

EYEOPENER

9 April 2018

The third victory of Viktor Orban

- **Swing of market mood amid US-China trade war, zloty and dollar weaker**
- **Domestic debt gains after the information about the high coverage of gross borrowing needs**
- **Fidesz won the parliamentary election in Hungary for the third time in a row**

On Friday, the zloty and its CEE peers were under pressure amid falling stock indices and weak local data. Core and Polish bonds were gaining owing to disappointing US data. In March, nonfarm payrolls rose 103k vs market consensus at 185k and 326k in February.

Orban near constitutional majority

According to most recent results of Hungarian parliamentary elections, after counting of c96% of votes, the ruling Fidesz party won third time in a row gaining 133 seats in 199 seat parliament and this is exactly the constitutional majority.

FX market

EURUSD rebounded to 1.228 from 1.223 in reaction to weaker-than-expected US job report. Today we expect the dollar to remain under pressure amid persisting concern about trade war development.

EURPLN stayed in a 4.195-4.202 range with a gentle upside bias. The zloty was under some pressure of lower demand for risky assets. Today we expect Polish currency to continue to depreciate amid persisting pressure in US-China relations and expectations for MPC decision.

EURHUF was on the rise on Friday before the parliamentary elections scheduled for the weekend and somewhat below-consensus output data. As a result, EURHUF jumped from 311.1 in the morning to 312.7 in the evening. Today in the morning forint recovered somewhat. EURCZK was also on the rise (it moved to 25.38 from 25.33) amid disappointing industrial output and retail sales data and central bank minutes showing doubts regarding pace of monetary policy normalization. USDRUB rose to 58.1 from 57.7 in response to next sanctions imposed on Russia by the US, falling oil prices and lower-than-expected core CPI reading.

Debt market

The weaker than expected US labour data pushed the US yields down by 4-5bp across the curve. The US labour market data also positively affected the German curve and pushed it down by 2bp in the 5-10Y segment, while the short end dropped marginally. The German curve was additionally pushed down by the weak German industrial production data (the decline by 1.66% m/m in February). The bonds were still positively affected by potential escalation of trade war between US and China. The south European bonds

rebounded, following the core markets, after the Thursday's core market-driven drop. Today we expect a marginal technical correction on the US market (it will likely push the yield curve up by 1-2 bp). The German curve will likely gain, due to the information about faster than expected public debt decrease and weak German export data.

Domestic bonds decreased on Friday, accelerated by global trends. Polish 5Y and 10Y yield dropped by 5bp (to the lowest level since Sep-16 and Oct-16 accordingly) and 2Y by 2bp. These changes, together with a bit smaller decreases of IRS rates (2-3bp) led to a compression of asset swap spreads: 10Y to 24bp last seen in Jun-15, 5Y to -7bp (lowest since Jun-14) while 2Y ASW rose insignificantly. Today we expect a technical correction driving yields higher. This week we think domestic debt could strengthen further thanks to European data and MPC press conference.

What's hot this week

After a major surprise from lower inflation, investors' attention will be turned to the MPC decision on Wednesday. The MPC's rhetoric changed to much more dovish already in the previous months so the question is: can it be even more dovish now? Definitely, it is not going to get more hawkish, so the risk is one-sided, in our view. It should be noted that already before the March CPI release, the number of MPC members not ruling out that the next decision may be a rate cut and not a hike increased from one (E.Łon) to three (plus J.Kropiwnicki and J.Żyżyński). However, we do not expect the NBP Governor Głapiński to go that far to suggest rate cuts. Please recall that he was against policy easing in 2016, during the economic slowdown and prolonging deflation.

Friday the 13th will end up with the S&P rating review for Poland. There are no reasons to be feared, though, in fact, the question for now is how big the chances for rating improvement are. We expect the rating will remain unchanged (BBB+/A-2, outlook stable). Although some of the conditions pointed earlier by the S&P as supporting the rating improvement have materialized (low external imbalance, lower government debt and containment of interest expenses), but it is still too little to outweigh other risk factors (worries about demographic outlook, institutional uncertainty).

The issue number one abroad is trade wars and changes in market moods reflect the newsflow related to this subject. The US administration sends mixed signals: sometimes suggesting that it is possible to avoid new tariffs, and then threatening to escalate tariffs fight. It is hard to predict what kind of rhetoric will dominate in the coming days.

