

EYEOPENER

29 January 2018

Bonds weaker, zloty strong

- **Calm end of the week on the equity market despite weaker US data**
- **Polish and core debt under pressure despite below-consensus US 4Q advance GDP**
- **Zloty still strong, EURUSD fairly stable**
- **Moderately successful bond auction**
- **Today, US consumer income and spending data**

On Friday, the bond weakening continued on the international markets while the euro slightly depreciated against the dollar. At the same time, the market saw progressing appreciation of the zloty, accompanied by the growing yields of Polish debt. The bond auction may be considered moderately successful, as the demand/supply ratio was lower than at the previous auction at the beginning of January and amounted to 1.5.

The US President Donald Trump's statement implying that he wanted a strong dollar stopped the appreciation of the euro boosted previous week by anticipated modification of the ECB's rhetoric. As a result, EURUSD moved back to 1.245 from 1.251 on Thursday. At the beginning of the week, we will see data on the spending and income of American consumers, while the monthly report on the US labor market is scheduled for Friday. We believe that the dollar is likely to make up for some losses in the near future.

Friday saw further strengthening of the zloty. Positive sentiment on the stock exchanges pushed EURPLN to 4.136 from almost 4.15 while USDPLN remained close to 3.33 due to EURUSD decline. After closing the domestic session, EURPLN fell to 4.132, thus setting a new minimum this year.

As for the other CEE currencies, EURCZK declined from 25.35 to 25.31 thanks to general market optimism and expected rate hike in Czechia this Thursday. EURHUF rebounded from 309.1 to 309.6 together with rising Hungarian bond yields. USDRUB returned to levels from Thursday opening, as profit-taking took place on announcement by Moody's that Russian rating outlook has been upgraded to positive (rating level is Ba1).

We stick to our view that there is little room for further zloty appreciation vs. the euro and the dollar. We assume that the US currency may soon strengthen, which would put a profit-taking pressure on the zloty after its recent gains. In the short term, noticeable depreciation of the zloty may be prevented by domestic data coming this week (GDP, PMI).

On Friday, core bond markets remained under pressure. Only in the morning there was some temporary strengthening. The yield of the German 10Y papers moved from 0.60% to 0.63%, still below Thursday high. The long end of the US yield curve rose by 4bp, but corrected lower in the afternoon.

On Friday, the Polish debt was selling off, following the core markets bear steepener. The longer end shifted up by 7bp, the belly by 3bp and the shorter end by 1bp. IRS went by 3bp in 2Y sector, 7bp in 5Y and 15bp in 10Y, so asset swap spreads narrowed markedly.

On Friday, the Finance Ministry sold debt worth almost PLN7bn, with 47% share of WZ1122 and WZ0528 floaters. Highest bid-to-cover ratios were recorded for zero-coupon OK0720 (1.7) and WZ0528 (1.6). Average bid-to-cover at the auction amounted to 1.5 as compared to 2.3 in February. After the auction the Ministry informed that 2018 borrowing needs are covered in 37%.

Today we are expecting some correction of debt prices, mostly on the longer end. In our view, this move will be temporary, while Polish and US data due for release this week will push the longer end upwards.

Today the European Parliament's Committee on Civil Liberties, Justice and Home Affairs is expected to vote on resolution regarding the rule of law in Poland. Back in November 2017 the Parliament began actions aiming at start of UE Treaty Article 7 against the Polish government, but the European Commission (EC) launched this article already in December. Today's vote is expected to be an endorsement of EC actions and we are not expecting this event to affect the domestic market.

This week we will get to see important data: final PMIs, non-farm payrolls and Polish GDP for 2017. Flash PMIs for Germany and Euro zone went down so the market will eye whether this change is confirmed. Weak data from Europe can potentially postpone tightening of the ECB policy. Polish annual GDP will help fine-tune forecasts for 4Q17, which are likely to show growth close to 5% y/y. FOMC meeting is another important event of the week. We are not expecting any crucial changes, yet this will be the last meeting chaired by Janet Yellen. Positive Polish macro data are likely to support domestic assets.

