

# EYEOPENER

25 July 2017

## 2 x veto

- **Calm start of the week on the global market**
- **President Duda to veto two bills on judiciary**
- **Zloty and bonds gained temporarily after the president's decision; EURUSD above 1.16**
- **Today data about Polish unemployment, Ifo index in Germany and consumer confidence in the USA**

The global market situation did not change much at the start of the week. European stock indices stayed close to Friday close. Bond markets also did not move much. Such situation might be caused by ambiguous signals from flash PMIs for July. Readings for German manufacturing and services were a bit disappointing, on the other hand French indices were better than expected. The Euro zone PMIs were close to market consensus and US real estate market data did not surprise too much either.

EURUSD exchange rate distanced itself from the multi-month peak around 1.168 and after the strong rise from last week it declined yesterday at the end of the session to c1.164. We are going to see relatively important consumer sentiment data from the USA today, but we do not expect it to cause big changes on the market on the eve of the FOMC decision.

President Andrzej Duda decided to veto two out of three controversial judiciary bills: on the Supreme Court and on the National Council of the Judiciary of Poland. He informed also that within two months he will prepare new bills. Nevertheless, he signed the bill on common courts. Yesterday, in the evening there were media reports that an extraordinary Sejm session may be held next week, which raised speculations on the possible attempts to reject the President's veto or even potential snap elections. However, the Sejm's Speaker Marek Kuchciński denied that additional session would take place. Rejection of the veto would require at least 60% of votes (276 out of 460 if all deputies are present), which seems not very likely as it would require agreement of all PiS deputies (234 votes) and Kukiz'15 (32), but also non-attached deputies and members of a few small deputies' groups. Veto will probably weaken the wave of social protests. No President's objections against the third bill on the common courts may, however, maintain EU criticism towards Poland. On the other hand, the rising speculations about internal conflict within PiS and potential early elections may cause that the political risk premium will not disappear completely.

Decision of president Andrzej Duda to veto two bills on judiciary eased the pressure on the Polish currency. Shortly after the president's speech the zloty began to strengthen quickly

against the main currencies – EURPLN fell to 4.23 from 4.26, while USDPLN to 3.635 from 3.66. However, this move was temporary and at the end of the day the zloty lost again (EURPLN back above 4.25). As a result of speculation of possible snap elections, EURPLN may be vulnerable to comments and actions of politicians in the nearest time. Lack of extra Sejm session next week should be supportive for the zloty, but any signals of a divide within the ruling party will provide fuel for the political uncertainty. Tomorrow the markets will focus on the FOMC decision. In our view, statement after the July FOMC meeting will keep the door open to the third hike by 25bp this year. According to Bloomberg, the market is not pricing-in such a scenario yet, so tone of the statement should be interpreted as hawkish. In due course, results of the FOMC meeting can be zloty-negative.

In the CEE region, the forint was performing quite well with EURPLN falling temporary below 305 and breaking the November 2016 bottom. EURCZK stayed near 26. The ruble was under pressure vs the euro and dollar after the White House confirmed that works on further sanctions in Russia are in progress and despite a rebound in oil price. As a result, USDRUB rose above 60 and EURRUB broke 70 reaching its highest since November 2016.

Monday's session on the global debt market was in mixed moods. The German bond curve has steepened due to the yield fall of 2Y bond by c1.5bp. The US curve followed the opposite direction and flattened, and the largest movement was also observed at the short end. The bonds in our region remained stable and the markets are waiting for tomorrow's FOMC meeting, which may be crucial for the valuation of assets from our region.

The domestic interest rate market saw an increase in demand for bonds due to the reduction in political risk. The biggest yield decline occurred in the belly of the curve, where the 5Y bond gained c2.5bp and yield approached 2.62%. The IRS curve has also moved down, and the rates have fallen sharply in the belly and the long end. Today, the bond market will receive cPLN13.3bn from OK0717 redemption and interest payments. We believe that the amount will be spent on purchases at the short end of the curve, so that Polish banks will avoid paying bank tax on that sum.

Today we find out data on unemployment in Poland - in our view, registered unemployment rate fell to 7.2% in June from 7.4% in May. Risk for our forecast is skewed downwards. We think that the downward march of unemployment is slowing down and June's data are likely to confirm that.

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## FX market

## Today's opening

EURPLN	4.2556	CZKPLN	0.1635
USDPLN	3.6501	HUFPLN*	1.3951
EURUSD	1.1659	RUBPLN	0.0609
CHFPLN	3.8566	NOKPLN	0.4565
GBPPLN	4.7559	DKKPLN	0.5723
USDCNY	6.7492	SEKPLN	0.4443

\*for 100HUF

## Last session in the FX market

24/07/2017

	min	max	open	close	fixing
EURPLN	4.232	4.272	4.264	4.257	4.2413
USDPLN	3.634	3.664	3.656	3.658	3.6395
EURUSD	1.163	1.168	1.166	1.164	-

## Interest rate market

24/07/2017

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

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.80	-3	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.62	0	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.26	-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	1.46	1	-0.25	0
2L	1.93	-1	1.60	1	-0.16	0
3L	2.05	-1	1.71	1	-0.04	0
4L	2.19	-2	1.81	1	0.11	0
5L	2.32	-2	1.90	2	0.25	0
8L	2.62	-2	2.11	2	0.66	1
10L	2.78	-2	2.22	2	0.89	0

