

EYEOPENER

28 March 2018

Another leading indicator down

- Zloty and dollar gained on lower CPI and ESI
- Successful auction and weak CPI in Spain supported bonds
- Morawiecki: high chance for an agreement with the European Commission
- Borrowing needs financed in 50%, suggesting low supply in April
- Today new home sales in the USA

EURUSD was falling through most of the day on weak data from Europe. Debt gained thanks to a low reading of Spanish inflation and weak data on consumer confidence in the USA. Yesterday US stock exchange showed losses and Asian markets followed suit. The declines were led by tech companies.

Morawiecki sees chances for agreement with the EC

PM Mateusz Morawiecki said in interview with wPolityce.pl that he sees high chance of reaching agreement with the European Commission on the rule of law issue. The ruling Law and Justice (PiS) has recently submitted amendments to judicial laws addressing some of the EC's recommendations: publication of the three unpublished sentences of the Constitutional Tribunal from 2016, and introduction of two-step consultations in the process of removal of heads and deputy heads of courts. If the EC welcomes those moves, saying that it is enough to lift the rule of law procedure, then the risk of cutting the EU funds for Poland would decrease, which should be positive for Polish assets.

Moody's sees risks to Polish grade as balanced

Moody's rating agency said risks to Polish rating of A2/neutral are balanced. Its analysts think an upgrade would require fiscal consolidation, improved balance of the social security system and institutional environment. A downgrade could come if fiscal position or investment climate deteriorated or if there were no structural reforms.

ESI down

Some correction in business and consumer sentiment in Poland in March, according to ESI indices. March was the weakest month this year in the overall sentiment index and main sectoral indices (industry, services, consumers), but still much above the levels seen in 2017. Inflow of new business to industry remained close to all-time records. Building activity also weakened, shortage of labour was weighing on capacity a bit more than in February. Some sectors have already scaled down their employment expectations (construction, retail trade) while industry and services continue to believe it will be possible to fill vacancies in spite of the labour shortages in the economy. Consumers lost some of their confidence in future performance of the economy. Consumer

to the lowest level in 5 and 8 months respectively. This set of indicators suits our scenario that the peak activity was recorded at the turn of the year, with 4Q17 GDP of 5.1% y/y and 1Q just a bit lower in our view. The slowdown should be gradual this year as foreign demand remains high and the investment rebound is still expanding in Poland.

FX market

On Tuesday EURUSD dropped due to surprisingly low Spanish inflation (1.2% y/y in March vs. 1.4% expected) easing market worries about monetary policy normalization by ECB. The FX pair went from 1.2460 in the morning to 1.2410 in the evening, touching 1.2390 along the way. In the afternoon EURUSD showed little reaction to the weaker data on US consumer confidence (Conference Board index). Today we expect a continuation of the rise of EURUSD seeing room for a decrease of US bond yields.

The zloty strengthened vs. the euro amid improved risk appetite. EURPLN came down from 4.22 to 4.2130 yesterday. In our view, the zloty is likely to weaken today on the back of higher risk aversion.

EURCZK continued to move up, from 25.44 to 25.48 as tomorrow's press conference of the Czech central bank is expected to show a dovish attitude. EURHUF decreased from 312.90 to 312.60 on positive revision of GDP forecast by the Hungarian central bank next to a decision to keep the main rate at 0.90%. USDRUB moved higher again, from 57.20 to 57.40, which was still below the highest level recorded yesterday after many countries announced expulsion of Russian diplomats.

Debt market

Core debt markets saw yields decline in effect of weaker inflation data from Spain, ESI from the EU and negatively surprising Conference Board data in the US. This led to the US curve sliding down by 4-5bp along the entire length, with the German curve falling by 3bp in 5-10Y segment (where it reached 0.5% for 10Y and -0.09% for 5Y), first time ever since January. Today, we expect slight yields increases in effect of realized gains.

Yields on domestic 10Y securities opened the day with falls, then after a temporary increase they returned to 3bp below the opening levels, driven by weak inflation data from Spain and the successful domestic auction. As a result, the domestic curve moved 3bp down in 2Y and 10Y segments and remained at the opening levels for 5Y segment. At the auction, the Ministry sold bonds worth a total of PLN3bn while the demand was at PLN6.6bn. The 10Y papers were very popular. The WS0428 series represented 46.6% of sales and was sold at yield of 3.20%. Smaller interest was driven by WZ securities, which accounted for merely 21.8% of sales. After the auction, the Ministry announced that it had financed 50% of borrowing needs, which suggests low supply at April auctions. Today, we expect a small sell-off.

