

EYEOPENER

13 July 2017

Yellen boosted risk appetite

- **FOMC will shrink its balance sheet this year**
- **Polish core inflation at 0.8% y/y in June, in line with expectations**
- **Zloty stronger to euro and weaker to dollar, EURUSD down despite words of Fed governor**
- **Bond yields went down**
- **Today US labour market data**

On Wednesday global markets were in optimistic moods, and the Janet Yellen's speech has positively affected world equity markets and bonds. According to the Fed governor the gradual interest rate increases in the coming years are needed, but the uncertainty about inflation outlook is key. She added that the FOMC is planning to start reducing its balance sheet already this year. In general, the positive reaction of stock markets, bonds and emerging markets' currencies suggested that the market perceived the Fed governor's statement as quite dovish. Market participants noticed some change in the rhetoric concerning inflation. At the FOMC meeting in June Yellen said that low inflation prints are caused by one-off factors. This time, she said that one-off factors are only "partly" responsible for low inflation. Investors judged that such change reflects the central bankers' concern about decreasing inflation. The probability of interest rate hike this year priced-in by the market has decreased yesterday from 49% to 43%.

According to the Beige Book, market activity in the US got better in all 12 Fed districts, with the growth rate ranging from slight to moderate. A similar growth rate was visible in employment and wages, and some rise in wage pressure was observed. Fed analysts also pointed out to the low car sales. Generally, the tone of the Beige Book was in line with the Janet Yellen's rhetoric.

EURUSD was oscillating around 1.148 yesterday morning, but the US dollar began to gain during the Fed chair testimony, bringing the exchange rate to 1.14 at the end of the day. This week, EURUSD reached the upper range of the consolidation channel, in which the rate has been moving since the beginning of 2015. The upcoming weeks may decide whether the euro will still be strengthening or the dollar will be making up for losses. In the last days of this week, we will get to see important data from the US, while the weekly report on labour market will be out today.

Yesterday the CEE currencies were gaining. EURPLN neared 4.25 in the morning but later in the day the exchange rate fell below 4.23 in reaction to the Janet Yellen's speech. Volatility of EURPLN remains very low and the market is still waiting for an impulse that could trigger any directional move. The other CEE currencies appreciated as well with the Russian ruble outperforming its peers. USDRUB returned to c60 thanks to the rising oil prices and despite dollar's appreciation. The forint gained and EURHUF fell below 307, its lowest for a month.

On Wednesday global bond market was under clear impact of the Janet Yellen speech. After the morning stabilization, later in the day debt started to gain. As a result, the 10Y UST yield fell 5bp and reached 2.30%. Bunds gained slightly less as yields fell 2-4bp along the curve. Euro zone peripheries and the CEE bonds strengthened as well – the 10Y Czech bond yield fell 7bp to c1.03%.

Polish bond yield flattened in reaction to the Janet Yellen's speech. Long-term yields fell 3bp and neared 3.30%. The 10Y PL-DE spread narrowed again and reached c275bp. PL-US spread holds near 90bp, its lowest for a year. Somewhat bigger move was recorded on the IRS market where the long-term rates eased 5bp and mid-term IRS fell 4bp.

MPC's Grażyna Ancyparowicz in the yesterday interview for the Polish Press Agency, said that the July projection does not justify the interest rates hike before 2019. In her opinion, the monetary policy tightening is possible on condition that the core inflation continues its upward trend under the influence of the tensions on the labour market, marginal costs increase and for other reasons or further heavy rise of the domestic demand. Ancyparowicz highlighted that when it comes to the inflation path, she trusts the NBP projections, which assume the CPI rise by 1.9% this year. According to the projection, the core inflation will probably stay below the NBP target and the risks of the GDP and inflation growth in Poland will be influenced rather by external than internal factors. She seems to speak one voice with the NBP president Adam Glapiński, who would like to maintain the interest rates unchanged until the end of 2018.

The Polish Statistics Office (GUS) informed that the foreign trade surplus after May amounted to EUR890.3mn. In January-May period, exports went up by 7%, whereas imports by 10.1%. The data show recovery of exports and imports in May, supporting our forecasts (monthly data reading next Friday). Yesterday, the NBP published data on core inflation. The index excluding food and energy prices reached 0.8% y/y in June, which overlapped with previous expectations.

ECONOMIC ANALYSIS DEPARTMENT:

al. Jana Pawła II 17, 00-854 Warsaw fax +48 22 586 83 40
 email: ekonomia@bzwbk.pl Web site: skarb.bzwbk.pl
 Piotr Bielski +48 22 534 18 87
 Marcin Luziński +48 22 534 18 85
 Grzegorz Ogonek +48 22 534 19 23
 Izabela Sajdak, CFA +48 22 534 18 86
 Marcin Sulewski +48 22 534 18 84

TREASURY SERVICES:

Poznań +48 61 856 5814/30
 Warszawa +48 22 586 8320/38
 Wrocław +48 71 369 9400

FX market

Today's opening

EURPLN	4.2347	CZKPLN	0.1621
USDPLN	3.6989	HUFPLN*	1.3793
EURUSD	1.1449	RUBPLN	0.0616
CHFPLN	3.8451	NOKPLN	0.4480
GBPPLN	4.7789	DKKPLN	0.5694
USDCNY	6.7772	SEKPLN	0.4407

