

EYEOPENER

3 August 2017

Today bond switch auction

- **Stocks stable, bonds weaker**
- **New Presidential draft on mortgage loans**
- **EURPLN still near 4.25, dollar still under pressure**
- **Today decisions by Czech and British central banks, service PMIs, the sole August bond auction in Poland**

Sound companies quarterly earnings let the Dow Jones index to reach a new record, while in Europe most stocks fell yesterday. The employment data presented in ADP report were only a bit below the consensus but weighed somewhat on the dollar. Yesterday, global bonds lost slightly.

There were contradicting opinions of Fed members coming to the markets recently. St. Louis Fed governor James Bullard (a non-voter until 2018) said he would not support another rate hike anytime soon. In turn Loretta Mester (also currently without the right to vote on FOMC meetings) reckons that the recent decline in inflation was a one-off event and the policy of gradual tightening should be continued.

President Andrzej Duda presented his draft bill on CHF mortgage loans issue. The bill assumes creation of Restructuring Fund, financed by banks (max 0.5% of FX-denominated mortgage loans portfolio = PLN3.2bn per annum). Banks will be allowed to used their contributions to finance FX loans restructuring for 6 months. After that period, means will be transferred to a common pool all banks will be entitled to use. The bill also eases eligibility criteria and increased available funds for Creditors' Support Fund (debt to income ratio down to 50% from 60%, doubled income threshold per person in household, monthly support up to PLN2000 from PLN1500, total number of monthly supports up to 36 from 18). In our view, costs of the Restructuring Fund are manageable for banks. The issue of foreign currency denominated mortgage loans is currently losing importance as the Swiss franc continues to lose value and CHFPLN came down to 3.71 yesterday.

EURUSD continued its upswing, however the pace of the increase has slowed. July's ADP employment report was slightly weaker than expected which pushed EURUSD to 1.187. As a result, the exchange rate reached a this year's high above 1.19. In our opinion, the move from 1.14 to 1.19 was largely fueled by stop-loss orders and low market liquidity and we expect some correction in the short term.

EURPLN remained stable, close to 4.25 and has stayed in the 7-day range 4.23-4.27. USDPLN temporarily fell below 3.58.

We think that investors are still waiting for a stronger signal, after the mid-July zloty's depreciation. Ruble was still under the pressure and lost 0.6% against the dollar on daily basis, despite the oil prices rebound.

The main event of the day in the CEE region will be the decision of the Czech central bank (CNB) on the interest rates. After the CNB dropped the EURCZK floor in April, the market has started to price in a possible faster monetary policy tightening. The recent comments made by Czech central bankers were pretty straightforward, suggesting that rate hike should be expected this year. The market is not pricing in that a hike could be delivered already today but if it is, then koruna may gain vs the euro and 26 could be tested again (EURCZK stayed close to 26.1 today in the morning). The opinions of analysts are divided almost equally if there could be a rate hike today.

Bond yields of the US and German bonds remained stable yesterday. Polish debt and IRS rates also did not move much. Asset swap spread is not suggesting that the Polish market is under pressure due to the political conflict with the EU – the 10-year spread was at 48bp yesterday which is more less where it had been in the third decade of July. On the other hand, the 10-year spread between the Polish and German benchmark bonds increased by 20bp since the middle of July. Today there will be a switch auction which can also help understand how investors are perceiving the market now.

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FX market

Today's opening

EURPLN	4.2564	CZKPLN	0.1630
USDPLN	3.5914	HUFPLN*	1.4032
EURUSD	1.1852	RUBPLN	0.0592
CHFPLN	3.7084	NOKPLN	0.4546
GBPPLN	4.7531	DKKPLN	0.5722
USDCNY	6.7237	SEKPLN	0.4434

*for 100HUF

Last session in the FX market

02/08/2017

	min	max	open	close	fixing
EURPLN	4.249	4.258	4.254	4.254	4.2515
USDPLN	3.584	3.610	3.604	3.585	3.5863
EURUSD	1.179	1.187	1.181	1.187	-

Interest rate market

02/08/2017

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)	2.68	0	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.35	0	23.03.2017	DS0727	3.568

IRS on the interbank market**

Term	PL %	Change (bps)	US %	Change (bps)	EZ %	Change (bps)
1L	1.78	1	1.46	1	-0.25	0
2L	1.96	0	1.59	0	-0.16	0
3L	2.11	0	1.70	0	-0.05	0
4L	2.27	0	1.79	0	0.10	-1
5L	2.40	0	1.88	0	0.24	0
8L	2.72	-1	2.10	0	0.66	-1
10L	2.88	-1	2.21	0	0.89	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.57	-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	1.76	0
6x9	1.78	1
9x12	1.84	0
3x9	1.84	0
6x12	1.86	0

