

EYEOPENER

3 November 2017

Powell new head of Fed, market is waiting for US data

- Polish PMI below the expectations
- The core bonds market under the pressure expectations for successor of Fed chairman, Polish bonds weaker
- Zloty little weaker against euro and stable against USD, koruna loses after the central bank decision
- Today: US non-manufacturing payrolls

On Thursday, global risk appetite weakened slightly, but only at the end of the day bonds gained as investors backed out from the equity markets. The reason was the market uncertainty as to a new Fed's chair (ultimately Jerome Powell was nominated) and speculations on the implications of the planned US tax changes. The Bank of England decision to on a 25bp hike, including the increase of the main rate up to 0.50%, had a significant impact on the currency market. The market read the communication as dovish which made the pound weaker against the euro and dollar.

The Polish manufacturing PMI index released yesterday was worse than expected but it gave us important insight on price developments. It seems that some of the pressure generated by continued strong demand goes to price increases in the face of capacity constraints (pressure on supply chains, labour shortages). What is more, producers are now less hesitant about transferring higher costs to output prices. The sub-index covering prices of finished goods remained around the highest levels seen since early 2011, the same as in September. While the input cost component of PMI has been rising for some time now, an upward reaction of the output price index is a relatively new phenomenon.

EURUSD rate fluctuated for most of the session close to 1.165 and only briefly moved near 1.17. Today, there might a bit more volatility as the US non-farm payrolls report will be released in the afternoon. The September reading was strongly disappointing, reflecting the heavy toll taken by hurricanes. The market expects that the previous month losses will be offset and that the today's reading will be higher than the average for previous months of the year.

EURPLN was oscillating slightly above the opening level and rose to 4.24 only at the end of the local session. The zloty remained stable vs. the dollar, at c3.635. When it comes to the

other CEE currencies there were no big changes with the exception of the koruna. EURPLN is still staying close to the local low of 4.22 from mid-October, waiting for a fresh impulse that would set a new trend. In our view we will rather see profit taking from the recent zloty appreciation than another leg lower by EURPLN.

The Czech central bank (CNB) raised interest rates yesterday by 25bp, the main rate to 0.50%. In recent weeks some of the Czech policymakers suggested a move by 50bp, but the governor Jiri Rusnok informed yesterday that the announced decision was unanimous. In his view, there could be further policy normalization down the road, including on the next December meeting. The koruna was the worst performing currency in the region yesterday. EURCZK jumped above 25.73 on failed hopes for a 50bp rate hike and after several weeks of decline of the exchange rate ahead of the CNB meeting.

At the domestic interest rate market IRS rates and bond yields rose at the belly and long end of the curve by 5-7bp. At the end of the day there was some rebound (probably due to information about Jerome Powell's nomination) and ultimately the 5-10Y rates ended the session no more than 5bp above the Tuesday's close. At the short end of the curve the moves were smaller and the market closed 1bp above opening. The Polish debt underperformed the German and US markets, where yields rose 2-3bp in the morning and dropped below opening in the afternoon. Today market attention will turn to US data. Reaction to the releases may determine how the week will end for the Polish market.

US President Donald Trump has picked Jerome Powell for the successor of Janet Yellen as the Fed governor. The nomination will have to be approved by the Senate. Powell is seen as a continuator of Yellen's policy and an advocate of slow and gradual monetary tightening. In our view, his first comments after the nomination may suggest a bit more hawkish approach than presented by Yellen. The nomination was neutral for the markets.

Deputy finance minister Leszek Skiba said yesterday that he expected that GDP growth slightly exceeded 4.5% y/y in 3Q17 and in the entire year the growth will be slightly above 4%. Our forecasts are at 4.3% and 4.2%, correspondingly.

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FX market

Today's opening

EURPLN	4.2392	CZKPLN	0.1651
USDPLN	3.6406	HUFPLN*	1.3635
EURUSD	1.1644	RUBPLN	0.0623
CHFPLN	3.6410	NOKPLN	0.4467
GBPPLN	4.7491	DKKPLN	0.5696
USDCNY	6.6288	SEKPLN	0.4332

*for 100HUF

Last session in the FX market 02/11/2017

	min	max	open	close	fixing
EURPLN	4.230	4.241	4.236	4.236	4.2336
USDPLN	3.625	3.647	3.644	3.634	3.6366
EURUSD	1.161	1.169	1.163	1.166	-

Interest rate market 02/11/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.61	-1	10/25/17	OK0720	2.000
PS0422 (5Y)	2.68	0	10/25/17	PS0123	2.813
DS0727 (10Y)	3.47	4	10/25/17	DS0727	3.375

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.82	0	1.65	1	-0.27	0
2L	2.04	-1	1.82	0	-0.20	0
3L	2.22	-1	1.93	0	-0.08	0
4L	2.40	0	2.01	0	0.06	-1
5L	2.55	1	2.08	0	0.20	-1
8L	2.87	0	2.25	0	0.60	-1
10L	3.03	1	2.33	0	0.84	0

