

EYEOPENER

25 October 2017

Surprisingly low unemployment

- Better than expected data from Europe, market awaiting ECB decision
- Unemployment fell more than expected in September
- Yields abroad higher, insignificant change in the Polish debt market
- Today, bond auction in Poland, important data from Germany and USA

On Tuesday the situation on the global market was pretty calm thanks to better than expected PMIs for Germany and euro zone. Robust figures convinced the market that tomorrow the ECB will reveal its plan of reducing the size of the asset purchase program, which proved negative for core and euro zone peripheral bonds during the yesterday's session.

EURUSD remained fairly stable around 1.175. European data surprised to the upside but this did not have any noticeable impact on the market suggesting that only the ECB decision could trigger higher volatility.

EURPLN rebounded to c4.245 and today in the morning neared 4.25, more than neutralizing Monday's fall to 4.22. The zloty was pressured by better-than-expected European data that, in the market's view, raised chances that tomorrow the ECB will announce cut in monthly bond purchases and by expectations for more hawkish Fed policy. USDPLN rose above 3.60 and today in the morning it broke Monday's peak at 3.61. The zloty could remain under pressure if coming days do not bring any change in market's view regarding main central bank's monetary policy.

In the case of other CEE currencies, the ruble did not move much, koruna gained while forint lost. The Czech currency was boosted by comments of local central bankers. Marek Mora said that there is a room for a 25bp rate hike in November while Tomas Nidetzky said 50bp hike could be considered at the nearest central bank meeting. The latter added that koruna's appreciation is still not big enough to discourage central bankers from rate hikes. As a result, EURCZK fell below 25.6, its lowest since October 2013. Koruna is now gaining vs the euro for already six week in a row. At the same time, Hungarian central bankers maintained their declaration that more monetary easing could be delivered if needed and said that nonstandard measures are being analyzed. Further easing of the central bank's rhetoric pushed EURHUF above 309.5 from just below 308, which was the biggest daily upside move since late August.

On the domestic fixed income market the IRS rates and bond yields were rising. The Polish yield curve increased by c1bp, while the German bond curve was shifted up by 2-3bp and UST by 4-5bp. Stronger move took place on the PLN FRA market, as longer rates moved up by 5bp. As a result the market started pricing-in the first rate hike (by 25bp) in October 2018 and the next hike (with 80% probability) in April 2019.

Today at the bond auction the Ministry of Finance (MoF) will offer PLN4-8bn of bonds. We think that the investors' demand is focused on the 2Y and floating-rate bonds (WZ series) and the MoF should offer mainly this type of bonds. We expect that the Ministry will sell the most of offered bonds. After the auction we anticipate asset swap spread to widen. It is worth to note that today the large amount of money (PLN17,7bn) will flow to the market from the redemption of bonds and interest payments.

Registered unemployment rate fell in September more than expected and settled at 6.8% vs 6.9% forecasted by the market and the Ministry of Labour. The surprise came mainly from the upward revision of the number of employed – by 240k (i.e. by 1.6%) per month in 1H17 on average. As a result, the path for the unemployment rate dropped by 0.1pp for the remainder of the year. Additionally, September saw an unusually big for this time of the year drop of unemployed (by 19k m/m) which was mainly owing to low (seasonally adjusted) number of new registrations. We expect even bigger drop of unemployed in October given the reduction of retirement age.

Detailed data about wages in the corporate sector confirmed that the slowdown in wage growth in September from 6.6% to 6.0% y/y resulted to large extent from the one-off disturbance in bonus payments in mining sector. After excluding mining, the wage growth remained decent: 6.2% y/y in September, after 6.3% in August and 6.1% in July. It was a strong reading, taking into account that September was the first month since June with lower number of working days than last year. We expect to see further acceleration of wage growth in the coming months, amid deepening shortage of labourforce.

According to Dziennik Gazeta Prawna daily, the Polish government reshuffle expected in the coming weeks could include the change of the Prime Minister and the PiS leader Jarosław Kaczyński is considering taking over this chair.

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FX market

Today's opening

EURPLN	4.2483	CZKPLN	0.1660
USDPLN	3.6128	HUFPLN*	1.3694
EURUSD	1.1759	RUBPLN	0.0627
CHFPLN	3.6439	NOKPLN	0.4512
GBPPLN	4.7394	DKKPLN	0.5707
USDCNY	6.6417	SEKPLN	0.4389

*for 100HUF

Last session in the FX market

24/10/2017

	min	max	open	close	fixing
EURPLN	4.222	4.249	4.223	4.246	4.2382
USDPLN	3.592	3.613	3.596	3.609	3.6031
EURUSD	1.173	1.178	1.174	1.176	-

Interest rate market

24/10/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.68	1	09.06.2017	OK0419	1.859
PS0422 (5Y)	2.66	0	09.06.2017	PS0422	2.587
DS0727 (10Y)	3.38	1	09.06.2017	DS0727	3.128

