

EYEOPENER

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Korean crisis may hit markets

- **Polish PMI below forecasts, mixed data from US**
- **Polish FX market was more volatile at the end of the week, EURUSD decreased**
- **Core and domestic yields were pull down owing to risk aversion**
- **Korean Crisis in the spotlight again**

The US data releases had the biggest impact on markets at the end of last week. The monthly jobs report was much weaker than expected. Non-farm employment rose by merely 156,000 in August, and the reading for July has been revised down. Moreover, wage growth was lower than predicted and the unemployment rate increased. The markets' first reaction was the weakening of the dollar, strengthening of bonds and falling equity prices, but those movements were not persistent, as the market was awaiting for the US manufacturing ISM. The index surprised clearly to the upside, rising to the highest level since April 2011 and the reading had negative impact on bonds, while being neutral for the dollar.

Polish manufacturing PMI disappointed again, reaching 52.5 in August (vs 52.3 in July). The activity indicator for Polish manufacturing has clearly diverged from the corresponding index for the euro zone, which is quite surprising, as the euro area is Poland's biggest trading partner. The report confirmed that domestic orders rose faster than external ones, which is in contrast to the recent past. However, we also see the growing evidence of supply-side constraints affecting Polish firms due to the tightening labour market. PMI report says that Polish firms reported a rise in backlogs of work for the first time since February 2015, with the shortages of labour and supply constraints as potential causes. This suggests some caution regarding the GDP growth outlook for the coming quarters.

EURUSD rose sharply on Friday to almost 1.20 from 1.192 after the US labour market data were released, but it was back near 1.19 just before the ISM index publication. Strong data from the US manufacturing sector did not affect the market significantly and at the end of the Polish session the EURUSD was slightly below 1.19. The renewal of Korean crisis could have negative impact on the dollar. Later this week the dollar will be under influence of comments of US central bankers and the anticipation of ECB decision.

EURPLN and USDPLN were decreasing since the start of Friday's session thanks to good moods on the global market. In reaction to the first pack of US data the zloty gained even more versus euro (EURPLN fell below 4.24) and USDPLN fell quickly (yet temporarily) to 3.54. At the end of the Polish trading hours the zloty trimmed earlier gains and the zloty ended the session near 4.255 and USDPLN above 3.58, which could have been triggered by strong data from the US manufacturing.

Domestic sovereign yields dropped slightly on Friday, by c2bp, owing to global markets trend. Polish debt outperformed its German and US peers where the 10Y yields rose by 3-5bp. No important data are on the agenda at the beginning of the weeks so we expect the bond yields to fall amid higher risk aversion spurred by renewed concerns about situation in North Korea. Later this week we expect the Fed members to speak while on Thursday market players will focus on the ECB conference.

Last week the Ministry of Finance released data on holders of Polish PLN marketable bonds at the end of July. Data showed that foreign investors sold debt for nominal amount of PLN2.6bn – mainly mutual funds (-PLN660mn), nonfinancial entities (-PLN633mn) and commercial banks (PLN-526mn). Under the geographical criteria, the main sellers were from the non-euro zone EU countries (-PLN1.9bn) while the biggest group of purchasers were from the euro zone (PLN1.1bn). Investors from North America bought Polish debt for PLN335mn. Among domestic investors, commercial banks' portfolio contracted by more than PLN6.7bn (the biggest monthly drop since October 2015) but this to a large extent might have been due to maturity of OK0717 which banks held more than PLN5bn at the end of June and might have not managed to reinvest funds. Polish mutual funds bought debt for PLN1.3bn and "others" raised holdings by nearly PLN2.5bn.

This week the ECB holds a meeting and in our view this could be the main event for the market. We think that the tone of the statement and outcome of the press conference might sound rather dovish given the recent signals from the central bank and the euro's strength. Also, numerous FOMC members will speak in the coming days. Polish central bankers meet after August holiday break and we expect the dovish rhetoric to be maintained. At the end of the week Moody's may release its review of Poland's rating. In our opinion the agency will decide to affirm A2 rating with stable outlook so there should be hardly any market reaction to this event.

