

EYEOPENER

27 October 2017

ECB cuts asset purchases, US tax reform approaches

- **ECB slashed its QE purchases, but kept dovish rhetoric**
- **US House approved 2018 budget, tax reform draft to come next week**
- **The zloty strengthened on ECB, but hit hard by the US vote, stronger dollar pushes USDPLN higher**
- **Polish fixed income market stable, yields down abroad**
- **Today advance 3Q GDP estimate in the USA.**

As expected, the outcome of the ECB meeting had the biggest impact on trading during the yesterday session. The central bank kept the rates unchanged, but reduced its monthly bond purchases from €60bn to €30bn (the change comes into effect at the beginning of the next year); the program itself is to run until September 2018. The ECB upheld the declaration that the rates would be hiked long after closing the APP. The assessment of the economic landscape did not change much vs previous months. As the head of the ECB said, the decision was not unanimous (some members did not want to define the APP timelines), which contributed to the market reading the decision as dovish. This was reflected by the weakening of euro and the fall in bond yields in Europe. In the evening, the market was fuelled by the news that the US House of Representatives approved the 2018 budget in the same form as the Senate did, meaning that no reconciliation phase is needed. Given that, a tax reform proposal is due already next week.

EURUSD started to fall sharply yesterday in response to the ECB decision and the tone of its press conference as well as the US vote. It was the biggest daily slide since December 2016. As a result, EURUSD went beyond 1.166-1.188 range in which it traded since the beginning of October. Today, the focus will be on the US data, especially the first reading of 3Q GDP.

EURPLN decreased to 4.23 from 4.245, while USDPLN rebounded to 3.628 from 3.585 as a response for the ECB decision. During the press conference the zloty appreciation started to reverse and by the end of the day the pair surged to 4.255, the highest level since mid-October. The koruna behaved similar to the zloty (a significant drop of EURCZK at first, but a radical rebound to a highest level seen this week afterwards). The forint had already been losing in the previous

sessions so its yesterday move was less pronounced during the evening sell-off of emerging currencies. Market reaction to the ECB decision suggested that the changes in the bond-buying program were interpreted as a continuation of dovish monetary policy. The CEE market currencies didn't strengthen in a lasting way, which may suggest that their appreciation potential in the short term is small, especially with a dollar-positive US tax reform apparently approaching fast.

On Thursday on volatility on the domestic debt market was quite high. The IRS curve slid by 2-5 bp. At the end of the day the 10Y bond yield reached the same level it saw at the opening, while the 5Y bond yield dropped by 2 bp. 2Y bond yield decreased by 6bp. As a result the 2Y asset swap spread declined to the level last seen in 2012, while 5Y-10Y ASW spreads reached the lowest levels since January 2016. The 2Y ASW spread compression was a result of short term supply shortage after a buy-back. In contrast to the Polish long-end t-bonds, the core markets and Euro zone periphery bonds were a beneficiary of ECB decision.

Yesterday the NBP released minutes from the October MPC meeting. In the Council members' opinion, economic growth in Poland is solid but some of them pointed to the uncertainty related to the scale of investment revival. Some members said that inflation could be higher than currently forecasted mainly owing to rising wage and cost pressure and this might be a reason for a rate hike. Many MPC members noted the risk of rise of wage pressure and this was a new sentence included in the minutes. Overall, we perceive yesterday's document as hawkish but actually it did not provide more information given the recent comments of the MPC members that had already suggested such evolution of view.

According to Polish Press Agency, the Ministry of Labour is working on a bill abolishing the limit on tax base for charging pension contributions, currently equal to 30 monthly average pays. The bill assumed an improvement on GG deficit by PLN5.5bn in the first year, with a positive effect on the Social Security Fund, negative on the central budget (PLN1bn) and local governments (PLN0.6bn) due to lower revenues from income taxes. However, in the longer run this change will result in higher pensions for people affected (350k) and higher burden for the general government sector.

