

EYEOPENER

2 March 2018

Trump wants to introduce trade tariffs

- **Trump wants to introduce tariffs on steel and aluminum, triggering a stock market sell-off**
- **PMI for Polish manufacturing down to 53.7pts**
- **EURUSD higher, zloty weaker**
- **Core yields slightly down, Polish bonds and EU peripheries stronger**
- **Today: US Michigan consumer confidence**

Thursday saw the zloty slump against the euro and the dollar. Also the weaker PMI in manufacturing did not help the zloty. On the other hand, domestic debt was gaining, supported by positive budget information and weaker PMI data. Today, the Michigan consumer confidence index is on schedule.

Trump wants to introduce trade tariffs

The US President Donald Trump announced the introduction of new tariffs on imported steel (25%) and aluminum (10%), thus raising concerns about the outbreak of a trade war and leading to stock exchange falls during the US and Asian sessions. The US imports steel primarily from Canada, Brazil, South Korea, Mexico, Russia, Turkey, Japan, Taiwan and Germany. Aluminum, though, is imported mainly from Canada (over 50%), Russia, the United Arab Emirates and China. European Commission President Jean-Claude Juncker said that the EU would react firmly and commensurately to defend its interests, which in practice is a harbinger of compatible countermeasures against the USA.

PMI fell below 54pts

PMI for Poland's manufacturing fell to 53.7pts in February from 54.6pts in January. This was the second slide in a row, bringing the PMI to level recorded in October 2017. The index was dragged lower by a weaker growth of all main components: new orders, output and employment. The data are in line with our view that 1Q18 saw no further acceleration of economic growth.

FX markets

EURUSD was moving down through most of the day on Thursday. Only after a poor opening of US stock exchanges the trend changed direction. The appreciation of the dollar was stopped by a remark by Jerome Powell in the US Congress that the economy does not show signs of overheating. The dollar was weakened further by news about plans to introduce tariffs on steel and aluminum. As a consequence, EURUSD ended the day at 1.2210, not far away from the Wednesday close, having hit 1.2160 in the

afternoon. This morning EURUSD is at c1.2260 and it may tend to move higher today.

The decline of EURUSD has made the zloty lose vs. the euro. Only in the afternoon EURPLN went lower, at the time of the dollar weakness. In the course of the day EURPLN went from 4.1780 to 4.1860, hitting 4.1890 along the way – a level that was last seen in the middle of February. This morning the fx pair is again pushing higher, already above 4.19. USDPLN climbed during the day to 3.4450, and in the afternoon eased to 3.4280. Today we do not see much space for PLN appreciation, given weaker global sentiments.

In the case of other CEE region currencies: EURCZK oscillated about 25.40, fueled by EURUSD volatility. The weaker than expected Czech PMI reading did not influence EURCZK rate. EURHUF decreased to 313.50 from 313.80 (despite lower Hungarian PMI reading). The decision to affirm Hungary credit rating on BBB+ by Japan Credit Rating Agency did not influence the EURHUF. USDRUB was rising over the day to reach the 56.80 at the end of the day (comparing to 56.40 at the start). The ruble depreciation was due to the stronger dollar, the weaker PMI and lower oil prices.

Debt market

Core debt markets gained on Thursday fueled by weak Euro zone PMIs. Additional support was provided by the second Fed's Powell testimony as he said that "there is no evidence the economy is overheating". Later bonds gave up part of gains as he added that wages are expected to grow. As a result, the US yield curve moved 2bp down.

German bonds moved in the same direction but less significantly. Much bigger changes were recorded in the case of Italian or Spanish bonds where the 10Y yields fell 4-6bp.

Polish bonds were gaining on Thursday thanks to internal factors, although falling yields on the global market provided supportive conditions for this trend. Domestic debt was boosted by lower than expected Polish February manufacturing PMI index and nonresidents buying long-term bonds. As a result, bond curve eased 4-6bp on the long end and 2bp on the front end. IRS rates moved less leading to narrowed asset swap spreads (5Y and 10Y spreads returned to levels last time seen at November/December turn). Today we expect some slight correction of Thursday's yield down move.