WIBOR rates

Term	%	Change (bps)
O/N	1.57	6
T/N	1.57	2
SW	1.60	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	1.83	1
9x12	1.92	0
3x9	1.84	1
6x12	1.91	1

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	3.10	4
France	19	1	0.39	0
Hungary	116	1	2.08	-1
Spain	63	0	1.10	0
Italy	118	-1	1.42	0
Portugal	114	-1	1.71	0
Ireland	32	-1	0.21	0
Germany	10	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

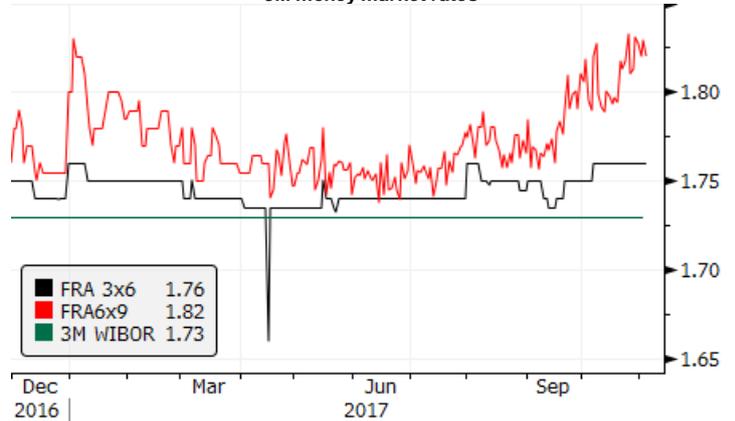
Zloty exchange rate



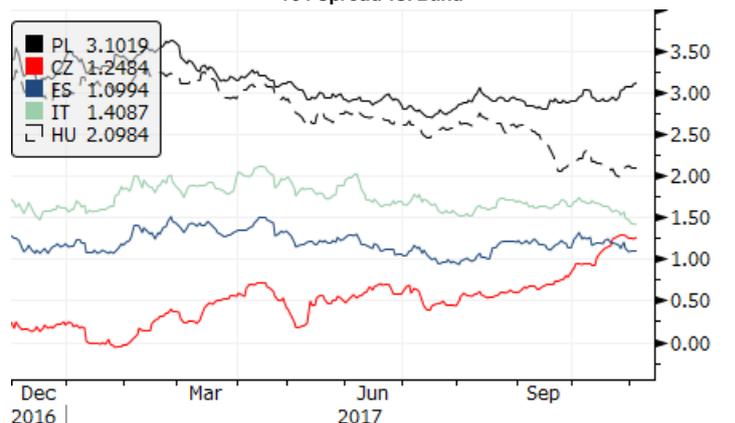
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	BZWBK			
FRIDAY (27 October)								
14:30	US	Advance GDP	Q3	q/q	2.6	-	3.0	3.1
16:00	US	Michigan index	Oct	pts	100.7	-	100.7	95.1
MONDAY (30 October)								
13:30	US	Personal income	Sep	% m/m	0.4	-	0.4	0.2
13:30	US	Consumer spending	Sep	% m/m	0.8	-	1.0	0.1
TUESDAY (31 October)								
11:00	EZ	Flash GDP	Q3	% y/y	2.4	-	2.5	2.3
11:00	EZ	Flash CPI	Oct	% y/y	1.5	-	1.4	1.5
14:00	PL	Flash CPI	Oct	% y/y	2.1	2.1	2.1	2.2
15:00	US	Consumer confidence index	Oct	pts	121.0	-	125.9	120.6
WEDNESDAY (1 November)								
	PL	Market holiday						
2:45	CN	PMI – manufacturing	Oct	pts	51.0	-	51.0	51.0
13:15	US	ADP report	Oct	k	200	-	235	135
15:00	US	ISM – manufacturing	Oct	pts	59.5	-	58.7	60.8
19:00	US	FOMC decision		%	1.0-1.25	-	1.0-1.25	1.0-1.25
THURSDAY (2 November)								
9:00	PL	PMI – manufacturing	Oct	pts	54.0	54.4	53.4	53.7
9:55	DE	PMI – manufacturing	Oct	pts	60.5	-	60.6	60.6
10:00	EZ	PMI – manufacturing	Oct	pts	58.6	-	58.5	58.1
13:00	CZ	Central bank decision		%	0.50	0.50	0.50	0.25
13:30	US	Initial jobless claims	week	k	-	-	229	233
FRIDAY (3 November)								
13:30	US	Non-farm payrolls	Oct	k	313	-		-33
13:30	US	Unemployment rate	Oct	%	4.2	-		4.2
15:00	US	ISM – services	Oct	pts	58.5	-		59.8
15:00	US	Durable goods orders	Sep	% m/m	2.0	-		2.2

Source: BZ WBK. Reuters. Bloomberg

* in case of the revision the data is updated

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