

EYEOPENER

6 July 2017

Stable indications of projections, stable monetary policy

- Another calm day on the markets
- MPC kept rates unchanged
- Zloty stable vs major currencies, USD somewhat higher
- Polish yields rose yesterday
- Today June ECB minutes, important US data

From the beginning of the week, the markets have been quite calm which was also true on Wednesday when fluctuations on the equity and FX markets were minor. After the dollar strengthened in the morning, there were no significant changes during the day despite worse-than-expected data from the USA. The bonds on the core markets gained slightly, whereas the bond yields in the periphery of the Euro zone increased somewhat. Today in the morning German data on industrial orders were published, with an only 1% m/m increase in May vs the expected 1.9%.

The Monetary Policy Council kept the main interest rates unchanged, as expected. The new projection of the central bank showed higher than previously GDP growth in 2017 and its slowdown in the two following years towards the previously expected path. Meanwhile, inflation projection for 2017 has been lowered slightly, while in the next two years is similar as predicted in March. The tone of the MPC statement remained dovish, as we anticipated. Moreover, the NBP Governor Adam Glapiński strongly reiterated that he sees "extremely high probability" that interest rates would remain unchanged not only in 2017 but also in 2018 and that Poland "smells of stability". Nevertheless, Glapiński admitted that the internal discussions about monetary tightening in the Monetary Policy Council may start in mid-2018. According to Glapiński there were no reasons to worry about the labour market, as the reduction of the retirement age should be offset by a rise in labour activity, while the inflow of employees from Ukraine should continue.

In sum, our expectations regarding the monetary policy outlook in Poland remain unchanged. We have suggested in the past that the divergence of views in the rate-setting panel would be growing, but the majority of the Council members should continue supporting the view presented by the NBP Governor Adam Glapiński. As a result, it seems very likely that the main interest rates in Poland will remain unchanged until the very late 2018.

The Fed meeting minutes released yesterday evening showed there is no agreed stance on the balance sheet reduction, with some members eager to start the process as quickly as possible, while others prefer to wait until late 2017. Also, some of the members expressed concerns about the recent inflation decline. However, the general message pointed out sound condition of the US economy and vast support for further gradual monetary policy tightening.

EURUSD dropped yesterday to 1.132, however at the end of the session the impulse was stopped in response the weaker-than-expected data from the USA. In the evening, the dollar temporarily weakened as a reaction to certain provisions from the Fed meeting minutes, however the overall outlook for interest rates in the USA was not affected by this publication. Today, in the morning, the rate is close to 1.333. In attendance of monthly USA labour market data, we do not expect high fluctuation of EURUSD in the first half of the day, but this may change later on, after ADP and ISM reports for service sector in the USA come out.

Yesterday EURPLN broke temporarily the Tuesday's peak and rose above 4.25 for a while. USDPLN rebounded to c3.75 from 3.73. At the end of the day the zloty managed to recover slightly and EURPLN closed just above 4.24 (it even dipped below 4.23 at night, but this move is already reversed). We do not think the appreciation of the zloty was related to the outcome of the MPC meeting as its tone would rather suggest the opposite direction.

EURHUF fell below 308 after the morning Hungarian May retail sales figure (+5.4% y/y vs 1.9% y/y in April) and publication of the minutes from the last week's Hungarian central bank (MNB) meeting. However, at the end of the day forint gave up part of its gains. MNB reiterated it is ready to ease monetary policy further should inflation stay firmly below 3% target (in May CPI fell to 2.1% y/y from 2.2%). Czech koruna gained slightly vs the euro while the Russian ruble lost noticeably vs the dollar again on a sharp fall of the oil price (Brent was falling 3% intraday but recovered 1% overnight after data showing lower oil inventories in the US).

The interest rate market saw a correction after the recent strengthening – IRS and yields climbed by 2-4bps, mostly on the longer end, while 10Y spread to Bund fell to 280bps, the lowest level since August 2016. Asset swap spread also narrowed – to 48bps.

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FX market

Today's opening

EURPLN	4.2372	CZKPLN	0.1624
USDPLN	3.7359	HUFPLN*	1.3724
EURUSD	1.1342	RUBPLN	0.0621
CHFPLN	3.8695	NOKPLN	0.4452
GBPPLN	4.8341	DKKPLN	0.5697
USDCNY	6.8035	SEKPLN	0.4399

*for 100HUF

Last session in the FX market

05/07/2017

	min	max	open	close	fixing
EURPLN	4.233	4.253	4.241	4.236	4.2501
USDPLN	3.727	3.757	3.736	3.736	3.7471
EURUSD	1.131	1.137	1.135	1.134	-

