

# EYEOPENER

5 July 2017

## New inflation projection in focus

- Quiet trading yesterday in the absence of US investors
- Polish currency stable vs major currencies, EURUSD moved a tad lower
- Mixed performance of bond markets
- Today Polish MPC decision, June FOMC minutes

The yesterday session on the global market continued in a calm atmosphere, with small declines in share prices globally. The FX market, however, saw minor changes. Another missile test launched by the North Korea showing that the USA is within its firing range pushed up demand for safe assets, which was reflected yesterday in slightly higher prices of gold as well as Japanese yen and Swiss franc gains. The crude oil price achieved stability after it has been increasing for two weeks.

Yesterday, EURUSD decreased slightly to 1.134, however the daily range of fluctuation was insignificant. The session was calm due to no important publications of data and absence of American investors. Today in the morning, we will get the final data on activity in the German and Euro zone service sectors, whereas in the evening, data on industrial orders in the USA. We expect that in attendance of the today's publication of the June FOMC meeting minutes and of the monthly report on the American labour market, which is to be published on Friday, the market reaction to today's readings will be limited.

Yesterday EURPLN stayed near to Monday close at 4.24 while USDPLN rose to 3.74 after morning fall to 3.72 due to changes in EURUSD exchange rate. The Czech koruna and the Russian ruble were stable yesterday, while the Hungarian forint gained. Today Hungarian retail sales data are due for release and it should be better than one month ago due to a positive calendar effect (1.7% y/y in April). In the afternoon, we will get to see minutes of the MNB meeting in June, but in our view this document will not add much to what we already know about the central bank's stance and will just confirm the dovish bias.

Today at the opening CEE currencies gently gain, EURPLN is close to 4.24, and USDPLN at 3.73. The mood in the global market is neutral as for now, which should help stabilize the zloty during today's session. However, we have a meeting of the MPC and we will know the main figures from the new NBP projection.

Yesterday's session on the debt market in Europe was mixed and the changes were minor. The yields of Czech bonds rose yesterday the most (by more than 6bps to 1.11% for 10Y bond), following Canadian (by 7bps to 1.83%), Brazilian (by 5 bps) and South Korean (by 4bps to 2.26%). Czech bonds at the long end were sold another day in a row, closing down to the level from the beginning of April, when they yielded close to 1.15%.

On the domestic interest rate market, we saw the IRS curve shift downwards by 2bp. 10Y IRS dropped almost to 2.78%, whereas 5Y to 2.34%. On the domestic bond market, the short-end of the curve changed the most (yield decreased by c2bp), whereas the belly and the long-end remained stable.

In our view, the Monetary Policy Council is unlikely today to join the choir of surprisingly hawkish central bankers at the ECB forum in Sintra, even if the Czech Central Bank is going for a rate hike in 3Q17 unless the koruna gets too strong in the meantime. Bloomberg survey conducted among analysts showed that the expected time of the first rate increase in Poland moved from 3Q18 to 4Q18 which is coherent with the FRA pricing. The MPC will get an update of the projection, most likely with higher path of GDP, but with CPI still staying below 2.5% target by the end of 2019. We think the revised CPI path will not include lower June reading so the central bank's forecasts could be too high. The MPC is also unlikely to put much attention to the better economic outlook and so the Council's rhetoric should remain dovish. As a result, today's meeting should not have much impact on the Polish currency and bonds.

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## FX market

## Today's opening

EURPLN	4.2410	CZKPLN	0.1622
USDPLN	3.7335	HUFPLN*	1.3772
EURUSD	1.1359	RUBPLN	0.0630
CHFPLN	3.8718	NOKPLN	0.4477
GBPPLN	4.8240	DKKPLN	0.5702
USDCNY	6.7960	SEKPLN	0.4387

\*for 100HUF

## Last session in the FX market

04/07/2017

	min	max	open	close	fixing
EURPLN	4.235	4.252	4.248	4.241	4.2428
USDPLN	3.724	3.748	3.741	3.736	3.7372
EURUSD	1.134	1.138	1.136	1.135	-

