

EYEOPENER

24 August 2017

PLN weakened despite strong business sentiment

- **Markets cautious despite very good Euro zone PMIs**
- **Polish business sentiment indices still high in August**
- **Rise of EURPLN and EURUSD**
- **Polish yields unchanged, core bonds stronger**
- **Today unemployment, a sketch of 2018 budget, MPC minutes plus US data and the start of Jackson Hole event**

The main event of the yesterday's session was the publication of flash services and manufacturing PMIs in the Euro zone that surprisingly rose. Readings for manufacturing looked impressive, particularly for Germany that was well above consensus. In the market's view, such figures made hawkish message from the ECB more likely at the Jackson Hole and as a result the single currency gained vs the dollar and the outlook for less accommodative monetary policy in the Euro zone weighed on the CEE currencies. Bonds on the core markets gained which was largely due to concerns about the situation in the US. Donald Trump said on Tuesday evening that the US might end the NAFTA trade treaty. He added that he may risk the government shutdown when the debt reaches its ceiling in September in order to secure funding for the wall at the Mexican border. The weaker-than-expected US data provided additional support for bonds.

EURUSD rebounded yesterday to slightly above 1.18 from 1.174 after the strong data from Europe and disappointing releases from the US. Just like we suggested, the data triggered some higher intraday volatility but the exchange rate stayed in the horizontal trend observed since the beginning of the month. We think that central bankers' comments at the Jackson Hole symposium that starts today may end this stabilization.

Yesterday EURPLN got close to 4.29 due to the rising probability that the ECB will soon signal withdrawal from ultra-loose policy. Stock markets declines also had negative impact on the zloty. The rise of EURUSD made USDPLN decline to 3.625 from 3.64.

Hungarian forint was the strongest CEE currency yesterday – EURHUF fell again below 303 despite poor global market sentiment and European data supporting the scenario of less accommodative monetary policy. At the same time, EURCZK rose to 26.13 from 26.08 and USDRUB touched 59.24 vs 59.03 in the morning (but data on lower oil inventories in the US pushed the exchange rate back to the opening level).

Domestic IRS rates and yields did not change much, and looked much more stable yesterday than they did a week ago. Polish bonds did not take advantage of the strengthening witnessed in the core markets, where we saw a decline in yields by c3bp. The Jackson Hole symposium begins today. We expect that domestic and core yields and rates may become more volatile in response to this event as Mario Draghi and Janet Yellen unveil their prescriptions for monetary policy.

The pace of money supply growth has stabilised at 5.0% in July, having remarkably slowed down in the past several months. The pace of credit growth, after elimination of exchange rate fluctuations, also remained stable – loans for individuals were increasing by slightly above 4% y/y, while for the corporate sector by c6% y/y. Corporate investment loans rose by c12% y/y (compared to 14% y/y – recorded in June), slightly slower than in 1H2017.

Polish stat office (GUS) business sentiment survey showed that situation in construction and in service sectors oriented to households (retail trade, accommodation and gastronomy) continued to improve in August after applying seasonal adjustment. For manufacturing, the seasonally adjusted index fell to 5.5pts from 6.4pts suggesting (just like the PMI) that pace of improvement has slowed but the level of optimism is pretty high. It is hard to view the GUS survey as reason for concern – current industrial output index rose to its second highest level since spring 2008 (it was seen higher only in April this year) and the index of expected output rose further in August. That is why we think that the July's lower-than-expected industrial output reading should not worry. GUS survey showed that demand for labour is strengthening. At the same time, the vast majority of sectors claimed rising difficulties in finding qualified workforce.

The registered unemployment rate probably remained unchanged in July at 7.1%, which is already a record low level. In fact, the level was so low that we considered the labour market to be almost deprived of any slack. The June deceleration in employment growth seemed to strengthen this view. And yet the data on employment for July surprised with a massive monthly increase, suggesting it is still possible to get new employees on the market without a big swing in wages. More detailed data in the Statistical Bulletin due this week should help to solve this riddle.

MPC minutes from the July meeting will be released, but there is little to expect from this document. We still assume that the view of governor Adam Glapiński is the prevailing one, meaning that rates should stay on hold for at least another year. Also today the government is to present the first sketch of the 2018 budget.

