

# EYEOPENER

29 June 2017

## Euro shot higher despite doubts about Draghi's words

- Global markets became calmer
- The markets might have misinterpreted ECB governor's Tuesday speech
- Zloty still weaker against the euro, EURUSD close to 1.14
- The global bond sell-off slowed down
- Today important US data

Global markets were still under pressure of central bankers' comments. On Wednesday, global stock indices ended the day in mixed moods, but let us note that the US stock market more than offset its Tuesday losses. Bonds of Euro zone countries offset a part of its previous day changes. Oil price went up and rebounded from a trough at \$45/bbl approaching \$47/bbl, supported by falling oil stocks in the USA.

EURUSD was climbing since the start of Wednesday session and approached 1.137, the highest level in 8 months. The dollar was still under pressure due to market worries about Trump's ability to push through his reforms package. The US Senate once again rescheduled its vote on health care bill. Markets are more and more doubtful about Trump's tax cuts and economic stimulus. This worries weigh on the dollar, which has lost 7.14% ytd and is the weakest G10 currency.

Yesterday in the afternoon, EURUSD began to fall to 1.129 after the information that according to the ECB the markets misinterpreted the Tuesday's speech of Mario Draghi. The deputy governor of the ECB Vitor Constancio assured that the ECB's way of thinking did not change and the governor is still supporting monetary stimulus accompanying the gradual improvement of euro zone economic situation and his words are not an announcement of an imminent monetary tightening. Let us note that during the ECB conference a few key central bankers representing main economies presented a bit more hawkish rhetoric than earlier, making the dementi in Draghi's case less credible. However, the downward move on EURUSD did not last for long and the rate returned above 1.134 and this morning the currency pair is close to 1.14. However, after yesterday flash release of June inflation in Italy (decline to 1.2% from 1.6% in May), CPI readings from Spain, Germany and France coming today and on Friday can be a signal that inflation pressure in the Euro zone is still weak. Today the rate may also stay under impact of US labour market data.

The zloty, after Tuesday's fluctuations, was trading relatively stable against the major currencies yesterday. In the morning the domestic currency tried to recover losses to the euro and EURPLN fell below 4.22. Later in the day, however, the zloty weakened. In

anticipation of Friday's inflation data, the zloty remains under pressure from external factors. At the end of the day EURPLN returned to 4.234 and USDPLN below 3.74.

Other CEE currencies were stable. After data on May unemployment in Hungary (4.4% down from 4.6% in April) HUF strengthened slightly. Rebound in the global markets supported additionally the forint and at the end of the day EURHUF was close to 309. The Czech koruna reacted less to external signals and EURCZK moved close to 26.3 yesterday.

After Wednesday's Euro zone bonds sell-off, there was calmness on the markets on Wednesday, but the prices of euro-denominated securities continue to fall. 10Y Bund has still weakened, reaching the yield close to 0.37%, and since the beginning of the year its yield has risen by 19bp, while that of 10Y French benchmark has risen by only 7bp. The announcement of monetary policy tightening in Czechia has resulted in a fall in Czech bond prices, which have lost 44bp since the beginning of the year, and now the 10Y bond is trading at a yield close to 0.92%. The Treasuries behave differently this year and since January have gained at the long end c21bp. The dovishness of the Hungarian Central Bank (MNB) and improvement of macro data contributed to the strengthening of Hungarian bonds and the current 10Y benchmark is yielding slightly below 3%. 10Y PL-HU spread, after encountering again this year the resistance level at 30bp, began to fall. This year's average spread between these papers oscillates within 13bp.

The Polish debt market was under pressure on Wednesday. The short end remained stable, while investors were selling 10Y bonds. Polish 10Y benchmark supported by 40bp since the start of the year, while 10Y spread to Bund fell by almost 60bp. IRS rate rose on the longer end by c2bp. 2-10Y IRS spread is close to this year's minimum of 79bp. Asset swap spread was again at 59bp.

Labour minister Elżbieta Rafalska said yesterday that the unemployment rate could reach 6.8-6.9% at the end of this year, which is slightly below our forecast at 7%. In May the registered unemployment rate fell to 7.4% and according to our forecast in June it could be already at 7.1%.

The European Commission released the report opening the discussion about the EU budget after 2020. It included proposals to tie the future EU financing with the compliance with the EU values, including the rule of law, which Poland does not obey to. It could be one of the factors limiting the scale of zloty's appreciation.

