 100HUF

## Last session in the FX market

23/06/2017

	min	max	open	close	fixing
EURPLN	4.220	4.244	4.233	4.223	4.2255
USDPLN	3.768	3.801	3.795	3.773	3.7824
EURUSD	1.114	1.121	1.116	1.119	-

## Interest rate market

23/06/2017

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

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.91	-1	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.61	-1	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.23	0	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	1.42	0	-0.25	0
2L	1.89	0	1.54	1	-0.18	0
3L	2.00	1	1.65	1	-0.09	1
4L	2.12	1	1.74	1	0.02	1
5L	2.23	0	1.82	1	0.14	0
8L	2.49	0	2.02	1	0.50	1
10L	2.66	2	2.12	1	0.72	1

## WIBOR rates

Term	%	Change (bps)
O/N	1.57	1
T/N	1.57	0
SW	1.59	0
2W	1.62	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	-1
9x12	1.78	0
3x9	1.82	0
6x12	1.81	0

## Measures of fiscal risk

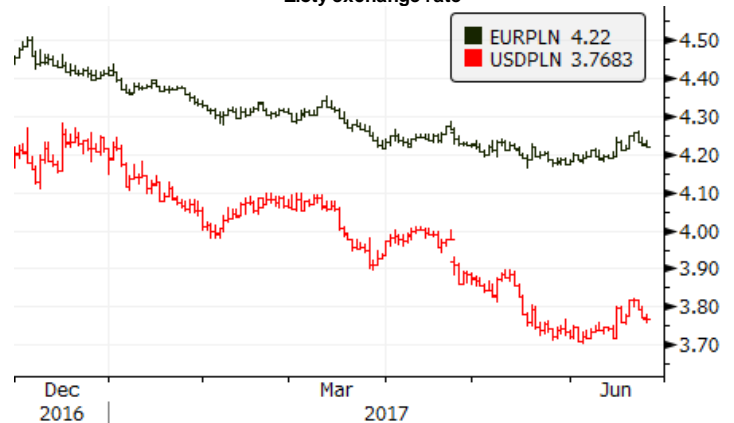
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.98	0
France	24	0	0.36	0
Hungary	116	1	2.68	0
Spain	65	-1	1.13	1
Italy	132	1	1.67	1
Portugal	184	0	2.65	1
Ireland	40	1	0.38	0
Germany	15	0	-	-

\* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

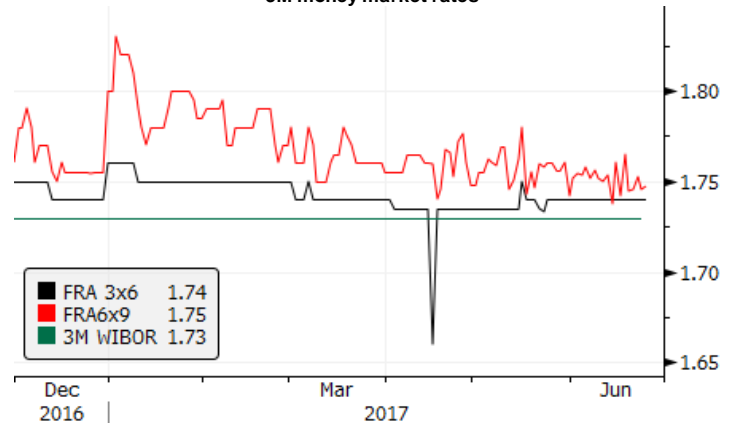
## Zloty exchange rate



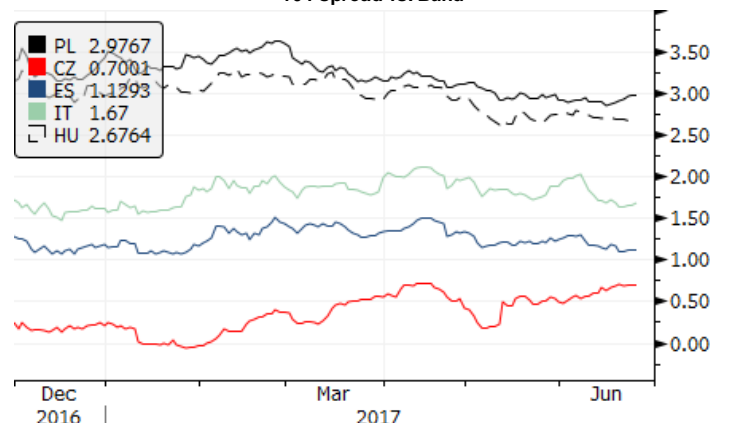
## T-bonds yields



## 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 (23 June)								
9:30	DE	Flash PMI – manufacturing	Jun	pts	59.0	-	59.3	59.5
		Flash PMI – services	Jun	pts	55.4	-	53.7	55.4
10:00	EZ	Flash PMI – manufacturing	Jun	pts	56.7	-	57.3	57.0
		Flash PMI – services	Jun	pts	56.2	-	54.7	56.3
16:00	US	New home sales	May	% m/m	5.5	-	2.9	-11.4
MONDAY (26 June)								
10:00	PL	Unemployment rate	May	% y/y	7.4	7.4		7.7
10:00	DE	Ifo index	Jun	pts		-		114.6
14:30	US	Durable goods orders	May	% m/m	-0.9	-		-0.8
TUESDAY (27 June)								
16:00	US	Consumer confidence index	Jun	pts	115.4	-		117.9
WEDNESDAY (28 June)								
16:00	US	Pending home sales	May	% m/m		-		-1.3
THURSDAY (29 June)								
14:30	US	Third GDP estimate	Q1	% y/y	1.2	-		1.2
FRIDAY (30 June)								
9:00	CZ	GDP	Q1	% y/y	2.9	-		2.9
9:00	HU	PPI	May	% y/y		-		4.4
11:00	EZ	Flash CPI	Jun	% y/y	1.3	-		1.4
14:00	PL	Flash CPI	Jun	% y/y	1.9	1.7		1.9
14:30	US	Personal income	May	% m/m	0.3	-		0.4
14:30	US	Consumer spending	May	% m/m	0.1	-		0.4
16:00	US	Michigan index	Jun	pts	95.0	-		94.5

Source: BZ WBK. Reuters. Bloomberg

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

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