

EYEOPENER

26 April 2018

Zloty getting weaker, today ECB

- **EM stocks and currencies under pressure, EURPLN close to this year's peak**
- **Jourová: all EU commissioners supported making EU funds conditional on rule of law**
- **Polish and global bond yields up following weaker UST**
- **Today ECB decision**

On Wednesday equity indices dropped, bond yields rose, the dollar gained and the emerging market currencies weakened. The market is watching further decrease of prices of US Treasuries which makes them more and more attractive vs the debt of developing countries. As a consequence, these yields are rising, and the outflow of capital is hurting their currencies. Oil price went up after words of French president Emmanuel Macron that in his view Donald Trump will withdraw from the agreement with Iran supported by world powers.

EU Justice Commissioner Věra Jourová said that all members of the European Commission supported the concept of joining the EU funds with rule-of-law compliance. A precise mechanism is still being developed, but a draft solution allows for a freeze of structural funds and common agricultural policy funds. The presentation of the **EU budget for 2021-2027** is to be held on May 2. According to *Rzeczpospolita* daily the total size of the budget may be cEUR94bn less than the 2014-2020 budget of EUR1083bn. Earlier on, the media signaled that additional criteria may be included at the stage of country allocations, like youth unemployment, education level. Such changes would mean a risk for Poland that it will lose a large share of the funds compared to the previous budget, where it got right to EUR82.5bn. *Rzeczpospolita* claims in 2027 Poland might become a net payer to the EU budget.

April's business climate surveys showed a deterioration of economic situation assessment in manufacturing, construction and trade. The biggest drop of the main indicator has been recorded in manufacturing. All sub-indices for manufacturing and construction have declined, including those concerning new orders, production and financial situation. In case of retail trade, lower was the assessment of current sales and forecasts of demand, employment and sales. The problems with finding new workers were still building. The data supported our forecast of gradually slowing GDP growth in 2018.

Relatively low wage growth in corporate sector in April (6.7% y/y) was caused mainly by poor result in mining (-4.3%

y/y). In our view it was the result of prolonging wage negotiations in this sector. We should see a rebound in April's data as one of the biggest mining companies PGG has just reached wage agreement with its workers, raising salaries by c7%. However, in March the wage growth in manufacturing was also surprisingly weak, decelerating from 7.6% to 5.9% y/y. On the other hand, wages in energy sectors have increased substantially (20.3% y/y, most likely due to bonus payments) and this was the element that pushed the wage growth ex mining up to 7.2% y/y from February's 6.9%. Wage growth near 8% y/y was recorded in some services, including transport and logistics, information and communication, hotels and gastronomy or administration.

EURUSD fell yesterday below 1.22 nearing the 1.215 low from early-March. The dollar was supported by Tuesday's US data and rising UST yields while the euro was under pressure of expectations for dovish ECB rhetoric. In our view, the outcome of today's ECB meeting might hit the euro (if the bank mentions recent weak data and presents softer tone as regards outlook for the coming months and pace of ending the QE program). We think that any drop should not take EURUSD below 1.21.

EURPLN was on the rise for the seventh session in a row nearing the this year's peak at above 4.24 reached in mid-March. USDPLN rebounded to 3.48, its highest since mid-January. Today the market attention will focus on the ECB decision. We think that the statement and the press conference could include some remarks on the recent poor macro data which could result in the ECB sounding a bit more dovish than in the previous months. Like we write above, this could push EURUSD down and stronger dollar might still weigh on the zloty.

The other CEE currencies also weakened. EURHUF broke the March peak at 313, USDRUB rose to 62.5 from 61.5 and EURCZK again tried to rise above 25.45.

On Wednesday volatility on the **domestic interest rates market** remained elevated. Yields and IRS rates were rising since the morning, up by 4bp on the long end, but erased most losses at the end of the session. It was a consequence of information from the Ministry of Finance about planned supply on the Friday auction (PLN4bn vs. formerly announced PLN4-8bn). We assume that ECB conference rhetoric will remain dovish, which could positively influence domestic and core bonds market this week.

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FX market

Today's opening

EURPLN	4.2290	CZKPLN	0.1661
USDPLN	3.4712	HUFPLN*	1.3502
EURUSD	1.2183	RUBPLN	0.0558
CHFPLN	3.5342	NOKPLN	0.4361
GBPPLN	4.8407	DKKPLN	0.5676
USDCNY	6.3226	SEKPLN	0.4063

*for 100HUF

Last session in the FX market

25/04/2018

	min	max	open	close	fixing
EURPLN	4.205	4.239	4.209	4.231	4.2159
USDPLN	3.437	3.483	3.439	3.472	3.4548
EURUSD	1.217	1.225	1.224	1.219	-

Interest rate market

25/04/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.52	1	05-Apr-18	OK0720	1.495
PS0123 (5L)	2.42	3	05-Apr-18	PS0123	2.335
WS0428 (10L)	3.10	1	05-Apr-18	WS0428	3.123

