

EYEOPENER

26 March 2018

Escalation of trade wars

- **Trump introduced tariffs on Chinese goods**
- **Bonds gained supported by lower supply and worries about global trade**
- **Zloty lost due to fears of trade war**
- **Moody's did not update Poland's rating**
- **Investment in biggest companies accelerated**

Zloty weakened with bonds slightly strengthening in the wake of fears about tariffs war and the potential veto on the budget act in the USA (eventually Trump signed the bill). Debt was also positively impacted by information about lower supply at Tuesday's bond auction. The Stats Bulletin data showed declining unemployment rate and growing investments in large companies.

Trump introduced new tariffs against China

US president Donald Trump decided to impose tariffs on Chinese goods worth at least \$50bn. It is supposed to be a response to the theft of intellectual property. At the same time, the EU, Argentina, Australia, Brazil, Canada, Mexico and South Korea have been exempted from the earlier introduced tariff on aluminium and steel until 1 May.

Unemployment down in February

In February, the registered unemployment rate fell from 6.9% to 6.8%, in line with the Ministry of Labour announcements. Historically, unemployment used to grow over winter months. Traces of reduced demand for seasonal work caused by heavy frost in February can be found in the lower number of job offers y/y - the first since April last year and the deepest in 4.5 years.

Lower wage dynamics

Wage growth in the enterprise sector, excluding the mining (which may disturb the trends due to high, irregular additional payments) fell from 7.5% y/y to 6.9% in February. The weaker dynamics was also triggered by difference in business days. It should be noted, though, that in the manufacturing sector alone, wages accelerated from 7.4% y/y to 7.6% over the same time and in our opinion this dynamics is likely to accelerate even further this year.

More investments in large enterprises

Capital expenditures of enterprises with staff numbers over 50 grew in real terms by 12% y/y in Q4 2017 with more than half of that growth (6.4pp) represented by investments in buildings and structures and 3.8 pp by purchases of machines, equipment and devices. The structure of investment growth in large companies proves that the rebound in 4Q17 was not temporary. We assume that in Q1 2018, investments in the entire economy will grow by around 10% y/y in real terms. fluctuating towards a higher share of funds on current accounts

FX market

EURUSD continued to march higher on Friday, fueled by worries that the US president could veto the budget bill. In effect EURUSD moved from 1.23 to 1.2360. Positive data on durable goods orders did not

EURPLN was rising through most of the day, as were other currencies of the region, reacting negatively to news about possible escalation of the trade war. EURPLN started the day at 4.2240, reached 4.2310 around noon and came back to the opening level when the session ended. Today we think the zloty could see some gains, as it will be a quiet day on the data front.

EURCZK and EURHUF were rising similar to EURPLN, due to the deterioration of mood on trade war worries. As a result, EURHUF rose from 312 to 312.80, the highest level in two weeks. With the help of a worse than expected 4Q17 C/A balance. EURCZK went from 25.41 to 25.42, touching 25.44 on the way. USDRUB was fairly stable, ranging between 57.2 and 57.3, with no reaction to the (expected) decrease of the main interest rate from 7.50% to 7.25%, even though the bank suggested further easing is to be delivered.

Debt market

At the end of the week on the core bond markets, yields rebounded, after a significant fall on Thursday (as a reaction to the dovish FOMC press conference). Over the day the US and German curve surged by 3bp in the 5-10Y segment. In the afternoon yields erased the half of this move, after the information that US president is considering whether to veto the budget bill.

On Friday morning the Polish yield curve moved up, as investors started to sell bonds after the Thursdays' rally (triggered by Wednesdays' FOMC conference). After a few hours of upward march, yields fell again in reaction for information from Ministry of Finance which decided to cut the debt supply on the Tuesday's regular auction from PLN3-5bn to PLN3bn. The better-than-expected US durable goods orders did not impress the investors.

Today we expect a slight bonds depreciation, which will be supported by high level of oil prices. Later this week we anticipate a successful bonds auction (scheduled for Tuesday). At the end of the week, we expect the yields to decrease in anticipation of domestic PMI release.