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FX market

Today's opening

EURPLN	4.1979	CZKPLN	0.1654
USDPLN	3.4198	HUFPLN*	1.3460
EURUSD	1.2275	RUBPLN	0.0588
CHFPLN	3.5623	NOKPLN	0.4377
GBPPLN	4.8246	DKKPLN	0.5637
USDCNY	6.2988	SEKPLN	0.4079

*for 100HUF

Last session in the FX market

06/04/2018

	min	max	open	close	fixing
EURPLN	4.193	4.203	4.200	4.199	4.1984
USDPLN	3.415	3.435	3.433	3.418	3.4315
EURUSD	1.222	1.229	1.224	1.228	-

Interest rate market

06/04/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.46	0	27-Mar-18	OK0720	1.494
PS0123 (5L)	2.28	-6	27-Mar-18	PS0123	2.358
WS0428 (10L)	3.06	-5	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	0	-0.26	0
2L	1.87	-1	2.60	-2	-0.15	0
3L	2.03	-1	2.68	-3	0.02	-1
4L	2.20	-2	2.72	-4	0.20	-1
5L	2.35	-2	2.74	-4	0.36	-2
8L	2.66	-3	2.79	-4	0.76	-1
10L	2.83	-3	2.82	-4	0.95	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.59	0
T/N	1.58	-1
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	1.70	0
6x9	1.72	0
9x12	1.73	-1
3x9	1.78	0
6x12	1.79	-1

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.56	-5
France	17	0	0.24	0
Hungary	116	1	2.01	-1
Spain	40	2	0.72	-1
Italy	102	2	1.27	-1
Portugal	64	0	1.17	-1
Ireland	25	0	0.40	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

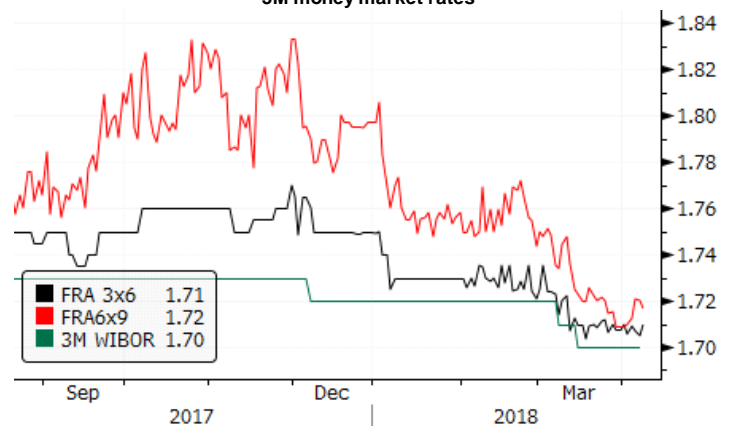
Zloty exchange rate



T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME		INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE
CET				MARKET	BZWBK		
FRIDAY (6 April)							
08:00	DE	Industrial Production SA	Feb	% m/m	0.2	-1.6	-0.1
09:00	CZ	Industrial Production	Feb	% y/y	5.9	2.7	5.5
09:00	HU	Industrial Production SA	Feb	% y/y	4.3	4.1	6.7
14:30	US	Change in Nonfarm Payrolls	Mar	k	185.0	103.0	313.0
14:30	US	Unemployment Rate	Mar	%	4.0	4.1	4.1
MONDAY (9 April)							
08:00	DE	Exports SA	Feb	% m/m	0.4	-3.2	-0.4
TUESDAY (10 April)							
09:00	CZ	CPI	Mar	% y/y	1.7	-	1.8
09:00	HU	CPI	Mar	% y/y	-	-	1.9
WEDNESDAY (11 April)							
	PL	Poland Base Rate Announcement		%	1.5	1.5	-
14:30	US	CPI	Mar	% m/m	0.0	-	0.2
20:00	US	FOMC Meeting Minutes	Mar-18		-	-	0.0
THURSDAY (12 April)							
11:00	EZ	Industrial Production SA	Feb	% m/m	-	-	-1.0
14:30	US	Initial Jobless Claims		k	225.0	-	215.0
FRIDAY (13 April)							
08:00	DE	HICP	Mar	% m/m	-	-	0.4
10:00	PL	CPI		% y/y	1.3	1.3	1.4
14:00	PL	CPI Core	Mar	% y/y	0.9	0.92	0.8
14:00	PL	Current Account Balance	Feb	€mn	-411.5	-544.24	2005.0
14:00	PL	Trade Balance	Feb	€mn	-468.0	-310.0	-204.0
14:00	PL	Exports	Feb	€mn	16687.5	16792.0	16853.0
14:00	PL	Imports	Feb	€mn	17220.5	17102.0	17057.0
16:00	US	Michigan index	Apr	pts	101.0	-	101.4

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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