

EYEOPENER

2 October 2017

Inflation supported the zloty and weakened bonds

- September inflation much higher than expected
- Zloty trimmed losses after CPI data release
- Polish debt weaker after inflation data
- Today PMI indices in Poland and in Europe

On Friday, the zloty gained, while Polish bonds lost after flash inflation data. CPI climbed in September by 0.4% m/m and 2.2% y/y (vs expected 2.0% y/y and August's 1.8% y/y). Higher fuel and food prices probably contributed to rise in CPI, but in our view there may have been some surprises also in other categories (core inflation may have gone up to 1.0% y/y from 0.7% y/y in August).

The NBP released quarterly data on 2Q17 balance of payments. As compared to monthly data, exports were revised upwards (to 8.9% y/y in Q2 and 13.8% y/y in Q1 vs. 8.6% and 11.7% previously), which translated into improved trade and current account balance. Our estimate of 12-month current account deficit went down to 0.5% from 0.6% of GDP. The NBP also revised earlier data, e.g. these for 2016. Outflow from the secondary income account was revised up by €1.9bn largely contributing to deterioration of the balance by €1.4bn. On the financial accounts side, balance of FDIs was revised to €15.2bn from €13.1bn. Interestingly, the errors and omissions account rose to -€3.7bn from -€3.0bn.

In the Sunday Catalonia independence referendum c90% of voters supported separation from Spain amid turnout at c43%. Uncertainty related to consequences of this voting has a negative impact on the euro and Spanish bonds today in the morning.

Polish PMI index released this morning rose in September to 53.7, its highest since April, showing a surge in external orders, stagnation in employment and acceleration of price growth.

The core markets yields increased temporarily at the end of the week. This move was triggered by news about the meeting of the President D. Trump, secretary of treasury S. Munchin and K. Warsh (hawkish oriented candidate who could replace J. Yellen as a Fed chairman). As a result US and German yield curves have moved up by 2-3bp for an hour. At the evening the most part of this move was neutralised as a reaction for stock market weak start. Chicago PMI and Michigan (both above the market forecast) index release didn't affect the market. US and German yield curve rose only marginally by 1bp on the front end versus previous closing.

On the morning trading the domestic yields were decreasing, however surprising high September flash CPI reading (2.2% y/y)

pushed the curve up by 6bp on the front and by 4bp on the long end and belly. The daily upshift was little smaller, 4bp for the 2Y and 1bp for 5-10Y. Simultaneously we observed asset swap (ASW) spread drop, to 43bp in the 10Y segment and to 25bp in the 5Y segment – to the lowest level since January 2016. On the front end ASW spread increased to -23bp - still close to the lowest level since 2012. In our opinion it was a reaction for high inflation reading (potentially higher budget revenues).

We think that strong PMI reading may only temporarily affect the domestic debt market. As for the whole week, US labour market data may be a threat for bonds - payrolls expectations are set low due to the hurricanes and any positive surprise would put upward pressure on yields. Looking at what could come in the next weeks we think domestic yields might correct lower (especially the short end) because of coupon payments and maturing papers. The Ministry of Finance announced small supply in 4Q, just PLN8-16bn on regular auctions, of which PLN4-8bn will be offered on 25-October. The Ministry of Finance also informed that it financed 86% of its needs by the end of September.

EURUSD was making up for losses on Friday, irrespective of lower than expected flash HICP for September (1.5% y/y vs. projected 1.6% y/y). There was a correction only in the afternoon after the publication of the information that President Trump talked to a candidate for the Fed's chair. As a result EURUSD closed the day at 1.1810 against 1.1780 at the opening.

On Friday, the zloty was strengthening since the morning, recovering losses from previous days. This process was accelerated in the afternoon in response to a surprisingly high initial inflation readings in Poland (2.2% y/y). In response to this publication, the zloty strengthened temporarily to 4.2930. In the second part of the day, there was a correction fuelled by news about talks between President Donald Trump and Kevin Warsh. In effect EURPLN was 4.3090 at the close of business on Friday. The currencies of the region appreciated for most of the day following the strengthening euro, only in the afternoon there was a correction given the publications on the talks with the candidate for the Fed's chair. The only exception was USDRUB which steadily depreciated throughout the day, from 58.00 to 57.50, leveraging good data on commodities exports and the planned reduction in oil extraction by Russia and OPEC.

Today we expect a slight strengthening of the zloty against the euro given the better than expected PMI for September and stabilization of sentiment on the global markets.

