

EYEOPENER

5 September 2017

Positive Moody's report

- Relatively stable beginning of the week, US market was closed
- PLN appreciated owing to positive Moody's report, CEE currencies under pressure
- Core and domestic bonds rose fueled by risk aversion
- Today European PMI services and US industrial orders

Another test of a strategic weapon by North Korea had a clear negative impact on the global sentiment at the very start of the week. However, the strengthening of Japanese yen and Swiss franc, the weakening of US dollar and declines on the stock markets were not continued in the next hours of the session, which could have resulted largely from the absence of US investors. Yields of German and Polish bonds decreased. Today we expect to see appreciation of domestic assets, although equity markets in Asia were reacting negatively.

A few days before the rating review (September 8), the Moody's rating agency has revised its forecasts for Poland. GDP growth forecast for 2017 has been moved from 3.2% to 4.3% and expected fiscal deficit has been reduced to 2.5% this year. Agency said that the forecast revision is rating positive, which theoretically could suggest that in a few days we may see an improvement of rating outlook to positive. However, we think that such scenario is not very likely. When Moody's decided to change outlook from negative to stable in May, it was justified by the government's declaration to keep fiscal deficit below 3% of GDP and the good performance of the budget in the first months of the year, accompanied by strong economic growth. However, in the note released at the end of July the agency was pointing out the risk for the rating stemming from the building conflict with the European Commission (EC) and the planned changes in judiciary. One year ago Moody's did not publish the full report about Poland in September, despite two weeks earlier it was warning about negative consequences of the row with the EC about the Constitutional Court. Thus, we think it is not so certain that the rating review will be published this time. And even if it will, we doubt that the faster economic growth and slightly lower expected fiscal gap would be enough to improve the rating outlook to positive.

According to a document by Moody's released in May a sufficient reason for a rating upgrade would be a start of reforms to improve long-term sustainability of the social security system or structural reforms that would further increase medium term growth prospects and labour productivity. In our view as the retirement age is about to be lowered a rise of the economic forecast by Moody's is just not enough to warrant a rating upgrade.

EURUSD remained stable around 1.19 on Monday. In the previous week the exchange rate reacted to the increased tension between the USA and North Korea was a depreciation of the dollar and its yesterday stability might be linked to the absence of American investors due to a public holiday. It is possible that the reaction to the recent events in Asia will come only today, but last week there was only a short-lived market response to a rocket launch by North Korea in the direction of Japan. Final data on PMI service indices for the Euro zone should not deviate from preliminary readings, so their market impact should be almost invisible. US factory orders is in our view the only publication today that could be meaningful for the markets.

EURPLN went up at the beginning of the session to 4.265, but in the following hours the zloty strengthened and temporarily declined below 4.24. The zloty was outperforming other CEE currencies yesterday, which could be attributed to the Moody's report. EURPLN has broken out of the 4.25-4.29 range and the closest support is now 4.235. In our view the level could be tested this week if the ECB meeting will be as dovish as the Mario Draghi speech at Jackson Hole. EURHUF rose yesterday above 306 from 305.5, USDRUB rebounded from 57.4 where it stayed on Friday to 57.89 and EURCZK was oscillating around 26.07.

The domestic interest rate market started the week with a 3-4bp decline of yields across the bond curve and on 10y IRS. Increase of risk aversion lowered the German curve by 1bp. Today US investors are back and their reaction to the events in Asia may set the tone during today's session. There will be many speeches of FOMC members later this week and the ECB meeting ends on Thursday so the moves can be limited as the markets await these events. We think yields could head a bit lower today.

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FX market			
Today's opening			
EURPLN	4.2377	CZKPLN	0.1625
USDPLN	3.5597	HUFPLN*	1.3845
EURUSD	1.1905	RUBPLN	0.0616
CHFPLN	3.7211	NOKPLN	0.4565
GBPPLN	4.6045	DKKPLN	0.5698
USDCNY	6.5356	SEKPLN	0.4474

*for 100HUF

Last session in the FX market 04/09/2017					
	min	max	open	close	fixing
EURPLN	4.238	4.265	4.255	4.241	4.257
USDPLN	3.557	3.589	3.578	3.567	3.5718
EURUSD	1.185	1.192	1.186	1.189	-

Interest rate market 04/09/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.68	0	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.58	-1	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.26	-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	1.44	0	-0.26	0
2L	1.91	-1	1.54	-1	-0.19	-1
3L	2.05	-1	1.62	-2	-0.09	-1
4L	2.18	-1	1.71	-1	0.02	-1
5L	2.30	-1	1.80	1	0.16	0
8L	2.59	-3	2.01	2	0.55	-1
10L	2.76	-3	2.08	-2	0.79	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.58	0
T/N	1.59	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	1.75	0
6x9	1.76	-3
9x12	1.81	0
3x9	1.83	0
6x12	1.84	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.88	-3
France	21	0	0.32	0
Hungary	116	1	2.59	-2
Spain	67	0	1.18	0
Italy	145	0	1.68	0
Portugal	165	0	2.45	0
Ireland	32	-1	0.32	0
Germany	14	1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

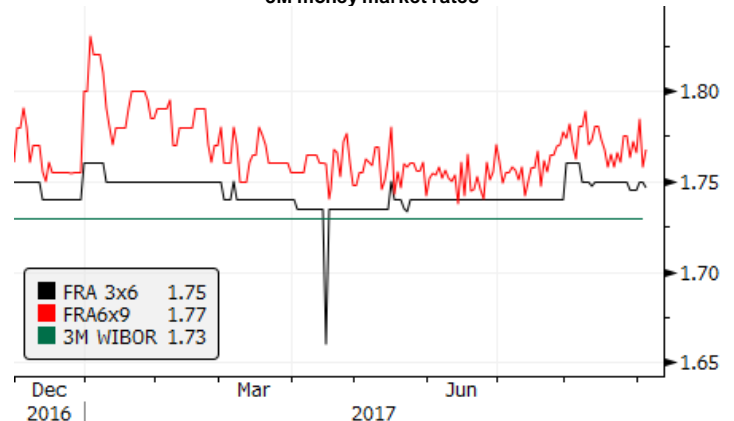
Zloty exchange rate



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	-	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
16:00	US	Industrial orders	Jul	% m/m	-3.3	-		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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