

EYEOPENER

27 July 2017

Dovish FOMC, hawkish EC

- **European Commission warned the Polish government**
- **FOMC statement interpreted as dovish, undermining the dollar and supporting UST**
- **EURUSD again up after the FOMC decision**
- **Zloty stable, some gains after the Fed**
- **Signals from the European Commission weigh on the Polish debt market**
- **US data due for release this afternoon**

Wednesday session on the global stock markets passed calmly prior to the evening Fed statement. European stock market ended the day slightly in black, bonds also strengthened. Oil prices climbed slightly above \$50/bbl due to the planned cuts in OPEC output.

Fed maintained interest rates unchanged, in line with the expectations, signalling that it will monitor the inflation as it is still below the target in spite of the accelerating economic growth. At the same time, Fed informed that "relatively soon" its balance reduction will start, provided that the economy grows more or less as expected. Investors interpreted the statement as dovish, treating it as a prognostic that another interest rates hike this year is questionable, unless the inflation jumps significantly. In result, despite the signal that asset portfolio reduction may commence shortly, the greenback weakened whereas the bonds and stock markets gained.

The European Commission (EC) informed on taking actions to protect the rule of law in Poland. The Commission has adopted the Rule of Law Recommendation covering four new legislative acts recently adopted by the Polish Parliament (on the Supreme Court, on the National Council for the Judiciary, on the Ordinary Courts Organisation and on the National School of Judiciary), which in the Commission's assessment will structurally undermine the independence of the judiciary in Poland. EC threatened that the dismissal of Supreme Court judges will activate the mechanism set out in Article 7(1) of the Treaty on European Union (as the President vetoed the bill on the Supreme Court, the threat seems unlikely). Moreover, EC took a decision to prepare an infringement procedure for the possible breach of EU law. The reservations relate to the Law on the Ordinary Courts (a different retirement age for female and male judges, excessive prerogative of the Minister of Justice regarding court presidents' nomination and dismissal). EC invites the Polish Government to address the problems within one month. The deadline seems short in the light of the Polish Parliament vacations that are about to start.

Yesterday EURUSD was hovering close to 1.163 ahead of the FOMC statement. The dovish statement of the US central bank caused a significant weakening of the dollar, pushing EURUSD temporarily to 1.1776 (highest since January 2015) and the rates is below 1.174 today in the morning.

EURPLN and USDPLN remained at yesterday's session close to 4.26 and 3.66, respectively, despite the good mood of the global market. The words of Vice-President of the European Commission, Frans Timmermans, on the possibility of initiating infringement procedure against Poland for violation of EU law, if the Polish government continues to violate the independence of the courts, did not have a clear impact on the FX market (although they could have prevented the zloty appreciation). Dovish tone of the FOMC statement slightly supported the zloty - EURPLN fell to almost 4.24, and this morning it is close to 4.25. USDPLN fell in the evening to 3.61, after which it rebounded to 3.62. Increased political uncertainty stemming from the emergence of the conflict between the president and the government in Poland and fears about the effects of the EC actions against Poland may weigh on the zloty and, despite the dovish Fed, hold back the strengthening of the domestic currency in the near future.

In the CEE region the forint depreciated vs the euro (EURHUF neared 306) and the ruble stabilized despite rising oil prices. EURCZK did not move much. The Czech central bank suggested clearly that it may hike rates in August or September but the market does not see that likely given the strong koruna and the still dovish ECB rhetoric.

On the domestic interest rate market IRS and bond yields rose by up to 2bp amid higher political risk in Poland after the EC statement. Polish debt was under pressure while global bonds gained. The dovish outcome of the FOMC meeting is generating a downside pressure on bond yields in Poland and abroad.

Deputy PM Mateusz Morawiecki told PAP (Polish Press Agency) that the OFE (open pension funds) overhaul should come into force in July 2018. He revealed neither any details about its shape and nor when the draft legislation would be ready. Morawiecki also stated that the cost of lowering the retirement age may be reduced (by as much as PLN1bn this year) as a result of implementing the incentives to stay on the labour market. However, given that no specific drafts of these incentives have been shown (and the reduction in retirement age will take place in October), such announcements seem to be exaggerated.

