

EYEOPENER

8 May 2018

Enterprises are still quite optimistic

- Enterprises expect strong activity in 2Q, labour and material costs dented their profitability
- Banks assume increased mortgage loan demand will last
- German yields down after new orders data
- Zloty sold again on Monday, domestic bonds a bit stronger

On Monday the zloty returned to downward trend, while bonds strengthened slightly. The NBP's business climate survey showed slight decline of firms' optimism, while the banks' credit market survey showed continued strong demand for mortgage loans. The crude oil prices rose sharply amid a risk of limiting Iran's supply – today the US president Trump will announce his decision about suspending sanctions. No negative surprises in German data on output and exports today, but imports dropped again (-0.9% m/m, +1% expected).

The NBP business climate survey "Quick Monitoring" showed slight decrease of current assessment of situation in 1Q, but still optimistic forecasts for 2Q. The indicator of demand for 2Q18 was almost the same as for 2Q17. There was improvement in export forecasts (to the highest level since 2Q07) and predicted employment, while the index of expected output has deteriorated. 1Q18 saw new record high capacity utilisation, and one of the highest ever recorded shortage of inventories. The share of employees in companies planning wage increases in 2Q rose to 31.4%, the highest since 2008. As many as 69% of firms experienced the wage pressure (the same ratio as in 1Q), and 22% of firms signalled strengthening of this pressure versus 1Q. The report stressed that current pace of wage growth is exceeding productivity growth, which is undermining firms' profitability. The document says that the rebound in investments in 4Q17 by over 10% y/y (in medium and large companies, according to F01 reporting) was due to EU funding absorption and public companies' spending (+50.2% y/y in current prices). The index of investors' optimism remained below 2015 level. In the companies' investment plans there was a clear recovery only in sectors with large usage of EU funds. In sum, the report suggests the business climate remains solid, although the level of firms' activity is slightly lower. Firms feel the wage pressure but there was no clear tendency to raise prices to maintain the level of profitability.

Quarterly NBP Survey among senior loan officers showed no important changes in credit policies. In 1Q2018, demand for mortgage loans rose markedly, among other factors thanks to

disbursement of the last tranche of MdM programme (financial support for young people). According to banks, the demand will improve further in 2Q18 thanks to housing market outlook. Banks are also expecting a rise in companies' demand for credit. In 1Q18, banks were still signaling a higher companies' demand for financing investment, stocks and working capital, supporting hopes for an investment revival in private companies. Still, banks were also often confronted with weaker general demand from companies due to lower business activity in 1Q18. The banking sector was rather uneager to finance the construction sector and expectations about the economic outlook encouraged banks to tighten the credit policy. Note that this factor was negative for the first time in six quarters. Banks also signaled that the positive economic situation of households underpinned demand for loans.

On Monday **EURUSD** continued its decline. However, the scale of moves was smaller than in 1H of the previous week. The pair decreased to 1.1920 from 1.1950 (the lowest since January). This drop was supported by the surprisingly low reading of new orders in German industrial sector.

On Monday **the zloty** depreciated amid poor sentiment on the EM market and further dollar appreciation vs the euro. As a result, **EURPLN** ended the session near 4.26 vs 4.248 at the Friday's closing. **USDPLN** rose as well (to 3.573 from 3.548) nearing this year's peak. Today we expect the zloty to remain under pressure. In the case of the **other CEE currencies** we also saw depreciation. **EURHUF** rose to 314.5 from 313.7 returning to Friday's peak, just like **EURPLN**. The Czech koruna lost only slightly with **EURCZK** rising to 25.52 from 25.49 despite surprisingly weak industrial output and retail sales data. **USDRUB** climbed to 62.7 from 62.5 staying below the last week's peak. The ruble was supported by rising oil price and better-than-expected services PMI.

The US debt market yields moved in a narrow range (1bp). The 10Y bonds ended the day at 2.95%. The weak new German industrial sector orders pushed the German curve down by 1-2 bp in the 5-10Y segment.

The domestic curve slid down by 1-2 bp in the morning trading to lose a larger portion of its gains in the afternoon, while the front end of the curve remained stable. Today we expect the downward pressures on the yields to be maintained, however in limited scale, due to the negative mood for CEE assets.

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FX market

Today's opening

EURPLN	4.2547	CZKPLN	0.1668
USDPLN	3.5674	HUFPLN*	1.3536
EURUSD	1.1926	RUBPLN	0.0568
CHFPLN	3.5583	NOKPLN	0.4426
GBPPLN	4.8426	DKKPLN	0.5712
USDCNY	6.3602	SEKPLN	0.4040

*for 100HUF

Last session in the FX market

07/05/2018

	min	max	open	close	fixing
EURPLN	4.240	4.263	4.250	4.262	4.2513
USDPLN	3.543	3.578	3.551	3.571	3.5634
EURUSD	1.190	1.198	1.195	1.193	-

Interest rate market

07/05/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.51	-1	05-Apr-18	OK0720	1.495
PS0123 (5L)	2.42	-2	05-Apr-18	PS0123	2.335
WS0428 (10L)	3.14	-2	05-Apr-18	WS0428	3.123

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.73	0	2.57	1	-0.26	0
2L	1.88	0	2.77	1	-0.15	0
3L	2.06	0	2.86	1	0.02	0
4L	2.24	-1	2.90	1	0.20	0
5L	2.41	-1	2.92	1	0.37	0
8L	2.74	0	2.97	2	0.76	0
10L	2.91	-1	2.99	1	0.96	0

WIBOR rates

Term	%	Change (bps)
O/N	1.57	0
T/N	1.56	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	0
9x12	1.75	0
3x9	1.79	1
6x12	1.80	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.60	-2
France	17	0	0.24	0
Hungary	116	1	2.06	0
Spain	39	1	0.75	1
Italy	89	0	1.25	2
Portugal	64	0	1.15	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

TIME	INDICATOR		PERIOD		FORECAST		ACTUAL	LAST
CET					MARKET	BZWBK	VALUE	VALUE
FRIDAY (May 4)								
14:30	US	Change in nonfarm payrolls	Apr	k	185	-	164	135
14:30	US	Unemployment rate	Apr	%	4.0	-	3.9	4.1
MONDAY (May 7)								
8:00	DE	Factory orders	Mar	% m/m	0.5	-	-0.9	-0.2
9:00	CZ	Industrial output	Mar	% y/y	-0.2	-	-1.1	2.7
TUESDAY (May 8)								
8:00	DE	Industrial output SA	Mar	% m/m	0.8	-	1.0	-1.7
8:00	DE	Exports	Mar	% m/m	1.8	-	1.7	-3.1
WEDNESDAY (May 9)								
9:00	HU	Inflation	Apr	% y/y	2.3	-		2.0
THURSDAY (May 10)								
9:00	CZ	Inflation	Apr	% y/y	1.8	-		1.7
11:30	PL	Bond auction						
14:30	US	Inflation	Apr	% m/m	0.3	-		-0.1
14:30	US	Initial jobless claims	Week	k	218	-		211
FRIDAY (May 11)								
16:00	US	Flash Michigan	May	pt	98.3	-		98.8

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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