

EYEOPENER

6 November 2017

Dollar stronger after the US data

- **Yields of US 10Y bonds falling**
- **Polish debt gained, following core markets**
- **US data from services and manufacturing boosted dollar**
- **Zloty weaker, following the euro**
- **Today activity indices for European services**

On Friday Polish bonds gained slightly while the zloty depreciated vs the euro, probably due to stronger dollar and lower liquidity. Today we expect the Polish currency to remain fairly stable and domestic bonds could gain amid light economic events calendar. On the global market, oil price is on the rise in reaction to the recent events in Saudi Arabia (ministers and members of royal family were arrested on weekend) which in investors' view make the OPEC agreement on lower oil extraction more likely.

On Friday, the improvement in the pricing of long-term bonds on the core debt markets was continued. The biggest decrease of yields was observed on the US market, where yield of 10Y bonds slid by 2bp to 2.33% level (last seen at the end of the second decade of October). This change was a market reaction to the US Presidential nomination of Jerome Powell. Investors took this as an announcement of to the continuation of the policy pursued by Janet Yellen. This decision obscured quite a solid reading of services and industrial sector activity indices. The bond market was also supported by weaker than expected labour market data (except the unemployment rate, which decreased to 4.1% from 4.2%). However the part of negative effect was connected with hurricane outcomes as noted in the comments. Also the German 10Y bonds yield was decreasing, however the scale was limited to 1 bp. The same path was followed by Eurozone periphery bonds.

On Friday domestic bonds gained, then lost, and then gained again. Finally, the game result was positive for the bond holders. The yield curve shifted down by 0.5-1.5 bp across the curve, stronger on the long end. It was a result of better mood on the global bond market. On Friday the developed markets as well as most of emerging markets gained (except the Russian bonds). The IRS rates followed the domestic bonds yield.

Today we expect domestic yields to move a bit lower. The data from German industrial and services sector should not have much influence on the Polish market. What could be important for the domestic t-bonds is the behaviour of the short end of the US yield curve, but we do not think it will bring negative

surprises. The second part of the week should see the bond market return to pushing the long end yields higher. We think that this move will be triggered by the Thursday switch auction.

The Ministry of Finance issued bonds worth PLN3bn to increase BGK's statutory fund. The issued bonds were transferred to BGK on Friday.

On Friday, EURUSD saw a clear growth (to 1.1690) after the US non-farm payrolls report was published, surprising investors with lower than expected readings. However, a more in-depth analysis of the data by the market plus a surprisingly high non-manufacturing ISM readings (60.1 vs. expected 58.5) pushed EURUSD to 1.1610, a level not recorded since July.

EURPLN rose throughout the day on Friday, reaching 4.2450 at the close of business (PLN0.01 higher than at the opening), accompanied by a losing ruble (USDRUB rose from 58.10 to 59.10). Other currencies of the region recorded slight appreciation. In our opinion, the weakening of the domestic currency was a follow up of the dollar strengthening against the euro and low liquidity in the market. On Monday we expect a stabilisation of the zloty, as no important data is to be published. Throughout the week EURPLN should also be stable, but in the longer run there is a risk that our currency will weaken.

The next week's agenda is not a very busy one. On the domestic market the key events will be the MPC decision (Wednesday) and balance of payments data (Friday). There will be a couple of economic activity indicators in Europe, but in general they will be of secondary importance. The MPC meeting will be an interesting one, as the Council will get to know the new central bank economic projections, and a couple of MPC members have signaled recently that the results of those projections may influence their views on interest rate outlook. It seems likely that GDP growth forecast will be revised up slightly (at least its starting point), but the question is more about the inflation forecast. The July's projection assumed that CPI would return to the 2.5% target not earlier than at the end of 2019, while our current forecast suggests it could take place already in mid-2018. However, we are quite skeptical if the new NBP forecast would show much faster achievement of the inflation target. Therefore, the tone of the press conference and the official MPC statement may not change substantially from the last month's. The balance of payments data for September will show, in our view, wider current account deficit than expected by the market (due to rebound in imports and slower export growth).

