

EYEOPENER

12 March 2018

Mixed US labour market data

- **Weak output data from Europe**
- **In US, employment rises stronger than wages**
- **EURPLN down, EURUSD fairly stable**
- **Bonds pressured by strong US nonfarm payrolls**
- **Today in Poland presentation of the Inflation report, in the US the 10Y bonds auction**

On Friday, debt and fx markets were influenced by US labour data. Its impact did not last long, as strong growth of non-farm payrolls was paired with weaker than expected increase of wages. European and US bonds were decreasing, whereas EURUSD volatility increased only temporarily. The zloty was gaining amid rising equity prices and its CEE peers followed suit, the only exception being Czech koruna.

FX market

After a Thursday's drop, EURUSD remained rather stable. It was only in the afternoon, after publication of surprisingly strong data on employment in non-farm sector and weaker than expected data on wages in the US (more details in debt market section), when EURUSD volatility increased somewhat. However, the scale of this move was much smaller than on Thursday. As an effect, at the end of the day EURUSD was close to 1.23. Two opposite opinions of FOMC members were also neutral. Charles Evans (without voting rights this year), representing dovish approach, stated that inflation is too low and FOMC should wait with the next rate hikes. On the other hand, hawkish Eric Rosengren (also without voting rights) stated that four interest rate hikes are required to prevent overheating of economy. At the same time, Rosengren stated that "trade war" could be substantial obstacle in this process.

EURPLN has been decreasing for the better part of the day, supported by stronger equity markets. As a result, EURPLN moved from 4.204 in the morning to 4.19 in the afternoon. The USDPLN declined from 3.414 to 3.403.

On Friday, EURCZK rose from 25.42 to 25.48, mainly due to surprisingly low inflation data (1.9% vs predicted 2.0 y/y), showing lower need for further interest rate hikes in Czechia. EURHUF fell in the morning from 311.90 to 311.70 and then was hovering in a narrow range despite good data about foreign trade. USDRUB fell from 57 to 56.7 thanks to higher crude oil prices.

Today at the opening, stock market futures are rising and it seems the market is still under influence of good US non-farm

payrolls data. Positive market sentiment may support the zloty at the start of the week. We think, however, that EURPLN will not decrease below 4.16.

Debt market

On Friday the, Bund yields rose slightly (the yield curve advanced by 1bp) while yields of the other bonds in Europe increased in the more noticeably (2-3bp). The US Treasury curve moved in the same scale as the rest of sovereign euro-curves. Weaker than expected German and France industrial production reading as well as negative surprise by German exports did not break the upward moves of the euro-curves. In the afternoon, the better than expected US non-farm payrolls data (+313k vs +205K expected) strengthened the euro-curves upward trend. However, bonds managed to recover part of daily losses thanks to weaker than expected US hourly earnings (+0.1% m/m, vs. +0.2% m/m – market estimates).

The domestic yield curve corrected part of the strong downward move recorded over the last days. The 5-10Y yields rose 4-5bp while the front end stabilized. The IRS rates moved up by 3bp across the curve (slightly less than the bonds yield curve).

Today, there are no important data releases in major world economies and in Poland. In the US there is an auction of the 10Y bonds, which in our view can temporarily negatively affect the US – and consequently also the Polish – debt market. We assume that the moderate upward pressure on yields will continue in the first part of this week.

This week on the market

The first part of the new week should be quite calm amid limited number of data releases. It could be a supportive environment for the zloty to gain slightly, provided that the general market sentiment does not deteriorate. Later in the week, the focus may start to shift towards the US where important data will be released less than a week before the FOMC decision.

In Poland, this week will be mostly about inflation. Today the NBP will release the new inflation projection and CPI data will be released on Thursday. Our CPI forecast for February is below the market consensus and if it proves correct, the surprise on the dovish side may weigh on the zloty and support bonds. However, the room for lower yields will be limited by last strong US nonfarm payrolls figure.

