

EYEOPENER

28 June 2017

Draghi spooked markets

- **ECB governor still dovish, yet his comments triggered a correction in the world markets**
- **Zloty weaker against euro, EURUSD close to 1.14**
- **Bond yields going up**
- **Today, US housing market data**

Words of Mario Draghi were the main market driver on Tuesday. Global stock markets were in red, similarly as bond prices. Crude oil prices went up, with Brent exceeding 46\$/bbl. Rising risk aversion supported the gold prices.

Yesterday in the ECB Forum on Central Banking in Sintra, Governor Mario Draghi said that caution and continuity was needed in monetary policy. Investors in financial markets focused however on several details in the speech which were perceived as hawkish, i.e. his view that keeping an unchanged monetary policy at the moment of economic revival would de facto mean its loosening. Draghi said that the variety of factors that were slowing the reflationary process were only temporary and the accommodative monetary policy should eventually lead to acceleration of price growth.

In the evening, Fed Chair Janet Yellen confirmed the plans on monetary policy in USA which had been signaled before, at the last FOMC press conference. She said the Fed thinks it was the right thing to increase the rates gradually. She also added that the market participants "understood well" Fed's plans to shrink the balance sheet. Yellen, similarly to another Fed member, Stanley Fischer, remarked that current asset valuations are "somewhat rich" on the American market.

In reaction to Mario Draghi's speech, EURUSD has clearly gone up from 1.117 to 1.127. During the day the euro remained strong against the dollar and despite better-than-expected data on consumer sentiment in the US, the USD failed to recover from its morning losses. At the end of the day EURUSD was close to 1.128 and today it is already at 1.136.

The words of Mario Draghi weakened yesterday the zloty and other currencies of the region. EURPLN started the session close to 4.205, but the morning's strengthening of the euro against the dollar resulted in the return of EURPLN close to

Friday's close. During the day, the zloty tried to make up for these losses, but global sell-off in emerging markets made EURPLN get to 4.215 at the end of the day, and today in the morning it was close to 4.232. In reaction to the upward move of EURUSD, USDPLN went down and it was below 3.74 yesterday.

The Czech koruna remained fairly stable, EURCZK was moving yesterday in the 26.22-26.3 range. However, with the euro surging after Draghi's words, the session ended for the fx pair at 26.5. The forint was more volatile, moving between 308.8 and 310 most of the time, but finished at the highest level since the middle of May. The rise of the oil prices lifted the rouble and USDRUB approached 59 late on Tuesday.

On Tuesday, bond markets witnessed a deep sell-off. The comment of Mario Draghi weakened Bunds, which saw their yields climbing by 9bps on the longer end and by 5bps on the shorter. 10Y bonds of other Euro zone countries were also dumped: French yields increased by 11bps, Spanish by 10bps, Italian by 12.5bps, Irish by 13.5bps. US Treasuries were not hit that much and lost 5bps on the long end.

The wave of debt sell-off in Europe and globally also hit POLGBs. Polish 10Y benchmark yield increased by 7bps, while short-term yields went up by about 2bps. Spread to 10Y Bunds amounted to 292bps on Tuesday. IRS curve took the cue from the bond market. Short tenors remained relatively stable, while the longer end climbed by 5bps. Asset swap spread widened again and approached 60bps yesterday, the highest level since Macron was elected French president.

According to Rzeczpospolita daily, the Polish MPs are working on a draft bill introducing Fund of Local Roads, aimed at financing road construction. The fund will receive revenues from the increased fuel tax (up by PLN0.20 per liter, which should bring PLN5bn revenues per year). According to our estimate, such increase in fuel tax would trigger a rise in fuel prices by c.7.5%, lifting the CPI inflation by 0.3-0.4pp.

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FX market

Today's opening

EURPLN	4.2380	CZKPLN	0.1610
USDPLN	3.7310	HUFPLN*	1.3667
EURUSD	1.1359	RUBPLN	0.0626
CHFPLN	3.8861	NOKPLN	0.4411
GBPPLN	4.7744	DKKPLN	0.5699
USDCNY	6.8035	SEKPLN	0.4327

*for 100HUF

Last session in the FX market **27/06/2017**

	min	max	open	close	fixing
EURPLN	4.200	4.237	4.208	4.237	4.212
USDPLN	3.725	3.767	3.761	3.745	3.7442
EURUSD	1.118	1.134	1.119	1.131	-

Interest rate market **27/06/2017****T-bonds on the interbank market****

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.93	1	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.68	4	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.31	5	23.03.2017	DS0727	3.568