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FX market

Today's opening

EURPLN	4.1347	CZKPLN	0.1634
USDPLN	3.3318	HUFPLN*	1.3368
EURUSD	1.2409	RUBPLN	0.0592
CHFPLN	3.5564	NOKPLN	0.4325
GBPPLN	4.7033	DKKPLN	0.5555
USDCNY	6.3252	SEKPLN	0.4226

*for 100HUF

Last session in the FX market

26/01/2018

	min	max	open	close	fixing
EURPLN	4.131	4.149	4.139	4.132	4.1477
USDPLN	3.309	3.350	3.314	3.324	3.3299
EURUSD	1.236	1.251	1.249	1.243	-

Interest rate market

26/01/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.76	23	1/4/18	OK0720	1.863
PS0123 (5L)	2.74	5	1/4/18	PS0123	2.561
WS0428 (10L)	3.51	14	12/15/17	DS0727	3.209

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.78	1	2.08	2	-0.26	0
2L	2.07	3	2.31	3	-0.12	0
3L	2.30	5	2.43	3	0.08	0
4L	2.52	7	2.50	3	0.28	2
5L	2.69	9	2.54	3	0.45	2
8L	2.99	10	2.64	1	0.83	2
10L	3.14	9	2.68	1	1.01	1

WIBOR rates

Term	%	Change (bps)
O/N	1.34	19
T/N	1.38	-11
SW	1.53	-1
2W	1.59	0
1M	1.65	0
3M	1.72	0
6M	1.81	0
9M	1.82	0
1Y	1.85	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.73	0
3x6	1.73	0
6x9	1.76	1
9x12	1.86	1
3x9	1.82	0
6x12	1.84	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.86	11
France	16	0	0.28	0
Hungary	116	1	1.53	-4
Spain	44	0	0.77	-1
Italy	100	2	1.37	-1
Portugal	66	0	1.30	0
Ireland	25	-1	0.39	-1
Germany	9	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

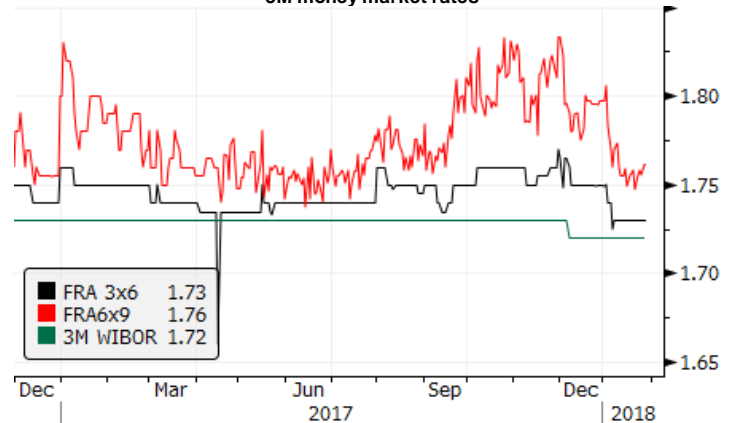
Zloty exchange rate



T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar

TIME		INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST
CET	MARKET				BZWBK	VALUE		
FRIDAY (26 January)								
11:30	PL	Bond Auction			-			
14:30	US	Durable Goods Orders	Dec	% m/m	0.8		2.9	1.3
14:30	US	GDP Annualized	4Q	% Q/Q	3.0		2.6	3.2
MONDAY (29 January)								
14:30	US	Personal Spending	Dec	% m/m	0.45		-	0.6
14:30	US	Personal Income	Dec	% m/m	0.3		-	0.3
TUESDAY (30 January)								
10:00	PL	GDP	2017	% y/y	4.5	4.5	-	2.9
11:00	EZ	GDP SA	4Q	% y/y	2.65		-	2.8
14:00	HU	Central Bank Rate Decision	Jan-18	%	0.9		-	0.9
16:00	US	Conference Board index	Jan	pts	123.1		-	122.1
WEDNESDAY (31 January)								
11:00	EZ	Flash HICP	Jan	% y/y	1.2		-	1.4
11:00	EZ	Unemployment Rate	Dec	%	8.7		-	8.7
14:15	US	ADP report	Jan	k	190.0		-	250.2
16:00	US	Pending Home Sales	Dec	% m/m	0.5		-	0.2
20:00	US	FOMC decision	Jan-18		1.5		-	1.5
THURSDAY (1 February)								
09:00	PL	Poland Manufacturing PMI	Jan	pts	-		-	55.0
09:55	DE	Germany Manufacturing PMI	Jan	pts	61.2		-	61.2
10:00	EZ	Eurozone Manufacturing PMI	Jan	pts	59.6		-	59.6
13:00	CZ	Central Bank Rate Decision	Feb-18		0.75		-	0.5
14:30	US	Initial Jobless Claims	Jan-18	k	235.0		-	233.0
16:00	US	ISM manufacturing	Jan	pts	58.95		-	59.7
FRIDAY (2 February)								
14:30	US	Change in Nonfarm Payrolls	Jan	k	187.5		-	148.0
14:30	US	Unemployment Rate	Jan	%	4.1		-	4.1
16:00	US	Michigan index	Jan	pts	95.0		-	94.4
16:00	US	Factory Orders	Dec	% m/m	0.5		-	1.3

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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