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FX market

Today's opening

EURPLN	4.1912	CZKPLN	0.1645
USDPLN	3.3966	HUFPLN*	1.3452
EURUSD	1.2339	RUBPLN	0.0601
CHFPLN	3.5795	NOKPLN	0.4382
GBPPLN	4.7127	DKKPLN	0.5626
USDCNY	6.3245	SEKPLN	0.4131

*for 100HUF

Last session in the FX market 09/03/2018

	min	max	open	close	fixing
EURPLN	4.190	4.206	4.203	4.194	4.1989
USDPLN	3.401	3.424	3.412	3.410	3.4132
EURUSD	1.227	1.233	1.232	1.231	-

Interest rate market 09/03/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.56	0	2/22/18	OK0720	1.741
PS0123 (5L)	2.51	5	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	1.75	0	2.34	2	-0.26	0
2L	1.95	1	2.57	3	-0.13	0
3L	2.14	2	2.69	4	0.08	0
4L	2.32	2	2.75	4	0.28	0
5L	2.48	4	2.79	4	0.45	0
8L	2.80	4	2.87	4	0.87	0
10L	2.96	4	2.92	5	1.07	1

WIBOR rates

Term	%	Change (bps)
O/N	1.54	0
T/N	1.54	0
SW	1.55	0
2W	1.60	0
1M	1.65	0
3M	1.71	0
6M	1.80	0
9M	1.82	0
1Y	1.84	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.71	-1
3x6	1.72	1
6x9	1.74	1
9x12	1.81	2
3x9	1.81	1
6x12	1.82	0

Measures of fiscal risk

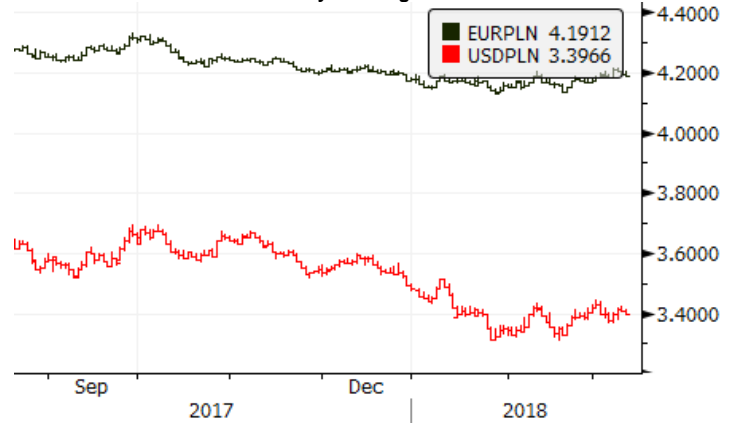
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.64	5
France	17	0	0.25	0
Hungary	116	1	2.03	-2
Spain	40	-1	0.80	1
Italy	96	-1	1.38	2
Portugal	63	-2	1.23	2
Ireland	25	0	0.41	0
Germany	10	1	-	-

* 10Y treasury bonds over 10Y Bunds

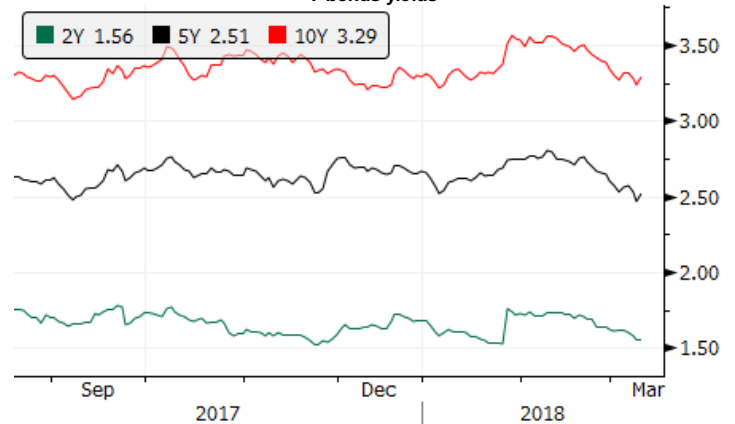
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