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FX market

Today's opening

EURPLN	4.2564	CZKPLN	0.1636
USDPLN	3.6304	HUFPLN*	1.3935
EURUSD	1.1725	RUBPLN	0.0611
CHFPLN	3.8158	NOKPLN	0.4600
GBPPLN	4.7689	DKKPLN	0.5724
USDCNY	6.7340	SEKPLN	0.4448

*for 100HUF

Last session in the FX market

26/07/2017

	min	max	open	close	fixing
EURPLN	4.249	4.267	4.259	4.253	4.2611
USDPLN	3.652	3.669	3.654	3.658	3.6661
EURUSD	1.161	1.166	1.165	1.163	-

Interest rate market

26/07/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.79	-2	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.63	-3	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.28	-4	23.03.2017	DS0727	3.568

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.78	0	1.47	0	-0.25	0
2L	1.94	0	1.62	0	-0.17	-2
3L	2.08	0	1.75	0	-0.03	0
4L	2.23	1	1.86	0	0.12	0
5L	2.37	1	1.95	0	0.27	-1
8L	2.68	1	2.18	1	0.70	-1
10L	2.84	1	2.29	1	0.93	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.58	1
T/N	1.58	0
SW	1.59	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	0
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	1
France	18	0	0.26	0
Hungary	116	1	2.57	3
Spain	63	0	0.99	1
Italy	133	0	1.56	0
Portugal	167	-1	2.40	1
Ireland	32	-1	0.30	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

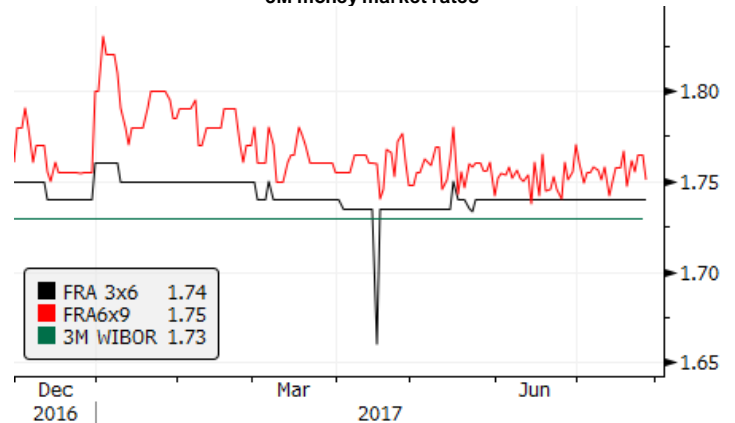
Zloty exchange rate



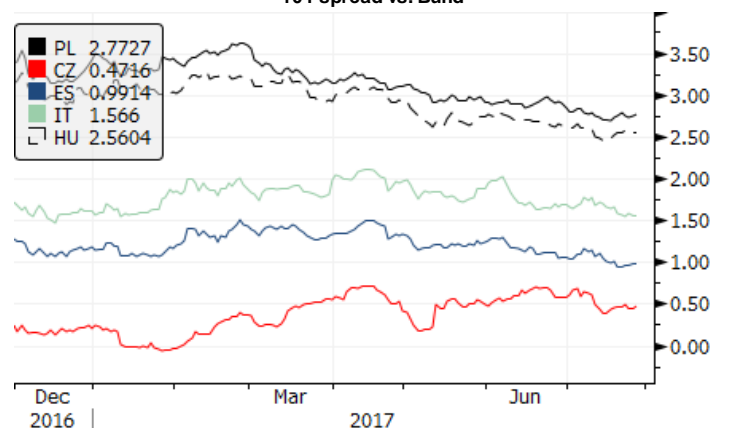
T-bonds yields



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	7.1	7.4
10:00	GE	Ifo index	Jul	pts	114.9	-	116.0	115.2
16:00	US	Consumer confidence index	Jul	pts	116.0	-	121.1	117.3
WEDNESDAY (26 July)								
16:00	US	New home sales	Jun	k	615	-	610	605
20:00	US	FOMC decision		%	1.0-1.25	-	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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