

# EYEOPENER

17 July 2017

## Market waits for ECB

- US data below forecasts
- Polish C/A balance disappointed
- EURPLN near 4.20, EURUSD up
- Bond yields down
- Today euro zone final June CPI

On Friday world stock exchanges finished the day with minor declines after the upside trend observed since the beginning of the week. Significant strengthening was seen on the bond market with declining yields of the American bonds. It could come as a reaction to mostly weaker than expected data from the US. The dovish bias of the readings translated into strengthening of the emerging markets' currencies. The price of crude oil arrived close to USD49/bbl after a week of rise.

Polish May current account balance was at -€179mn versus our forecast of +€609mn and market consensus at +€335mn. Surprise versus our forecast was generally due to lower readings in all balances. Trade data showed a major acceleration in exports and imports, to 14.5% y/y and 19.1% from 1.4% and 3.3%, respectively. This was achieved mostly thanks to positive working day effect but also thanks to an economic revival in Western Europe. In our view, exports and imports will continue to grow at a healthy rate this year, yet imports will be more dynamic. 12-month rolling current account deficit increased to 0.5% of GDP, its highest since June 2016.

On Friday, MPC's Jerzy Osiatyński in his interview for Reuters said that he could support the NBP interest rate hike before the end of 2018 (even submit a motion) "if the NBP projections start to indicate that the rise of wages poses threat to inflation". In his opinion, the July projection does not suggest such scenario. In the Saturday's "Parkiet", another MPC member, Eugeniusz Gatnar, commented that the interest rate could be hiked at the beginning of 2018. In his view, the inflation will surpass the last NBP projection. Moreover, according to Gatnar, the MPC should take into account that the impact of interest rate hikes on economy is delayed and the prolonging period of negative real interest rates should also be considered. Yet in the previous reports we highlighted that the discussion within the MPC may get gradually more focused on the monetary policy tightening. The last comments of some MPC members suggest that the process has already commenced. We expect first interest rate hike in Q4 2018.

EURUSD went up to c1.146, mainly on the lower-than-expected US June inflation and retail sales. At the end of the day, the exchange rate was slightly below the session peak thanks to the positive surprise of the industrial output reading. Generally, the previous week did not bring any breaking changes of EURUSD and

the exchange rate remained close to its multi-month peak at 1.15. This week, the ECB decision will be in focus and we think that it may trigger some volatility on the market. Today, we will learn about the June's inflation in the euro zone. This reading should not vary much from the flash estimate so its effect will probably not be durable.

The US data were positive for the CEE currencies. EURPLN has been moving south since the start of the session and broke 4.21, the lowest level in three weeks. Rising EURUSD pushed USDPLN below 3.68, bringing the rate to the lowest level since August 2015. EURPLN failed to leave its horizontal trend observed since mid-June and is close to 4.21 today. Today at the start of the session the market sentiment is quite positive, which may help the zloty keep the last gains. In the following days the Polish FX market will be mostly affected by the ECB meeting, in our view.

The other CEE currencies were also appreciating on Friday. EURHUF has approached the lowest level this year, and on Friday it ended the session near 306. The Czech koruna also gained before the weekend. EURCZK neared 26.08 and was lowest since the floating of the currency in April. The ruble was also appreciating and USDRUB was fluctuating near 59 due to rising oil prices.

Bond yields on global markets were declining on Friday, which was triggered by the below-consensus US data releases. The biggest drop took place in case of 5Y US Treasuries, by more than 5bp to 1.83%. At the long end the yield fell by over 4bp, while German Bund strengthened by c.2bp, to 0.57%.

Debt market strengthening was seen also in the Polish yield curve, which has flattened. Yield of Polish 10Y bond declined to 3.28% and the corresponding bond yield spread versus Bund reached 272bp, and was lowest since August 2016. IRS curve also flattened before the weekend, with the biggest move on the long end.

