

EYEOPENER

6 September 2017

Geopolitics weights on markets

- **Market doubt for monetary policy strenghten was erased by Dovish Fed' member Lael Brainard statement**
- **Zloty gains owing to positive Moody's report and Fed signals**
- **Core and domestic yields dropped thanks to relaxing Fed communication and weak global macro data**
- **Today Polish MPC decision**

Geopolitical concerns spurred by North Korea and a set of weaker than expected US and European data proved supportive for core and Polish debt market. The zloty also gained, unlike the remaining CEE currencies, which might have been the consequence of a Monday's Moody's report. We think Polish assets could continue to gain today. Polish MPC shall leave interest rates unchanged.

FOMC member Lael Brainard said yesterday that the central bank should be cautious in raising rates until the Fed is not convinced that inflation is on its way to the target.

Tensions related to North Korea missile testing and unsuccessful attempts to convince Russia and China to impose sanctions on North Korea were pushing yields of US and German bonds down. Additional support for debt market came from weaker than expected US durable goods orders data, dovish comment of Lael Brainard from the FOMC as the US investors returned onto the market after Monday holiday. As a result, the German bond curve moved 2-3bp down while the US curve eased 5-10bp with the biggest changes on the belly and long end. These changes were accompanied by falling stock prices and rising oil and gold prices.

Polish bonds also gained responding to global concerns. As a result, domestic curve moved 3-4bp down for 5-10Y and by a fraction on the short end. The IRS followed suit. Additional support for the Polish debt came from Monday's Moody's report to which the US investors responded yesterday after a day-off at the beginning of the week. Interestingly, FRAs for 3M WIBOR fell by 3bp for rates up to +12M despite stable 2Y IRS. Elsewhere in the CEE region, only the 10Y Hungarian bond yields fell at a similar scale like in Poland.

We think the down trend of yields on the core and Polish market will continue on Wednesday and later in the week. Today's morning German factory orders data (-0.7% m/m vs consensus at 0.2% m/m) will rather not trigger any correction after yesterday's gains. We do not expect the Polish MPC decision to have any material impact on the market.

On Tuesday we saw minor moves of EURUSD around 1.19. Investors were buying the dollar in the morning during the European session, but as US investors returned after a public holiday the pair started to move higher. As a result EURUSD moved between 1.1870 and 1.1940, but closed at 1.19, just 0.2 cent below the Monday closing level.

EURPLN was moving lower until noon, reaching the lowest point of 4.2320. It was caused by a mix of risk aversion and PLN-positive report from Moody's, which might have been read as an indication that the Polish rating outlook could improve. The zloty started losing against the euro in the afternoon, getting to 4.24, during the American session. The depreciation of the zloty was in our view linked to global asset allocation (losses on stock exchanges intensified at that time). In case of other currencies of our region, HUF weakened vs the euro, from 306.1 to 306.3. The Czech koruna moved a bit in the same direction, from 26.08 to 26.10. Hungarian retail sales were weaker than expected, by we attribute the weakening of CEE fx to the global sentiment rather than local factors. USDRUB declined from 57.8 to 57.5, the lowest since June, the ruble was supported by higher oil prices and a series of positive data from the Russian commodity sector in the last days.

Today we expect EURPLN to move slightly lower. Poor data on German factory orders released this morning should make it even less likely that the ECB would sound hawkish at the conference tomorrow which should provide support for the zloty. Given the dovish tone of Brainard the publication of the Fed's Beige Book should not be a market-mover. As the Moody's calendar day approaches hopes may be growing that Poland may get a positive assessment, which should be pushing EURPLN towards 4.23. An obstacle would be further dollar depreciation against the euro, but we do not envisage such move in the short term.

