

EYEOPENER

22 August 2017

Market sentiment still dimmed

- **Weak sentiment at the start of the week**
- **Zloty slightly stronger vs the euro, gained vs the dollar due to a rise of EURUSD**
- **Global and domestic yields somewhat lower**
- **Today German ZEW index and Hungarian central bank decision**

At the start of the week the market sentiment was moderately negative. Political issues remained in the foreground (tension between USA, China and North Korea), while good data about US consumer confidence released on Friday has been ignored. As a result, stock market indices were falling and bonds were strengthening, although changes were not big. Fluctuations were limited, which could have resulted from the lack of major data releases and the state of expectation for the central banks' symposium in Jackson Hole starting on Thursday.

EURUSD rose yesterday above 1.18 from 1.174, but the scale of move was slight and the rate remained in a horizontal trend observed since the start of the month. EURUSD has been staying relatively close to its multi-year high at 1.19 for two weeks already, awaiting the impulse. This week on Thursday the Jackson Hole central bankers' meeting starts and it seems that comments of Mario Draghi or Janet Yellen might determine the direction for the exchange rate. Until then the fluctuations may remain muted.

EURPLN dropped slightly below 4.27 from close to 4.28. In case of USDPLN the yesterday move was more marked and caused by a rise of EURUSD – the zloty appreciated to 3.615 from 3.645 vs USD. We expect EURPLN to remain within 4.25-4.30 range, waiting for what the world's main central bankers have to say at Jackson Hole. For the time being, the global market mood is the key factor when it comes to the zloty.

In the case of the other CEE currencies volatility was also limited. EURHUF fell temporarily below 303 but the outlook for today's decision of the Hungarian central bank (MNB) limited the room for continuation of the downward move. Investors suspect that MNB would try to modify its rhetoric in order to hit the forint that has recently reached its strongest levels vs the euro for the last two years.

On Monday we observed stabilisation on the core debt markets. Yields on most Euro zone, US and developed Asian debt markets remained at low levels with slight tendencies to decrease. The yield drop was fueled by the slide of stocks and commodities market as well as by high level of geopolitical risk, which is a consequence of conflict between the US and North Korea as well as further resignations from White House staff (chief strategist Steve Bannon resigned on Friday). Additionally markets were negatively influenced by last week terror attacks in Europe. For now market participants didn't price in the possibility that a signal about imminent winding down of ultra-easy monetary policy could be sent by central bankers at Jackson Hole.

As a result yields of US and German 10Y T-bonds dropped by c1bp. Some of the yields of the remaining Euro zone countries slightly decreased, other stabilised. CEE countries bonds as well as Turkish bonds has shifted down a little more.

Yields of domestic bonds increased slightly at the beginning of Monday but slid below the Friday close at the end of the day, mainly owing to the downshift of IRS rates. As a consequence yields of Polish bonds dropped by 2-3bp in the long end of the curve and by 1-2bp in the middle part of the curve. Short end stayed stable. Those changes fitted the market trend of gradual reduction of forward swap 5Yx5Y contract seen for EUR and USD. Domestic FRA and WIBOR rates remained stable.

We still maintain our base scenario of some sell-off of Polish t-bonds before the Jackson Hole symposium (which starts on Thursday evening). The debt price discount will be supported by the releases of leading indicators (European PMI and US industrial new orders). We think that the market will react more visibly in the second part of the week. The ZEW indexes, which will be released today should be neutral for the interest rates market.

Today „Dziennik Gazeta Prawna” Daily writes that the next step in the pension system reform – transfer of the remaining funds from private pension funds (OFE) to mutual funds and to Demographic Reserve Fund – has a green light at the cabinet level and could start on 1 July 2018 (or in 2019 if technical problems arise). A draft bill on the reform should start to circulate in September. This is a more distant horizon than suggested by the previous comments on this issue.