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FX market			
Today's opening			
EURPLN	4.1923	CZKPLN	0.1649
USDPLN	3.4200	HUFPLN*	1.3369
EURUSD	1.2259	RUBPLN	0.0604
CHFPLN	3.6391	NOKPLN	0.4353
GBPPLN	4.7078	DKKPLN	0.5629
USDCNY	6.3504	SEKPLN	0.4143

*for 100HUF

Last session in the FX market 01/03/2018

	min	max	open	close	fixing
EURPLN	4.174	4.190	4.175	4.186	4.1854
USDPLN	3.419	3.446	3.419	3.428	3.4356
EURUSD	1.216	1.222	1.221	1.221	-

Interest rate market 01/03/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.62	0	2/22/18	OK0720	1.741
PS0123 (5L)	2.57	-3	2/22/18	PS0123	2.687
WS0428 (10L)	3.29	-5	2/22/18	WS0428	3.430

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.76	0	2.30	-3	-0.25	0
2L	1.98	-1	2.51	-4	-0.13	-1
3L	2.19	-2	2.62	-4	0.07	-1
4L	2.39	-1	2.68	-5	0.27	0
5L	2.53	-2	2.72	-5	0.45	-1
8L	2.82	-2	2.81	-4	0.87	-1
10L	2.99	-2	2.86	-4	1.08	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.55	5
T/N	1.55	1
SW	1.56	0
2W	1.60	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	0
3x6	1.72	0
6x9	1.75	1
9x12	1.82	-1
3x9	1.82	-1
6x12	1.83	0

Measures of fiscal risk

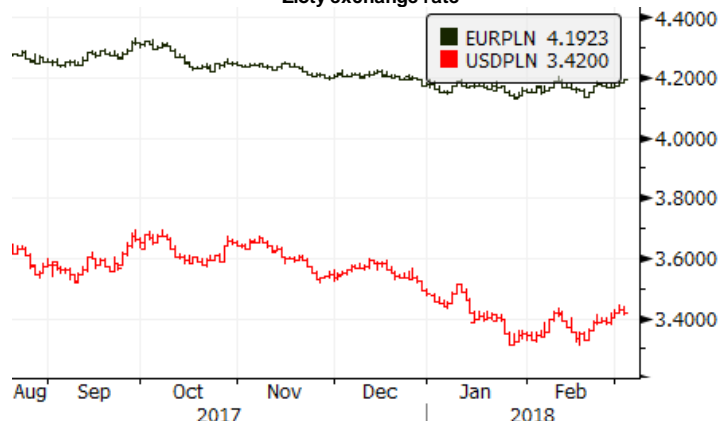
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.67	-4
France	17	0	0.27	0
Hungary	116	1	2.04	2
Spain	44	0	0.86	0
Italy	98	-1	1.31	0
Portugal	66	0	1.30	1
Ireland	25	-1	0.42	0
Germany	10	0	-	-

* 10Y treasury bonds over 10Y Bunds

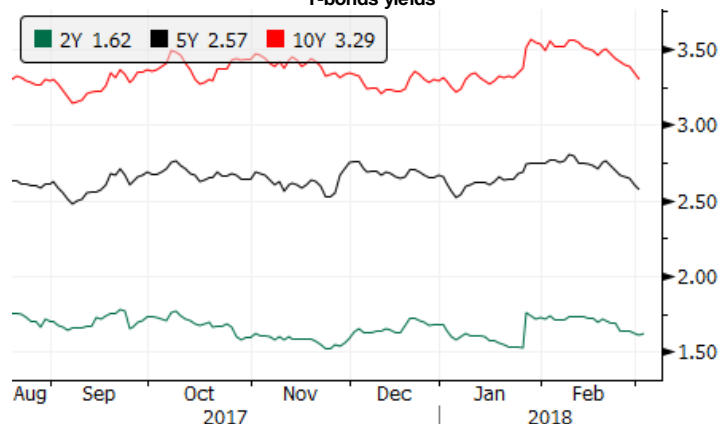
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

