

EYEOPENER

9 October 2017

Solid US labour market data

- Solid data from the US labour market
- Zloty and other CEE currencies under pressure, EURUSD up
- High volatility of bonds at the end of the week

The anxiety related to the upcoming release of the US labour data triggered the bond sale. Despite disappointing September data on change in nonfarm payrolls, the annual wage growth and unemployment rate were better than expected. As a result, the CEE currencies were weakening at the end of the week. In the case of global bonds, the strong readings did not exert any additional pressure and abroad the yields moved slightly away from the session's peak.

On Friday the core bonds markets were dominated by expectations for US labour data release. Market players were selling bonds betting for strong release. Bunds yield curve has moved up by 4bp in the 5-10Y segment and has stabilized on the front end. US treasuries yields rose by 4-5bp across the curve. As a result, the 10Y US and Bund yields have reached levels last time seen in July this year. Although nonfarm payrolls disappointed (-33K), investors interpreted this numbers as a result of hurricanes. The rest of data beat expectations as hourly earnings rose in September by 0.5%/m (vs. 0.3%/m forecasted), while unemployment rate fell to 4.2% (vs. 4.4% forecasted) – the 16-year low. Simultaneously, participation ratio rose to 63.1% (vs. 62.9% forecasted). Late evening, bonds erased losses amid information about rising tension on the Korean peninsula.

On Friday domestic bonds lost following core markets. As a consequence, Polish yield curve in the 5-10Y segment moved up to the levels last time seen in last May - 10Y bond yield reached 3.53% and 5Y 2.80%. At the end of the day, we observed some recovery and market closed at 3.50% for 10Y, 2.76% for 5Y (8-10bp above the openings level). The 2Y bonds moved up by 4bp to 1.77%. The IRS curve has shifted up in the same scale with rates rising to levels last time seen last March.

Today we expect a significant correction of this move, in the aftermath of the Friday strengthening on the US markets. The falling yields should be driven by news from the Korean peninsula and the quiet publication calendar. Across the week, the debt should remain under pressure given the fears related to the Fed's next steps, including in particular potential comments on limiting the US central bank's balance sheet. In

our opinion, this will have the biggest impact on the long end and the belly of the curve.

On Friday, the Ministry of Finance informed about a small decline of its cash balances (local currency and fx) – by PLN0.6bn to PLN75bn. There was also an information about average time to maturity of domestic debt holding at 4.36 years (the target is 5 years), while for the total debt it was 5.11 years.

EURUSD remained stable around 1.17 through most of Friday after its Thursday decline. The release of US labour market data caused a sudden rise to 1.173. This change could be seen as irrelevant compared to what happened on the bond market.

EURPLN remained stable for the better part of the day close to 4.305. US non-farm payrolls pushed the exchange rate above 4.31, while USDPLN oscillated close to 3.657 and climbed to 3.693 after the release. The other CEE currencies also weakened. EURHUF moved to 312.2 from 311.8 (and reached 7-week high), while EURCZK climbed to 25.90 from 25.80. The Czech koruna did not gain despite the central bank's minutes stating that further rate hike are possible. However, Friday losses of the koruna were small in comparison to gains from the previous weeks. The Russian ruble lost to the dollar, USDRUB increased to 58.17 from 57.70, negatively responding to the US labour market data. Additionally, the ruble was undermined by information from the central bank that a more proactive policy in response to inflation is needed. Also decline of oil prices weighed on the ruble (Brent slid to \$55.70 from \$59.00 over the last two weeks).

Today we expect some strengthening of the zloty to the euro. The rather thin data calendar should support this scenario. Later in the week, the zloty may weaken in reaction to comments of FOMC members and further rumours about nomination of new Fed chair.

This week is not rich in key macro releases. We will get to see important data from Germany, crucial for assessment of growth outlook in Europe. Fed meeting minutes and inflation data will also be published. In Poland, CPI data for September are due for release. Analysis of reasons behind the surprisingly high reading will be affecting the projected inflation path for the upcoming quarters. Moreover, the Polish Sejm will start working on President's FX mortgages bill. In general, Polish assets may stay under pressure of good US wage data, yet some profit-taking at the start of the week is possible. A series of scheduled speeches by Fed officials could mean a risk for domestic bonds.

