

EYEOPENER

5 February 2018

Global equity and debt markets weakening

- Zloty weaker, under pressure of declining equity markets
- Global selloff in debt markets
- Services PMIs in the euro zone due today

On Friday the debt and equity markets as well as emerging market currencies lost due to worries about looming US rate hikes after better-than-expected labour market statistics.

This week is rather thin as regards macro releases. MPC press conference should confirm that the central bank's stance did not change and prospects for rate hikes are still distant. In our view, this can be PLN-negative. As regards Polish bonds, their behaviour will mostly depend on global market trends.

FX market

For the better part of Friday, EURUSD was going down after Thursday's attempt to beat the January's peak. In the afternoon, this trend was amplified by US non-farm payrolls, which surprised to the upside by 20k. However, soon EURUSD went up again due to weaker-than-expected Michigan consumer confidence. As a result, EURUSD ended the day at 1.2480, only slightly lower than Thursday close. Today in the morning the rate was close to 1.245.

EURPLN was rising on Friday, which was triggered by market concerns about faster interest rates hikes in the USA, following a release of positive US labour market data. These concerns led to decline at stock exchanges as well. Consequently, EURPLN grew to 4.1680 from 4.1550. USDPLN increased as well but at the end of the day the trend reversed due to rebound in EURUSD. This resulted in USDPLN ending the session at 3.3420 (versus 3.3220 at Thursday's close), after temporarily reaching 3.3550.

This morning, EURPLN is close to 4.17 but we expect further weakening of the Polish zloty during the day. This will be triggered by weak sentiment after Friday's sharp sell-off in the equity markets (which continued today in Asia). PMI data from European services sector should not have substantial impact on the market.

As regards other CEE currencies: the Czech koruna corrected its recent strengthening due to the central bank's

announcement of a pause in monetary tightening and analysis of the exchange rate movements; the forint weakened. EURHUF went up due to risk adverse moods and strong sell-off of the Hungarian debt, with 10Y yields rising by almost 20bps. The forint was also negatively affected by weaker-than-expected trade balance. As a consequence at the time of the European close EURHUF reached 310, from 309.10 at the start of the day. The ruble was losing for the whole day, similar to other regional currencies, fueled by global risk aversion. The Russian currency was also affected negatively by comments from the central bank about GDP growth in 4Q and lower prices of crude oil (in USD). USDRUB moved from 55.90 to 56.40 on the day.

Debt markets

On Friday the sell-off on the core debt market continued, partly due to better than expected data from the US labor market. As a result, the US yield curve shifted up by 6 bp on the long end, by 2 bp in the middle and drop by 1 bp on the short end. This change meant increase of the 5Y bonds yield to the highest level since the 2010 (2.61%), 10Y to the highest level since 2013 (2.85%). The yields of Bunds increased also, the 10Y and 5Y bonds yields climbed by 2 bp, reached the highest level since 2015 (10Y rose to 0.77%), only the yields of shortest bonds dropped slightly. This time, the bonds of the eurozone peripheral countries followed the German papers.

Domestic bonds followed core markets on Friday, erasing Thursday's gains. The Polish yield curve rose by 5bp on the long end, by 2 bp in the middle and stayed in place on the short end. Stronger moves were seen on the IRS curve (up 7-9bp in the 5-10Y part, resulting in the highest rates since 2014, and +2bp in the 2Y part). These changes were accompanied by a reduction of asset swap spreads.

Today we expect some correction after the Friday weakening on the domestic bond market. The scale of the correction may be relatively small. This week we expect the global bond sell-off to continue, but possibly with reduced momentum. The trend may change direction after the Thursday auction.

