

EYEOPENER

6 April 2018

Tariffs Trumped up

- **Market mood swings around US-China trade war, the zloty and the dollar strengthened**
- **Polish debt strengthened on news about high coverage of financing needs**
- **Today US NFP report**

On Thursday, the domestic debt market continued to rise supported by information about a high level of coverage of the gross borrowing needs. Domestic yields were falling despite the yields on the core market going the opposite direction. The zloty strengthened against the euro, thus rebounding from weak rates recorded after the Wednesday's inflation data. Worries about the trade war escalation faded during the day thanks to reports from the US administration toning down Donald Trump's announcements. At night, however, Trump ordered the US Treasury Department to draft a plan for \$100bn in additional tariffs to be imposed over Chinese imported goods, weighing on US stock indices contracts. Today, we expect data on employment, unemployment and wage growth in the US. The morning data on industrial output in Germany extended the list of recent surprisingly weak euro zone readings – m/m growth amounted to -1.6% vs. expectations of + 0.2%.

FX market

Yesterday EURUSD went down due to lower tension in USA-China trade relations, which was also positive for the stock markets. Additionally, the greenback was supported by weaker data on orders in Germany and weaker PMI for the euro zone services. As a result, EURUSD slid to 1.2240 from 1.2280. Overnight information to increase the range of US trade tariffs on Chinese products had only a temporarily impact on EURUSD during the session in Asia.

Today we are expecting the dollar to gain in reaction to weak industrial output from Germany. In the afternoon EURUSD will depend on the US labour market data. The last reading proved strong as regards employment, but disappointed in wages. A rebound in wage growth would be supportive for the dollar, with the ADP report suggesting a solid rise in employment.

EURPLN was decreasing in the afternoon, supported by rising stock markets in reaction to seemingly easing tensions in the USA-China relations. As a result, the rate decreased from 4.2070 to 4.2000. Today in the morning the EURPLN is lower by another 0.05, despite the Donald Trump's threat to raise additional \$100bn tariffs on imports from China. USDPLN

climbed yesterday from 3.42 to 3.43 along with the dollar strengthening. Today we expect a stabilisation of EURPLN, although weak results of German industrial production released this morning pose a risk for Polish output figures in the coming months. In our view, if the US labour market data surprise to the upside, it must not necessarily harm the Polish currency.

EURCZK rose slightly on Thursday afternoon, from 25.32 to 25.35 in reaction to further dollar strengthening against euro. EURHUF behave in a similar way, moving from 311.2 to 311.3. The forint ignored slightly weaker than expected data about retail sales. USDRUB rose from 57.5 to 57.5, partly due to lower than expected data about car sales (despite improvement in consumer confidence).

Debt market

On Thursday the bonds on the core markets fell and the stocks rose in the face of the easing of the tension in the US-China relationship. As a result, US curve was elevated by 2bp in the 5-10Y segment. The German yields moved up in the same scale across the curve. Investors ignored weaker US labour data as well as poor European services PMI reading. However, due to the continuation of Trump's sharp rhetoric in the trade war, core market yields turned lower overnight.

Today we expect the core markets yield to drop some more. The move should be supported by German weaker industrial production data and trade war's "never-ending story".

On Thursday the domestic yield curve stayed in the downward trend. It decreased by 1-2bp, while the IRS curve rebounded by 2-3bp. It led to further compression of asset swap spread (ASW) to 26bp for 10Y (last seen in October 2015), -3bp for 5Y (last seen in June 2014), while 2Y spread rose to -37bp. It was a reaction to the information about the high level of coverage of gross borrowing needs after the switch auction. The switch auction (Ministry of Finance sold PLN3bn bonds) did not impress investors. The Ministry of Finance informed that after the switching auction, the level of financing the gross borrowing needs in 2018 increased from 50% to 52%.

Today we expect the domestic bond prices to increase. In our opinion, the positive influence of local fiscal data will be harmonized with yield decreases on the core markets.

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FX market

Today's opening

EURPLN	4.1971	CZKPLN	0.1657
USDPLN	3.4311	HUFPLN*	1.3486
EURUSD	1.2233	RUBPLN	0.0594
CHFPLN	3.5612	NOKPLN	0.4367
GBPPLN	4.8010	DKKPLN	0.5636
USDCNY	6.3033	SEKPLN	0.4065

*for 100HUF

Last session in the FX market 05/04/2018

	min	max	open	close	fixing
EURPLN	4.195	4.208	4.202	4.200	4.207
USDPLN	3.418	3.438	3.418	3.433	3.4301
EURUSD	1.222	1.229	1.229	1.224	-

Interest rate market 05/04/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.47	0	27-Mar-18	OK0720	1.494
PS0123 (5L)	2.34	1	27-Mar-18	PS0123	2.358
WS0428 (10L)	3.11	0	27-Mar-18	WS0428	3.196

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.73	0	2.45	1	-0.26	0
2L	1.87	0	2.62	3	-0.15	0
3L	2.04	0	2.71	3	0.03	1
4L	2.22	1	2.76	4	0.21	1
5L	2.37	2	2.78	4	0.38	2
8L	2.69	2	2.83	5	0.77	2
10L	2.86	2	2.86	5	0.98	2

