

EYEOPENER

8 August 2017

German data dissapoint again, but the euro stayed strong

- A slightly less upbeat mood at the start of the week
- MPC's Ancyparowicz does not assume no rate hikes in 2018
- The zloty stable vs the euro and the dollar, EURUSD withdrew partially from the Friday decline
- Polish yields slightly higher, small changes on core markets

No significant changes occurred on the market at the beginning of the week. The beneficial effect of Friday surprise from American labour market eased – there were slight declines on the stock markets and the dollar found it harder to appreciate. News from German industrial production was disappointing, which could also have contributed to the worse mood during the Monday session. This morning German export figures for July were published, only adding to the disappointment about real data from the key Euro zone economy. (an almost 3% m/m drop, while +0.2% was expected).

EURUSD fluctuated yesterday in a narrow band near 1.18. The dollar trimmed nearly half of its Friday gains vs the euro it had seen after the release of good US labour market data. Today there are no material data due so fluctuations will probably be limited. There will be more changes later this week when FOMC members are expected to make statements and when the US inflation data are to be released. The fact that FOMC had turned its attention to the recent decline in CPI in the July statement was one of the factors supporting the upward EURUSD trend.

EURPLN went up yesterday from 4.24 to 4.25 as a result of lower optimism on the global markets. USDPLN remained close to Friday maximum at c3.61. Data on Czech industrial output significantly below the expectations did not negatively impact the koruna and EURCZK went down to 26.08 after the increase to 26.16. The decrease in crude oil prices did not negatively impact the ruble (USDRUB went down slightly below 60 from 60.3) and the worse demand for risky assets did not prevent the forint appreciation (EURHUF went down from over 304.5 to 303.5). EURPLN has remained in 4.23-4.27 band set in the last week of July and is waiting for an impulse to direct the movement. Today there are no material data due and FOMC members won't be doing any statements so there could be limited fluctuations only. This morning

Hungarian data on inflation for July have been slightly stronger than expected. The Hungarian central bank has been dovish and we do not think this CPI print will materially impact its stance and the forint.

Yesterday the global bond market remained stable. Long end and middle part of the yield curve of US Treasuries and Bunds were shifted down by c2bp. The German curve noticed higher volatility, while US curve was just going down. On the front of the curve yields stayed unchanged. The weaker than expected industrial output from German was more less ignored by investors.

Domestic 10Y bonds were down slightly in late morning trading on Monday. As a result yields shifted up by 1bp. Front end and the middle part of the curve did not change yesterday. PLNFRA was changed only marginally, as contracts in the +12M segment were shifted up by c1bp. The CEE debt market remained stable. Investors have considered a comment by MPC's Grażyna Ancyparowicz as in line with the current understanding of the Council's plans.

In the next few days we do not expect important changes on the local and core debt markets. Light calendar and holiday season have caused a reduction of volatility.

We anticipate a bigger upward shift of the curve in the 2H of August. More data in economic calendar and expected strong set of domestic numbers will likely push the yield curve up.

MPC member Grażyna Ancyparowicz said yesterday in the interview for Thomson Reuters that interest rates should stay flat "at least until the end of the year or even longer". In her view, this should be warranted by the current inflation forecasts. At the same time, she said that this is rather unlikely that rates will not change at all in 2018 (while the central bank's governor Adam Glapiński claims the Council in his view will not take action until 2019). She is of the opinion that inflation will accelerate in mid-2018 and political tensions could intensify ahead of the local government elections. Ancyparowicz says that other central bank's actions shall not be a reason for tighter monetary policy in Poland. We still expect the first rate hike to come in 4Q18 and this is currently also the consensus view.

S&P rating agency opined that the presidential draft bill on CHF loans could actually be credit positive for the banking sector, contrary to what Moody's claims. The head of the financial regulator was also heard saying that the president's proposal should be the final and only solution to this issue.

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FX market

Today's opening

EURPLN	4.2553	CZKPLN	0.1629
USDPLN	3.6049	HUFPLN*	1.3986
EURUSD	1.1804	RUBPLN	0.0600
CHFPLN	3.7030	NOKPLN	0.4554
GBPPLN	4.6995	DKKPLN	0.5721
USDCNY	6.7069	SEKPLN	0.4427

*for 100HUF

Last session in the FX market

07/08/2017

	min	max	open	close	fixing
EURPLN	4.236	4.254	4.242	4.252	4.2469
USDPLN	3.591	3.609	3.603	3.607	3.5995
EURUSD	1.177	1.181	1.177	1.179	-

Interest rate market

07/08/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.79	0	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.67	-1	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.36	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	1.47	0	-0.25	0
2L	1.96	0	1.61	0	-0.16	0
3L	2.11	1	1.71	0	-0.04	-1
4L	2.26	1	1.80	-1	0.10	0
5L	2.39	-1	1.89	-1	0.23	-1
8L	2.70	-1	2.11	-2	0.65	1
10L	2.86	-2	2.22	-2	0.87	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.59	-1
T/N	1.59	-1
SW	1.60	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	2
9x12	1.84	0
3x9	1.84	0
6x12	1.86	0

