

EYEOPENER

31 July 2017

Today flash CPI

- Higher oil prices did not help stocks
- EC takes action against Poland, but economic sanctions unlikely for now
- Zloty stable, EURUSD again near 1.175
- Polish IRS curve up, bonds stable
- Today flash CPI in Poland and euro zone

The mood on global markets stayed negative during the Friday session. The further increase of oil prices was no help this time, while usually it manages to support energy sectors enough to improve whole stock indices. It seems the markets saw the higher than expected flash CPI from Germany as a factor that could affect the ECB plans and make it more likely to start withdrawing from its highly accommodative policy faster. The US first estimate on 2Q GDP was also received as a negative piece of news due to a downward revision of the 1Q result and negative surprises in employment costs and GDP deflator. In such circumstances the dollar could not hold onto its gains from the previous day. On the other hand gold and the Japanese yen did well on Friday.

EURUSD returned on Friday to c1.175 after it closed at 1.165 on Thursday. The dollar's inability to hold its gains was caused by an unfavourable set of releases: the data from the euro zone were still quite solid (European Commission sentiment indices) and the German flash inflation for July accelerated from 1.6% y/y to 1.7% while the market expected a slowdown to 1.5%. What is more, the dollar saw negative pressure after the US 2Q US GDP first estimate. The flash July inflation reading for the euro zone to be released today may influence EURUSD, as should the US labour market report coming this Friday.

Having moved back to c4.245 during the night from Thursday to Friday, EURPLN started climbing again on the last working day of last week, breaching 4.26. USDPLN was once again seen below 3.62, which is the lowest level since May 2015. We could watch on Friday that the sell-off of the Swiss franc continued, despite news about a North Korean missile landing in Japanese waters. As a result gained around 1.2% vs CHF in one day.

The forint had a good day as it managed to strengthen below 305 per euro more persistently than in the previous days. EURCZK was still close to 26.0. Market analysts are nearly split in half as regards whether the Czech central bank will hike rates on Thursday. The ruble was exceptionally invulnerable to the dollar weakening and continuation of upward march of oil prices – USDRUB was close to 59.5 all Friday long.

On the domestic interest rate market, there was a shift in 5Y and 10Y IRS rates up by almost 4bp, while bond yields remained unchanged. Higher-than-expected inflation in Germany has triggered bond weakening on the Euro area peripheries, reminding market participants of the looming reduction of the APP by the ECB due to the economic recovery. Bonds on the core markets reacted less, and due to the downward correction of GDP growth in the US in Q1, 10Y Treasuries strengthened even by c2bp.

MPC member, Eryk Łon, said in an interview with "Parkiet" daily that he believes the NBP rates may remain unchanged in 2018. In his view, inflationary pressure is "not very significant," and economic data do not indicate that the economy is growing too fast, and it is not likely that this will change next year. We still expect the first 25bp rate hike in 4Q18.

In response to official publication of bill on the ordinary courts, signed by the president Andrzej Duda last week, the European Commission (EC) launched infringement procedure against Poland. The Commission gave the Polish government a one month deadline to answer charges. Given further steps the EC can take (and support of other members states that is necessary for sanctions), we think that possibility of severe economic sanctions is low. Meanwhile, the Polish Parliament is on vacation, so until September important political changes are unlikely. Still, the EU-Poland conflict and possibility of tension escalating further can undermine investors' appetite towards Polish assets in the weeks to come.

This week, the market will remain focused on the US data, especially on the non-farm payrolls, due for release on Friday. In Poland, we will learn PMI and flash CPI for June that in our view will not have any material impact on the zloty and bonds. Both the consensus and us expect an upward move of CPI versus 1.5% recorded in June. Statistics Office estimates of this year's crops might mean an upward pressure on fruit prices in July and further months, as it showed risks for harvest of apples and stone fruits. On the other hand, the rainy weather prevented many farmers from spraying of parasites, so quality of fruit will be lower and this factor is likely to limit the upward price tendencies. Information on T-bond supply in August should be released today.

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FX market

Today's opening

EURPLN	4.2571	CZKPLN	0.1633
USDPLN	3.6288	HUFPLN*	1.3962
EURUSD	1.1731	RUBPLN	0.0608
CHFPLN	3.7474	NOKPLN	0.4585
GBPPLN	4.7603	DKKPLN	0.5725
USDCNY	6.7223	SEKPLN	0.4466

*for 100HUF

Last session in the FX market

28/07/2017

	min	max	open	close	fixing
EURPLN	4.246	4.263	4.250	4.252	4.2617
USDPLN	3.613	3.647	3.643	3.620	3.6406
EURUSD	1.166	1.176	1.166	1.175	-

Interest rate market

28/07/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.80	1	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.65	1	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.32	2	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	1.46	0	-0.25	0
2L	1.96	1	1.60	0	-0.15	1
3L	2.10	2	1.71	-1	-0.02	1
4L	2.26	3	1.81	-1	0.12	1
5L	2.40	4	1.91	-1	0.27	1
8L	2.71	4	2.14	-1	0.70	2
10L	2.87	4	2.26	-1	0.94	2