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FX market

Today's opening

EURPLN	4.3076	CZKPLN	0.1664
USDPLN	3.6725	HUFPLN*	1.3803
EURUSD	1.1729	RUBPLN	0.0631
CHFPLN	3.7537	NOKPLN	0.4594
GBPPLN	4.8187	DKKPLN	0.5788
USDCNY	6.6358	SEKPLN	0.4524

*for 100HUF

Last session in the FX market

06/10/2017

	min	max	open	close	fixing
EURPLN	4.298	4.318	4.302	4.311	4.3042
USDPLN	3.672	3.695	3.674	3.674	3.6799
EURUSD	1.167	1.174	1.171	1.173	-

Interest rate market

06/10/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.76	5	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.75	5	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.49	8	23.03.2017	DS0727	3.568

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.81	1	1.60	1	-0.25	0
2L	2.02	4	1.78	1	-0.17	0
3L	2.19	5	1.89	2	-0.03	1
4L	2.36	6	1.97	2	0.10	0
5L	2.52	7	2.04	1	0.24	-1
8L	2.85	9	2.22	1	0.67	1
10L	3.02	9	2.32	1	0.91	1

WIBOR rates

Term	%	Change (bps)
O/N	1.60	2
T/N	1.60	2
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	1.76	1
6x9	1.82	3
9x12	1.88	3
3x9	1.84	2
6x12	1.90	3

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	3.03	8
France	21	0	0.27	0
Hungary	116	1	2.27	0
Spain	72	-1	1.21	-4
Italy	141	-1	1.67	-1
Portugal	130	-2	1.93	-1
Ireland	32	-1	0.24	-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

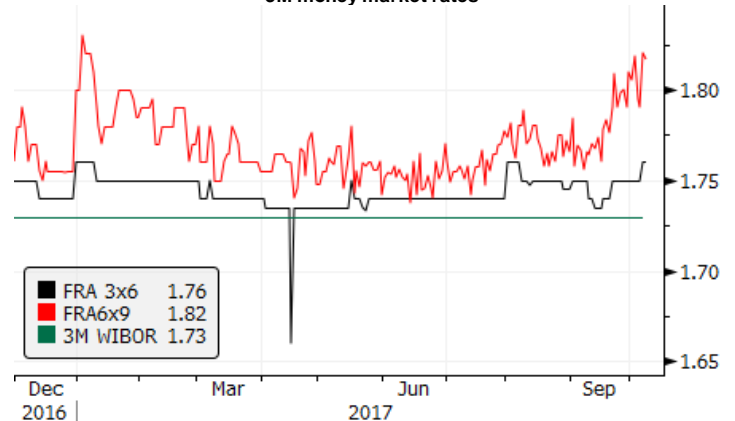
Zloty exchange rate



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 (6 October)								
8:00	DE	Industrial Orders	Aug	% m/m	4.7	-	7.8	5
13:30	US	Change in Nonfarm Payrolls	Sep	K	80	-	-33	156
13:30	US	Unemployment Rate	Sep	%	4.4	-	4.2	4.4
MONDAY (9 October)								
8:00	DE	Industrial output	Aug	% m/m	0.8	-	2.6	0.0
9:00	CZ	Industrial output	Aug	% y/y	4.3	-		3.3
9:00	CZ	CPI	Sep	% y/y	2.7	-		2.5
TUESDAY (10 October)								
8:00	DE	Exports	Aug	% m/m	1.0	-		0.2
9:00	HU	CPI	Sep	% y/y	2.7	-		2.6
WEDNESDAY (11 October)								
20:00	US	FOMC minutes						
THURSDAY (12 October)								
11:00	EZ	Industrial output	Aug	% m/m	0.5	-		0.1
14:00	PL	CPI	Sep	% y/y	2.2	2.2		1.8
14:30	US	Initial jobless claims	week	k	-	-		260
FRIDAY (13 October)								
14:00	PL	Core inflation	Sep	% y/y	0.9	1.0		0.7
14:30	US	CPI	Sep	% m/m	0.6	-		0.4
14:30	US	Retail sales	Sep	% m/m	1.6	-		-0.2
16:00	US	Flash Michigan	Oct	pts	95.0	-		95.1

Source: BZ WBK. Reuters. Bloomberg

* in case of the revision the data is updated

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