Measures of fiscal risk

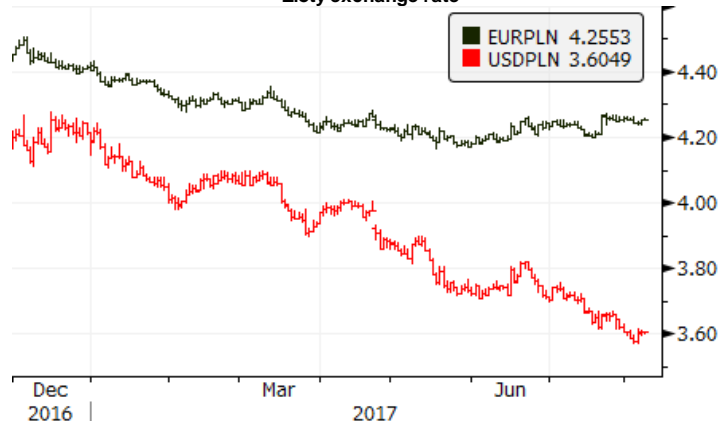
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.90	2
France	18	0	0.28	0
Hungary	116	1	2.62	0
Spain	65	1	0.98	0
Italy	134	0	1.53	0
Portugal	157	-3	2.37	0
Ireland	32	-1	0.28	-1
Germany	12	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

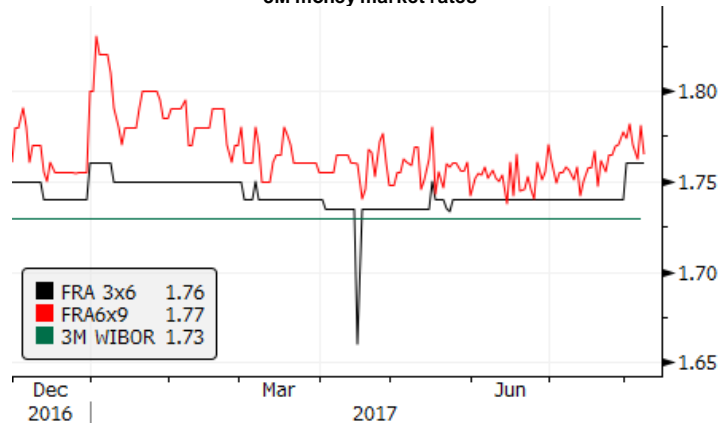
Zloty exchange rate



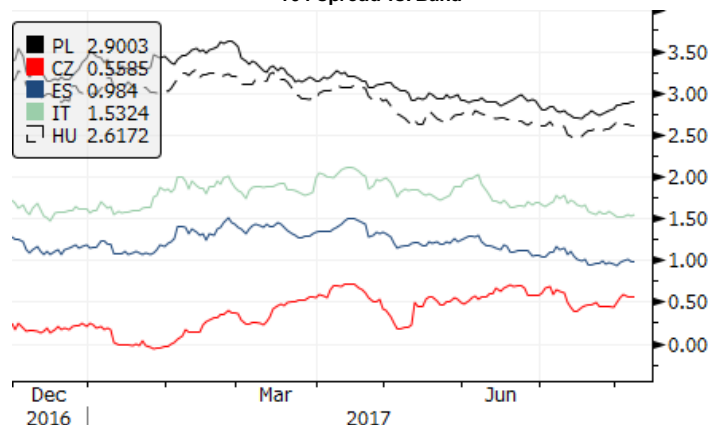
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar								
TIME CET	COUNTRY	INDICATOR	PERIO D		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	BZWBK		
FRIDAY (4 August)								
08:00	DE	Factory orders	Jun	% m/m	0.5	-	1.0	1.1
14:30	US	Change in nonfarm payrolls	Jul	k	183	-		222
14:30	US	Unemployment rate	Jul	%	4.3	-		4.4
MONDAY (7 August)								
8:00	GE	Industrial output	Jun	% m/m	0.2	-	-1.1	1.2
9:00	CZ	Industrial output	Jun	% y/y	7.0	-	2.2	8.1
TUESDAY (8 August)								
8:00	GE	Exports	Jun	% m/m	0.2	-2.8		1.5
9:00	HU	CPI	Jul	% y/y	2.0	2.1		1.9
WEDNESDAY (9 August)								
9:00	CZ	CPI	Jul	% y/y	2.3	-		2.3
THURSDAY (10 August)								
14:30	US	Initial jobless claims	week	k	-	-		240
FRIDAY (11 August)								
14:00	PL	CPI	Jul	% y/y	1.7	1.7		1.5
14:00	PL	Current account	Jun	€m	-750	-		-179
14:00	PL	Exports	Jun	€m	16 577	-		16257
14:00	PL	Imports	Jun	€m	16 457	-		16457
14:30	US	CPI	Jul	% m/m	0.2	-		0.0

Source: BZ WBK, Reuters, Bloomberg

* in case of the revision the data is updated

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