

# EYEOPENER

21 July 2017

## Euro gains despite dovish ECB

- **Dovish Draghi boosts market optimism**
- **CEE currencies gain, EURUSD jumps**
- **Domestic yields flat, global debt gains**
- **Polish state budget with surplus after June**
- **Today Polish M3 money supply data**

On Thursday FX and interest rate markets were driven by the outcome of the ECB meeting. Global equity markets finished the day in green, the euro zone bonds also gained after the ECB press conference. On Thursday, oil price continued its upward trend and at the end of the day tested USD50/bbl, its highest since June.

In line with expectations, the ECB maintained interest rates on hold with the reference rate at 0.00% and deposit rate at -0.40%. In the statement after the meeting, it was reiterated that the bank expects maintaining interest rates at the current level for a longer period after the asset purchase programme ends. ECB's Mario Draghi said that the QE programme will be run until inflation does not enter the path coherent with the bank's target. He added that deeper discussion on amending the programme will be probably held in the autumn but the date has not been fixed yet due to significant uncertainty on the markets. Draghi stressed that inflation is low due to energy prices and the bank will wait for the core inflation rise, which is expected to take place in medium term. Dovish tone of the statement and during the press conference pushed bond yields down in Europe. The euro gained versus the dollar because Mario Draghi did not comment much on the exchange rate during the press conference which in the investors' opinion means a lower risk of verbal intervention the ECB could take to limit the potential for further euro gains.

In the first part of the yesterday's session, the dollar gained vs euro getting close to 1.148. However after the ECB governor's press conference the single currency strengthened and today in the morning EURUSD is near 1.165, its highest since August 2015. Today, there will be no material data publications. It is the second week of EURUSD rising and on Wednesday FOMC will announce its decision on the interest rates. We do not expect the Fed monetary policy change, however the rhetoric of the statement may indicate a forthcoming hike in September or December. The market does not price in these scenarios, so we think the greenback may trim part of the recent losses.

CEE currencies gained after the ECB meeting. In the morning EURPLN tested 4.215, but the central bank's message pushed the exchange rate down almost to 4.20. USDPLN stayed under impact of EURUSD and was below 3.62 at the end of the day, its lowest since May 2015. GBPPLN fell below 4.69, the lowest

level since October 2016. The zloty was also stronger versus the Swiss franc and CHFPLN approached 3.80 yesterday. EURPLN failed to break 4.20, but in our view the dovish ECB bias will help the zloty to stay close to this level. In the following weeks PLN may be under pressure of divergence between dovish monetary policy run by the Polish MPC and increasingly hawkish ECB and Fed.

Yesterday EURCZK stayed close to 26.0, while EURHUF fell to 305 in reaction to the dovish ECB rhetoric. Rising oil prices supported the ruble, with USDRUB approaching 59.

On Thursday the debt markets remained under influence of the ECB meeting. Dovish rhetoric of the central bank supported the euro zone's bonds, in particular Spanish and Italian. Polish bonds were weakening in the morning, but gained in the afternoon. Still, volatility on the Polish market was clearly lower than abroad. Domestic 10Y bond ended the session with yield at 3.25%, near the Wednesday's close. IRS rates have not changed much either.

According to the Ministry of Finance, state budget surplus amounted to PLN5.9bn for the January-June period. Revenues amounted to PLN176.7bn (111.4% of the plan for June) and expenses stood at PLN170.8bn (96.2% of the plan). VAT revenues rose by c18% y/y in June, CIT revenues by 3.7% y/y and PIT revenues by 10.6% y/y. This is the first surplus in June since comparable data are available. Budget results were clearly improved by payment of all-time high NBP profit in June (PLN8.5bn), but its condition is positive even corrected for this effect thanks to good revenues and low spending. In our view, 2017 central budget deficit will be way below the plan (PLN59.4bn) and may reach even PLN30bn, provided that the government does not decide to shift some spending from 2018 to 2017 (this is very likely in our view).

Today at 14:00CET Polish M3 money supply data will be released. We expect money supply to show a slight deceleration to 5.7%, from 6.2% y/y in May. We are curious whether the outflow of deposits, seen in May, will hold. This development was noted by MPC's Gatnar as an example of negative real interest rate effect.

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## FX market

## Today's opening

EURPLN	4.2147	CZKPLN	0.1617
USDPLN	3.6179	HUFPLN*	1.3807
EURUSD	1.1650	RUBPLN	0.0613
CHFPLN	3.8068	NOKPLN	0.4504
GBPPLN	4.6974	DKKPLN	0.5668
USDCNY	6.7640	SEKPLN	0.4400

\*for 100HUF

## Last session in the FX market

20/07/2017

	min	max	open	close	fixing
EURPLN	4.205	4.216	4.207	4.210	4.2117
USDPLN	3.611	3.668	3.652	3.619	3.6604
EURUSD	1.148	1.166	1.152	1.163	-

## Interest rate market

20/07/2017

## 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)	2.63	1	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.27	0	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	-0.25	0
2L	1.94	0	1.59	1	-0.15	0
3L	2.06	0	1.70	0	-0.02	0
4L	2.21	1	1.80	0	0.13	-1
5L	2.34	0	1.89	0	0.27	-1
8L	2.63	1	2.10	-1	0.68	0
10L	2.79	0	2.21	-1	0.91	0