What's hot this week

In the week ahead of Easter the number of economic publications will be limited. It is worth looking at German inflation, which may influence expectations about future ECB actions. If inflation in Europe continues to surprise on the downside, as do the weakening business sentiment indexes, then the expected time of monetary policy normalization by the ECB may be pushed forward. We are not expecting the MPC minutes to show any ground-breaking news, but rather to confirm that most MPC members, including the NBP president Adam Glapiński, interpreted the new NBP projection as an argument to keep rates unchanged. In our view, the MPC will be willing to wait with a change of monetary policy as long as inflation and wage growth remain low.

Investors' activity should fade during the pre-Easter week. The zloty remains weak and we do not expect this to change anytime soon. Any correction on the bond market should be mild and temporary. For now, there is no trigger for higher yields: risk for economic outlook is growing, inflation surprises to the downside and even Fed sounded dovish.

ECONOMIC ANALYSIS DEPARTMENT:

al. Jana Pawła II 17, 00-854 Warsaw fax +48 22 586 83 40

email: ekonomia@bzwbk.pl

Web site: skarb.bzwbk.pl

Piotr Bielski +48 22 534 18 87

Marcin Luźniński +48 22 534 18 85

Grzegorz Ogonek +48 22 534 19 23

Konrad Soszyński +48 22 534 18 86

Marcin Sulewski +48 22 534 18 84

TREASURY SERVICES:

Poznań +48 61 856 5814/30

Warszawa +48 22 586 8320/38

Wrocław +48 71 369 9400

FX market

Today's opening

EURPLN	4.2261	CZKPLN	0.1664
USDPLN	3.4171	HUFPLN*	1.3505
EURUSD	1.2368	RUBPLN	0.0599
CHFPLN	3.6047	NOKPLN	0.4414
GBPPLN	4.8384	DKKPLN	0.5674
USDCNY	6.3126	SEKPLN	0.4150

*for 100HUF

Last session in the FX market

23/03/2018

	min	max	open	close	fixing
EURPLN	4.217	4.235	4.219	4.228	4.2295
USDPLN	3.416	3.435	3.430	3.421	3.4319
EURUSD	1.230	1.237	1.230	1.235	-

Interest rate market

23/03/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.52	1	22/Feb/18	OK0720	1.741
PS0123 (5L)	2.39	-2	22/Feb/18	PS0123	2.687
WS0428 (10L)	3.24	0	22/Feb/18	WS0428	3.430

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.73	0	2.42	0	-0.26	0
2L	1.90	0	2.60	-1	-0.15	0
3L	2.07	1	2.70	-1	0.03	0
4L	2.25	1	2.75	-2	0.23	0
5L	2.40	0	2.78	-1	0.41	0
8L	2.72	1	2.84	-1	0.81	0
10L	2.89	1	2.88	0	1.00	0

WIBOR rates

Term	%	Change (bps)
O/N	1.55	1
T/N	1.55	0
SW	1.54	0
2W	1.60	0
1M	1.64	0
3M	1.70	0
6M	1.78	0
9M	1.79	-1
1Y	1.82	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.70	1
3x6	1.71	0
6x9	1.72	0
9x12	1.73	-2
3x9	1.79	0
6x12	1.79	-1

Measures of fiscal risk

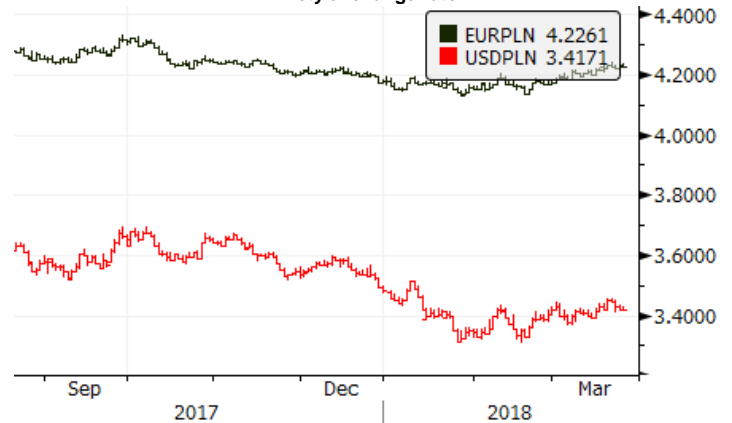
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.71	0
France	18	0	0.23	0
Hungary	116	1	1.97	-1
Spain	41	0	0.73	-1
Italy	102	0	1.36	2
Portugal	64	0	1.20	1
Ireland	25	0	0.42	0
Germany	10	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

