

EYEOPENER

5 March 2018

End of political deadlock in Germany, start in Italy

- US president set the market trend at the end of the week
- End of political deadlock in Germany, beginning in Italy
- EURPLN near 4.20, EURUSD higher on Friday but fell after the weekend
- Yields of Polish bonds lower, following bonds abroad
- Tday data about PMI services in Europe and USA

Trends on the global market during the final session of the past week were driven by Donald Trump idea to impose tariffs on steel and aluminum. Concerns that trade wars may possibly begin weighing on the global economic activity pushed European stock indexes down, which weighed on the EM currencies vs the euro. Risk for slower GDP growth hit the dollar that on Friday gave up all gains it saw vs the euro earlier in the week. Asian stocks fell at the beginning of the new week amid worries about trade protectionism and European equities are likely to follow suit. The euro is weaker on Monday morning owing to result of Italian parliamentary elections.

European politics

According to preliminary results, the coalition of centre-right parties received the highest score in yesterday Italian general elections, getting c37% of votes (the result of the eurosceptic Northern League was much higher than expected). The anti-establishment Five Star Movement was surprisingly successful in the elections, getting c33% of votes, while the centre-left Democratic Party, forming the current government, got only 20% support, which is seen as a major loss. Many commentators see a high risk of political impasse with such distribution of votes, and it will be tough for Italian politicians to form a government from this mix.

On the other hand, the German five-month political impasse was broken. On Friday the SPD party decided with a 66% majority to form a coalition with CDU/CSU, which gives Angela Merkel a green light to build a government.

FX market

On Friday EURUSD upward move (started overnight and triggered by the US president's proposal to introduce the tariffs for the import steel and aluminum) was continued and ended the session at 1.232. As a result, US dollar erased all gains from the previous days of the week. This week political

uncertainty in Italy may weigh on euro. In the next days, we will know the important US data and the ECB interest rates decision. These events could bring the new triggers for the market and decide if EURUSD would be back to the range 1.22-1.255 in the next weeks or the US dollar will make up for losses.

EURPLN neared the local peak at 4.20 reached in early February amid another wave of risk aversion entering the global market. USDPLN fell 3.40 from above 3.42 owing to strong rise EURUSD. Forint and koruna remained stable while the ruble lost vs the dollar.

EURPLN is hovering near important resistance and in our view there is little room for the zloty to resume the appreciation trend. We do not expect EURPLN to fall below 4.16 and we assume it will stay high around 4.20.

Debt market

Domestic interest rate market saw the trend for bonds strengthening, continued for few days now. This trend was driven by yields falling abroad and weaker PMI index, which boosted market expectations of the dovish statement after the MPC's Wednesday decision. The bond curve moved by 3-5bp down and IRS rates fell by 2-3bp and in both cases the changes occurred mainly in the middle and long end of the curve. In reaction to Italy elections, Italian yields grew significantly with German Bunds strengthening. Today we do not expect any data that could determine a sustainable trend, thus we assume that domestic yields will remain low pending the MPC's Wednesday decision.

This week

This week is likely to provide a lot of emotions for investors. On Thursday the ECB is making decision on rates and on Friday the US non-farm payrolls are due for release. In Poland, the MPC meeting is on the agenda. Polish central bankers will get to see the new inflation projection. In our view, the CPI path may be revised lower, so the already weak hawkish camp is likely to suffer another blow. The calendar is actually packed with important releases, such as German/Euro zone GDP, PMI for services, factory orders, export and industrial output or US ADP reports, Beige Book and durable goods orders. In general, market volatility is likely to remain elevated.