## 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	-2
9x12	1.81	1
3x9	1.81	0
6x12	1.83	1

## Measures of fiscal risk

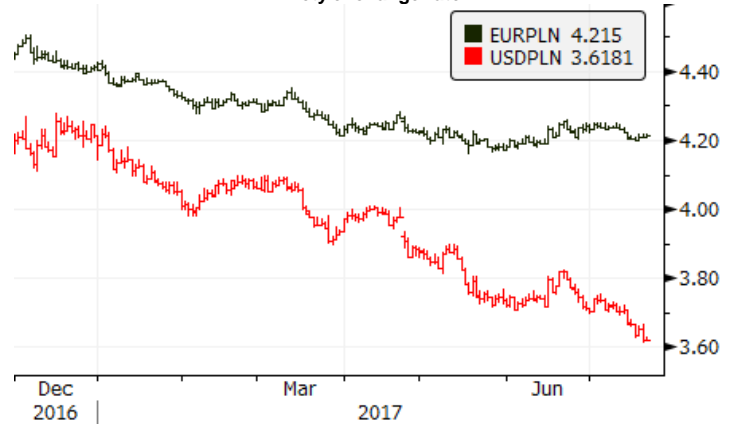
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.74	1
France	18	-1	0.24	0
Hungary	116	1	2.55	1
Spain	62	-3	0.94	0
Italy	136	-4	1.58	1
Portugal	171	-3	2.46	1
Ireland	32	-1	0.28	-2
Germany	13	-1	-	-

\* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

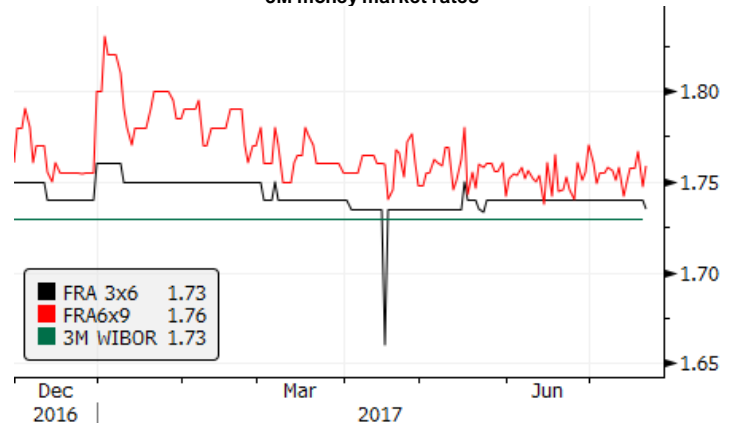
## Zloty exchange rate



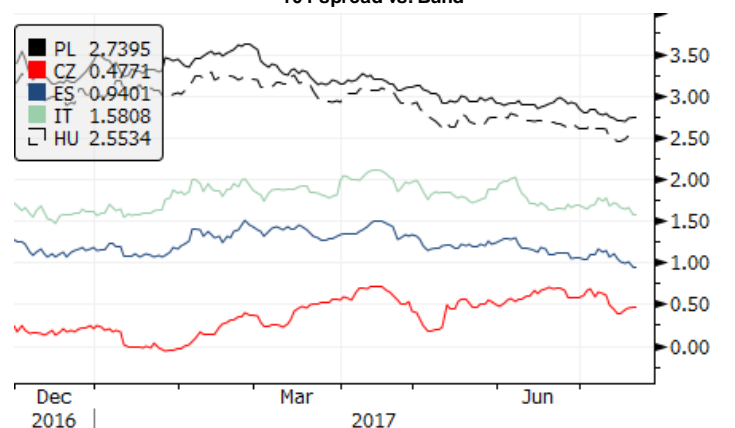
## T-bonds yields



## 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	-	1.3	1.4
TUESDAY (18 July)								
11:00	GE	ZEW index	Jul	pts	88.0	-	86.4	88.0
14:00	HU	Central bank decision		%	0.9	-	0.9	0.9
14:00	PL	Wages in corporate sector	Jun	% y/y	5.0	4.6	6.0	5.4
14:00	PL	Employment in corporate sector	Jun	% y/y	4.3	4.2	4.3	4.5
WEDNESDAY (19 July)								
14:00	PL	Industrial output	Jun	% y/y	3.9	3.9	4.5	9.1
14:00	PL	Construction and assembly output	Jun	% y/y	9.8	9.5	11.6	8.4
14:00	PL	PPI	Jun	% y/y	2.1	2.1	1.8	2.4
14:00	PL	Real retail sales	Jun	% y/y	6.0	5.5	5.8	7.4
14:30	US	House starts	Jun	% m/m	5.8	-	8.3	-2.8
14:30	US	Building permits	Jun	% m/m	3.0	-	7.4	-4.9
THURSDAY (20 July)								
13:45	EZ	ECB decision		%	0.0	-	0.0	0.0
14:30	US	Philly Fed index	Jul	pts	23.4	-	19.5	27.6
14:30	US	Initial jobless claims	week	k	245	-	233	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

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