WIBOR rates

Term	%	Change (bps)
O/N	1.57	0
T/N	1.56	-2
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	1.77	0
9x12	1.81	0
3x9	1.82	0
6x12	1.84	0

Measures of fiscal risk

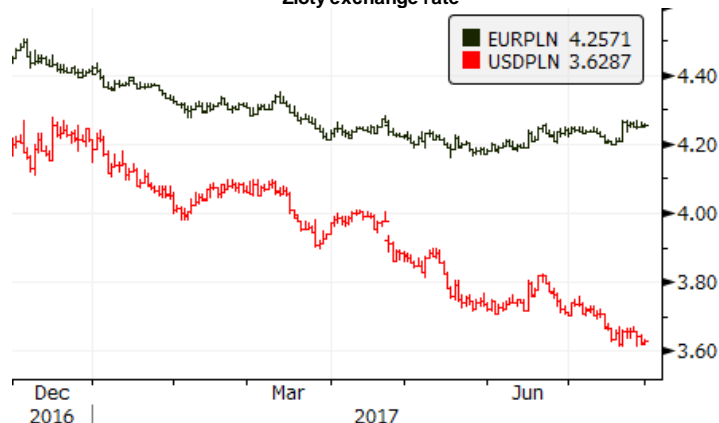
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.78	2
France	18	0	0.26	0
Hungary	116	1	2.57	0
Spain	64	1	0.96	-2
Italy	134	1	1.56	-2
Portugal	166	0	2.33	-2
Ireland	32	-1	0.29	0
Germany	13	1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

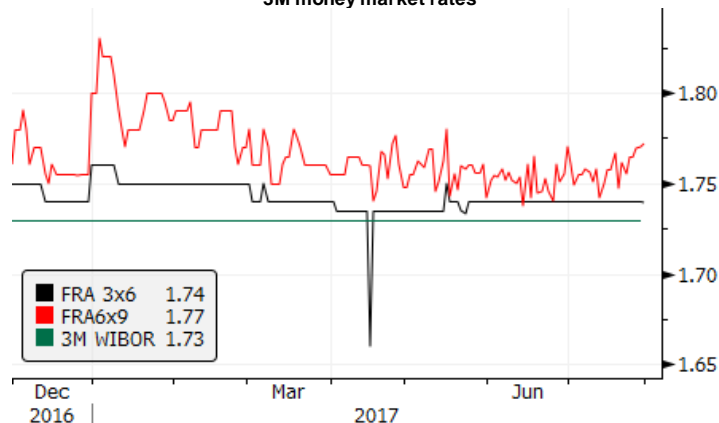
Zloty exchange rate



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 (28 July)								
14:30	US	Advance GDP	Q2	% y/y	2.5	-	2.6	1.2
16:00	US	Michigan index	Jul	pts	93.1	-	93.4	95.1
MONDAY (31 July)								
11:00	EZ	Flash CPI	Jul	% y/y	1.2	-		1.3
14:00	PL	Flash CPI	Jul	% y/y	1.7	1.6		1.5
16:00	US	Pending home sales	Jun	% m/m	1.0	-		-0.8
TUESDAY (1 August)								
9:00	PL	PMI – manufacturing	Jul	pts	53.5	54.0		53.1
9:00	HU	PMI – manufacturing	Jul	pts	-	-		57.2
9:30	CZ	PMI – manufacturing	Jul	pts	-	-		56.4
9:55	DE	PMI – manufacturing	Jul	pts	58.3	-		59.3
10:00	EZ	PMI – manufacturing	Jul	pts	56.8	-		57.3
11:00	EZ	First GDP Estimate	2Q	% y/y	2.1	-		1.9
14:30	US	Personal income	Jun	% m/m	0.4	-		0.4
14:30	US	Consumer spending	Jun	% m/m	0.2	-		0.1
14:30	US	Core PCE inflation	Jun	% y/y	-	-		1.4
16:00	US	ISM – manufacturing	Jul	pts	56	-		57.8
WEDNESDAY (2 August)								
14:15	US	ADP report	Jul	k	195	-		158
THURSDAY (3 August)								
09:55	DE	PMI – services	Jul	pts	53.5	-		53.7
10:00	EZ	PMI – services	Jul	pts	55.4	-		54.7
11:30	PL	Bond auction						
13:00	CZ	Central Bank decision		%	0.25	-		0.05
13:00	UK	Central Bank decision		%	0.25	-		0.25
16:00	US	ISM – services	Jul	pts	56.5	-		57.4
FRIDAY (4 August)								
08:00	DE	Factory orders	Jun	% m/m	-	-		1.0
14:30	US	Change in nonfarm payrolls	Jul	k	183	-		222
14:30	US	Unemployment rate	Jul	%	4.3	-		4.4

Source: BZ WBK. Reuters. Bloomberg

* in case of the revision. the data is updated

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