

# EYEOPENER

26 September 2017

## Bonds gain at the start of the week

- FX market calm, bonds volatile at the beginning of the week
- President Duda presented his judiciary bills drafts
- Next US data today

At the start of the week, the largest changes were seen on the bond market, where core yields fell substantially in the first part of the session, which had a positive impact on domestic debt. The FX market was quite stable despite the below-consensus German data (Ifo disappointed in September for the first time since January and fell for a second month in a row) and a UK rating downgrade. Yesterday Moody's cut the British credit rating to Aa2 from Aa1 and changed the outlook to stable from negative. The agency justified the decision with a worse outlook for public finances and a risk of poor GDP growth after the country leaves the EU. The ECB governor Mario Draghi said yesterday that the central bank is increasingly confident that inflation will finally reach the target but monetary policy has to remain accommodative to make it happen.

EURUSD declined yesterday to 1.186, which might have been caused by uncertainty about the shape of the next German government and the time it could be formed. Weaker than expected data from Germany may have also played a role. Still, the exchange rate remained within the range set by last Wednesday's minimum and maximum. Today the US data will get a chance to push EURUSD towards lower or upper end of the 1.182-1.21 range. The prolonged stabilization after a sharp rise seen since the start of the year may encourage investors to take profit, unless there are new factors that could strengthen the euro or weaken the dollar.

For most of the yesterday's session, EURPLN held slightly below 4.27 to close trading on the domestic market slightly above that level. Neither the outcome of the German elections nor the President Duda's court bills had a clear impact on the zloty. Meanwhile, USDPLN was climbing up driven by the falling EURUSD to reach 3.60 against 3.88 at the opening. When it comes to other CEE currencies, the ruble gained slightly vs the dollar thanks to rising oil prices while the forint was still under pressure vs the euro. EURCZK stabilized slightly above 26.0 awaiting for the tomorrow's decision of the Czech central bank. EURPLN rate stabilized at the upper area of 4.23-4.30 band and keeps waiting for a trigger that would fuel a more sustainable movement.

The domestic IRS and yields were falling sharply since the beginning of the session following the strengthening of the German debt. The scale of movement at the long end was

about 4bp for bonds and the IRS, whilst the short end remained stable. Yesterday's session indicated quite clearly that trends in the core markets are crucial for the Polish debt now. This week we will get a lot of data from the US economy which may affect the US and German debt and thus the Polish bonds. We believe that the proximity of resistance levels for domestic yields and the IRS may encourage the market to try testing them.

Yesterday MPC member Jerzy Żyżyński said that it is likely that interest rates will stay unchanged next year as wage growth is expected to slow down and inflation will remain in check. In Mr. Żyżyński opinion, "if economic growth translates into excessive credit growth then we will have to react. And as long as inflation is within the target range [1.5-3.5%] we do not have to react". We assume that wage growth will likely to accelerate in 2018, which could be surprise for the part of the MPC members and so the discussion on interest rate hikes may intensify next year.

Yesterday President Andrzej Duda presented his proposal of judiciary bills on Supreme Court and National Council of Judiciary (he vetoed government's bills in July). In our view, president's bills only partially addressed recommendations of the European Commission (EC criticized unequal retirement age for men and women in the Supreme Court and politicians' influence on National Council of Judiciary, among others), as in fact the bill moves some of the prerogatives (proposed in the government bills) from the justice minister to the president and this may still be viewed by the Commission as threat to judiciary's independence.

In general, the European Commission still has some grounds to continue the rule of law procedure, as the bill does not address other important EC recommendations (regarding Constitutional Tribunal, National School of Judiciary, bill on ordinary courts). What is important, comments of ruling party representatives suggest they are not eager to support the president bills. Thus, Duda's bills on Supreme Court and National Council of Judiciary could be completely dropped (and this would be welcomed by the European Commission). On the other hand, potential escalation of conflict between the government and the president means higher political uncertainty.

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## FX market

## Today's opening

EURPLN	4.2748	CZKPLN	0.1641
USDPLN	3.6067	HUFPLN*	1.3751
EURUSD	1.1852	RUBPLN	0.0628
CHFPLN	3.7218	NOKPLN	0.4611
GBPPLN	4.8641	DKKPLN	0.5746
USDCNY	6.6207	SEKPLN	0.4481

\*for 100HUF

## Last session in the FX market

25/09/2017

	min	max	open	close	fixing
EURPLN	4.260	4.284	4.264	4.280	4.2698
USDPLN	3.573	3.620	3.580	3.614	3.5866
EURUSD	1.183	1.194	1.192	1.185	-

## Interest rate market

25/09/2017

## 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)	2.60	-6	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.28	-5	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	1.54	-1	-0.26	0
2L	1.94	-2	1.69	-2	-0.18	-1
3L	2.07	-3	1.78	-3	-0.06	-2
4L	2.22	-3	1.85	-4	0.07	-3
5L	2.34	-4	1.92	-4	0.21	-3
8L	2.63	-4	2.09	-5	0.61	-4
10L	2.79	-4	2.18	-5	0.85	-3