*for 100HUF

Last session in the FX market

12/07/2017

	min	max	open	close	fixing
EURPLN	4.229	4.248	4.236	4.232	4.2432
USDPLN	3.687	3.715	3.703	3.705	3.7034
EURUSD	1.139	1.149	1.144	1.142	-

Interest rate market

12/07/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.81	-1	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.68	0	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	1.76	-1	1.44	-1	-0.24	0
2L	1.93	-2	1.60	-3	-0.12	0
3L	2.06	-3	1.73	-4	0.01	0
4L	2.21	-4	1.85	-4	0.16	-1
5L	2.36	-4	1.94	-4	0.30	-1
8L	2.66	-4	2.17	-4	0.71	-2
10L	2.82	-6	2.28	-4	0.94	-3

WIBOR rates

Term	%	Change (bps)
O/N	1.61	1
T/N	1.60	0
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	1
9x12	1.80	-1
3x9	1.81	0
6x12	1.83	-1

Measures of fiscal risk

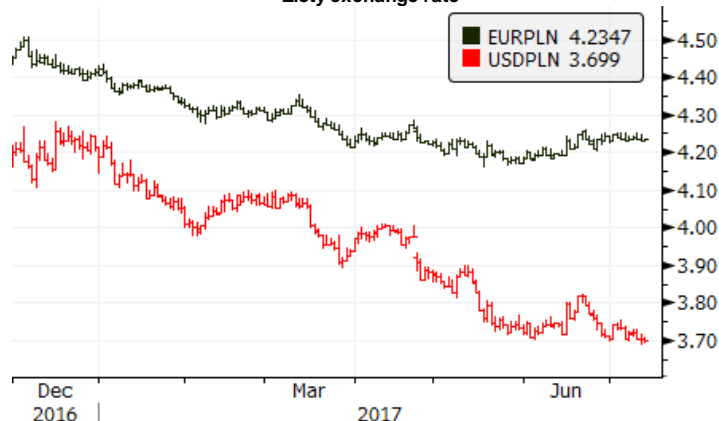
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.75	-1
France	22	0	0.28	0
Hungary	116	1	2.50	0
Spain	68	0	1.06	1
Italy	148	1	1.68	0
Portugal	183	-1	2.51	1
Ireland	33	-1	0.30	-5
Germany	15	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

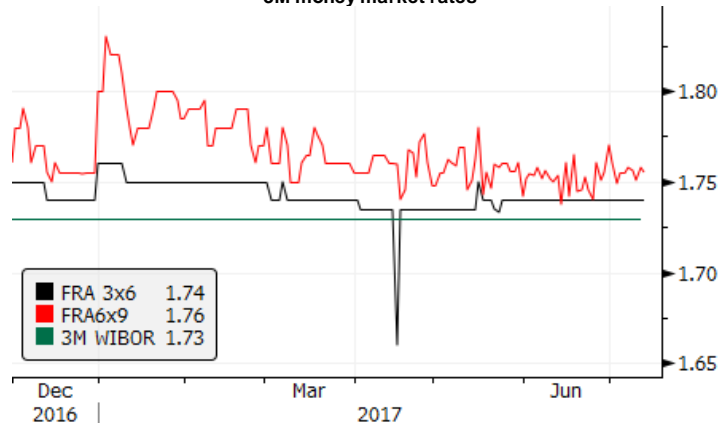
Zloty exchange rate



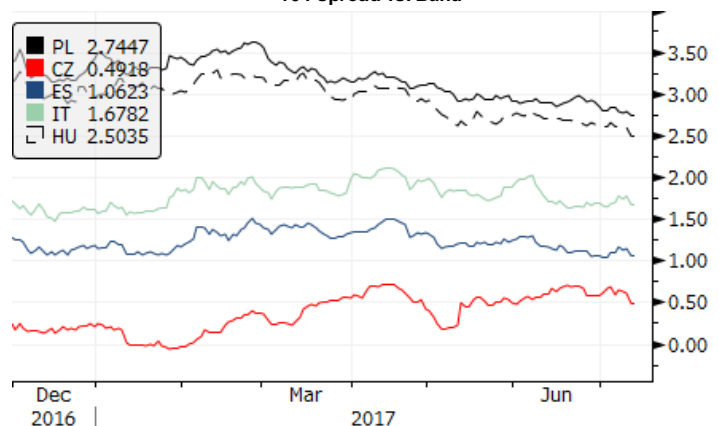
T-bonds yields



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	-	2.3	2.4
11:00	EZ	Industrial output	May	% m/m	-	-	1.3	0.3
14:00	PL	Core inflation	Jun	% y/y	0.8	0.8**	0.8	0.8
20:00	US	Fed Beige Book						
THURSDAY (13 July)								
14:30	US	Initial jobless claims	week	k	245	-		248
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

This publication has been prepared by Bank Zachodni WBK S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Bank Zachodni WBK S.A., its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Bank Zachodni WBK S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Bank Zachodni WBK S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

Additional information is available on request. Please contact Bank Zachodni WBK S.A. Financial Management Division. Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@bzwbk.pl, http://www.bzwbk.pl.