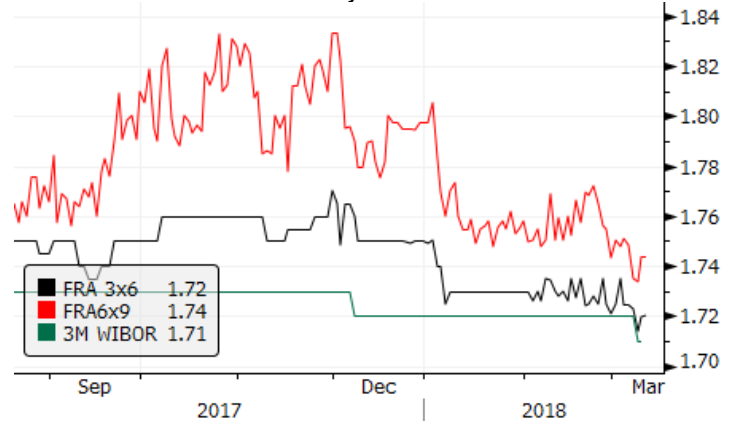
Zloty exchange rate



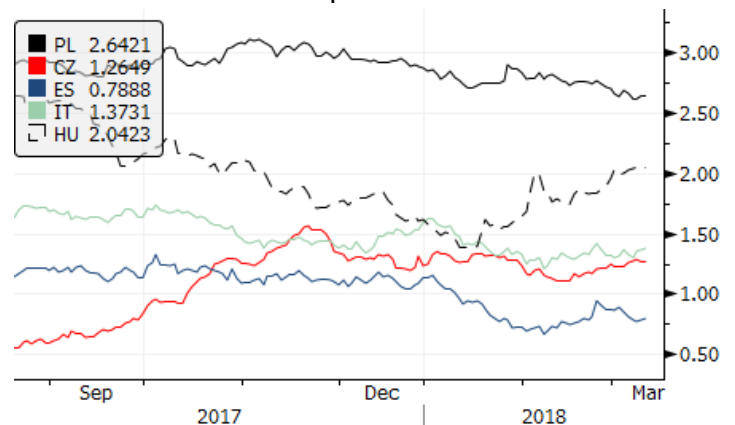
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME CET	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE		
			MARKET	BZWBK				
FRIDAY (9 March)								
08:00	DE	Exports SA	Jan	% m/m	0.3	-	-0.5	0.3
08:00	DE	Industrial Production SA	Jan	% m/m	0.6	-	-0.1	-0.6
09:00	CZ	CPI	Feb	% y/y	2.0	-	1.8	2.2
14:30	US	Change in Nonfarm Payrolls	Feb	k	205	-	313	200
14:30	US	Unemployment Rate	Feb	%	4.0	-	4.1	4.1
MONDAY (12 March)								
No important events								
TUESDAY (13 March)								
13:30	US	CPI	Feb	% m/m	0.2	-	-	0.5
WEDNESDAY (14 March)								
11:00	EZ	Industrial Production SA	Jan	% m/m	-0.4	-	-	0.4
13:30	US	Retail Sales Advance	Feb	% m/m	0.3	-	-	-0.3
THURSDAY (15 March)								
09:00	CZ	Industrial Production	Jan	% y/y	5.4	-	-	2.7
10:00	PL	CPI	Feb	% y/y	1.8	1.6	-	1.9
11:30	PL	Bond Switch Auction			-			
13:30	US	Initial Jobless Claims	Mar-18	k	228	-	-	231
FRIDAY (16 March)								
10:00	PL	Employment in corporate sector	Feb	% y/y	3.7	3.8	-	3.8
10:00	PL	Average Gross Wages	Feb	% y/y	7.3	7.5	-	7.3
11:00	EZ	HICP	Feb	% y/y	1.2	-	-	1.2
13:30	US	Housing Starts	Feb	% m/m	-2.71	-	-	9.7
14:00	PL	CPI Core	Feb	% y/y	1.0	1.0	-	0.9
14:00	PL	Current Account Balance	Jan	€mn	980	2 389	-	-1 152
14:00	PL	Trade Balance	Jan	€mn	-47	170	-	-1 268
14:00	PL	Exports	Jan	€mn	16 986	17 238	-	15 232
14:00	PL	Imports	Jan	€mn	17 184	17 068	-	16 500
14:15	US	Industrial Production	Feb	% m/m	0.3	-	-	-0.1
15:00	US	Michigan index	Mar	pts	99.5	-	-	99.7

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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