

EYEOPENER

15 September 2017

New rocket tests in Korea

- **New rocket tests in Korea**
- **Bank of England may tighten its policy earlier than expected**
- **FX and FI markets rather calm**
- **MPC's Żyżyński: rates unchanged until end of 2018**
- **Today important US data**

Attention of the global markets was directed to the Bank of England (BoE) statement. The bank stressed that the need to tighten monetary policy may appear sooner than the markets expect. The pound strengthened, EURGBP declined from c0.90 to below 0.89 (the lowest since July). This morning the focus switched to the Korean Peninsula due to another missile test. Apart from that, data with market-moving potential are due in the afternoon: US retail sales and consumer confidence.

Deputy prime minister Mateusz Morawiecki said in the parliament that a gradual acceleration of investments would make the economic rebound healthier and more sustainable. He expects investment growth of 3-4% in 3Q and 4Q 2017 and 5-6% in later periods. The scale of rebound assumed by the minister is surprisingly low and in our view if it was to materialize we would get a material slowdown of GDP growth in 2H17 instead of a steady c4% cruise.

Jerzy Żyżyński in an interview for Bloomberg proved he is one of the most dovish members of the Polish MPC. He supported keeping rates unchanged until at least the end of 2018. In his view for now weak investments preclude any discussion about rate hikes while a move in late 2018 would only be worth considering if inflation jumps above forecasts by that time. His opinion is in line with the approach of NBP governor Adam Glapiński. It looks like we misinterpreted the previous speech by Żyżyński assuming he would change his mind on rate hikes if credit growth accelerated strongly by mid-2018.

On Thursday morning the core bond market was stable. BoE meeting was a trigger that delivered an upward impulse. The August US inflation data, which showed 0.4% m/m vs. 0.3% forecasts. Although the higher level of inflation was driven by increase of energy prices, reaction of the short end and middle part of the curve was negative. As a result the front end and the middle part of the curve were pulled up by 1bp. The long end

remained stable. The German yield curve reacted only marginally.

On the domestic market the yields were decreasing before the switch auction. At the end of the day the long end and the middle part of the curve returned to the starting point. The short end increased by c3bp on the morning trading. The IRS curve rose by 1bp. The core market signals were ignored by the domestic market, and volatility was driven by switch auction. 5Y and 2Y fixed bonds and WZ floater bonds were most popular. The Ministry sold bonds worth PLN6.6bn and bought PLN6.8bn.

EURUSD has remained fairly stable for the better part of the day holding in 1.187-1.19 range. Higher-than-expected US CPI had only positive impact on the dollar while the BoE statement was ignored. At the end of the day, the exchange rate was close to 1.19.

Outcome of the Swiss national bank (SNB) meeting brought an interesting changes in the statement. After two years, the bank dropped a remark on the frank saying that it is "significantly overvalued" and replaced it with "highly valued". This suggests that SNB is now less concerned about frank performance. EURCHF is now near 1.15, its highest since early 2015 when the central bank dropped 1.20 floor. SNB left interest rates unchanged yesterday.

EURPLN remained stable in the first part of the session and only in the afternoon when the US investors entered the market the exchange rate fell PLN0.02. At the same time, EURHUF rose to 308.7 from 307.9 amid market expectations that the Hungarian central bank will ease monetary policy at its next week's meeting. EURCZK fell to 26.07 from 26.1 as investors start to price in next rate hike in Czechia. USDRUB fell to 57.5 amid information on higher currency reserves and continued rise in oil prices.

The risk related to situation in North Korea weighs on the market at the beginning of the day which could weigh on the Polish assets. In the afternoon, we will learn US data that could boost Polish bonds if they surprise to the downside. In the first part of the next week domestic labour market and industrial output data will be released which, in our view, could put an upside pressure on Polish yields.

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FX market

Today's opening

EURPLN	4.2794	CZKPLN	0.1641
USDPLN	3.5887	HUFPLN*	1.3854
EURUSD	1.1925	RUBPLN	0.0624
CHFPLN	3.7243	NOKPLN	0.4561
GBPPLN	4.8252	DKKPLN	0.5752
USDCNY	6.5417	SEKPLN	0.4495

*for 100HUF

Last session in the FX market

14/09/2017

	min	max	open	close	fixing
EURPLN	4.276	4.290	4.282	4.278	4.2837
USDPLN	3.596	3.622	3.604	3.599	3.5984
EURUSD	1.184	1.191	1.188	1.188	-

