

EYEOPENER

29 June 2017

Further weakening of bonds

- 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

Main stock markets were again under impact of hawkish comments of most important central bankers. The European bourses ended the day in mixed moods, while US and Asian markets lost – stock market investors began to worry that the days ultra-loose monetary policy era are counted. Bonds on the core and peripheral markets were still sold off. Oil price went up and approached \$48/bbl.

Yesterday EURUSD stabilised and was above 1.14 since the start of the session, the highest level since May 2016. The final reading of US GDP growth in 1Q17 was above consensus (1.4% vs 1.2%), but its impact on the FX market was minute. Weaker data from the US labour market also did not affect the trade and at the end of the day EURUSD was above 1.141. Data on German inflation were higher than expected (1.6% vs May's 1.5% and market expectations at 1.4%). Strong prints were also shown by business climate indices from the euro zone, and this morning German retail sales surprised to the upside. Today we will get to know euro zone inflation and stronger results (expectations are at 1% versus 0.9% in May) could suggest that inflationary pressure is gaining steam, so ECB tightening may come earlier.

PLN has been weakening against the main currencies since the beginning of the week, however the scale of the fluctuations was smaller than in the previous days. EURPLN started the day on Thursday close to 4.23. Amid no major data releases on the domestic market, EURPLN was shaped by global events and in particular comments on monetary policy in Euro zone and the USA. As at the end of the day EURPLN was above 4.24 and we are of the opinion that there is limited room for further weakening of our currency in the coming weeks as July has usually been a month of PLN appreciation. USDPLN has remained under the impact of the main currency pair and on

Thursday the rate was approaching 3.7, the lowest this week. Finally, at the close you had to pay 3.71.

In line with the expectations, Czech central bank decided not to change the reference rates and the main rate still stands at 0.05%. May inflation in the Czech Republic went up from 2% in April to 2.4%. Due to the increasing inflation pressure, the central bank announced rate hike in Q3 which would depend however on the macroeconomic data and CZK exchange rate. Central bank governor Jiri Rusnok said that CZK has been the main source of uncertainty. According CNB forecast inflation should remain in the upper half of tolerance band around the target by the year end. Next year CPI will decrease to around the target of 2% and will remain there for the major part of the year. In the reaction to the central bank's announcement, CZK strengthened vs EUR and EURCZK went back to 26.2.

Bond markets remained under pressure on Thursday, and the scale of the yesterday sell-off was similar to the one that took place on Tuesday. Bund and Treasury yields moved up by 5-6bp. The prices of 10Y benchmarks on both markets approached the lowest levels in more than a month. The wave of negative sentiment also reached the CEE bond markets. In case of Hungarian papers the long end went up by c3bp, the yield of the Polish 10Y benchmark increased by 8bp to 3.35% (the highest since the middle of May). 10Y spread to Bunds remained stable and oscillated around the Tuesday level. On Thursday the asset swap spread declined to 54bp, which means a return to the level from before the rate hike by FOMC. Yesterday the IRS curve showed a strong reaction to the sell-off on the Polish bond market and the 5- and 10-year swap rates went up by c10bp.

Today we will see a flash release of Polish June CPI inflation. We assume that the preliminary estimate of the stat office will point to 1.7% y/y, down from 1.9% in May. This is also the consensus view on the market. In our view the upward tendency in food prices, especially in meat and fruit will be offset by a fall in fuel prices and lower roaming fees. We expect CPI to stay around 2.0% in the months to come and to decline to about 1.5% in December. At the same time, core inflation will be slowly going up to almost 1.5% y/y at the year-end.

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FX market

Today's opening

EURPLN	4.2417	CZKPLN	0.1617
USDPLN	3.7083	HUFPLN*	1.3691
EURUSD	1.1439	RUBPLN	0.0625
CHFPLN	3.8757	NOKPLN	0.4425
GBPPLN	4.8271	DKKPLN	0.5704
USDCNY	6.7724	SEKPLN	0.4385

*for 100HUF

Last session in the FX market

29/06/2017

	min	max	open	close	fixing
EURPLN	4.225	4.250	4.231	4.242	4.2412
USDPLN	3.704	3.731	3.719	3.711	3.7122
EURUSD	1.137	1.144	1.138	1.143	-

