

EYEOPENER

7 September 2017

ECB in the spotlight

- **Temporarily mood worsening awaiting for ECB decision**
- **Domestic interest rates remained unchanged, MPC sounds dovish**
- **Zloty give up gains, EURUSD stayed stable**
- **Polish yields curve shifted down significantly, core debt markets dropped**
- **ECB decision today**

At the start of the Wednesday session the mood was still set by North Korean acts, but European stock indices relatively quickly shook off the morning weakness and closed higher than on Tuesday. Yesterday there were no important publications and there were no speeches of central bankers in the major economies, and the markets were quiet ahead of today's ECB press conference.

The conference will be the main event of the day, and it should cast some light on the bank's plans to withdraw from its monetary stimulus. In our view the euro's strength and very cautious remarks from Fed as regards future rate hikes will prevent the ECB from turning significantly more hawkish.

The Fed board member Stanley Fischer announced his resignation for personal reasons, which means a fourth vacancy in the FOMC and a loss for the dovish camp.

The Monetary Policy Council kept the main interest rates unchanged at 1.5% in September, as expected. The post-meeting statement was very concise, signalling no changes in monetary policy bias. The NBP Governor Adam Glapiński repeated at the press conference his claim that there is absolutely no reason to discuss interest rate hikes, as the economic growth is well balanced and inflation remains low. In his view, the main interest rates could remain on hold until the very late 2018, although he did not rule out that a discussion about monetary tightening may intensify in mid-2018. NBP Governor and MPC member Jerzy Kropiwnicki emphasised that rising labour participation is easing labour market tensions, helping to keep wage growth in check. Interestingly, even Jerzy Osiatyński, who in July's interview has raised his concerns about possible acceleration of unit labour costs, also did not seem to be very much worried about the tightening labour market and said that the only think that is troubling is the delayed recovery of private investments.

Summing up, there is nothing new as regards the monetary policy outlook in Poland. Even though there was some

divergence of views between the MPC members in recent weeks, the clear majority of the Council still supports maintaining the status quo as long as possible. We keep the view that the NBP interest rates will remain unchanged at least until the last quarter of 2018. The minister of labour said yesterday that the registered unemployment rate reached 7.1% in August. The number of unemployed dropped by 2.6k during the month, compared to drop by 15k in August 2016 and by over 20k in August 2015.

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EURUSD was hovering near 1.193 yesterday and remained in the range 1.185-1.198, determined at the first session this month. Today the ECB meeting may be crucial for the exchange rate. We assume that the tone of the statement will remain quite dovish, taking into account the recent signals from the central bank and strong euro. If this is the case, then the EURUSD could decline in the coming days, testing the August's low at 1.166.

EURPLN rebounded to 4.25 from 4.23, which may have been due to weak sentiment at the start of the session. Similar changes took place in case of other CEE currencies, but the zloty weakened more considerably than the koruna or the forint. Today the market will focus on the ECB meeting. Based on last signals from the central banks, we assume that its stance is unlikely to become more hawkish and this will be supportive for the zloty and other CEE currencies. This week, EURPLN broke the August trough and in our view this may open the door to further declines.

On the domestic interest rate market the downside trend in yields and IRS observed in the last days continued with the scale of move being similar to that seen on Tuesday. IRS rates fell 1-3bp with the biggest changes seen on the belly and long end of the curve while bond yields dropped 3-5bp. Polish bonds were outperforming its core and euro zone peripheral peers where yields rose 1-4bp. In our view, such noticeable strengthening of Polish bonds amid weakening seen on the global market might have been thanks to Monday's Moody's report that boosted market expectations for at least a Poland rating outlook upgrade this Friday. Next to domestic factors, the outcome of the ECB meeting might also have a positive impact on domestic bonds today.

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FX market			
Today's opening			
EURPLN	4.2417	CZKPLN	0.1625
USDPLN	3.5523	HUFPLN*	1.3849
EURUSD	1.1941	RUBPLN	0.0621
CHFPLN	3.7200	NOKPLN	0.4561
GBPPLN	4.6335	DKKPLN	0.5702
USDCNY	6.5023	SEKPLN	0.4470

*for 100HUF

Last session in the FX market 06/09/2017					
	min	max	open	close	fixing
EURPLN	4.230	4.254	4.242	4.251	4.2446
USDPLN	3.548	3.569	3.564	3.564	3.5538
EURUSD	1.190	1.195	1.190	1.193	-

Interest rate market 06/09/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.66	1	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.52	1	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.19	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	1.89	-2	1.53	1	-0.19	2
3L	2.00	-2	1.60	1	-0.09	4
4L	2.11	-3	1.67	2	0.02	2
5L	2.23	-3	1.74	2	0.16	5
8L	2.53	-3	1.93	1	0.55	4
10L	2.69	-4	2.04	1	0.79	3

WIBOR rates

Term	%	Change (bps)
O/N	1.59	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	1.77	0
9x12	1.80	0
3x9	1.83	0
6x12	1.83	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.84	0
France	21	0	0.32	1
Hungary	116	1	2.58	0
Spain	67	0	1.21	-1
Italy	143	0	1.67	-1
Portugal	157	-1	2.48	-1
Ireland	32	-1	0.33	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

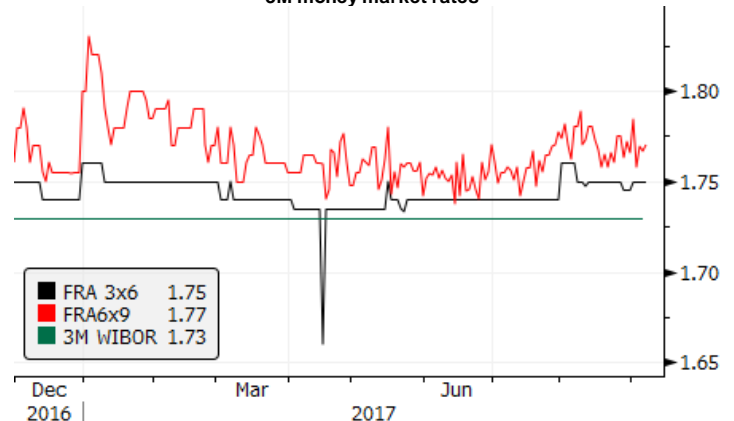
Zloty exchange rate



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		%	1.50	1.50	1.50	1.50
8:00	GE	Industrial orders	Jul	% m/m	0.3	-	-0.7	0.9
9:00	CZ	Industrial output	Jul	% y/y	6.7	-	3.3	3.0
16:00	US	ISM – services	Aug	pts	55.1	-	55.3	53.9
20:00	US	Fed Beige Book						
THURSDAY (7 September)								
8:00	GE	Industrial output	Jul	% m/m	0.5	-	0.0	-1.1
13:45	EZ	ECB decision		%	0.0	-		0.0
14:30	US	Initial jobless claims	week	k	245	-		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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