

EYEOPENER

4 July 2017

American investors take a break

- **Optimistic start of the week on the markets**
- **Polish June PMI went up, but less than expected**
- **Zloty remained relatively weak, decline in EURUSD**
- **Core market and Polish bond yields moved lower**
- **Today holiday in the USA**

The beginning of a new week and quarter was full of optimism on the market. After higher-than-expected final readings of PMI indices in June for the German and Euro zone industry, the investors bought both shares and bonds. At the end of the day, however, the bond market gave back most of its gains, due to ISM index much above the expectations for the American industry. Crude oil price was going up eight day in a row and the Brent price exceeded USD49/bbl. It has been the longest increase of the price of this commodity for the last five years. Today, the market fluctuations will most likely be subdued as the American investors are celebrating the Independence Day in the USA.

June manufacturing PMI rose from 52.7 to just 53.1 pts. Market consensus was 53.7 pts and we thought a rebound above 42.0 was possible in this release. This means that the negative gap between the sentiment in Poland and the Euro zone remains historically quite high. That said the report accompanying the PMI release painted a positive picture with a substantial rebound of domestic new orders (this was the component responsible for a negative surprise in the previous release). Current output and total new orders are still rising, while the negative surprise with the headline might be linked to weakness in employment sub-index (pointing to the weakest increase in almost 3 years). This confirms that the labour market is already tight in Poland, which could now be a bottle neck for further expansion, or at least could cap the local PMI. Such a PMI headline still remains comfortably in the area of economic expansion, but it does seem to bode ill for the recent acceleration in real data on industrial output. We already assume that 2Q GDP could be around 3.8% y/y, so slightly below the 4% y/y print for the initial quarter of this year.

With the advent of July, the greenback started to trim losses after its worst quarter in the last seven years. From the beginning of the Monday session EURUSD has decreased and got closed to 1.136. Currently, the market players are quite unsure about the monetary policy to be adopted by major global economies due to the surprisingly hawkish rhetoric of some central bankers last week. Thus, the Wednesday publication of the minutes from the June Fed meeting and a similar document being released by ECB on Thursday may cause significant fluctuations on the FX market.

Today, we expect a calm session due to the absence of the American investors, whereas the yesterday higher-than-expected reading of the ISM index for the American industry and missile tests in North Korea seem to provide a USD-positive background.

After Friday's appreciation, the beginning of the week saw zloty's giving up its last gains. EURPLN returned to c4.24 after the better-than-expected final manufacturing PMIs for euro zone and Germany and the Polish currency did not benefit from the positive global market sentiment. Dollar's appreciation vs the euro pushed USDPLN up to 3.73 from 3.70. Today both EURPLN and USDPLN should remain stable as the US market is closed.

June's PMI for the CE3 countries did not affect the market. The Czech koruna remained stable near 26.3 per euro despite the below-consensus PMI figure (56.4pts, close to May level). Disappointing reading in Hungary (57.2pts vs 61.9pts in May, after downward revision) pushed EURHUF temporarily above 309 but later in the day forint recovered. The ruble remains under the impact of the global factors and it lost vs the dollar despite a noticeable rise in Brent oil price. Yet this week presidents of Russia and the US are to meet for the first time since in Donald Trump's term which could have some impact on the Russian market.

The beginning of the week gave some hope for a stabilization after the last week's sharp rise of yields. Domestic and foreign yields were falling but the much better-than-expected ISM for the US manufacturing pressured bonds. The Czech debt lost for the sixth day in the row and the 10Y benchmark yield is near 1.04%, its highest for two years. Czech central bankers talking about a rate hike pushed yields up along the curve. The Czech-German 10Y bond yield spread is now at 50bp, above its 1H17 average at 42bp.

On Monday, the yields of Polish bonds continued to fall, following the Friday's announcement by the Ministry of Finance of the lack of debt supply in July. Polish bonds strengthened in the belly and at the end of the curve by 3bp and 4bp, respectively, although before the publication of the industrial business sentiment data from the US the scale of the increase was even greater. In our opinion, in July Polish papers should gain due to limited supply, OK0717 redemption and bond interest payment of over PLN5.5bn. Approx. 70% of OK0717 paper maturing this month is held by local banks - this should generate decent demand for bonds as this would allow them to reduce the tax on bank assets.

IRS rates fell on Monday, mainly the 10Y tenor (by 2bp to 2.78%). The 2-10Y spread amounts currently to 86bps and is near the levels at end-May. The asset swap spread widened yesterday to 54bps.

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FX market

Today's opening

EURPLN	4.2394	CZKPLN	0.1623
USDPLN	3.7332	HUFPLN*	1.3743
EURUSD	1.1356	RUBPLN	0.0628
CHFPLN	3.8752	NOKPLN	0.4456
GBPPLN	4.8339	DKKPLN	0.5701
USDCNY	6.7978	SEKPLN	0.4393

*for 100HUF

Last session in the FX market

03/07/2017

	min	max	open	close	fixing
EURPLN	4.227	4.249	4.232	4.248	4.2331
USDPLN	3.701	3.741	3.705	3.741	3.7196
EURUSD	1.136	1.143	1.142	1.136	-

Interest rate market

03/07/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.88	1	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.61	-3	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.27	-4	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	1.47	2	-0.24	0
2L	1.93	-1	1.64	4	-0.13	0
3L	2.06	0	1.78	5	0.00	0
4L	2.22	-1	1.90	6	0.13	-1
5L	2.37	0	1.99	6	0.28	0
8L	2.65	-1	2.21	6	0.68	1
10L	2.81	-1	2.32	6	0.91	1