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FX market

Today's opening

EURPLN	4.1920	CZKPLN	0.1651
USDPLN	3.4100	HUFPLN*	1.3362
EURUSD	1.2293	RUBPLN	0.0597
CHFPLN	3.6390	NOKPLN	0.4364
GBPPLN	4.7002	DKKPLN	0.5629
USDCNY	6.3363	SEKPLN	0.4122

*for 100HUF

Last session in the FX market

02/03/2018

	min	max	open	close	fixing
EURPLN	4.185	4.200	4.186	4.189	4.1986
USDPLN	3.398	3.438	3.428	3.400	3.42
EURUSD	1.219	1.234	1.221	1.232	-

Interest rate market

02/03/2018

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)	2.53	-4	2/22/18	PS0123	2.687
WS0428 (10L)	3.27	-2	2/22/18	WS0428	3.430

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.77	1	2.28	-2	-0.26	0
2L	1.98	0	2.49	-2	-0.12	0
3L	2.19	0	2.61	-1	0.07	0
4L	2.37	-2	2.67	-1	0.27	0
5L	2.51	-3	2.72	0	0.45	0
8L	2.80	-2	2.81	0	0.87	0
10L	2.96	-3	2.86	1	1.08	0

WIBOR rates

Term	%	Change (bps)
O/N	1.55	0
T/N	1.55	0
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	1.74	1
6x9	1.75	0
9x12	1.82	0
3x9	1.82	1
6x12	1.84	1

Measures of fiscal risk

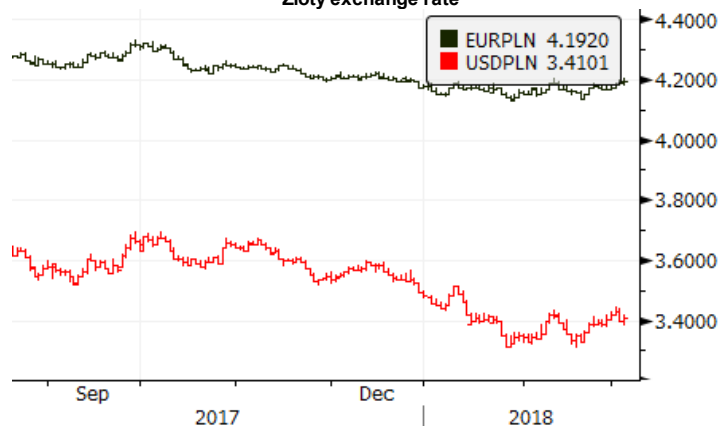
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.67	2
France	17	1	0.28	1
Hungary	116	1	2.03	5
Spain	44	0	0.94	5
Italy	99	1	1.41	10
Portugal	67	0	1.41	8
Ireland	25	-1	0.44	1
Germany	10	0	-	-

* 10Y treasury bonds over 10Y Bunds

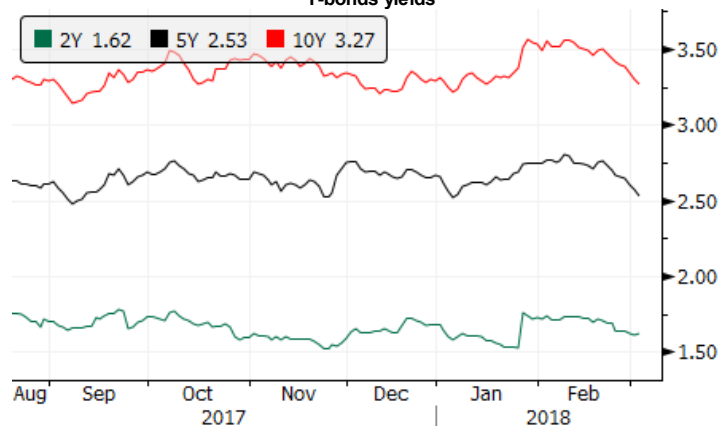
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