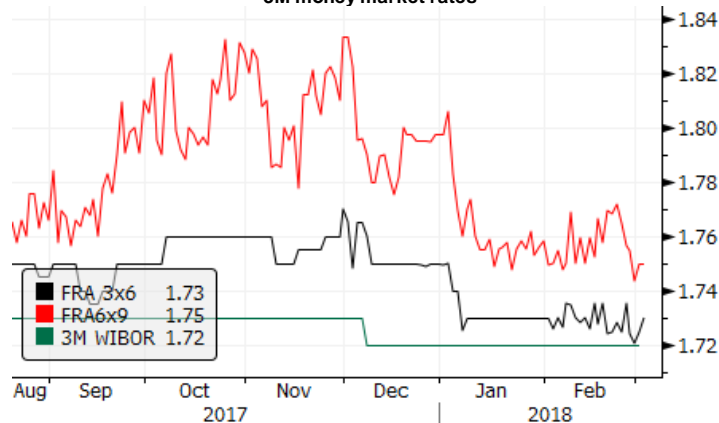
Zloty exchange rate



T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar								
TIME		INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE	
CET				MARKET	BZWBK			
FRIDAY (23 February)								
08:00	DE	GDP WDA	4Q	% y/y	2.9		2.9	2.9
10:00	PL	Unemployment Rate	Jan	%	6.9	6.9	6.9	6.6
11:00	EZ	HICP	Jan	% y/y	1.3		1.3	1.4
MONDAY (26 February)								
16:00	US	New Home Sales	Jan	% m/m	3.5	-	-7.8	-9.3
TUESDAY (27 February)								
14:00	HU	Central Bank Rate Decision	Feb-18	%	0.9	-	0.9	0.9
14:30	US	Durable Goods Orders	Jan	% m/m	-2.3	-	-3.7	2.8
16:00	US	Conference Board index	Feb	pts	126.0	-	130.8	125.4
WEDNESDAY (28 February)								
10:00	PL	Private Consumption	4Q	% y/y	-	5.0	4.9	4.8
10:00	PL	Investments	4Q	% y/y	-	11.8	11.3	3.3
10:00	PL	GDP	4Q	% y/y	5.1	5.1	5.1	4.9
11:00	EZ	Flash HICP	Feb	% y/y	1.2	-	1.2	1.3
14:30	US	GDP Annualized	4Q	% Q/Q	2.5	-	2.5	2.6
16:00	US	Pending Home Sales	Jan	% m/m	0.4	-	-4.7	0.5
THURSDAY (1 March)								
09:00	PL	Poland Manufacturing PMI	Feb	pts	54.2	54.1	53.7	54.6
09:55	DE	Germany Manufacturing PMI	Feb	pts	60.3	-	60.6	61.1
10:00	EZ	Eurozone Manufacturing PMI	Feb	pts	58.5	-	58.6	59.6
11:00	EZ	Unemployment Rate	Jan	%	8.6	-	8.6	8.6
14:30	US	Initial Jobless Claims	Feb-18	k	225.5	-	210	222.0
14:30	US	Personal Spending	Jan	% m/m	0.2	-	0.2	0.4
14:30	US	Personal Income	Jan	% m/m	0.3	-	0.4	0.4
16:00	US	ISM manufacturing	Feb	pts	58.8	-	60.8	59.1
FRIDAY (2 March)								
09:00	CZ	GDP SA	4Q	% y/y	5.1	-		5.1
16:00	US	Michigan index	Feb	pts	99.5	-		99.9

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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