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FX market

Today's opening

EURPLN	4.2602	CZKPLN	0.1660
USDPLN	3.6657	HUFPLN*	1.3669
EURUSD	1.1622	RUBPLN	0.0632
CHFPLN	3.6673	NOKPLN	0.4481
GBPPLN	4.8031	DKKPLN	0.5724
USDCNY	6.6551	SEKPLN	0.4383

*for 100HUF

Last session in the FX market

26/10/2017

	min	max	open	close	fixing
EURPLN	4.232	4.255	4.242	4.253	4.2458
USDPLN	3.584	3.642	3.591	3.641	3.5939
EURUSD	1.168	1.184	1.181	1.168	-

Interest rate market

26/10/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.61	0	09.06.2017	OK0419	1.859
PS0422 (5Y)	2.67	0	09.06.2017	PS0422	2.587
DS0727 (10Y)	3.40	-3	09.06.2017	DS0727	3.128

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.82	0	1.64	0	-0.26	0
2L	2.03	-2	1.83	0	-0.19	-2
3L	2.22	-2	1.96	1	-0.07	-3
4L	2.39	-2	2.05	1	0.07	-3
5L	2.54	-2	2.13	0	0.21	-4
8L	2.86	-2	2.32	0	0.63	-5
10L	3.01	-1	2.41	0	0.87	-5

WIBOR rates

Term	%	Change (bps)
O/N	0.89	-32
T/N	1.44	18
SW	1.57	-1
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	1.81	-2
9x12	1.90	-2
3x9	1.83	-1
6x12	1.90	-2

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.98	-4
France	21	0	0.40	0
Hungary	116	1	2.03	-1
Spain	68	-1	1.11	-1
Italy	130	-1	1.52	-1
Portugal	120	-1	1.80	-1
Ireland	32	-1	0.21	-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

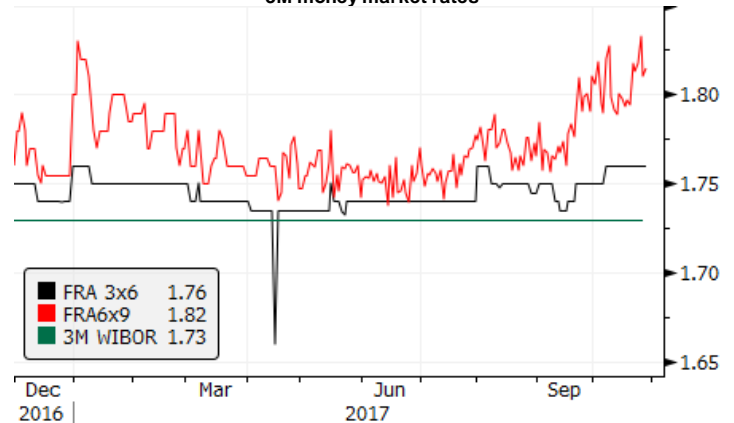
Zloty exchange rate



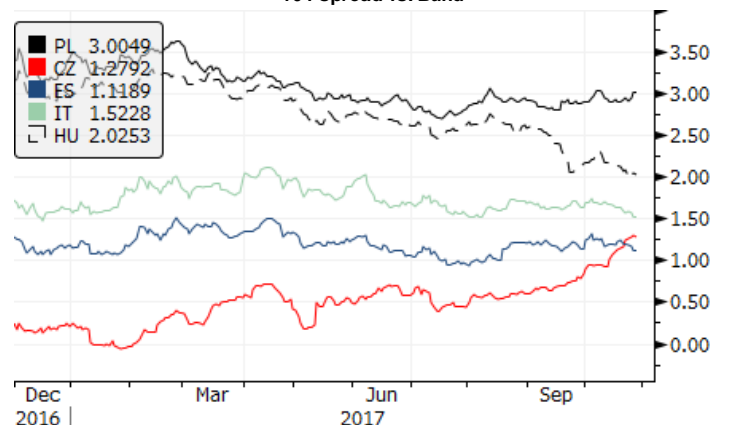
T-bonds yields



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 (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	-	116.7	115.3
11:00	PL	Bond auction						
14:30	US	Durable goods orders	Sep	% m/m	1.0	-	2.2	2.0
16:00	US	New home sales	Sep	% m/m	-1.0	-	18.9	-3.6
THURSDAY (26 October)								
13:45	EZ	ECB decision		%	0.0	-	0.0	0.0
14:00	PL	MPC minutes						
14:30	US	Initial jobless claims	week	k	235	-	233	222
16:00	US	Pending home sales	Sep	% m/m	0.3	-	0.0	-2.8
FRIDAY (27 October)								
14:30	US	Advance GDP	Q3	q/q	2.6	-		3.1
16:00	US	Michigan index	Oct	pts	100.7	-		95.1

Source: BZ WBK. Reuters. Bloomberg

* in case of the revision the data is updated

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