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FX market

Today's opening

EURPLN	4.2843	CZKPLN	0.1641
USDPLN	3.6321	HUFPLN*	1.4153
EURUSD	1.1796	RUBPLN	0.0615
CHFPLN	3.7608	NOKPLN	0.4622
GBPPLN	4.6476	DKKPLN	0.5760
USDCNY	6.6629	SEKPLN	0.4503

*for 100HUF

Last session in the FX market

23/08/2017

	min	max	open	close	fixing
EURPLN	4.270	4.288	4.273	4.285	4.2767
USDPLN	3.625	3.641	3.632	3.631	3.6274
EURUSD	1.174	1.182	1.176	1.180	-

Interest rate market

23/08/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.74	-2	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.61	-2	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.31	-1	23.03.2017	DS0727	3.568

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.77	-1	1.45	-1	-0.26	0
2L	1.93	-1	1.56	-2	-0.18	0
3L	2.06	0	1.65	-2	-0.07	0
4L	2.19	0	1.73	-3	0.05	-1
5L	2.31	0	1.81	-3	0.18	-1
8L	2.60	0	2.02	-3	0.57	-2
10L	2.76	0	2.12	-3	0.81	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.59	-1
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	2.93	-1
France	21	1	0.31	0
Hungary	116	1	2.62	0
Spain	71	1	1.18	-1
Italy	147	2	1.73	0
Portugal	166	0	2.41	0
Ireland	32	-1	0.34	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

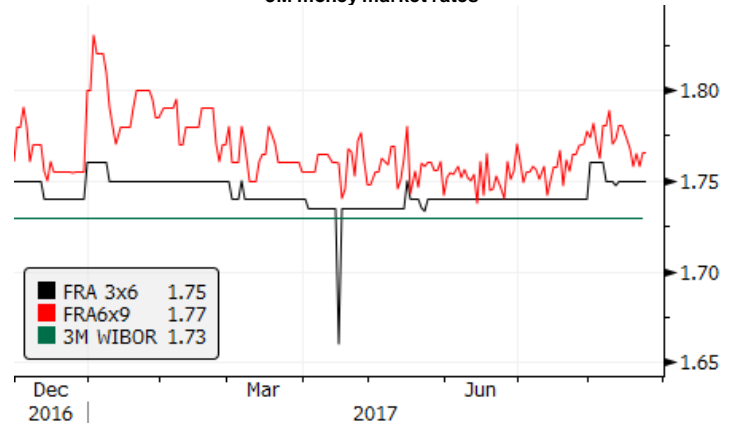
Zloty exchange rate



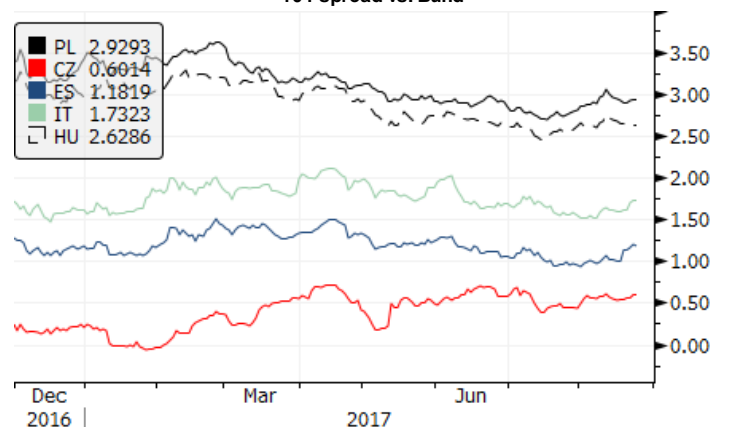
T-bonds yields



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 (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	-	86.7	86.4
14:00	HU	Central bank rate decision	Aug	%	0.90	-	0.90	0.90
WEDNESDAY (23 August)								
9:30	DE	Flash PMI - manufacturing	Aug	pts	57.6	-	59,4	58.1
9:30	DE	Flash PMI - services	Aug	pts	53.3	-	53,4	53.1
10:00	EC	Flash PMI - manufacturing	Aug	pts	56.3	-	57,4	56.6
10:00	EC	Flash PMI - services	Aug	pts	55.4	-	54,9	55.4
14:00	PL	Money supply	Jul	% y/y	5.1	5.0	5,0	5.0
15:45	US	Flash PMI - manufacturing	Aug	pts	53.5	-	52,5	53.3
15:45	US	Flash PMI - services	Aug	pts	54.9	-	56,9	54.7
16:00	US	New home sales	Jul	% m/m	0.0	-	-9,4	1.9
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	238		232
16:00	US	Existing home sales	Jul	% m/m	0.5	-		-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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