

EYEOPENER

1 August 2017

Polish debt market on the back foot

- **Minor changes on the stock market**
- **Moody's warns Poland after endorsement of ordinary courts bill**
- **Zloty and EURUSD stable**
- **Political issues and higher CPI weighed on the Polish fixed income market**
- **Today PMIs for July, 2Q GDP estimate for the Euro zone and US PCE inflation**

The final day of July was calm on the main stock exchanges. The moves of stock indices were smaller than in the previous sessions. After the Friday higher than expected CPI print from Germany investors adjusted their expectations about the July euro zone inflation and as a result the 1.3% y/y reading did not cause market reaction, even with core inflation rising from 1.1% y/y to 1.2%. Other data released on Monday sent a mixed signal: US pending home sales surprised positively but Chicago PMI – a business sentiment index that raised hopes for an economic boom a month ago – this time registered a large drop. The FX market was also calm and only at the end of the day dollar started to depreciate sharply.

In a reaction to official publication of bill on the ordinary courts Moody's issued an unfavourable note on Poland. The rating agency considered the current overhaul of law on courts and the related dispute with the European Commission as a factors creating a credit risk. The agency assumed also that presidential versions of the two bills he vetoed recently will not differ much from the original ones. Also yesterday another agency, S&P, showed a report about the possible shrinkage of EU funds coming to the CEE countries and what it could mean for their ratings. In its view, there could be a decline of EU flows to the region due to Brexit, current political disputes with the EU by CEE countries and the likely shift of priorities in the next EU fiscal framework. The conclusion of the S&P report was that the potential limitation of EU transfers, the institutional risks and demographic problems may cap the economic growth of CEE countries and deprive them of chances of a rating upgrade.

According to flash data, Polish CPI accelerated to 1.7% y/y in July from 1.5% y/y in June, versus our and market forecast at 1.6% y/y. No further details were released, but we assume that this surprise was due to food prices, especially fruit, as their supply was limited by freezes in April and May.

Today in the morning we learned that Polish manufacturing PMI surprisingly fell in July to 52.3pts, its lowest for eight months and well below consensus at 53.5pts and our forecasts at 54.0pts. This release looks pretty poor given the improving moods in Europe (e.g. Ifo) and rising climate indices for Poland (e.g. ESI, Statistics Office measures). Output index fell and pace of growth was the slowest for nine months. Total new orders rose at the slowest pace for eight months but export orders remained robust growing faster

than domestic orders. Employment index remained at a healthy level. Given the broad sentiment improvement seen abroad and measures for Poland calculated by other entities, we view today's data from Poland as a one-off.

For the better part of the day EURUSD was moving in 1.17-1.175 range, but shortly before the end of the European session a strong upward move began, driving the rate to 1.185. The dollar stayed under pressure of lower chances for introduction of Trump's fiscal package after the Congress still did not agree to terminate Obamacare. Given such political landscape, the market may be worried whether US budget spending limit issue will be resolved easily and whether we will see an administration shutdown in September. This may weigh on the dollar. Today PCE for the US will be in focus. FOMC outlined in its last post-meeting statement that inflation went down and this shaped to dovish message of the document and fueled the upward move of EURUSD.

The zloty did not react neither to signals from the European Commission nor to the Moody's statement. At the end of the day EURPLN was even pushed below 4.2450, but soon the rate rebounded to almost 4.26 and remained in the range set by moves from the last week.

The forint was also doing well, even though also this currency was under pressure of the planned changes in the Hungarian judiciary. The forint managed to gain versus the euro and EURHUF fell temporarily below 304. The ruble weakened to 60.4 per dollar after the Russian government announced its intention to limit the number of US diplomats. The Russian currency was also undermined by a slight fall in oil prices.

Yesterday, much more happened on the interest rate market than with the zloty. Core debt markets remained stable, whereas the euro zone periphery bond markets strengthened by several points. The Polish and Hungarian 10Y bonds yield increased by 3-4bp, and 10Y IRS rose 4bp. Short-end was under pressure of flash CPI and consequently 2Y yield rose 3bp.

