

EYEOPENER

12 October 2017

Zloty and bonds gain

- **Polish yields down following UST**
- **Zloty and other CEE currencies stronger as the market mood improves**
- **FOMC minutes show US central bankers concerned about inflation**
- **Today final Polish September CPI**

For the whole Wednesday we could watch the zloty and Polish bonds gain. The reason was an IMF report released on Tuesday pointing to an improving economic outlook for the CEE region. Additionally, domestic assets benefitted from some relaxation of geopolitical tensions and the Fed minutes released in the evening. The minutes showed that while FOMC members plan to raise rates once again this year, the low inflation is getting more and more attention. Consequently, the market has read this document summarizing the last FOMC meeting as dovish. What is more, Fed's Charles Evans said that it is too early to talk about a rate hike in December.

The downward shift of the American yield curve reached 1-3bp at some point, but in the afternoon part of this was reversed. The German curve did not follow suit – it only moved by less than 1bp around current levels.

On Wednesday, the domestic bonds yield curve fell by 3-5bp, mainly on the long end. The IRS curve dropped in the smaller scale, only by 1-3bp. We think the Wednesday's strengthening of Polish bonds was a recovery after the strong Friday's sell-off. Additionally, the move up was supported by lack of negative signals from European politic as well as improvement of IMF forecast for Poland.

Today, we are expecting some weakening of Polish debt, which may be a reaction to final September CPI in Poland, as we are expecting a higher growth of core inflation.

On Wednesday, EURUSD remained in upward trend. The stronger euro was an effect of expectations for Fed minutes and lack of information about new political tensions in Europe. In the market's assessment, last FOMC minutes were dovish so this morning EURUSD is slightly above 1.185, at the highest level this month.

EURPLN continued to decline. The downward shift was driven by decrease in European policy tensions and Tuesday's IMF report, where the Fund improved the GDP growth and fiscal outlook for Poland and some CEE region countries. As a result, EURPLN fell to 4.265 from 4.294 reaching its lowest since late

September. The USDPLN has decreased in the bigger scale, to 3.60, owing to higher EURUSD.

The other regional currencies also strengthened. EURHUF fell for a third day running, getting down to 309 from more than 310 at the opening. This was due to the general improvement of the sentiment in the CEE after the IMF released its report about the region, placing higher growth forecasts for Hungary inside. However the Czech koruna did not take advantage of the improved sentiment and EURCZK stayed around 25.90. Positive market sentiment and rising oil prices supported the ruble.

We expect some correction of the yesterday EURPLN decline could take place on Thursday morning. The appreciation of the zloty may however continue once the inflation data are out. The data should influence investors' expectations about the path of interest rates in Poland, bringing the date of the first rate hike closer. We think the zloty has still some room for appreciation in the remaining part of the week.

Today at 14:00CET Polish stat office will release final September inflation. Flash reading showed a rise to 2.2% y/y and we expect this estimate to be confirmed. We attribute the rise of the headline figure mainly to the behaviour of fuel prices and the continued high input from food as well as the base effect in health. It is also likely that air transport prices continued their upward movement started in August. We also cannot rule out that the downward move in teaching book prices triggered by the introduction of free books in two classes was less considerable than we had assumed.

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FX market

Today's opening

EURPLN	4.2731	CZKPLN	0.1652
USDPLN	3.6000	HUFPLN*	1.3811
EURUSD	1.1870	RUBPLN	0.0624
CHFPLN	3.7041	NOKPLN	0.4552
GBPPLN	4.7701	DKKPLN	0.5741
USDCNY	6.5907	SEKPLN	0.4480

*for 100HUF

Last session in the FX market

11/10/2017

	min	max	open	close	fixing
EURPLN	4.266	4.297	4.288	4.271	4.2836
USDPLN	3.600	3.640	3.633	3.605	3.6219
EURUSD	1.180	1.186	1.180	1.185	-

Interest rate market

11/10/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.71	-3	09.06.2017	OK0419	1.859
PS0422 (5Y)	2.71	-2	09.06.2017	PS0422	2.587
DS0727 (10Y)	3.41	-5	09.06.2017	DS0727	3.128

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.80	0	1.61	1	-0.26	0
2L	1.99	-1	1.78	1	-0.17	0
3L	2.15	-2	1.89	1	-0.04	1
4L	2.32	-3	1.96	1	0.11	1
5L	2.47	-3	2.03	1	0.26	1
8L	2.79	-4	2.21	1	0.67	1
10L	2.95	-4	2.30	0	0.91	2

WIBOR rates

Term	%	Change (bps)
O/N	1.58	1
T/N	1.58	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	1.76	0
6x9	1.79	-1
9x12	1.87	0
3x9	1.83	0
6x12	1.89	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.95	-5
France	21	0	0.42	0
Hungary	116	1	2.18	1
Spain	68	-2	1.16	-1
Italy	140	-2	1.69	-1
Portugal	121	-2	1.85	-1
Ireland	32	-1	0.24	2
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

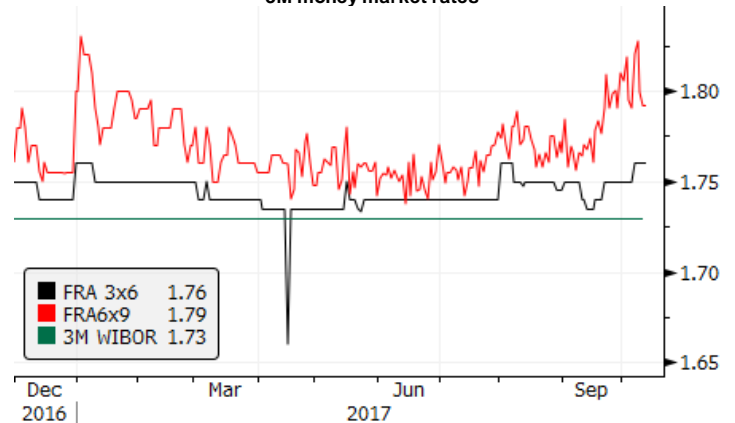
Zloty exchange rate



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	4.2	-	5.8	3.3
9:00	CZ	CPI	Sep	% y/y	2.7	-	2.7	2.5
TUESDAY (10 October)								
8:00	DE	Exports	Aug	% m/m	1.0	-	3.1	0.2
9:00	HU	CPI	Sep	% y/y	2.7	-	2.5	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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