Interest rate market

14/09/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.72	4	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.56	0	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.22	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	1.49	2	-0.26	0
2L	1.90	0	1.62	3	-0.18	1
3L	2.01	0	1.72	3	-0.07	1
4L	2.14	0	1.80	4	0.06	2
5L	2.26	1	1.88	4	0.20	1
8L	2.54	1	2.07	3	0.61	2
10L	2.70	1	2.17	3	0.86	2

WIBOR rates

Term	%	Change (bps)
O/N	1.60	0
T/N	1.60	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	1.73	0
3x6	1.74	0
6x9	1.77	1
9x12	1.79	0
3x9	1.81	0
6x12	1.83	0

Measures of fiscal risk

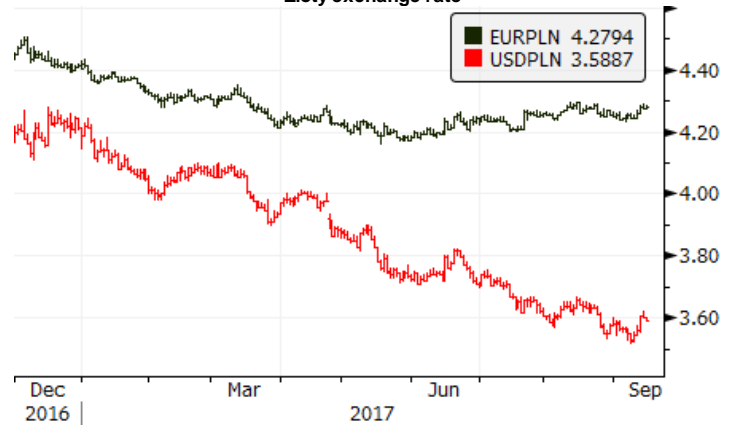
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.81	1
France	20	0	0.29	0
Hungary	116	1	2.42	1
Spain	60	-1	1.18	0
Italy	138	-1	1.64	-1
Portugal	148	0	2.38	0
Ireland	32	-1	0.29	0
Germany	12	-1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

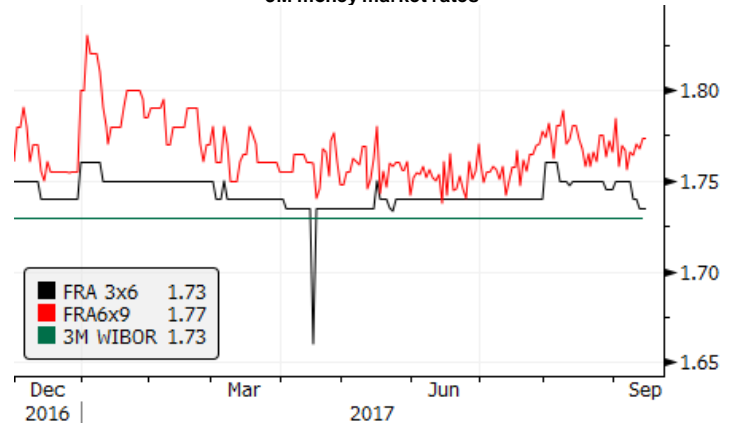
Zloty exchange rate



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 (8 September)								
8:00	GE	Exports	Jul	% m/m	1.3	-	0.2	-2.7
9:00	HU	CPI	Aug	% y/y	2.5	-	2.6	2.1
MONDAY (11 September)								
9:00	CZ	CPI	Aug	% y/y	2.6	-	2.5	2.5
14:00	PL	CPI	Aug	% y/y	1.8	1.8	1.8	1.7
TUESDAY (12 September)								
14:00	PL	Core inflation	Aug	% y/y	0.8	0.7	0.7	0.8
WEDNESDAY (13 September)								
11:00	EZ	Industrial output	Jul	% m/m	0.2	-	0.1	-0.6
14:00	PL	Current account	Jul	€m	-853	-532	-878	-932
14:00	PL	Exports	Jul	€m	15 222	14 900	14 939	16 627
14:00	PL	Imports	Jul	€m	15 788	15 300	15 486	16 854
THURSDAY (14 September)								
11:00	PL	Bond switch auction						
14:30	US	CPI	Aug	% m/m	0.3	-	0.4	0.1
14:30	US	Initial jobless claims	week	k	-	-	284	298
FRIDAY (15 September)								
14:30	US	Retail sales	Aug	% m/m	0.1	-		0.6
15:15	US	Industrial output	Aug	% m/m	0.1	-		0.2
16:00	US	Flash Michigan	Sep	pts	96.5	-		96.8

Source: BZ WBK. Reuters. Bloomberg

* in case of the revision the data is updated

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