The information on the T-bonds supply was the factor limiting Polish debt weakening. The Ministry of Finance announced that this month only one switch auction will take place (on Thursday). The sell back will include DS1017, WZ0118 and PS0418 and the following securities will be offered: OK0419 / PS0123 / WZ1122 / WZ0126 / DS0727 / WS0447. According to the Ministry, this year's gross borrowing needs are now covered in 71%.

Data on Polish marketable bonds denominated in PLN for June showed a debt increase by PLN 3.3bn, including PLN 3bn bought by domestic banks. Further PLN 2.5bn were acquired by foreign banks. Polish debt was bought by foreign pension funds (cPLN 1.2bn). The monthly rise of hedge funds holdings (PLN700mn) was the highest in the 3 years' history of detailed data. At the same time, in June the biggest monthly sell out of Polish bonds by Asian central banks took place (- PLN 2.5bn).

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FX market

Today's opening

EURPLN	4.2591	CZKPLN	0.1632
USDPLN	3.6020	HUFPLN*	1.3999
EURUSD	1.1824	RUBPLN	0.0601
CHFPLN	3.7212	NOKPLN	0.4574
GBPPLN	4.7599	DKKPLN	0.5727
USDCNY	6.7182	SEKPLN	0.4460

*for 100HUF

Last session in the FX market

31/07/2017

	min	max	open	close	fixing
EURPLN	4.245	4.261	4.254	4.260	4.2545
USDPLN	3.600	3.631	3.623	3.607	3.6264
EURUSD	1.172	1.183	1.174	1.181	-

Interest rate market

31/07/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.79	-1	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.70	5	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.35	3	23.03.2017	DS0727	3.568

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.79	1	1.46	0	-0.25	0
2L	1.97	2	1.59	0	-0.15	0
3L	2.12	2	1.71	-1	-0.02	0
4L	2.29	3	1.81	-1	0.13	1
5L	2.43	3	1.90	-1	0.28	1
8L	2.75	4	2.13	-1	0.71	0
10L	2.91	4	2.25	-1	0.94	0

WIBOR rates

Term	%	Change (bps)
O/N	1.49	-8
T/N	1.57	1
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	1.78	1
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	2.80	3
France	18	0	0.26	0
Hungary	116	1	2.59	-1
Spain	63	-1	0.93	-1
Italy	133	-1	1.54	-1
Portugal	167	1	2.30	-1
Ireland	32	-1	0.28	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

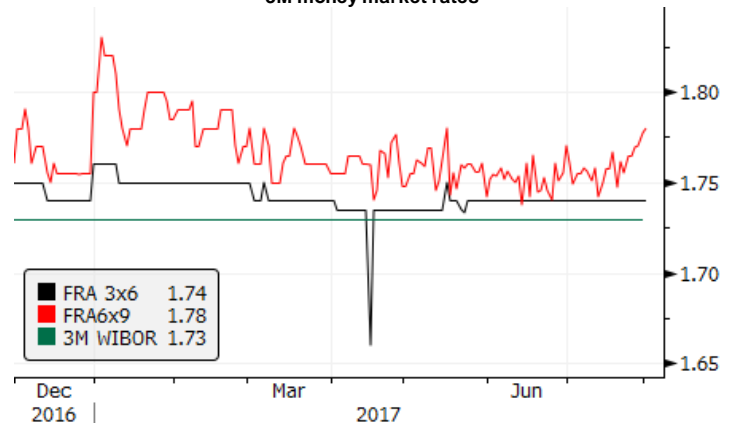
Zloty exchange rate



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 (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	1.3
14:00	PL	Flash CPI	Jul	% y/y	1.7	1.6	1.7	1.5
16:00	US	Pending home sales	Jun	% m/m	1.0	-	1.5	-0.7
TUESDAY (1 August)								
9:00	PL	PMI – manufacturing	Jul	pts	53.5	54.0	52.3	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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