ECONOMIC ANALYSIS DEPARTMENT:

al. Jana Pawła II 17, 00-854 Warsaw fax +48 22 586 83 40
 email: ekonomia@bzwbk.pl Web site: skarb.bzwbk.pl
 Piotr Bielski +48 22 534 18 87
 Marcin Luziński +48 22 534 18 85
 Grzegorz Ogonek +48 22 534 19 23
 Konrad Soszyński +48 22 534 18 86
 Marcin Sulewski +48 22 534 18 84

TREASURY SERVICES:

Poznań +48 61 856 5814/30
 Warszawa +48 22 586 8320/38
 Wrocław +48 71 369 9400

FX market

Today's opening

| | | | |
|--------|--------|---------|--------|
| EURPLN | 4.2439 | CZKPLN | 0.1652 |
| USDPLN | 3.6570 | HUFPLN* | 1.3649 |
| EURUSD | 1.1605 | RUBPLN | 0.0618 |
| CHFPLN | 3.6492 | NOKPLN | 0.4471 |
| GBPPLN | 4.7808 | DKKPLN | 0.5702 |
| USDCNY | 6.6363 | SEKPLN | 0.4331 |

*for 100HUF

Last session in the FX market

03/11/2017

| | min | max | open | close | fixing |
|--------|-------|-------|-------|-------|--------|
| EURPLN | 4.233 | 4.249 | 4.236 | 4.245 | 4.2406 |
| USDPLN | 3.628 | 3.661 | 3.634 | 3.657 | 3.6408 |
| EURUSD | 1.160 | 1.169 | 1.166 | 1.161 | - |

Interest rate market

03/11/2017

T-bonds on the interbank market**

| Bond (term) | % | Change (bps) | Last auction | Paper offered | Average yield |
|--------------|------|--------------|--------------|---------------|---------------|
| OK0419 (2Y) | 1.61 | 0 | 10/25/17 | OK0720 | 2.000 |
| PS0422 (5Y) | 2.68 | -1 | 10/25/17 | PS0123 | 2.813 |
| DS0727 (10Y) | 3.46 | -1 | 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 | 1.66 | 1 | -0.27 | 0 |
| 2L | 2.04 | 0 | 1.83 | 1 | -0.20 | 0 |
| 3L | 2.22 | 0 | 1.94 | 0 | -0.08 | 0 |
| 4L | 2.39 | -1 | 2.01 | 0 | 0.06 | 0 |
| 5L | 2.54 | -1 | 2.07 | 0 | 0.20 | 0 |
| 8L | 2.86 | -1 | 2.23 | -1 | 0.60 | 0 |
| 10L | 3.02 | -1 | 2.32 | -2 | 0.84 | 0 |

WIBOR rates

| Term | % | Change (bps) |
|------|------|--------------|
| O/N | 1.59 | 2 |
| T/N | 1.59 | 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 | 0 |
| 6x9 | 1.83 | 0 |
| 9x12 | 1.91 | 0 |
| 3x9 | 1.84 | 0 |
| 6x12 | 1.90 | -1 |

Measures of fiscal risk

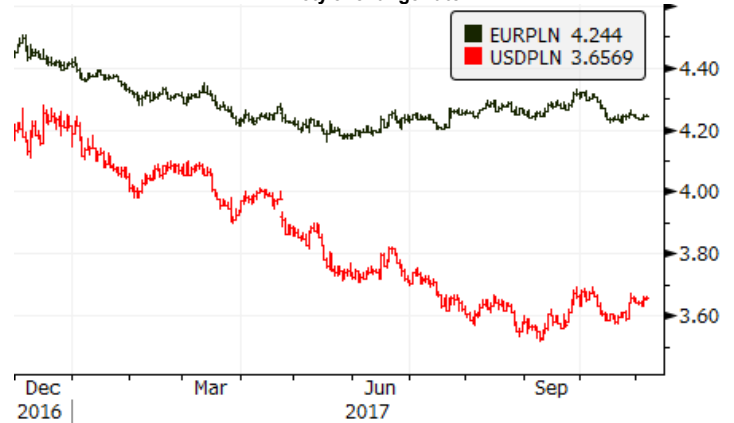
| Country | CDS 5Y USD | | 10Y spread* | |
|----------|------------|--------------|-------------|--------------|
| | Level | Change (bps) | Level | Change (bps) |
| Poland | 71 | -1 | 3.11 | 0 |
| France | 18 | -1 | 0.39 | 0 |
| Hungary | 116 | 1 | 2.04 | 1 |
| Spain | 61 | -2 | 1.11 | 0 |
| Italy | 116 | -2 | 1.44 | 1 |
| Portugal | 110 | -5 | 1.68 | -1 |
| Ireland | 32 | -1 | 0.22 | 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

