

EYEOPENER

12 July 2017

Markets await Janet Yellen

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- **CPI inflation down due to fuel prices**
- **Zloty stable, EURUSD close to 1.15, dollar losing due to information on Donald Trump Jr**
- **Bonds weaken globally**
- **Today data on industrial output in Euro zone, core inflation in Poland and evening testimony of Janet Yellen before the Congress**

In attendance of further signals from central banks, the yesterday session on the stock and bond market was calm. The head of San Francisco Fed, John Williams, said on Tuesday that he expects yet another interest rate hike in the USA this year as well as the reduction of the Fed balance sheet in the subsequent months. In his opinion, the last inflation slowdown in the USA is rather temporary, and in 2018 the CPI is to get close to the 2% target. He reckons that the interest rate hike and reduction of the balance sheet are complementary forms of the monetary policy tightening. The Member of the ECB Executive Board, Benoît Cœuré, informed that the central bank does not target weaker euro.

CPI inflation in June was at 1.5% y/y, in line with the flash reading. Detailed data showed that the CPI's decrease compared to May (1.9% y/y) was only due to the change in transport prices (fuel prices dropped by 4.1% m/m plus there was a high base in June 2016), while changes in other categories were minor. Food prices increased by 0.1% m/m, less than we expected. Nevertheless, we expect that food prices will increase in the upcoming months in annual terms. According to our estimates, core CPI excluding food and energy prices remained unchanged at 0.8% y/y seen in May. We expect the headline CPI to stabilise near 1.5% y/y in the months to come with the risk skewed to the upside due to the risk of introducing the "road fee". Inflation data support keeping monetary policy parameters on hold.

EURUSD made up for the Monday losses yesterday and reached over 1.141. Until now, the fluctuation range is rather small, which reflects well the market need for stabilisation after the marked moves due to the latest central bankers' comments. This evening, The Beige Book will be published, and Janet Yellen will be speaking in front of the Congress. The echo of both events may impact EURUSD rate in the short run. Today in the morning, EURUSD is close 1,147. USD depreciated i.a. due to the information that Donald Trump's son contacted Russians in order to collect data compromising Hillary Clinton.

EURPLN is rising gradually since the beginning of the week and is approaching 4.25. Yesterday's Poland CPI numbers did not have

any material impact on the zloty but the Polish currency started to depreciate against the euro. Global market sentiment should remain the core driver for the zloty in the days to come. In the meantime, CHFPLN fell to May's lows at c3.84 as EURHUF rose to 1.1, its highest for over a year. EURPLN's volatility remains limited and the market is still waiting for an impulse that could trigger a directional move. Today in the morning EURPLN is slightly above 4.23 and USDPLN near 3.70.

The minutes from the Czech National Bank meeting (CNB) published yesterday strengthened the market expectations of the interest rate hike yet this year. In 1Q17, the Czech economy grew by 3% versus 2.5% expected by the central bank. Today's data on inflation will show whether the inflation pressure in Czechia is strong and stems from the domestic factors. The market expects slight slowdown of CPI in June down to 2.3% y/y from 2.4% in May. Currently, the inflation path is still below the central bank expectations, and negative surprise may potentially delay monetary policy tightening. EURCZK increased yesterday up to 26.2, however, at the end of the day, the Czech koruna started to gain and its FX rate got close to 26.1.

The MPC Member Eugeniusz Gatnar in today's interview for the Polish Press Agency (PAP) said that negative real interest rates may pose a threat to the financial system stability and may justify the interest rate hike at the end of 2017. Gatnar pointed out also surpassing the target is the reason for the interest rates hike and suggested that it would not affect the investment dynamics. Yet during the last MPC meeting, Gatnar showed his concern about negative real interest rates but only in his today's comment he revealed his really hawkish rhetoric. The comment of the MPC member are in contrast to the words of the President of the NBP Adam Glapiński, who would like to maintain the interest rates unchanged until the end of 2018. It is clear that a hawkish camp is forming within the MPC and is likely to drive discussion on interest rate hikes. For the time being, Łukasz Hardt, Kamil Zubelewicz and Eugeniusz Gatnar seem to be the members. We expect that the MPC will rise the interest rates in 4Q2018.

After the strengthening on Monday, debt markets trimmed part of their gains. 10-year Bund yield increased to 0.55%, and Treasuries stayed near 2.375%, with US-DE spread still oscillating around 180bp. Polish bond curve strengthened in the belly, and the short and the long end remained roughly unchanged. IRS rates increased a bit, particularly at the long end. We assume that this week the Polish curve will remain under impact of global factors and should follow the Bund.