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FX market			
Today's opening			
EURPLN	4.2368	CZKPLN	0.1623
USDPLN	3.5525	HUFPLN*	1.3826
EURUSD	1.1927	RUBPLN	0.0620
CHFPLN	3.7194	NOKPLN	0.4569
GBPPLN	4.6272	DKKPLN	0.5696
USDCNY	6.5330	SEKPLN	0.4466

*for 100HUF

Last session in the FX market 05/09/2017

	min	max	open	close	fixing
EURPLN	4.232	4.244	4.241	4.242	4.2361
USDPLN	3.549	3.571	3.567	3.564	3.5642
EURUSD	1.187	1.194	1.189	1.190	-

Interest rate market 05/09/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.67	0	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.54	0	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.21	-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	0	1.43	-1	-0.26	0
2L	1.91	-1	1.51	-2	-0.21	-2
3L	2.02	-2	1.59	-3	-0.12	-3
4L	2.15	-3	1.65	-5	0.00	-2
5L	2.26	-4	1.72	-8	0.11	-4
8L	2.56	-2	1.92	-9	0.52	-4
10L	2.73	-3	2.03	-5	0.76	-3

WIBOR rates

Term	%	Change (bps)
O/N	1.59	1
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	1.77	1
9x12	1.80	-1
3x9	1.82	-1
6x12	1.83	-1

Measures of fiscal risk

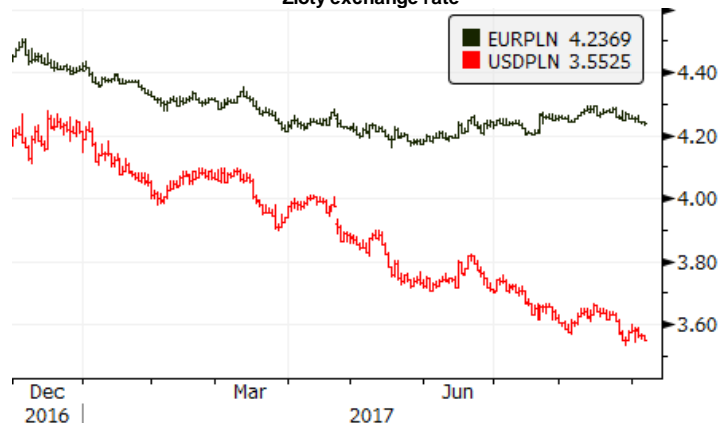
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.88	-1
France	21	0	0.31	0
Hungary	116	1	2.59	-1
Spain	67	0	1.19	0
Italy	144	-1	1.66	0
Portugal	158	-7	2.47	0
Ireland	32	-1	0.32	1
Germany	13	-1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

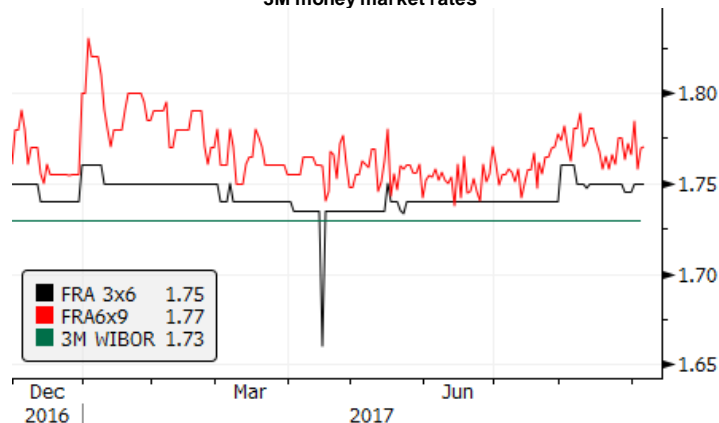
Zloty exchange rate



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	-	3.2	4.2
9:55	GE	PMI – services	Aug	pts	53.4	-	53.5	53.1
10:00	EZ	PMI – services	Aug	pts	54.9	-	54.7	55.4
16:00	US	Industrial orders	Jul	% m/m	-3.3	-	-3.3	3.0
WEDNESDAY (6 September)								
	PL	MPC decision		%	1.5	1.5		1.5
8:00	GE	Industrial orders	Jul	% m/m	0.3	-	-0.7	1.0
9:00	CZ	Industrial output	Jul	% y/y	6.7	-	3.3	3.0
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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