### ECONOMIC ANALYSIS DEPARTMENT:

al. Jana Pawła II 17, 00-854 Warsaw fax +48 22 586 83 40  
 email: [ekonomia@bzwbk.pl](mailto:ekonomia@bzwbk.pl) Web site: [skarb.bzwbk.pl](http://skarb.bzwbk.pl)  
 Piotr Bielski +48 22 534 18 87  
 Marcin Luźniński +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	4.2356	CZKPLN	0.1611
USDPLN	3.7066	HUFPLN*	1.3669
EURUSD	1.1427	RUBPLN	0.0627
CHFPLN	3.8700	NOKPLN	0.4425
GBPPLN	4.8105	DKKPLN	0.5695
USDCNY	6.7766	SEKPLN	0.4353

\*for 100HUF

## Last session in the FX market

28/06/2017

	min	max	open	close	fixing
EURPLN	4.220	4.248	4.237	4.231	4.2317
USDPLN	3.710	3.749	3.745	3.719	3.7249
EURUSD	1.129	1.139	1.131	1.138	-

## Interest rate market

28/06/2017

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

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.90	-1	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.64	1	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.30	3	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	1.43	0	-0.24	0
2L	1.91	0	1.57	0	-0.16	-1
3L	2.02	0	1.69	0	-0.04	-1
4L	2.16	0	1.79	0	0.08	-1
5L	2.28	0	1.88	0	0.21	-1
8L	2.56	0	2.09	1	0.58	-1
10L	2.72	0	2.19	1	0.81	-1

## WIBOR rates

Term	%	Change (bps)
O/N	1.15	-31
T/N	1.49	3
SW	1.56	0
2W	1.61	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	1.80	2
3x9	1.83	1
6x12	1.83	2

## Measures of fiscal risk

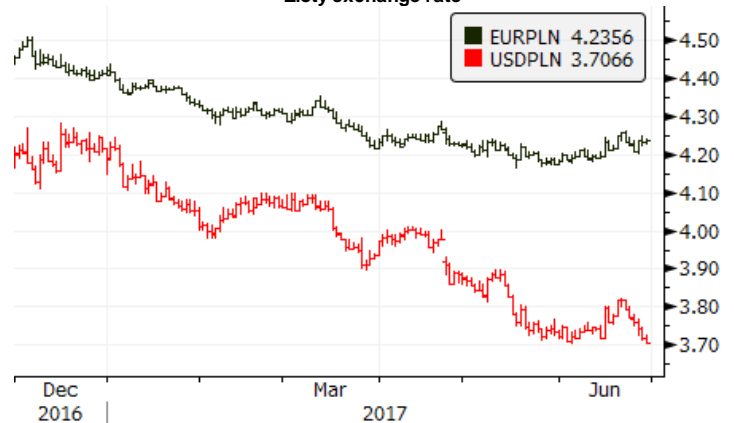
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.89	-2
France	22	-2	0.35	1
Hungary	116	1	2.63	-3
Spain	66	0	1.06	0
Italy	146	-1	1.66	1
Portugal	187	1	2.61	2
Ireland	40	1	0.39	0
Germany	15	0	-	-

\* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

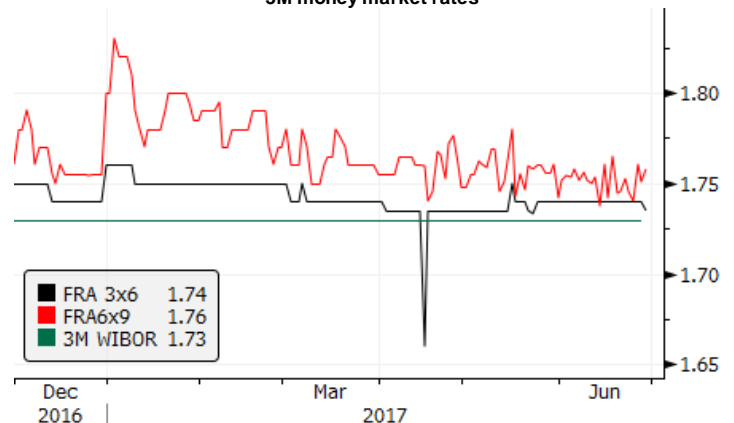
## Zloty exchange rate



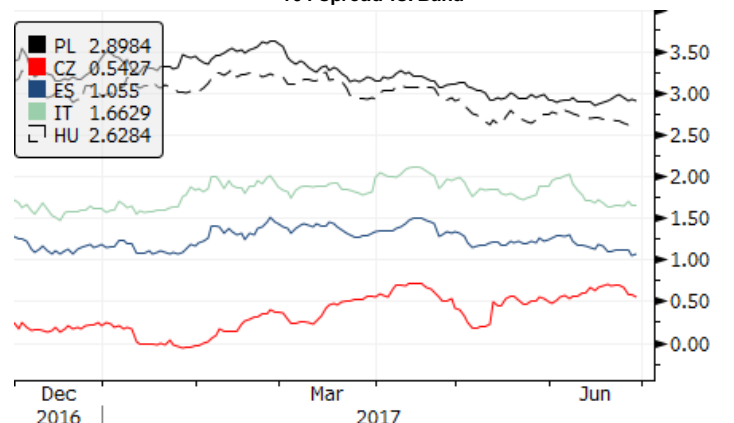
## T-bonds yields



## 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	-	-0.8	-1.7
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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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.