Measures of fiscal risk

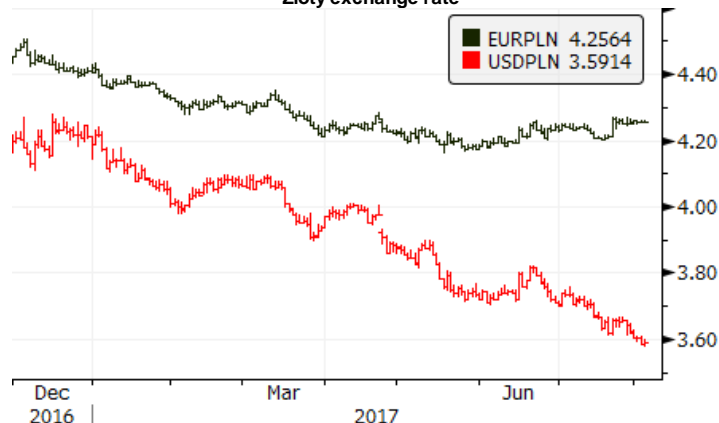
Country	CDS 5Y USD Level	Change (bps)	10Y spread* Level	Change (bps)
Poland	71	-1	2.86	-1
France	17	0	0.27	0
Hungary	116	1	2.61	-1
Spain	64	0	0.96	0
Italy	134	0	1.53	1
Portugal	161	0	2.35	1
Ireland	32	-1	0.29	0
Germany	13	1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

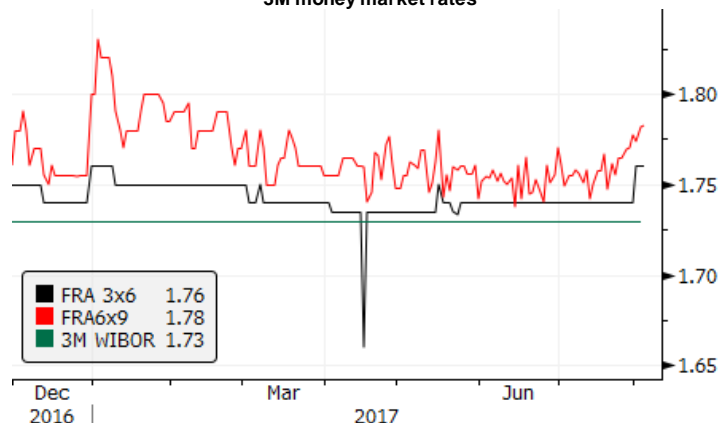
Zloty exchange rate



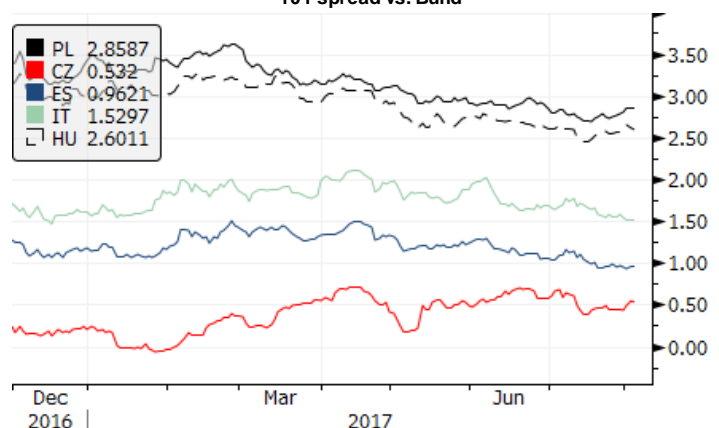
T-bonds yields



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	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	57.0	-	54.2	56.9
9:30	CZ	PMI – manufacturing	Jul	pts	56.2	-	55.3	56.4
9:55	DE	PMI – manufacturing	Jul	pts	58.3	-	58.1	59.3
10:00	EZ	PMI – manufacturing	Jul	pts	56.8	-	56.6	57.3
11:00	EZ	First GDP Estimate	2Q	% y/y	2.1	-	2.1	1.9
14:30	US	Personal income	Jun	% m/m	0.4	-	0.0	0.3
14:30	US	Consumer spending	Jun	% m/m	0.2	-	0.1	0.2
14:30	US	Core PCE inflation	Jun	% y/y	1.4	-	1.5	1.5
16:00	US	ISM – manufacturing	Jul	pts	56.0	-	56.3	57.8
WEDNESDAY (2 August)								
14:15	US	ADP report	Jul	k	190	-	178	191
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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