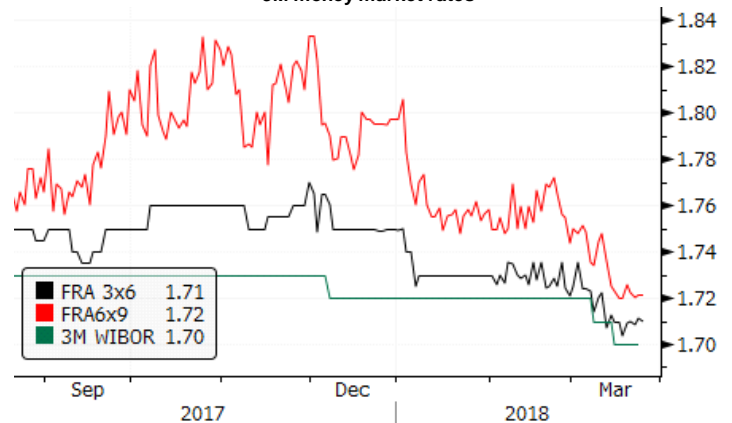
Zloty exchange rate



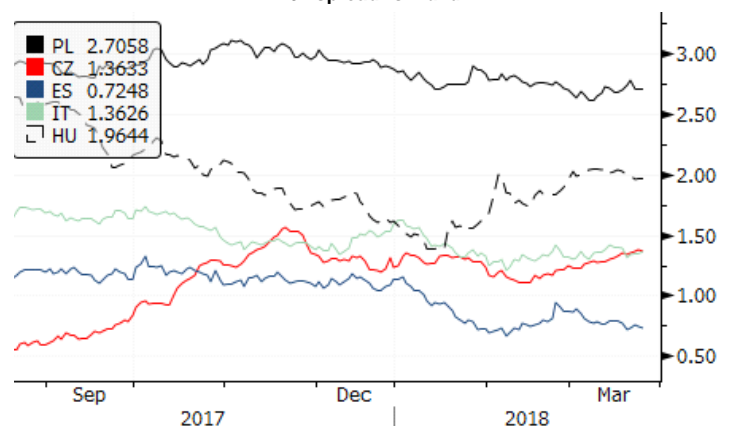
T-bonds yields



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 March)								
	PL	Unemployment Rate		%	6.8	6.8	6.8	6.9
16:00	US	Durable Goods Orders		% m/m	1.6		3.1	-3.6
16:00	US	New Home Sales		% m/m	4.6		-0.6	-7.8
MONDAY (26 March)								
No important events								
TUESDAY (27 March)								
11:00	EZ	ESI	Mar	pct.	113.3		-	114.1
11:30	PL	Bond Auction			-			
14:00	HU	Central Bank Rate Decision	Mar-01	%	0.9		-	0.9
16:00	US	Consumer Conference Board	Mar	pts	131.0		-	130.8
WEDNESDAY (28 March)								
14:30	US	GDP Annualized	4Q	% Q/Q	2.7		-	2.5
16:00	US	Pending Home Sales	Feb	% m/m	2.0		-	-4.7
THURSDAY (29 March)								
13:00	CZ	Central Bank Rate Decision	Mar-18		0.75		-	0.75
14:00	DE	HICP	Mar	% m/m	0.5		-	0.5
14:00	PL	MPC minutes	Dec-17		-			
14:30	US	Initial Jobless Claims	Mar-18	k	230		-	229
14:30	US	Personal Spending	Feb	% m/m	0.2		-	0.2
14:30	US	Personal Income	Feb	% m/m	0.4		-	0.4
14:30	US	PCE Deflator SA	Feb	% m/m	0.2		-	0.4
16:00	US	Michigan index	Mar	pts	102.0		-	102.0
FRIDAY (30 March)								
No important events								

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

This publication has been prepared by Bank Zachodni WBK S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Bank Zachodni WBK S.A., its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Bank Zachodni WBK S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Bank Zachodni WBK S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

Additional information is available on request. Please contact Bank Zachodni WBK S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@bzwbk.pl, <http://www.bzwbk.pl>.