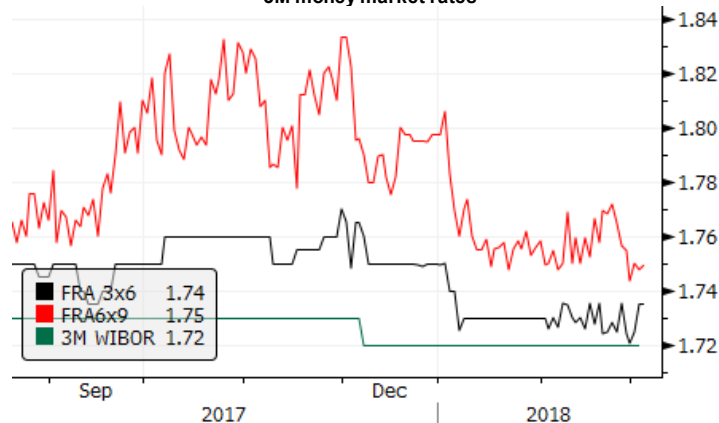
Zloty exchange rate



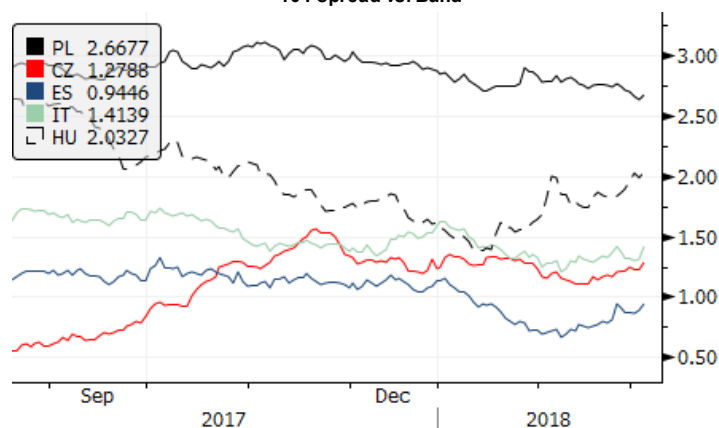
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME	INDICATOR		PERIOD		FORECAST		ACTUAL	LAST
CET					MARKET	BZWBK	VALUE	VALUE
FRIDAY (2 March)								
09:00	CZ	GDP SA	4Q	% y/y	5.1		5.2	5.1
16:00	US	Michigan index	Feb	pts	99.5		99.7	99.9
MONDAY (5 March)								
02:45	CH	Caixin China PMI Services	Feb	pts	54.3	-		54.7
09:55	DE	Markit Germany Services PMI	Feb	pts	55.3	-		55.3
10:00	EZ	Eurozone Services PMI	Feb	pts	56.7	-		56.7
11:00	EZ	Retail Sales	Jan	% m/m	0.6	-		-1.1
16:00	US	ISM services	Feb	pts	58.5	-		59.9
TUESDAY (6 March)								
09:00	HU	GDP	4Q	% y/y	-	-		4.4
16:00	US	Durable Goods Orders	Jan	% m/m	-2.0	-		-3.7
16:00	US	Factory Orders	Jan	% m/m	-0.3	-		1.7
WEDNESDAY (7 March)								
	PL	Poland Base Rate Announcement		%	1.5	1.5		1.5
09:00	HU	Industrial Production SA	Jan	% y/y	-	-		4.5
11:00	EZ	GDP SA	4Q	% y/y	2.7	-		2.7
14:15	US	ADP report	Feb	k	180	-		233
20:00	US	Beige Book						
THURSDAY (8 March)								
08:00	DE	Factory Orders	Jan	% m/m	-1.5	-		3.8
09:00	HU	CPI	Feb	% y/y	2.0	-		2.1
13:45	EZ	ECB Main Refinancing Rate		%	0.0	-		0.0
14:30	US	Initial Jobless Claims	week	k	225	-		222
FRIDAY (9 March)								
08:00	DE	Exports SA	Jan	% m/m	0.3	-		0.0
08:00	DE	Industrial Production SA	Jan	% m/m	0.5	-		-0.6
09:00	CZ	CPI	Feb	% y/y	1.9	-		2.2
14:30	US	Change in Nonfarm Payrolls	Feb	k	195	-		200
14:30	US	Unemployment Rate	Feb	%	4.0	-		4.1

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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