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FX market

Today's opening

EURPLN	4.1613	CZKPLN	0.1649
USDPLN	3.3445	HUFPLN*	1.3428
EURUSD	1.2442	RUBPLN	0.0590
CHFPLN	3.5908	NOKPLN	0.4324
GBPPLN	4.7132	DKKPLN	0.5591
USDCNY	6.2972	SEKPLN	0.4230

*for 100HUF

Last session in the FX market

02/02/2018

	min	max	open	close	fixing
EURPLN	4.151	4.171	4.151	4.171	4.1615
USDPLN	3.318	3.355	3.326	3.347	3.3329
EURUSD	1.241	1.252	1.248	1.246	-

Interest rate market

02/02/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.73	2	1/26/18	OK0720	1.823
PS0123 (5L)	2.77	3	1/26/18	PS0123	2.665
WS0428 (10L)	3.56	7	1/26/18	WS0428	3.446

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.78	1	2.11	0	-0.26	0
2L	2.06	2	2.36	1	-0.12	1
3L	2.33	4	2.52	3	0.09	0
4L	2.56	6	2.61	4	0.30	0
5L	2.74	8	2.68	5	0.49	0
8L	3.04	8	2.81	7	0.92	2
10L	3.18	8	2.86	8	1.12	3

WIBOR rates

Term	%	Change (bps)
O/N	1.55	10
T/N	1.55	4
SW	1.55	0
2W	1.58	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	1.72	-1
3x6	1.73	0
6x9	1.75	0
9x12	1.83	-3
3x9	1.82	0
6x12	1.84	-1

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.80	7
France	16	0	0.25	0
Hungary	116	1	1.85	2
Spain	43	0	0.72	2
Italy	95	-1	1.30	2
Portugal	64	0	1.25	1
Ireland	25	-1	0.41	0
Germany	8	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

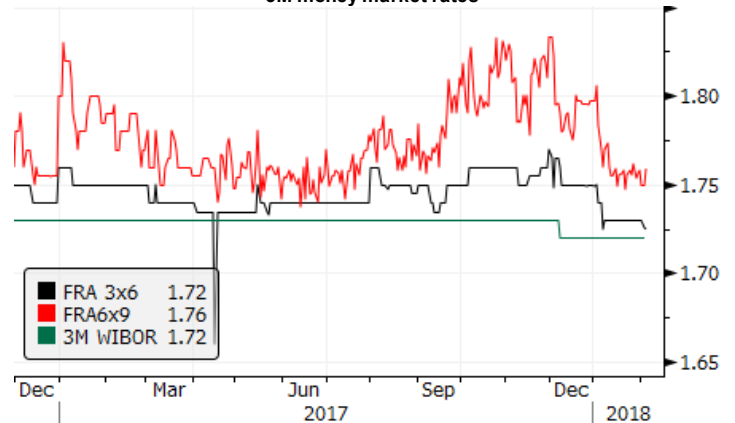
Zloty exchange rate



T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic Calendar								
TIME		INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE
CET					MARKET	BZWBK		
FRIDAY (2 February)								
14:30	US	Change in Nonfarm Payrolls	Jan	k	180.0		200.0	148.0
14:30	US	Unemployment Rate	Jan	%	4.1		4.1	4.1
16:00	US	Michigan index	Jan	pts	95.0		95.7	94.4
16:00	US	Durable Goods Orders	Dec	% m/m	0.0		2.8	2.9
16:00	US	Factory Orders	Dec	% m/m	1.5		1.7	1.3
MONDAY (5 February)								
02:45	CH	Caixin China PMI Services	Jan	pts	53.5		54.7	53.9
09:55	DE	Markit Germany Services PMI	Jan	pts	57.0		-	57.0
10:00	EZ	Eurozone Services PMI	Jan	pts	57.6		-	57.6
11:00	EZ	Retail Sales	Dec	% m/m	-1.0		-	1.5
16:00	US	ISM services	Jan	pts	56.5		-	56.0
TUESDAY (6 February)								
08:00	DE	Factory Orders	Dec	% m/m	0.7		-	-0.4
09:00	CZ	Industrial Production	Dec	% y/y	3.65		-	8.5
WEDNESDAY (7 February)								
	PL	Poland Base Rate Announcement		%	1.5	1.5	-	1.5
08:00	DE	Industrial Production SA	Dec	% m/m	-0.5		-	3.4
09:00	HU	Industrial Production SA	Dec	% y/y	5.05		-	3.4
THURSDAY (8 February)								
08:00	DE	Exports SA	Dec	% m/m	-1.0		-	4.1
11:30	PL	Bond Auction			-			
14:30	US	Initial Jobless Claims	Feb-18	k	232.0		-	230.0
FRIDAY (9 February)								
No important events								

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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