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 Luziński +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	4.2126	CZKPLN	0.1654
USDPLN	3.3995	HUFPLN*	1.3464
EURUSD	1.2392	RUBPLN	0.0590
CHFPLN	3.5817	NOKPLN	0.4384
GBPPLN	4.8185	DKKPLN	0.5654
USDCNY	6.2819	SEKPLN	0.4114

*for 100HUF

Last session in the FX market

27/03/2018

	min	max	open	close	fixing
EURPLN	4.208	4.223	4.222	4.211	4.2164
USDPLN	3.379	3.411	3.393	3.392	3.3921
EURUSD	1.237	1.248	1.244	1.241	-

Interest rate market

27/03/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.50	0	15-Mar-18	OK0720	1.547
PS0123 (5L)	2.39	1	15-Mar-18	PS0123	2.381
WS0428 (10L)	3.22	0	15-Mar-18	WS0428	3.235

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.73	0	2.40	-3	-0.26	0
2L	1.88	-1	2.57	-3	-0.16	0
3L	2.06	0	2.66	-4	0.02	-1
4L	2.24	0	2.71	-4	0.21	-2
5L	2.38	-1	2.74	-3	0.38	-2
8L	2.71	-1	2.80	-3	0.77	-3
10L	2.88	0	2.84	-3	0.97	-2

WIBOR rates

Term	%	Change (bps)
O/N	2.01	26
T/N	1.99	24
SW	1.59	2
2W	1.60	0
1M	1.64	0
3M	1.70	0
6M	1.78	0
9M	1.79	0
1Y	1.82	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.70	0
3x6	1.71	0
6x9	1.71	-1
9x12	1.73	-2
3x9	1.78	-1
6x12	1.80	1

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.72	0
France	18	0	0.23	0
Hungary	116	1	1.95	0
Spain	41	0	0.73	1
Italy	102	0	1.37	1
Portugal	64	0	1.15	0
Ireland	25	0	0.42	0
Germany	10	0	-	-

* 10Y treasury bonds over 10Y Bunds

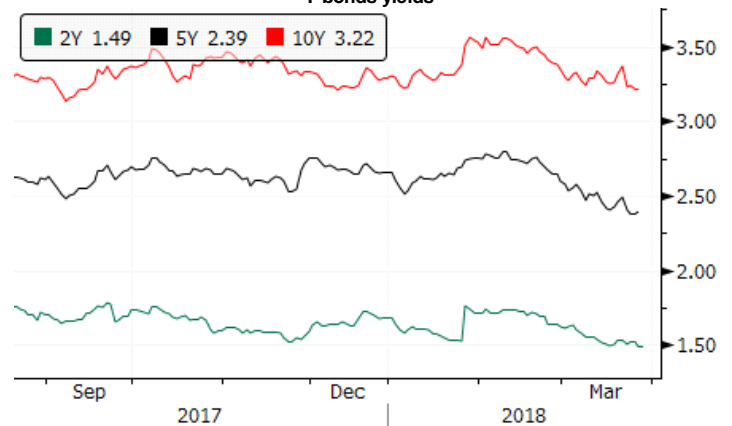
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

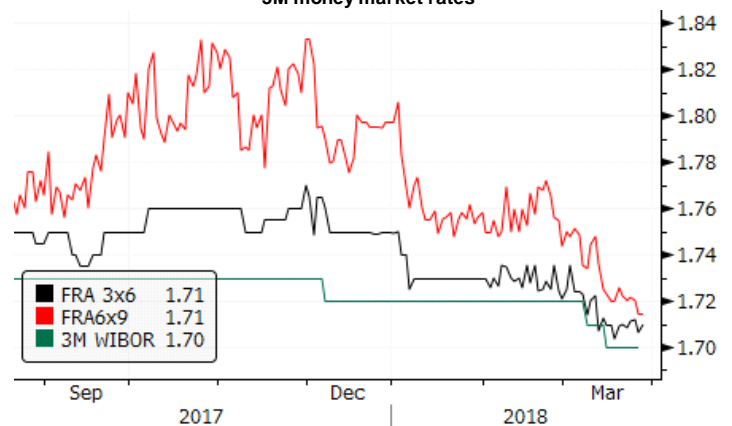
Zloty exchange rate



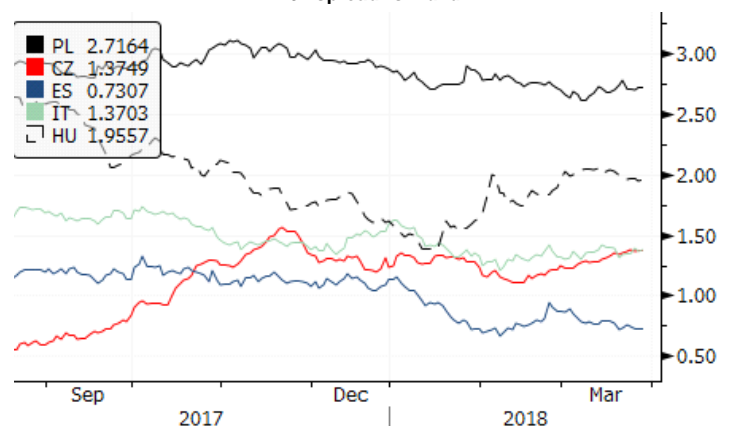
T-bonds yields



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)							
10:00	PL	Unemployment Rate	%	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	112.6	114.1
11:30	PL	Bond Auction			-		
14:00	HU	Central Bank Rate Decision	Mar-18	%	0.9	0.9	0.9
16:00	US	Consumer Conference Board	Mar	pts	131.0	127.7	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	230.0	-	229.0
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>.