## WIBOR rates

Term	%	Change (bps)
O/N	1.76	18
T/N	1.76	18
SW	1.61	2
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	1.75	0
6x9	1.79	-2
9x12	1.85	0
3x9	1.84	0
6x12	1.88	0

## Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.87	-5
France	21	0	0.30	0
Hungary	116	1	2.07	0
Spain	66	4	1.21	0
Italy	144	1	1.70	-1
Portugal	132	2	2.02	-1
Ireland	32	-1	0.30	0
Germany	12	0	-	-

\* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

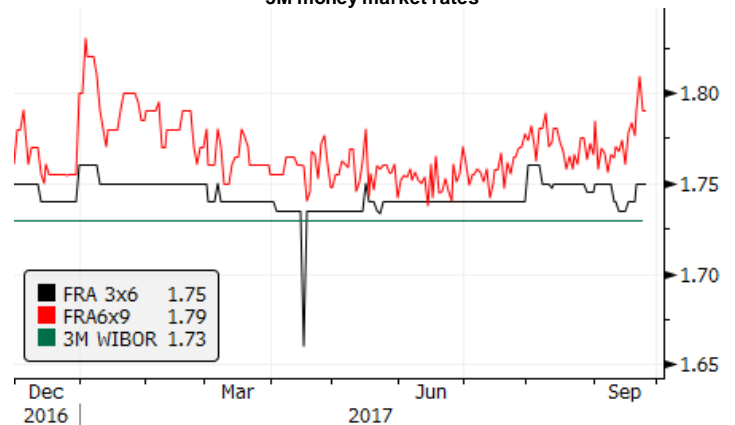
## Zloty exchange rate



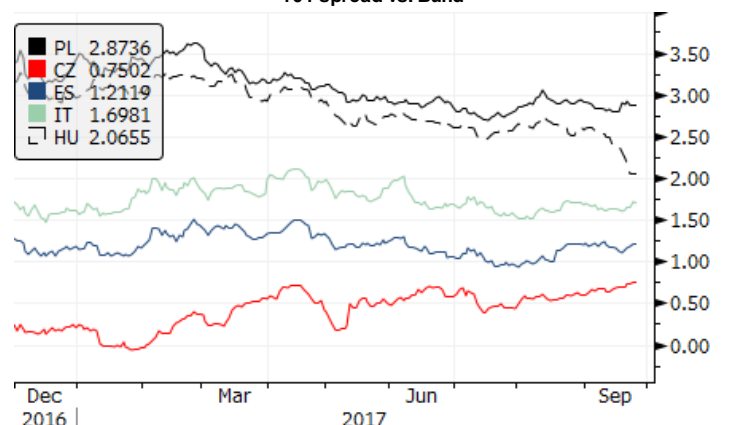
## T-bonds yields



## 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 (22 September)									
9:30	DE	Flash PMI – manufacturing	Sep	pts	59.0	-	60.6	59.3	
9:30	DE	Flash PMI – services	Sep	pts	53.7	-	55.6	53.5	
10:00	EZ	Flash PMI – manufacturing	Sep	pts	57.2	-	58.2	57.4	
10:00	EZ	Flash PMI – services	Sep	pts	54.8	-	55.6	54.7	
10:00	PL	Unemployment rate	Aug	%	7.0	7.0	7.0	7.1	
14:00	PL	Money supply	Aug	% y/y	5.2	5.3	5.5	5.0	
MONDAY (25 September)									
10:00	DE	Ifo index	Sep	pts	115.9	-	115.2	115.9	
16:30	US	Dallas Fed index	Sep	pts	13.0	-	21.3	17.0	
TUESDAY (26 September)									
16:00	US	New home sales	Aug	% m/m	2.9	-		-9.4	
16:00	US	Consumer confidence	Sep	pts	120	-		122.9	
WEDNESDAY (27 September)									
13:00	CZ	Czech central bank decision		%	0.25	-		0.25	
14:30	US	Durable goods orders	Aug	% m/m	0.9	-		-6.8	
16:00	US	Pending home sales	Aug	% m/m	-0.3	-		-0.8	
THURSDAY (28 September)									
14:00	DE	Flash CPI	Sep	% y/y	1.8			1.8	
14:30	US	GDP	2Q	% q/q	3.1	-		3.0	
14:30	US	Initial jobless claims	week	k	-	-		259	
FRIDAY (29 September)									
11:00	EZ	Flash CPI	Sep	% y/y	1.6	-		1.5	
14:00	PL	Flash CPI	Sep	% y/y	2.0	1.9		1.8	
14:30	US	Consumer spending	Aug	% m/m	0.1	-		0.3	
14:30	US	Personal income	Aug	% m/m	0.3	-		0.4	
15:45	US	Chicago PMI index	Sep	pts	57.5	-		58.9	
16:00	US	Michigan index	Sep	pts	95.2	-		95.3	

Source: BZ WBK, Reuters, Bloomberg

\* in case of the revision the data is updated

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