Interest rate market

05/07/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.86	2	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.66	1	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.32	1	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	1	-0.24	0
2L	1.91	0	1.64	0	-0.13	0
3L	2.05	1	1.78	0	-0.01	0
4L	2.21	2	1.90	2	0.14	1
5L	2.36	1	1.99	0	0.28	0
8L	2.65	1	2.21	-1	0.68	-1
10L	2.81	2	2.31	-1	0.91	0

WIBOR rates

Term	%	Change (bps)
O/N	1.62	1
T/N	1.61	0
SW	1.60	1
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	1.76	1
9x12	1.81	0
3x9	1.81	0
6x12	1.84	0

Measures of fiscal risk

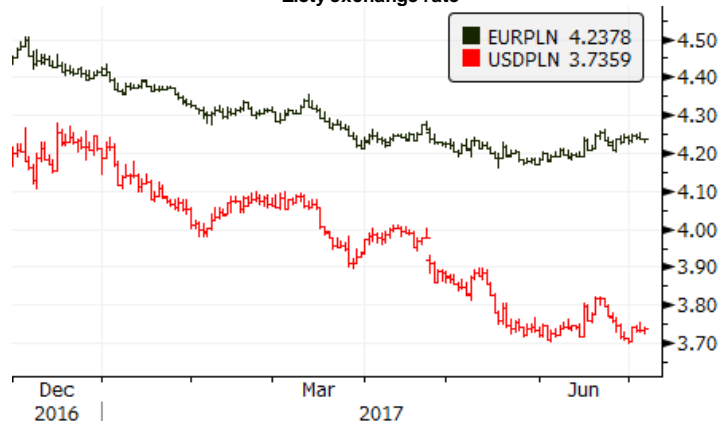
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.84	-1
France	22	0	0.34	0
Hungary	116	1	2.64	-2
Spain	64	0	1.09	0
Italy	145	1	1.68	-1
Portugal	182	0	2.48	0
Ireland	40	1	0.39	0
Germany	15	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

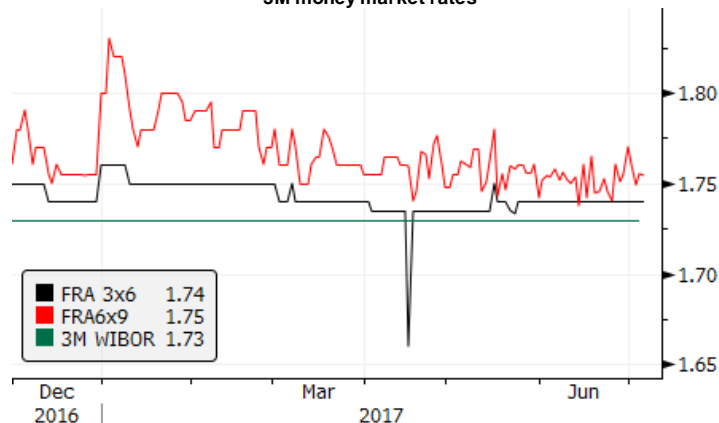
Zloty exchange rate



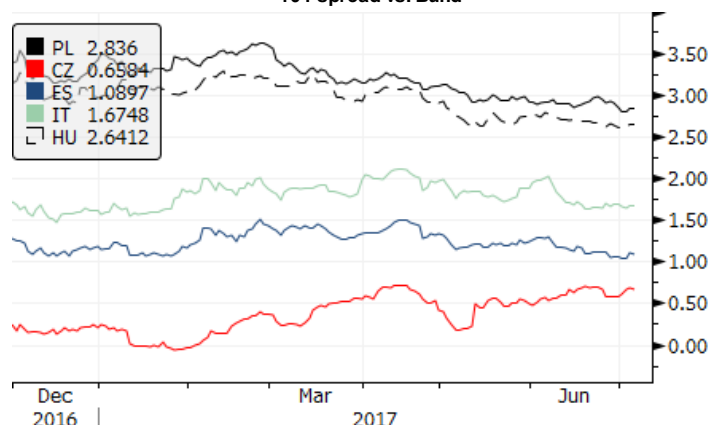
T-bonds yields



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 (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	1.50	
09:55	DE	PMI – services	Jun	pts	-		54.0	53.7	
10:00	EZ	PMI – services	Jun	pts	-		55.4	54.7	
11:00	EZ	Retail sales	May	% y/y	-		2.60	2.60	
16:00	US	Factory orders	May	% m/m	-0.50	-	-0.80	-0.30	
16:00	US	Durable goods orders	May	% m/m	-	-	-0.80	-1.10	
20:00	US	FOMC minutes			-	-		-	
THURSDAY (6 July)									
08:00	DE	Factory orders	May	% m/m	1.9	-	1,0	-2.2	
13:30	EC	ECB minutes							
14:15	US	ADP report	Jun	k	183	-		253	
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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