WIBOR rates

Term	%	Change (bps)
O/N	1.59	7
T/N	1.59	2
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	1
6x9	1.76	2
9x12	1.81	1
3x9	1.81	0
6x12	1.84	-1

Measures of fiscal risk

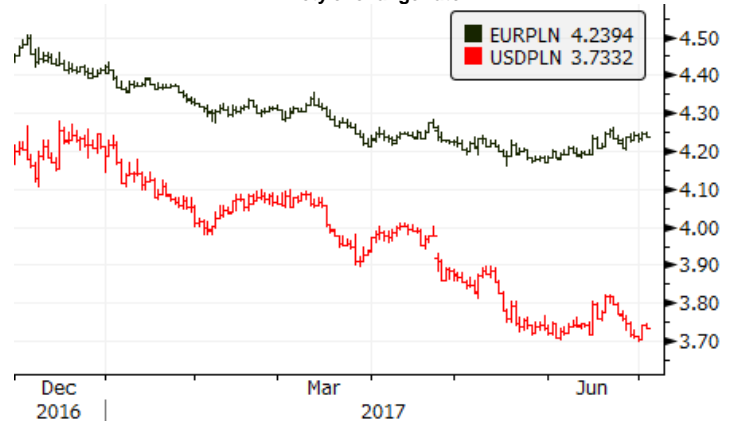
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.81	-2
France	22	0	0.35	0
Hungary	116	1	2.61	1
Spain	64	-1	1.05	1
Italy	145	0	1.66	1
Portugal	182	-4	2.52	1
Ireland	40	1	0.40	1
Germany	14	-1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

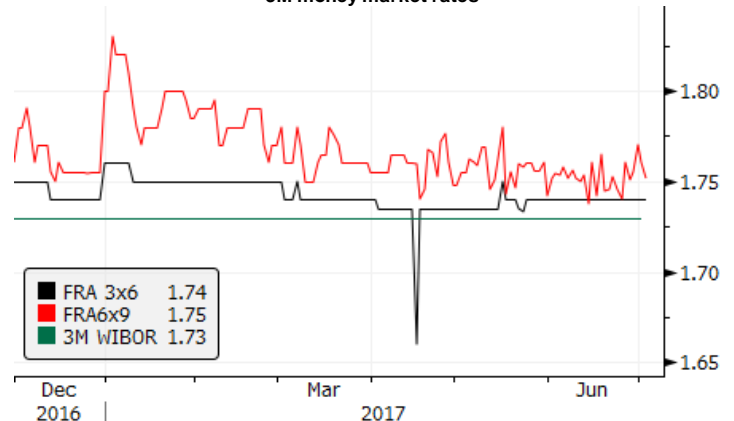
Zloty exchange rate



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 (30 June)									
9:00	CZ	GDP	Q1	% y/y	2.9	-	3.0	2.9	
9:00	HU	PPI	May	% y/y		-	2.7	4.4	
11:00	EZ	Flash CPI	Jun	% y/y	1.3	-	1.3	1.4	
14:00	PL	Flash CPI	Jun	% y/y	1.9	1.7	1.5	1.9	
14:30	US	Personal income	May	% m/m	0.3	-	0.4	0.4	
14:30	US	Consumer spending	May	% m/m	0.1	-	0.1	0.4	
16:00	US	Michigan index	Jun	pts	95.0	-	95.1	94.5	
MONDAY (3 July)									
9:00	PL	PMI – manufacturing	Jun	pts	53.7	54.2	53.1	52.7	
9:00	HU	PMI – manufacturing	Jun	pts	60.0	-	57.2	61.9	
9:30	CZ	PMI – manufacturing	Jun	pts	57.2	-	56.4	56.4	
9:55	DE	PMI – manufacturing	Jun	pts	59.4	-	59.6	59.3	
10:00	EZ	PMI – manufacturing	Jun	pts	57.0	-	57.4	57.3	
16:00	US	ISM – manufacturing	Jun	pts	55.0	-	57.8	54.9	
TUESDAY (4 July)									
	US	Market holiday							
WEDNESDAY (5 July)									
	PL	Base Rate Announcement			1.50	1.50		1.50	
09:55	DE	PMI – services	Jun	pts	-			53.7	
10:00	EZ	PMI – services	Jun	pts	-			54.7	
11:00	EZ	Retail sales YoY	May	% y/y	-			2.50	
16:00	US	Factory orders	May	% m/m	-0.50	-		-0.20	
16:00	US	Durable goods orders	May	% m/m	-	-		-1.10	
20:00	US	FOMC minutes	14-Jun		-	-		-	
THURSDAY (6 July)									
08:00	DE	Factory orders	May	% m/m	-	-		-2.10	
13:30	EC	ECB minutes							
14:15	US	ADP report	Jun	k	183k	-		253k	
16:00	US	ISM – services	Jun	pts	56.5	-		56.9	
FRIDAY (7 July)									
08:00	DE	Industrial output	May	% m/m	--	-		0.80	
09:00	CZ	Industrial output	May	% y/y	--	-		-2.50	
14:30	US	Change in nonfarm payrolls	Jun	k	180k	-		138k	
14:30	US	Unemployment rate	Jun	%	4.30	-		4.30	
	HU	Rating review by Moody's				-			
	PL	Rating review by Fitch				-			

Source: BZ WBK. Reuters. Bloomberg

* in case of the revision. the data is updated

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