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.73	1	2.56	2	-0.26	0
2L	1.87	5	2.76	1	-0.13	0
3L	2.05	3	2.86	2	0.06	1
4L	2.25	3	2.92	2	0.26	1
5L	2.41	3	2.95	3	0.44	2
8L	2.72	3	3.02	4	0.85	2
10L	2.89	4	3.05	5	1.05	2

WIBOR rates

Term	%	Change (bps)
O/N	1.52	-3
T/N	1.52	-4
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	1.75	1
3x9	1.79	0
6x12	1.80	1

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.47	1
France	16	0	0.22	0
Hungary	116	1	1.92	0
Spain	37	1	0.65	-1
Italy	86	0	1.14	-1
Portugal	64	0	1.06	0
Ireland	25	0	0.39	0
Germany	11	1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

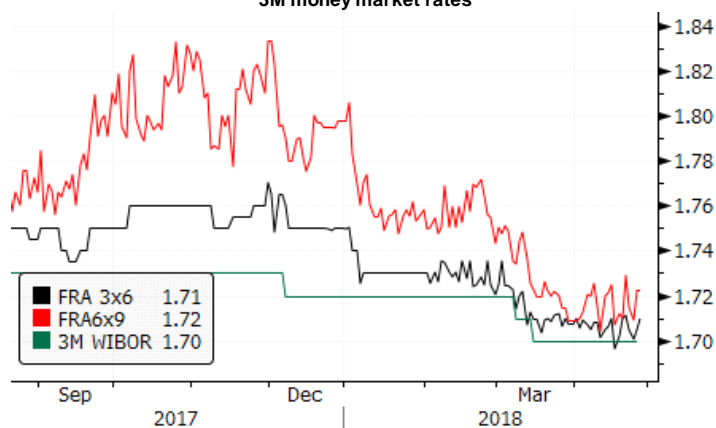
Zloty exchange rate



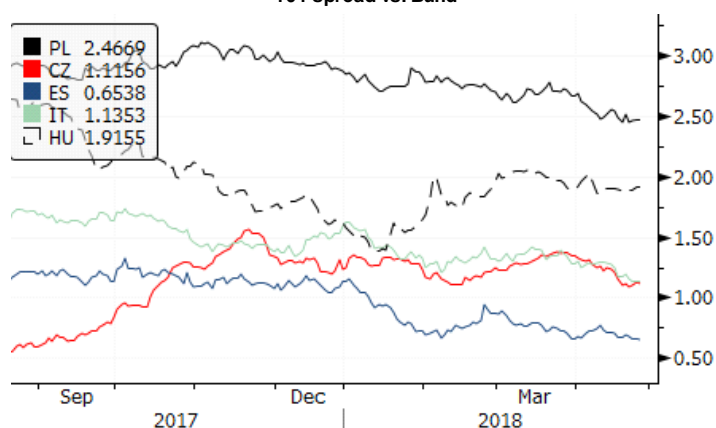
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME		INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST
CET	MARKET				BZWBK	VALUE		
FRIDAY (20 April)								
No important events								
MONDAY (23 April)								
09:30	DE	Germany Manufacturing PMI	Apr	pts	57.5	-	58.1	58.2
09:30	DE	Markit Germany Services PMI	Apr	pts	53.7	-	54.1	53.9
10:00	EZ	Eurozone Manufacturing PMI	Apr	pts	56.0	-	56.0	56.6
10:00	EZ	Eurozone Services PMI	Apr	pts	54.6	-	55.0	54.9
10:00	PL	Real Retail Sales	Mar	% y/y	7.9	8.6	8.8	7.7
16:00	US	Existing Home Sales	Mar	% m/m	0.2	-	1.1	3.0
TUESDAY (24 April)								
10:00	DE	IFO Business Climate	Apr	pts	102.8	-	102.1	103.3
14:00	HU	Central Bank Rate Decision		%	0.90	-	0.90	0.9
14:00	PL	M3 Money Supply	Mar	% y/y	5.2	5.7	5.8	4.9
16:00	US	Consumer Conference Board	Apr	pts	126.0	-	128.7	127.0
16:00	US	New Home Sales	Mar	% m/m	1.9	-	4.0	3.6
WEDNESDAY (25 April)								
	PL	Buyback PS0418 (PLN11.5bn)	Apr					
10:00	PL	Unemployment Rate	Mar	%	6.5	6.6	6.6	6.8
THURSDAY (26 April)								
13:45	EZ	ECB Main Refinancing Rate	Apr-18	%	0.0	-		0.0
14:30	US	Durable Goods Orders	Mar	% m/m	1.6	-		3.0
14:30	US	Initial Jobless Claims	week	k	230	-		232
FRIDAY (27 April)								
11:00	EZ	ESI	Apr	pct.	112.0	-		112.6
11:30	PL	Bond Auction			-			
14:30	US	GDP Annualized	1Q	% Q/Q	2.1	-		2.9
16:00	US	Michigan index	Apr	pts	98.0	-		97.8

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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