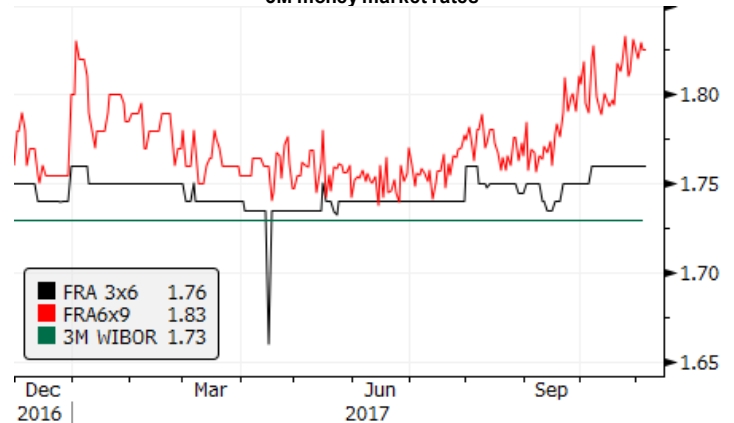
Zloty exchange rate



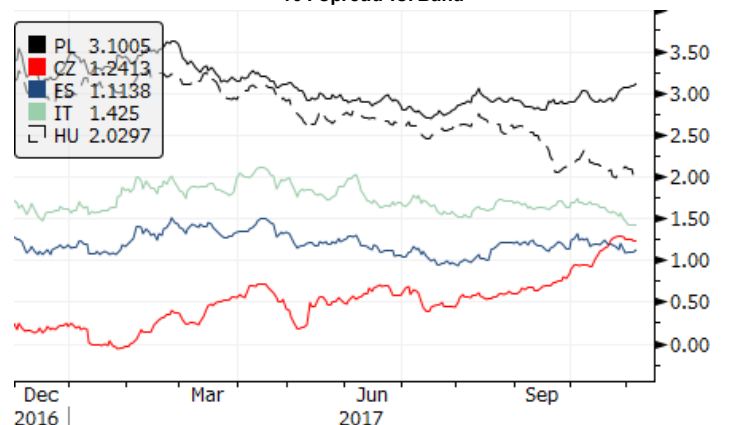
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

| Economic calendar | | | | | | | | |
|------------------------|---------|------------------------|--------|-------|----------|--------|-----------------|----------------|
| TIME CET | COUNTRY | INDICATOR | PERIOD | | FORECAST | | ACTUAL VALUE | LAST VALUE* |
| | | | | | MARKET | BZWBK | | |
| FRIDAY (3 November) | | | | | | | | |
| 13:30 | US | Non-farm payrolls | Oct | k | 313 | - | 261 | -33 |
| 13:30 | US | Unemployment rate | Oct | % | 4.2 | - | 4.1 | 4.2 |
| 15:00 | US | ISM – services | Oct | pts | 58.5 | - | 60.1 | 59.8 |
| 15:00 | US | Durable goods orders | Sep | % m/m | 2.0 | - | 2.0 | 2.2 |
| MONDAY (6 November) | | | | | | | | |
| 8:00 | DE | Industrial orders | Sep | % m/m | -1.4 | - | 1.0 | 3.6 |
| 9:00 | CZ | Industrial output | Sep | % m/m | 3.4 | - | | 5.8 |
| 9:55 | DE | PMI – services | Oct | pts | 55.2 | - | | 55.6 |
| 10:00 | EZ | PMI – services | Oct | pts | 54.9 | - | | 55.8 |
| TUESDAY (7 November) | | | | | | | | |
| 8:00 | DE | Industrial output | Sep | % m/m | -1.0 | - | | 2.6 |
| 11:00 | EZ | Retail sales | Sep | % m/m | 0.6 | - | | -0.5 |
| WEDNESDAY (8 November) | | | | | | | | |
| | PL | MPC decision | | % | 1.50 | 1.50 | | 1.50 |
| THURSDAY (9 November) | | | | | | | | |
| 8:00 | DE | Exports | Sep | % m/m | -1.3 | 54.4 | | 2.9 |
| 9:00 | CZ | CPI | Oct | % y/y | 2.7 | - | | 2.7 |
| 9:00 | HU | CPI | Oct | % y/y | 2.3 | - | | 2.5 |
| 11:00 | PL | Bond switch auction | | | | 0.50 | | |
| 14:30 | US | Initial jobless claims | week | k | - | - | | 229 |
| FRIDAY (10 November) | | | | | | | | |
| 14:00 | PL | Current account | Sep | €m | -202 | -667 | | -100 |
| 14:00 | PL | Exports | Sep | €m | 17 090 | 16 892 | | 15 682 |
| 14:00 | PL | Imports | Sep | €m | 16 846 | 16 939 | | 15 384 |
| 16:00 | US | Flash Michigan | Nov | pts | 100.0 | - | | 100.7 |

Source: BZ WBK, Reuters, Bloomberg

* in case of the revision the data is updated

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Additional information is available on request. Please contact Bank Zachodni WBK S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@bzwbk.pl, http://www.bzwbk.pl.