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FX market

Today's opening

EURPLN	4.2394	CZKPLN	0.1623
USDPLN	3.6982	HUFPLN*	1.3778
EURUSD	1.1463	RUBPLN	0.0610
CHFPLN	3.8372	NOKPLN	0.4465
GBPPLN	4.7425	DKKPLN	0.5701
USDCNY	6.7895	SEKPLN	0.4399

*for 100HUF

Last session in the FX market

11/07/2017

	min	max	open	close	fixing
EURPLN	4.233	4.250	4.239	4.236	4.2435
USDPLN	3.701	3.728	3.720	3.703	3.7235
EURUSD	1.138	1.145	1.140	1.144	-

Interest rate market

11/07/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.82	0	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.68	0	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.33	2	23.03.2017	DS0727	3.568

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.77	0	1.45	-1	-0.24	0
2L	1.94	0	1.63	-2	-0.12	0
3L	2.08	0	1.77	-2	0.01	0
4L	2.25	1	1.88	-2	0.17	0
5L	2.40	1	1.99	-2	0.32	0
8L	2.71	0	2.21	-2	0.73	-1
10L	2.87	2	2.32	-2	0.96	0

WIBOR rates

Term	%	Change (bps)
O/N	1.60	-1
T/N	1.60	-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	1.75	-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	2.72	-4
France	22	0	0.29	-8
Hungary	116	1	2.52	-7
Spain	68	-2	1.06	-8
Italy	148	0	1.69	-8
Portugal	184	0	2.50	-7
Ireland	35	1	0.30	-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

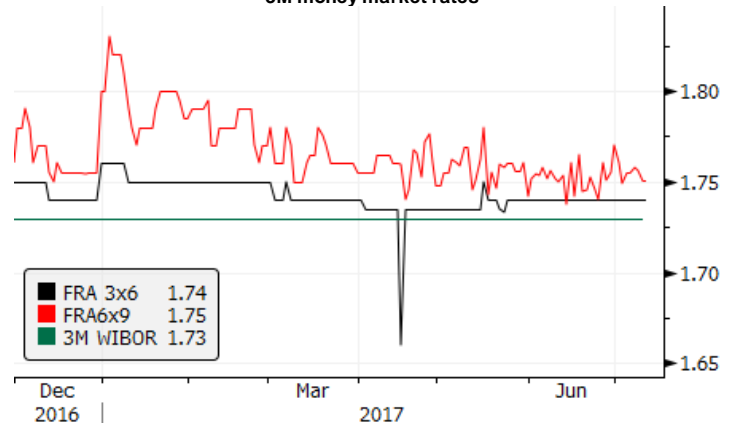
Zloty exchange rate



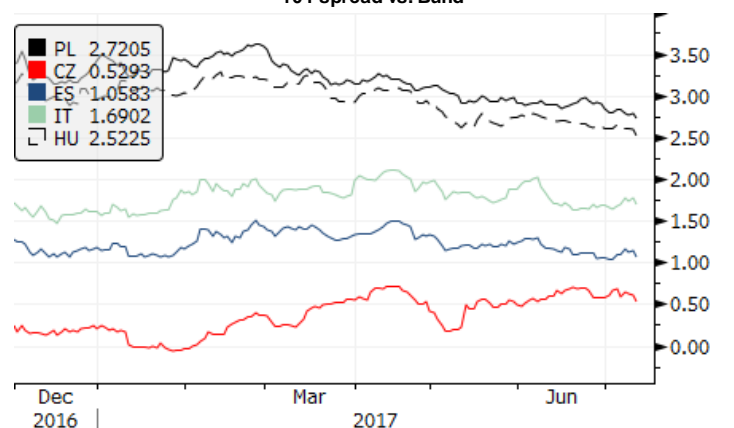
T-bonds yields



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 (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	-	222	152
14:30	US	Unemployment rate	Jun	%	4.30	-	4.40	4.30
	HU	Rating review by Moody's				-		
	PL	Rating review by Fitch				-		
MONDAY (10 July)								
8:00	GE	Exports	May	% m/m	0.3	-	1.4	0.9
TUESDAY (11 July)								
9:00	HU	CPI	Jun	% y/y	2.0	-	1.9	2.1
14:00	PL	CPI	Jun	% y/y	1.5	1.5	1.5	1.9
WEDNESDAY (12 July)								
9:00	CZ	CPI	Jun	% y/y	2.3	-		2.4
11:00	EZ	Industrial output	May	% m/m	-	-		0.5
14:00	PL	Core inflation	Jun	% y/y	0.8	0.8**		0.8
20:00	US	Fed Beige Book						
THURSDAY (13 July)								
14:30	US	Initial jobless claims	week	k	-	-		
FRIDAY (14 July)								
14:00	PL	Current account	May	€m	247	609		-275
14:00	PL	Exports	May	€m	16 083	16 449		15 176
14:00	PL	Imports	May	€m	16 182	16 397		15 090
14:30	US	CPI	Jun	% m/m	0.1	-		-0.1
14:30	US	Retail sales	Jun	% m/m	0.1	-		-0.3
15:15	US	Industrial output	Jun	% m/m	0.3	-		0.0
16:00	US	Flash Michigan	Jul	pts	-	-		95.1

Source: BZ WBK. Reuters. Bloomberg

* in case of the revision. the data is updated

**estimate after inflation data

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