## WIBOR rates

Term	%	Change (bps)
O/N	1.59	-2
T/N	1.59	-2
SW	1.59	-1
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	1.81	0
3x9	1.81	0
6x12	1.83	0

## Measures of fiscal risk

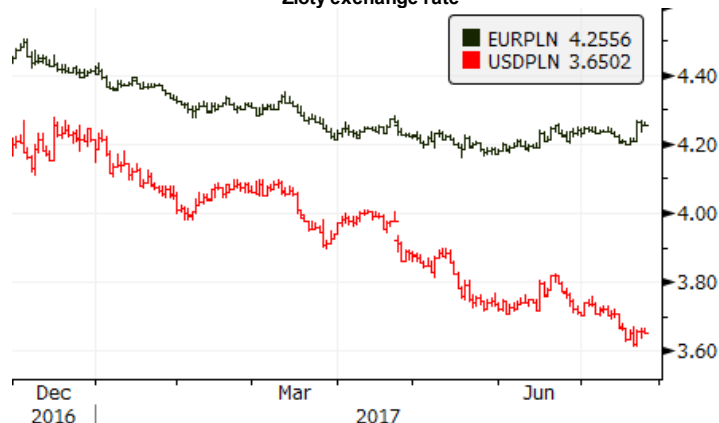
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.76	-2
France	18	0	0.24	0
Hungary	116	1	2.58	1
Spain	64	1	0.96	-1
Italy	134	-1	1.53	-1
Portugal	168	-3	2.37	-1
Ireland	32	-1	0.29	0
Germany	13	0	-	-

\* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

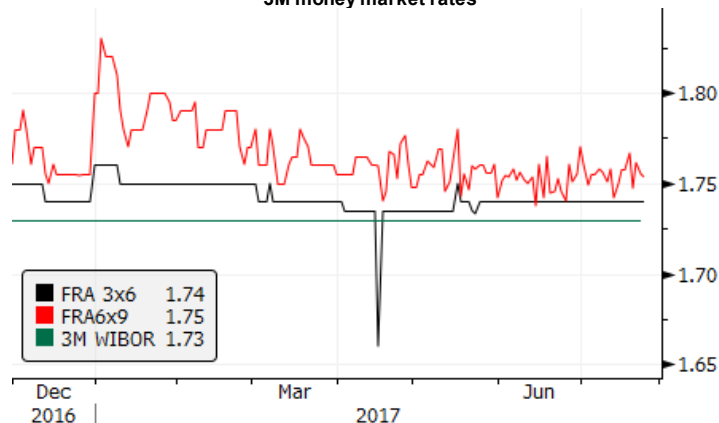
## Zloty exchange rate



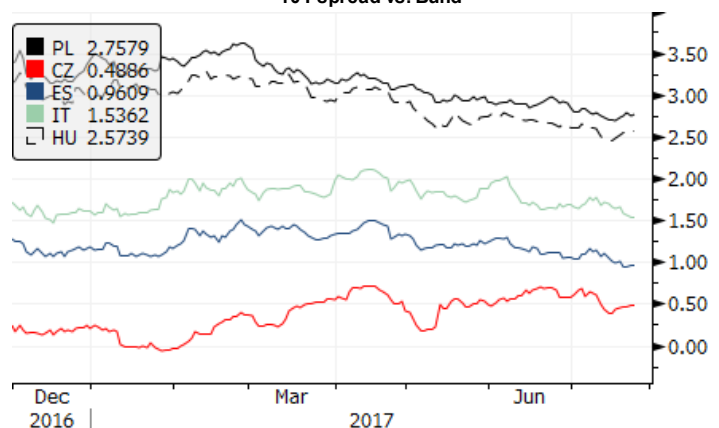
## T-bonds yields



## 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 (21 July)								
14:00	PL	Money supply M3	Jun	% y/y	5.9	5.7	5.0	6.2
MONDAY (24 July)								
9:30	GE	Flash PMI – manufacturing	Jul	pts	59.2	-	58.3	59.6
9:30	GE	Flash PMI – services	Jul	pts	54.3	-	53.5	56.4
10:00	EZ	Flash PMI – manufacturing	Jul	pts	57.2	-	56.8	57.4
10:00	EZ	Flash PMI – services	Jul	pts	55.5	-	55.4	55.4
16:00	US	Home sales	Jun	m	5.56	-	5.52	5.62
TUESDAY (25 July)								
10:00	PL	Unemployment rate	Jun	%	7.1	7.2		7.4
10:00	GE	Ifo index	Jul	pts	114.9	-		115.1
16:00	US	Consumer confidence index	Jul	pts	116.0	-		118.9
WEDNESDAY (26 July)								
16:00	US	New home sales	Jun	k	615	-		610
20:00	US	FOMC decision		%	1.0-1.25	-		1.0-1.25
THURSDAY (27 July)								
14:30	US	Durable goods orders	Jun	% m/m	3.0	-		-0.8
14:30	US	Initial jobless claims	week	k	-	-		233
FRIDAY (28 July)								
14:30	US	Advance GDP	Q2	% y/y	2.5	-		1.4
16:00	US	Michigan index	Jul	pts	93.0	-		95.1

Source: BZ WBK, Reuters, Bloomberg

\* in case of the revision, the data is updated

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