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.82	1	1.62	0	-0.26	0
2L	2.04	2	1.81	1	-0.18	0
3L	2.22	4	1.94	2	-0.05	1
4L	2.40	5	2.03	2	0.10	2
5L	2.55	4	2.11	2	0.25	2
8L	2.87	4	2.29	3	0.67	3
10L	3.03	4	2.39	4	0.91	3

WIBOR rates

Term	%	Change (bps)
O/N	1.54	7
T/N	1.54	7
SW	1.58	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	1.82	0
9x12	1.90	2
3x9	1.84	1
6x12	1.91	2

Measures of fiscal risk

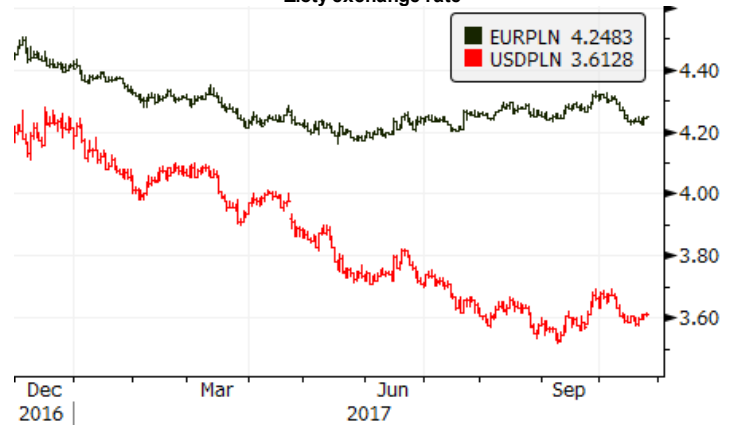
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.91	2
France	21	-1	0.40	0
Hungary	116	1	2.00	1
Spain	70	-1	1.17	-1
Italy	131	-2	1.58	0
Portugal	122	1	1.82	0
Ireland	32	-1	0.21	0
Germany	12	-1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

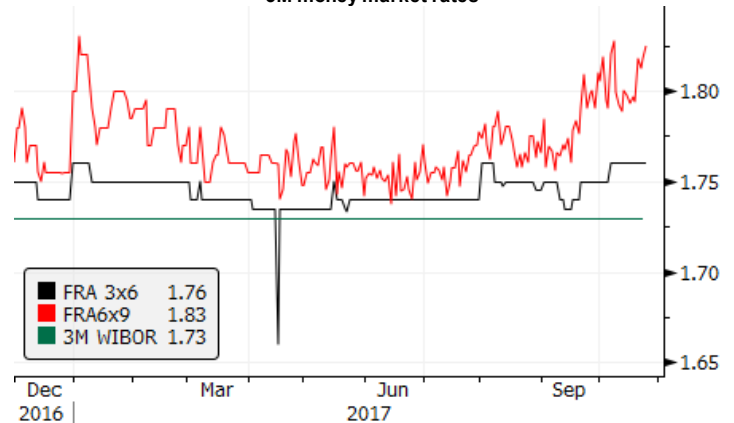
Zloty exchange rate



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 (20 October)								
Polish rating review by S&P								
14:30	US	Home sales	Sep	% m/m	-0.9	-	0.7	-1.7
MONDAY (23 October)								
14:00	PL	Money supply	Sep	% y/y	5.6	5.6	5.4	5.5
TUESDAY (24 October)								
9:30	DE	Flash PMI – manufacturing	Oct	pts	60.0	-	60.5	60.6
9:30	DE	Flash PMI – services	Oct	pts	55.5	-	55.2	55.6
10:00	EZ	Flash PMI – manufacturing	Oct	pts	57.8	-	58.6	58.1
10:00	EZ	Flash PMI – services	Oct	pts	55.6	-	54.9	55.8
10:00	PL	Unemployment rate	Oct	%	6.9	6.9	6.8	7.0
14:00	HU	Central bank decision		%	0.90	-	0.90	0.90
WEDNESDAY (25 October)								
10:00	DE	Ifo index	Oct	pts	115.1	-		115.2
11:00	PL	Bond auction						
14:30	US	Durable goods orders	Sep	% m/m	1.0	-		2.0
16:00	US	New home sales	Sep	% m/m	-1.0	-		-3.4
THURSDAY (26 October)								
13:45	EZ	ECB decision		%	0.0	-		0.0
14:00	PL	MPC minutes						
14:30	US	Initial jobless claims	week	k	-	-		222
16:00	US	Pending home sales	Sep	% m/m	0.3	-		-2.6
FRIDAY (27 October)								
14:30	US	Advance GDP	Q3	q/q	2.5	-		3.1
16:00	US	Michigan index	Oct	pts	101.0	-		95.1

Source: BZ WBK. Reuters. Bloomberg

* in case of the revision the data is updated

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