Interest rate market

29/06/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.92	1	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.70	6	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.34	7	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	1.95	3	1.59	1	-0.14	2
3L	2.07	5	1.71	2	-0.02	2
4L	2.22	7	1.81	2	0.11	3
5L	2.37	9	1.90	3	0.25	4
8L	2.65	9	2.12	3	0.65	7
10L	2.80	9	2.22	3	0.87	6

WIBOR rates

Term	%	Change (bps)
O/N	1.49	34
T/N	1.46	-3
SW	1.57	1
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	1.76	0
9x12	1.82	2
3x9	1.83	0
6x12	1.85	2

Measures of fiscal risk

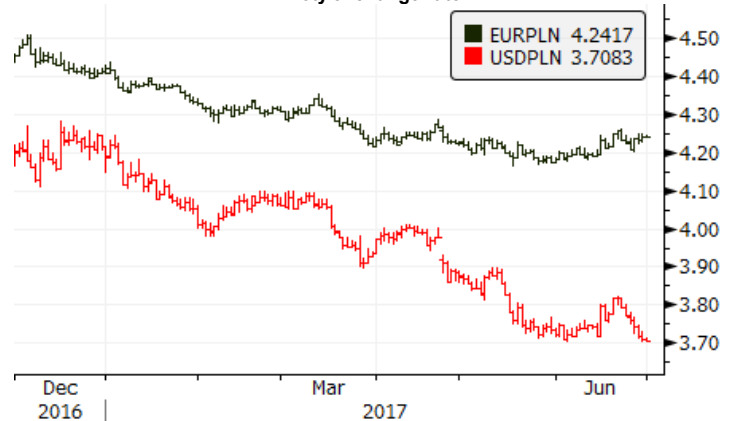
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.88	6
France	22	0	0.36	0
Hungary	116	1	2.63	0
Spain	66	0	1.07	0
Italy	145	0	1.70	0
Portugal	187	0	2.56	0
Ireland	40	1	0.40	1
Germany	15	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

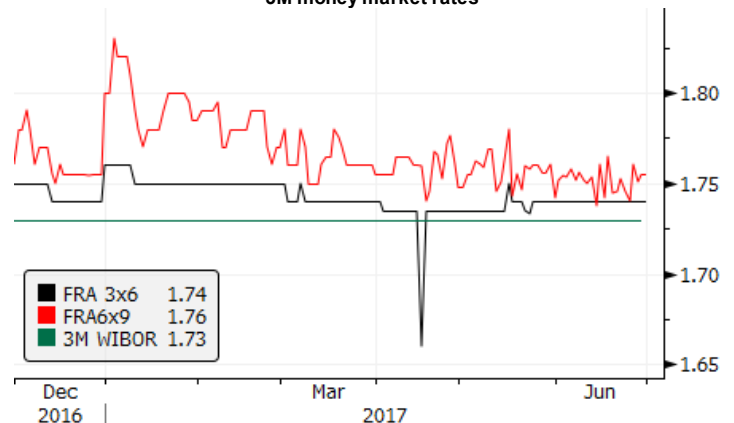
Zloty exchange rate



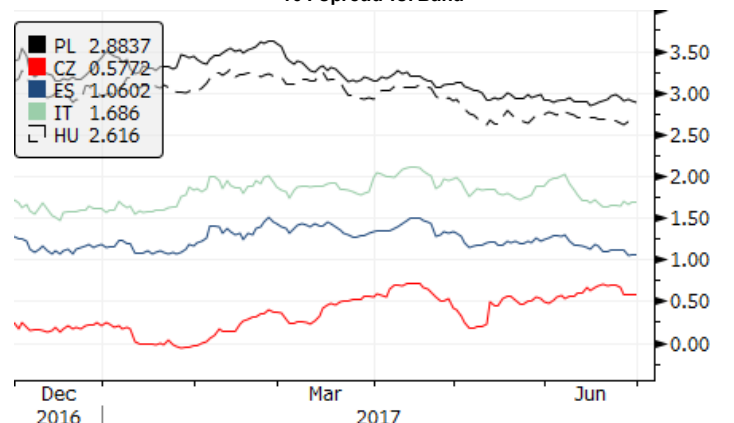
T-bonds yields



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 (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	-	1.4	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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