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FX market			
Today's opening			
EURPLN	4.2590	CZKPLN	0.1634
USDPLN	3.5818	HUFPLN*	1.3925
EURUSD	1.1891	RUBPLN	0.0621
CHFPLN	3.7307	NOKPLN	0.4592
GBPPLN	4.6361	DKKPLN	0.5727
USDCNY	6.5374	SEKPLN	0.4487

*for 100HUF

Last session in the FX market					01/09/2017
	min	max	open	close	fixing
EURPLN	4.237	4.258	4.252	4.253	4.2457
USDPLN	3.539	3.588	3.579	3.587	3.5693
EURUSD	1.185	1.198	1.188	1.186	-

Interest rate market 01/09/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.70	0	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.62	2	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.30	1	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	1.44	0	-0.26	0
2L	1.92	1	1.55	1	-0.19	0
3L	2.05	1	1.64	1	-0.09	0
4L	2.19	2	1.71	1	0.03	0
5L	2.31	2	1.79	1	0.16	0
8L	2.62	3	1.99	2	0.57	1
10L	2.78	3	2.10	2	0.81	2

WIBOR rates

Term	%	Change (bps)
O/N	1.58	8
T/N	1.59	3
SW	1.59	1
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	1.78	2
9x12	1.81	0
3x9	1.83	1
6x12	1.84	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.93	2
France	21	0	0.31	1
Hungary	116	1	2.59	1
Spain	67	-1	1.22	0
Italy	145	-1	1.70	0
Portugal	165	-1	2.44	0
Ireland	32	-1	0.32	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

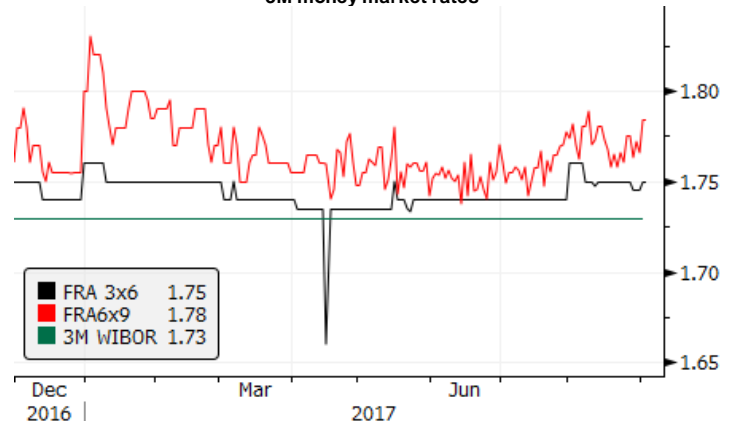
Zloty exchange rate



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 (1 September)								
3:45	CN	PMI – manufacturing	Aug	pts	51.0	-	51.6	51.1
9:00	PL	PMI – manufacturing	Aug	pts	53.0	54.0	52.5	52.3
9:00	CZ	Preliminary GDP	Q2	% y/y	4.5	-	4.7	3.0
9:55	DE	PMI – manufacturing	Aug	pts	59.4	-	59.3	58.1
10:00	EZ	PMI – manufacturing	Aug	pts	57.4	-	57.4	56.6
14:30	US	Non-farm payrolls	Aug	k	180	-	156	189
14:30	US	Unemployment rate	Aug	%	4.3	-	4.4	4.3
16:00	US	ISM – manufacturing	Aug	pts	56.4	-	58.8	56.3
16:00	US	Michigan index	Aug	pts	97.3	-	96.8	93.4
MONDAY (4 September)								
No important data releases								
TUESDAY (5 September)								
9:00	HU	GDP	Q2	% y/y	3.2	-		4.2
9:55	GE	PMI – services	Aug	pts	53.4	-		53.1
10:00	EZ	PMI – services	Aug	pts	54.9	-		55.4
11:00	EZ	GDP	Q2	% y/y	2.2	-		1.9
16:00	US	Industrial orders	Jul	% m/m	-3.2	-		3.0
WEDNESDAY (6 September)								
	PL	MPC decision						
8:00	GE	Industrial orders	Jul	% m/m	0.3	-		1.0
9:00	CZ	Industrial output	Jul	% y/y	6.7	-		2.2
16:00	US	ISM – services	Aug	pts	55.1	-		53.9
20:00	US	Fed Beige Book						
THURSDAY (7 September)								
8:00	GE	Industrial output	Jul	% m/m	0.5	-		-1.1
13:45	EZ	ECB decision		%	0.0	-		0.0
14:30	US	Initial jobless claims	week	k	-	-		236
FRIDAY (8 September)								
	PL	Poland rating review by Moody's						
8:00	GE	Exports	Jul	% m/m	1.3	-		-2.7
9:00	HU	CPI	Aug	% y/y	2.5	-		2.1

Source: BZ WBK, Reuters, Bloomberg

* in case of the revision the data is updated

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