There are several domestic data releases in the next week's agenda. The number of working days in June was again lower than last year, so the readings will be probably not very impressive, confirming that GDP growth has probably decelerated slightly below 4% y/y in 2Q17. The ECB meeting on Thursday will be probably the key event of the week. No change in monetary policy is expected, but investors will focus on the Mario Draghi's comments, especially after the recent controversy whether his earlier more hawkish comments were correctly interpreted by the market. It seems that lower inflation, lack of wage pressure, and especially the stronger euro, will prevent the ECB from turning towards more hawkish language too early. Thus, it seems possible that a rebound in the bond markets after the recent selloff may take place. The weaker data from the USA released recently seem to be a good prerequisite for such a rebound.

### ECONOMIC ANALYSIS DEPARTMENT:

al. Jana Pawła II 17, 00-854 Warsaw fax +48 22 586 83 40  
 email: [ekonomia@bzwbk.pl](mailto:ekonomia@bzwbk.pl) Web site: [skarb.bzwbk.pl](http://skarb.bzwbk.pl)  
 Piotr Bielski +48 22 534 18 87  
 Marcin Luźniński +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	4.2084	CZKPLN	0.1613
USDPLN	3.6754	HUFPLN*	1.3740
EURUSD	1.1450	RUBPLN	0.0621
CHFPLN	3.8074	NOKPLN	0.4481
GBPPLN	4.8074	DKKPLN	0.5659
USDCNY	6.7732	SEKPLN	0.4416

\*for 100HUF

## Last session in the FX market

14/07/2017

	min	max	open	close	fixing
EURPLN	4.203	4.225	4.224	4.205	4.2194
USDPLN	3.664	3.709	3.708	3.666	3.6986
EURUSD	1.139	1.147	1.139	1.147	-

## Interest rate market

14/07/2017

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

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.81	0	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.66	-3	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.30	-3	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	1.92	-1	1.59	-1	-0.12	0
3L	2.05	-2	1.72	-2	0.02	2
4L	2.20	-1	1.83	-3	0.16	1
5L	2.34	-2	1.92	-4	0.32	2
8L	2.64	-2	2.15	-4	0.72	1
10L	2.79	-3	2.27	-4	0.95	1

## WIBOR rates

Term	%	Change (bps)
O/N	1.61	0
T/N	1.61	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	1.75	1
9x12	1.81	0
3x9	1.81	0
6x12	1.83	0

## Measures of fiscal risk

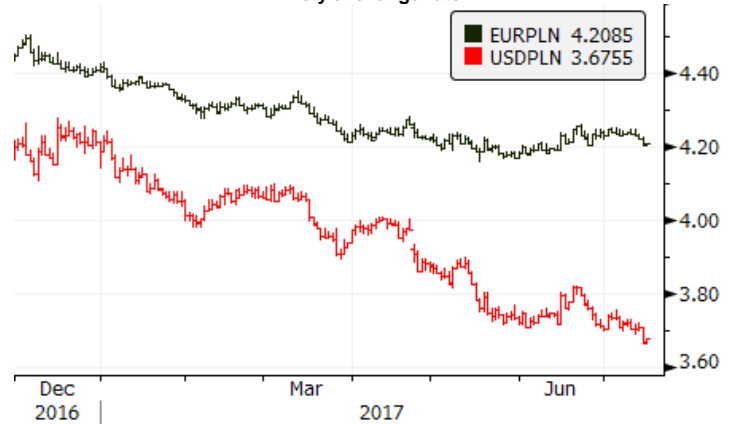
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.71	-3
France	21	0	0.26	0
Hungary	116	1	2.46	-1
Spain	68	-1	1.04	0
Italy	146	-2	1.69	-1
Portugal	184	0	2.53	0
Ireland	34	0	0.30	-2
Germany	15	0	-	-

\* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

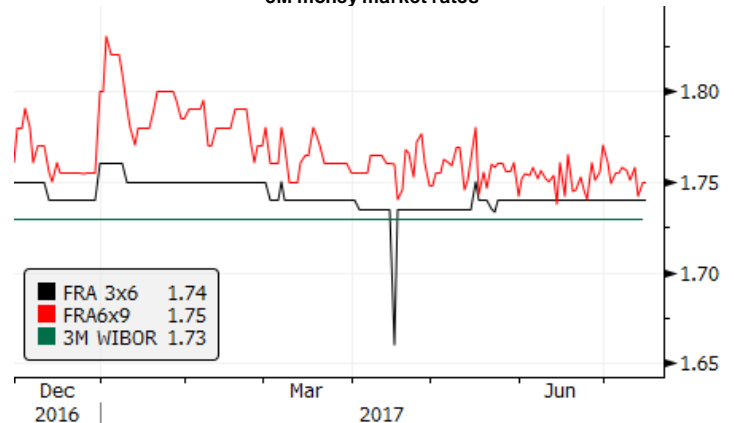
## Zloty exchange rate



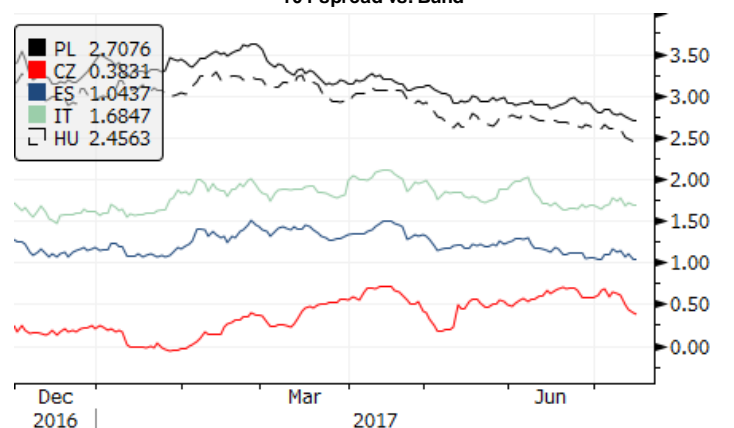
## T-bonds yields



## 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 (14 July)								
14:00	PL	Current account	May	€m	247	609	-179	-275
14:00	PL	Exports	May	€m	16 083	16 449	16 257	15 283
14:00	PL	Imports	May	€m	16 182	16 397	16 457	15 072
14:30	US	CPI	Jun	% m/m	0.1	-	0.0	-0.1
14:30	US	Retail sales	Jun	% m/m	0.1	-	-0.2	-0.3
15:15	US	Industrial output	Jun	% m/m	0.3	-	0.4	0.0
16:00	US	Flash Michigan	Jul	pts	95	-	93.1	95.1
MONDAY (17 July)								
11:00	EZ	CPI	Jun	% y/y	1.3	-		1.4
TUESDAY (18 July)								
11:00	GE	ZEW index	Jul	pts	88.0	-		88.0
14:00	HU	Central bank decision		%	0.9	-		0.9
14:00	PL	Wages in corporate sector	Jun	% y/y	5.0	4.6		5.4
14:00	PL	Employment in corporate sector	Jun	% y/y	4.3	4.2		4.5
WEDNESDAY (19 July)								
14:00	PL	Industrial output	Jun	% y/y	3.9	3.9		9.1
14:00	PL	Construction and assembly output	Jun	% y/y	9.8	9.5		8.4
14:00	PL	PPI	Jun	% y/y	2.1	2.1		2.5
14:00	PL	Real retail sales	Jun	% y/y	6.0	5.5		8.4
14:30	US	House starts	Jun	% m/m	5.8	-		-5.5
14:30	US	Building permits	Jun	% m/m	3.0	-		-4.9
THURSDAY (20 July)								
13:45	EZ	ECB decision		%	0.0	-		0.0
14:30	US	Philly Fed index	Jul	pts	23.4	-		27.6
14:30	US	Initial jobless claims	week	k	245	-		247
FRIDAY (21 July)								
14:00	PL	Money supply M3	Jun	% y/y	5.9	5.7		6.2

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.