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FX market

Today's opening

EURPLN	4.2744	CZKPLN	0.1638
USDPLN	3.6249	HUFPLN*	1.4085
EURUSD	1.1791	RUBPLN	0.0613
CHFPLN	3.7547	NOKPLN	0.4588
GBPPLN	4.6672	DKKPLN	0.5747
USDCNY	6.6550	SEKPLN	0.4483

*for 100HUF

Last session in the FX market

21/08/2017

	min	max	open	close	fixing
EURPLN	4.268	4.281	4.275	4.277	4.2747
USDPLN	3.612	3.646	3.634	3.618	3.6408
EURUSD	1.173	1.183	1.175	1.182	-

Interest rate market

21/08/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.75	-1	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.60	-3	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.27	-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	1	1.45	-1	-0.26	0
2L	1.94	0	1.56	-2	-0.18	-1
3L	2.07	1	1.65	-3	-0.07	-2
4L	2.19	0	1.74	-3	0.06	-2
5L	2.31	0	1.82	-2	0.19	-2
8L	2.60	-1	2.03	-2	0.59	-2
10L	2.75	-1	2.13	-2	0.82	-3

WIBOR rates

Term	%	Change (bps)
O/N	1.59	0
T/N	1.59	0
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	1.75	0
6x9	1.77	1
9x12	1.82	0
3x9	1.83	0
6x12	1.85	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.87	-3
France	20	0	0.30	0
Hungary	116	1	2.63	0
Spain	69	0	1.13	-1
Italy	138	0	1.63	0
Portugal	166	-1	2.32	0
Ireland	32	-1	0.33	0
Germany	14	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

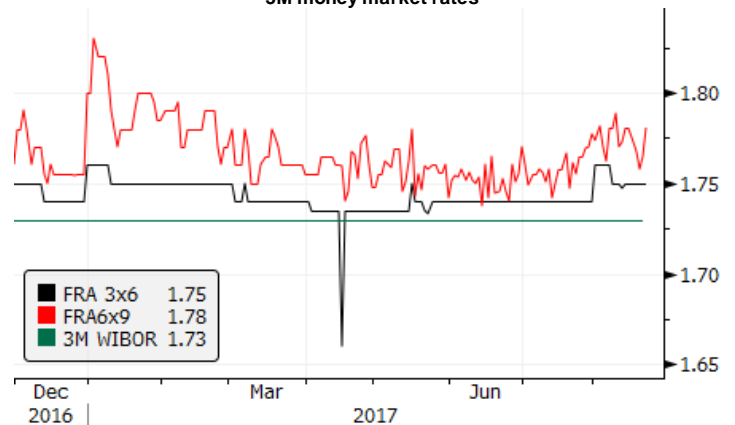
Zloty exchange rate



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 (18 August)								
14:00	PL	Industrial output	Jul	% y/y	8.4	8.5	6.2	4.5
14:00	PL	Construction and assembly output	Jul	% y/y	13.7	13.3	19.8	11.6
14:00	PL	Retail sales	Jul	% y/y	7.4	7.0	6.8	5.8
14:00	PL	PPI	Jul	% y/y	2.0	1.9	2.2	1.8
16:00	US	Flash Michigan	Aug	pts.	94.0	-	97.6	93.4
MONDAY (21 August)								
14:30	US	Chicago Fed index	Jul	pts	0.10	-	-0.01	0.16
TUESDAY (22 August)								
11:00	DE	ZEW indeks	Aug	pts	85.3	-		86.4
14:00	HU	Central bank rate decision	Aug	%	0.90	-		0.90
WEDNESDAY (23 August)								
9:30	DE	Flash PMI - manufacturing	Aug	pts	57.7	-		58.1
9:30	DE	Flash PMI - services	Aug	pts	53.3	-		53.1
10:00	EC	Flash PMI - manufacturing	Aug	pts	56.3	-		56.6
10:00	EC	Flash PMI - services	Aug	pts	55.4	-		55.4
14:00	PL	Money supply	Jul	% y/y	5.1	5.0		5.0
15:45	US	Flash PMI - manufacturing	Aug	pts	53.4	-		53.3
15:45	US	Flash PMI - services	Aug	pts	54.9	-		54.7
16:00	US	New home sales	Jul	% m/m	0.0	-		0.8
THURSDAY (24 August)								
10:00	PL	Unemployment rate	Jul	%	7.1	7.1		7.1
14:00	PL	MPC minutes						
14:30	US	Initial jobless claims	Aug	k	236	-		232
16:00	US	Existing home sales	Jul	% m/m	0.7	-		-1.8
FRIDAY (25 August)								
8:00	DE	GDP SA	2Q	% q/q	0.6	-		0.6
10:00	DE	Ifo index	Aug	pts	115.5	-		116.0
10:00	PL	LFS unemployment rate	2Q	%	4.8	4.8		5.4
14:30	US	Durable goods orders	Jul	% m/m	-6.0	-		6.4

Source: BZ WBK. Reuters. Bloomberg

* in case of the revision the data is updated

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