## Interest rate market

04/07/2017

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

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.85	-3	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.62	0	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.28	1	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	1.46	-1	-0.24	-1
2L	1.92	-1	1.65	0	-0.14	-1
3L	2.04	-2	1.78	0	-0.01	-1
4L	2.20	-2	1.88	-2	0.13	0
5L	2.35	-2	1.99	0	0.28	0
8L	2.64	0	2.22	0	0.69	1
10L	2.79	-1	2.30	-2	0.92	0

## WIBOR rates

Term	%	Change (bps)
O/N	1.61	2
T/N	1.61	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	0
6x9	1.75	-1
9x12	1.81	0
3x9	1.81	0
6x12	1.84	0

## Measures of fiscal risk

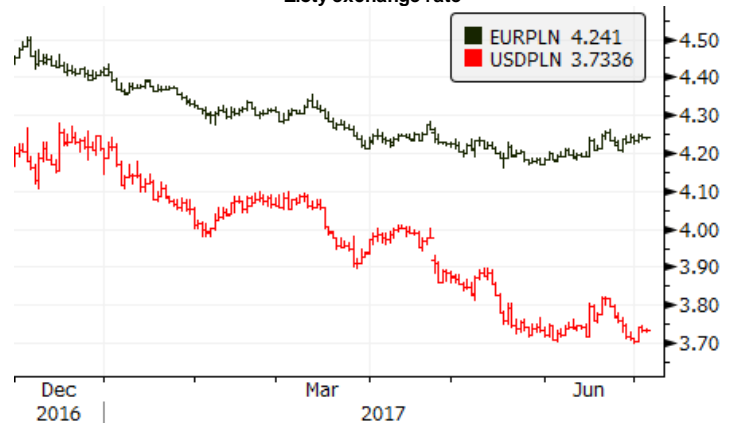
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.81	1
France	21	0	0.35	0
Hungary	116	1	2.61	0
Spain	64	0	1.05	1
Italy	144	-2	1.64	1
Portugal	182	0	2.47	-1
Ireland	40	1	0.39	-1
Germany	14	0	-	-

\* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

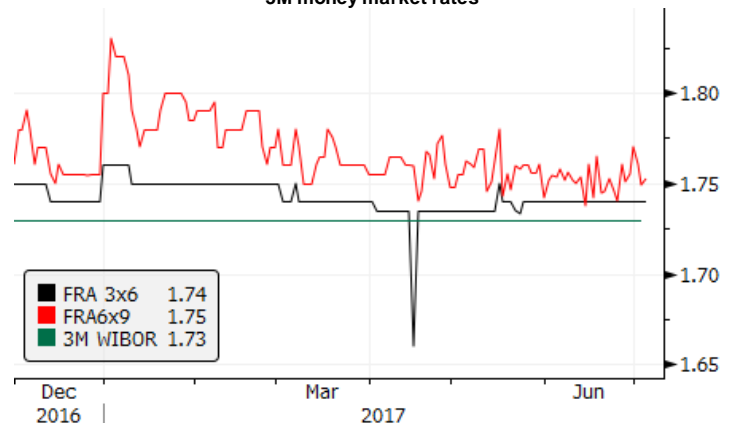
## Zloty exchange rate



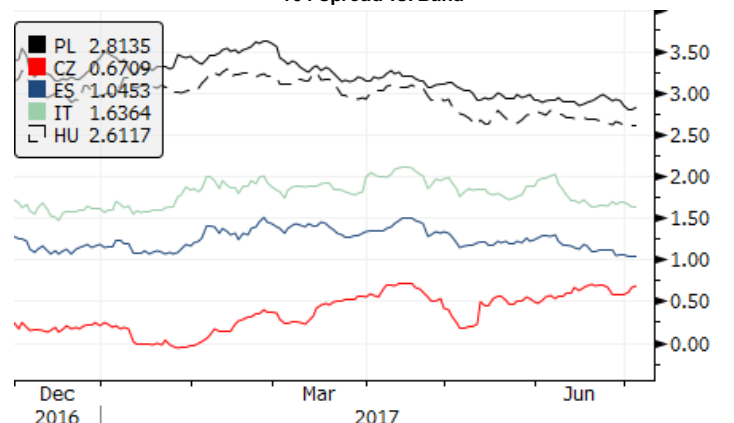
## T-bonds yields



## 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 (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	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			-	-		-	
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	180	-		138	
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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