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FX market

Today's opening

EURPLN	4.3099	CZKPLN	0.1660
USDPLN	3.6652	HUFPLN*	1.3825
EURUSD	1.1759	RUBPLN	0.0635
CHFPLN	3.7761	NOKPLN	0.4591
GBPPLN	4.8950	DKKPLN	0.5791
USDCNY	6.6528	SEKPLN	0.4490

*for 100HUF

Last session in the FX market

29/09/2017

	min	max	open	close	fixing
EURPLN	4.293	4.319	4.316	4.313	4.3091
USDPLN	3.630	3.668	3.662	3.651	3.6519
EURUSD	1.177	1.183	1.178	1.181	-

Interest rate market

29/09/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.74	4	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.69	2	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.36	1	23.03.2017	DS0727	3.568

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.80	1	1.56	0	-0.26	0
2L	1.99	1	1.73	1	-0.17	-1
3L	2.14	2	1.84	2	-0.04	0
4L	2.31	2	1.92	2	0.10	0
5L	2.45	2	1.99	1	0.26	1
8L	2.77	3	2.18	1	0.67	-1
10L	2.94	4	2.28	0	0.91	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.66	-51
T/N	1.67	-11
SW	1.61	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	1.75	0
6x9	1.81	2
9x12	1.87	1
3x9	1.85	0
6x12	1.90	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.89	0
France	21	0	0.29	1
Hungary	116	1	2.15	-1
Spain	64	1	1.21	8
Italy	138	-1	1.68	3
Portugal	128	0	1.92	2
Ireland	32	-1	0.27	1
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

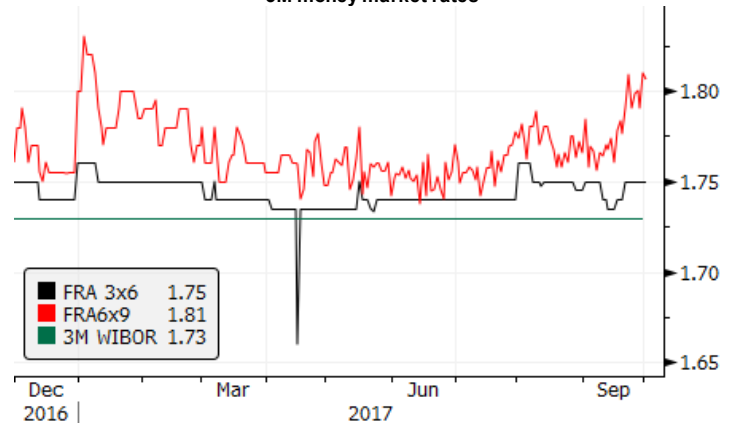
Zloty exchange rate



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 (29 September)								
11:00	EZ	Flash CPI	Sep	% y/y	1.6	-	1.5	1.5
14:00	PL	Flash CPI	Sep	% y/y	2.0	1.9	2.2	1.8
14:30	US	Consumer spending	Aug	% m/m	0.1	-	0.1	0.3
14:30	US	Personal income	Aug	% m/m	0.3	-	0.2	0.4
15:45	US	Chicago PMI index	Sep	pts	57.5	-	65.2	58.9
16:00	US	Michigan index	Sep	pts	95.2	-	95.1	95.3
MONDAY (2 October)								
9:00	PL	PMI – manufacturing	Sep	pts	53.2	54.0	53.7	52.5
9:55	DE	PMI – manufacturing	Sep	pts	60.6	-		59.3
10:00	EZ	PMI – manufacturing	Sep	pts	58.2	-		57.4
16:00	US	ISM – manufacturing	Sep	pts	57.5	-		58.8
TUESDAY (3 October)								
9:00	CZ	GDP	Q2	% y/y	4.7	-		3.0
WEDNESDAY (4 October)								
	PL	MPC decision	Oct	%	1.50	1.50		1.50
9:55	DE	PMI – services	Sep	pts	55.6	-		53.5
10:00	EZ	PMI – services	Sep	pts	55.6	-		54.7
11:00	EZ	Retail sales	Aug	% m/m	0.3	-		-0.3
14:15	US	ADP report	Sep	k	160	-		237
16:00	US	ISM – services	Sep	pts	55.1	-		55.3
THURSDAY (5 October)								
14:30	US	Initial jobless claims	week	k	-	-		260
16:00	US	Industrial orders	Aug	% m/m	0.7	-		-3.3
FRIDAY (6 October)								
8:00	DE	Industrial orders	Aug	% m/m	0.7	-		-0.7
14:30	US	Non-farm payrolls	Sep	k	70	-		156
14:30	US	Unemployment rate	Sep	%	4.4	-		4.4

Source: BZ WBK, Reuters, Bloomberg

* in case of the revision the data is updated

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