

EYEOPENER

7 July 2017

Another hawkish signals from the ECB

- **Equity markets on the back foot yesterday**
- **Hawkish remarks in the ECB minutes**
- **Zloty stable against fx majors, EURUSD back to 1.14**
- **Big increase in Polish yields**
- **Today US labour market data and Fitch report on Poland**

There was a rather gloomy mood on the world markets yesterday which worsened further after the release of the minutes from the last ECB meeting. According to the document, the central bank considered limiting the scope of the asset purchase programme noting economic improvement in the Euro zone, which was another hawkish sign from ECB recently. As a result of this prices of shares went significantly down on European and American stock exchanges, the US dollar trimmed this week's gains vs. the euro and bond yields rose sharply - the trend was also visible on the Polish market. Prices of crude oil and gold were going up intraday. Disappointing labour market data from the USA further deepened the pessimism. According to ADP report increase in number of employed in non-farming sector was much below the forecast, while the weekly number of new unemployed was above the consensus. A significant positive surprise in the ISM index for services sector did not bring improvement in the mood. This afternoon monthly report on US labour market is to be released which will be a key event today. May industrial output in Germany released this morning was clearly above expectations (1.2% m/m vs. consensus at 0.2%). It was also the fourth positive surprise in a row in German output which might help the euro keep the gains from yesterday.

EURUSD went back to this week's tops of 1.14 as it got a tailwind from the last ECB minutes. In our view volatility at the end of the week may increase given the upcoming release of the US labour market report. Taking into account that the latest US data were rather disappointing, we think that the today's readings coming above the forecast may have a greater impact on the market than if they were to disappoint - this applies to wage growth in particular as this is the place where the markets could seek confirmation if the Fed's view on only a temporary weakening of inflation is credible. Today's statement by Benoît Coeuré, Member of the Executive Board of the European Central Bank seems well-balanced. However, in the situation when the markets are looking for signs of change in the approach in the ECB communication, his statement on the

necessary tools to tackle the next slow down might be regarded as tendency to withdraw from the current highly accommodative monetary policy. Stanley Fischer of FOMC on the other hand stressed that current uncertainty with regards to American fiscal policy adversely impacts businesses' approach to investment. The signal that the Fed is concerned with it was also present in the minutes released on Wednesday.

EURPLN rose yesterday during the session to almost 4.25, and USDPLN to c3.74, but at the end of the day the quick drops to 4.235 and 3.715 were recorded. The forint has depreciated quite clearly, despite industrial production rising 6.2% y/y in May (after 2.5% in April). Czech koruna was losing since the start of the day, but in the afternoon EURCZK started declining and approached 26.1. The Russian ruble has stabilised versus the dollar thanks to a rebound in oil price. Yesterday the data about Russian inflation in June were published, showing its rise from 4.1% to 4.4% y/y. According to the central bank, it was a negative surprise, but in the coming months CPI should be declining and the central bank should continue reducing interest rates. EURPLN has been extremely stable this week, awaiting a stronger impulse. Today we will see the data from the USA, which may trigger higher volatility. After the session close the Fitch rating agency will revise Poland's rating, but we expect no material change in the assessment.

On the domestic interest rate market IRS and bond yields jumped amid hawkish ECB rhetoric and both curves moved 6-9bp up. Yield of the 10Y US Treasury rose at a similar scale while Bunds and Euro zone peripheries lost even more. 10Y Bund yield at 0.56% is the highest since January 2016. Next to the hawkish signals from the ECB, global debt sell-off was also a reaction to the unsuccessful French bond auction. Today market attention will focus on the US labour market data.

The Bank of Japan has surprisedly announced purchases of 10Y bonds and shown its determination in yield curve control, which undermined the Japanese currency, but failed to reverse the negative global debt market tendencies.

Fitch is to release a rating review on Poland, weighing the improved economic outlook and outstanding central budget performance on one side and the re-ignited tensions with the European Commission about abiding by EU rules, which may impact the volume of EU funds Poland is going to obtain in the next EU budget. Gross external debt, which is important for the rating, fell in 1Q17 from 76% to 72.2% of GDP.