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.77	1	1.44	1	-0.24	1
2L	1.92	3	1.58	3	-0.15	3
3L	2.02	4	1.69	4	-0.03	6
4L	2.16	5	1.79	5	0.09	7
5L	2.28	7	1.87	6	0.22	8
8L	2.55	7	2.08	7	0.59	9
10L	2.71	8	2.18	7	0.82	10

WIBOR rates

Term	%	Change (bps)
O/N	1.46	-4
T/N	1.46	-4
SW	1.56	-1
2W	1.61	-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	1.78	0
3x9	1.82	0
6x12	1.81	0

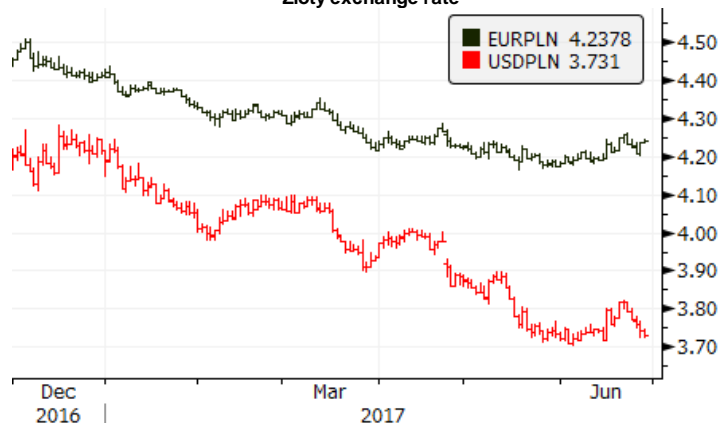
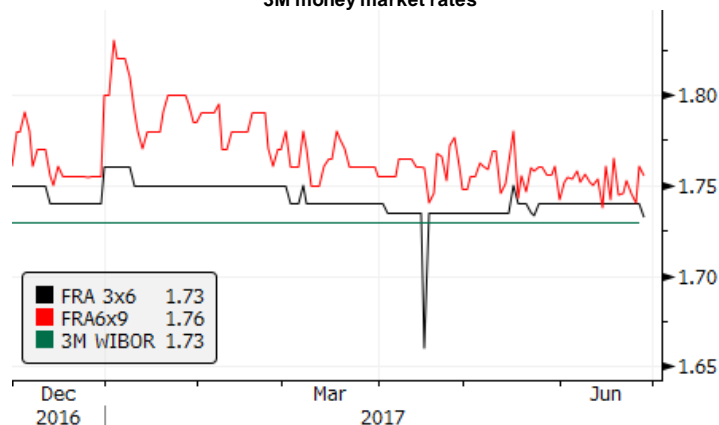
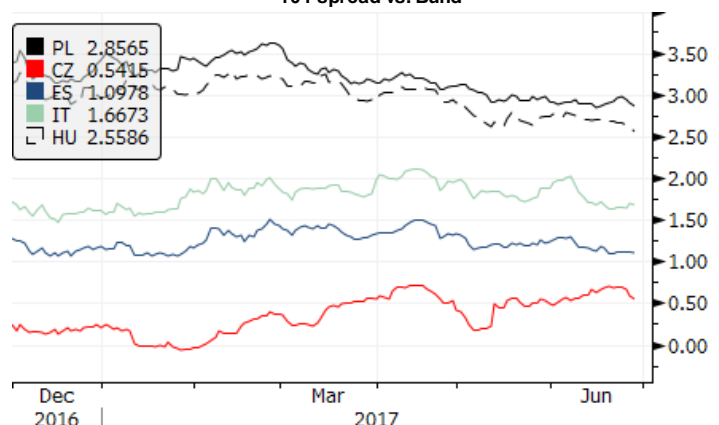
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.92	3
France	24	0	0.37	0
Hungary	116	1	2.61	0
Spain	66	1	1.10	-2
Italy	147	16	1.68	0
Portugal	187	-1	2.66	-2
Ireland	40	1	0.40	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	7.4	7.7
10:00	DE	Ifo index	Jun	pts		-	115.1	114.6
14:30	US	Durable goods orders	May	% m/m	-0.9	-	-1.1	-0.8
TUESDAY (27 June)								
16:00	US	Consumer confidence index	Jun	pts	115.4	-	118.9	117.9
WEDNESDAY (28 June)								
16:00	US	Pending home sales	May	% m/m	1.0	-		-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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