WIBOR rates

Term	%	Change (bps)
O/N	1.59	0
T/N	1.59	0
SW	1.56	0
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	1.72	1
9x12	1.74	0
3x9	1.78	0
6x12	1.79	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.60	1
France	17	0	0.23	0
Hungary	116	1	2.01	1
Spain	38	-1	0.70	0
Italy	101	-1	1.26	0
Portugal	64	0	1.14	0
Ireland	25	0	0.39	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

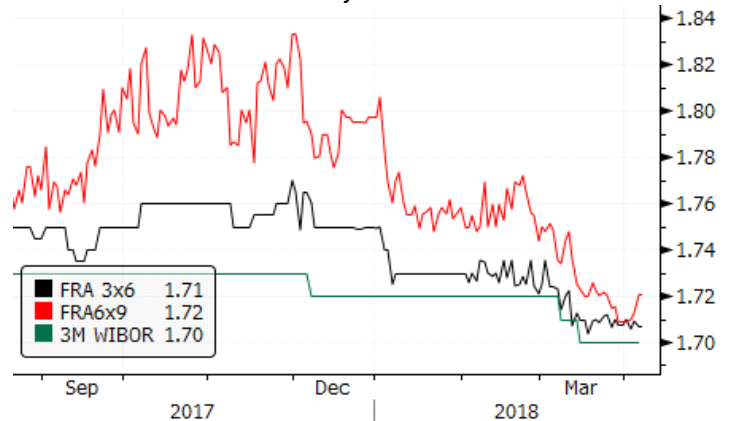
Zloty exchange rate



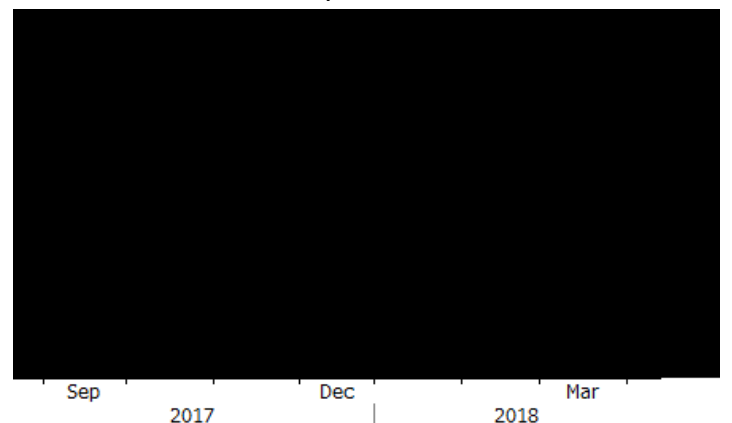
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME CET	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE	
			MARKET	BZWBK			
FRIDAY (30 March)							
09:34	PL	Central Budget Cumul.	Feb	bn PLN	-	4.461	8.562
MONDAY (2 April)							
16:00	US	ISM manufacturing	Mar	pts	59.6	59.3	60.8
TUESDAY (3 April)							
08:00	DE	Retail Sales	Feb	% m/m	0.65	-0.7	-0.3
09:00	CZ	GDP SA	4Q	% y/y	5.2	5.5	5.2
09:00	PL	Poland Manufacturing PMI	Mar	pts	53.0	53.5	53.7
09:55	DE	Germany Manufacturing PMI	Mar	pts	58.4	58.2	60.6
10:00	EZ	Eurozone Manufacturing PMI	Mar	pts	56.6	56.6	58.6
10:00	PL	GG deficit	2017	% GDP	1.8	1.6	1.5
WEDNESDAY (4 April)							
03:45	CH	Caixin China PMI Services	Mar	pts	54.5	52,3	54.2
10:00	PL	CPI	Mar	% y/y	1.7	1.6	1.3
11:00	EZ	Flash HICP	Mar	% y/y	1.4	1.4	1.2
11:00	EZ	Unemployment Rate	Feb	%	8.5	8.5	8.6
14:15	US	ADP report	Mar	k	210.0	241.0	234.7
16:00	US	Durable Goods Orders	Feb	% m/m	-	3.0	3.1
16:00	US	ISM services	Mar	pts	59.0	58.8	59.5
16:00	US	Factory Orders	Feb	% m/m	1.7	1.2	-1.4
THURSDAY (5 April)							
08:00	DE	Factory Orders	Feb	% m/m	1.5	0.3	-3.9
09:55	DE	Markit Germany Services PMI	Mar	pts	54.2	53.9	55.3
10:00	EZ	Eurozone Services PMI	Mar	pts	55.0	54.9	56.2
11:00	EZ	Retail Sales	Feb	% m/m	0.55	0.1	-0.1
14:30	US	Initial Jobless Claims	Mar-18	k	230.0	242.0	215.0
FRIDAY (6 April)							
08:00	DE	Industrial Production SA	Feb	% m/m	0.2	-	-0.1
09:00	CZ	Industrial Production	Feb	% y/y	5.75	-	5.5
09:00	HU	Industrial Production SA	Feb	% y/y	4.3	-	6.7
14:30	US	Change in Nonfarm Payrolls	Mar	k	189.0	-	313.0
14:30	US	Unemployment Rate	Mar	%	4.0	-	4.1

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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