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FX market

Today's opening

EURPLN	4.2398	CZKPLN	0.1621
USDPLN	3.7139	HUFPLN*	1.3741
EURUSD	1.1416	RUBPLN	0.0615
CHFPLN	3.8638	NOKPLN	0.4438
GBPPLN	4.8111	DKKPLN	0.5701
USDCNY	6.8016	SEKPLN	0.4398

*for 100HUF

Last session in the FX market

06/07/2017

	min	max	open	close	fixing
EURPLN	4.226	4.251	4.236	4.232	4.2388
USDPLN	3.706	3.740	3.736	3.706	3.7351
EURUSD	1.132	1.142	1.134	1.142	-

Interest rate market

06/07/2017

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)	2.74	9	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.40	9	23.03.2017	DS0727	3.568

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.78	1	1.48	1	-0.24	0
2L	1.95	4	1.66	2	-0.12	1
3L	2.10	5	1.80	2	0.03	3
4L	2.27	6	1.92	3	0.18	4
5L	2.44	8	2.02	3	0.33	6
8L	2.74	9	2.25	4	0.75	7
10L	2.91	10	2.35	4	0.98	7

WIBOR rates

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

Measures of fiscal risk

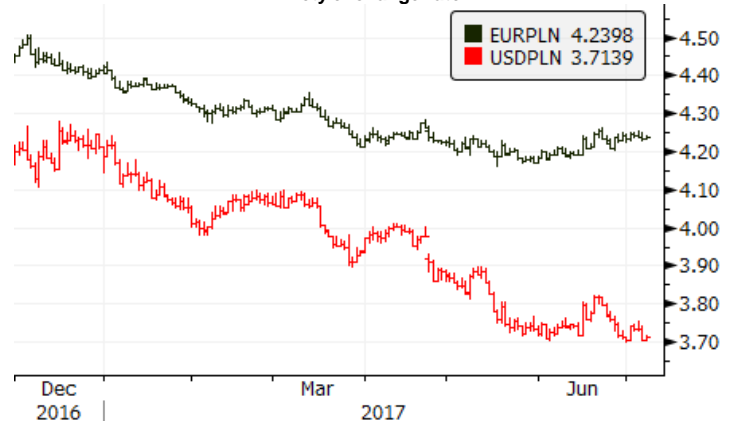
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.83	8
France	22	0	0.36	0
Hungary	116	1	2.58	-3
Spain	65	2	1.11	0
Italy	147	2	1.71	1
Portugal	183	1	2.47	7
Ireland	40	1	0.38	8
Germany	15	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

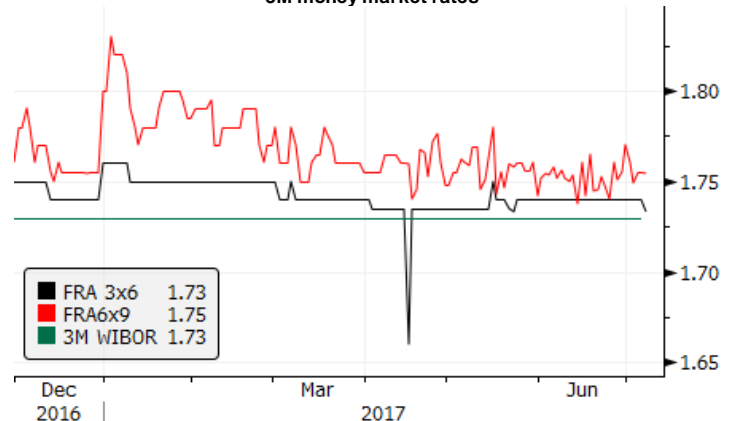
Zloty exchange rate



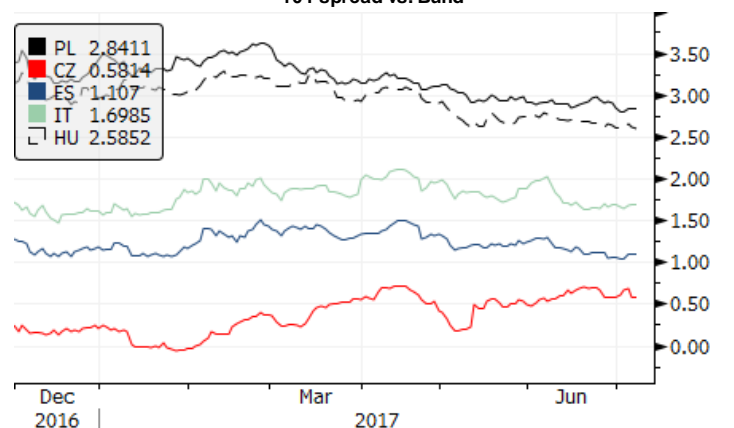
T-bonds yields



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	-	158	253	
16:00	US	ISM – services	Jun	pts	56.5	-	57.4	56.9	
FRIDAY (7 July)									
08:00	DE	Industrial output	May	% m/m	0.2	-	1,2	0.70	
09:00	CZ	Industrial output	May	% y/y	3.50	-	8.10	-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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