

EYEOPENER

11 May 2018

Dollar gave breathing space to EM currencies

- Core debt markets and surprise with lower US CPI depressed domestic yields
- A populist government might be built in Italy
- Zloty and other emerging market currencies gained as investors turned away from the dollar
- High coverage of government borrowing needs
- Today preliminary reading of Michigan index in USA

On Thursday, the market tension, triggered by the dollar appreciation and rising UST yields, decreased. Downward surprise in US inflation encouraged investors to dump the dollar, which supported other main and EM currencies. Bond yields also went down. In Italy, the 5 Star Movement and Lega Nord are close to forming a government after two-month deadlock. The decision is to be taken until Monday. Both parties are seen as euro-skeptical and populist. Still, this did not undermine the euro's strength against the dollar. The British pound weakened after the Bank of England lowered its economic forecasts and suggested no rate hikes until end of the year. After switching auction the Finance Ministry informed that 2018 borrowing needs are covered in 57%.

On Thursday **EURUSD** rise continued. In the morning trade, the US dollar weakened due to relative stabilization of geopolitical situation. In the afternoon USD was falling at a faster pace after the US inflation data showed lower than expected readings in almost all its measures. The negative surprise was seen in the used cars and airline fares, while in the rest of CPI categories there were no visible symptoms of inflationary pressures. Over the day it led to EURUSD rising to 1.1910 from 1.1850, touching 1.1950 intraday.

EURPLN continued to decline on Thursday amid weaker dollar, better sentiment on the EM market and falling Polish bond yields. As a result, the exchange rate eased to 4.244 from 4.264 with the largest part of this move taking place in the morning. USDPLN has also declined in the course of the day to 3.561 from 3.593. Yesterday, the zloty recorded the biggest gain vs the British pound where the BoE lowered its UK GDP

growth forecasts and pledged to keep interest rates unchanged this year (while hikes were expected). Pound depreciation pushed GBPPLN to 4.83 from 4.878. Today we expect the zloty to gain but at a smaller scale than yesterday. However, today's US data might again fuel market pricing for Fed rate hikes which might curb zloty gains.

The Russian ruble was outperforming its **CEE peers**. USDRUB fell from 63.00 in the morning to 61.70 in the afternoon, i.e. to level seen in late April. The ruble took advantage of the wave of demand for EM fx and was not undermined by lower oil prices and Iran-Israel conflict. The Hungarian forint and the Czech koruna gained, but less considerably than the ruble or the zloty. As a result, EURHUF slid from 315.50 to 314.40 through 313.80. EURCZK recorded a fall from 25.58 to 25.47 thanks to higher-than-expected inflation in April.

Core debt markets strengthened on Thursday despite rising stock markets and lower geopolitical risk. In the afternoon the falling yields were supported by weaker-than-expected US inflation data. As a result, the US curve fell by 1-2bps in 5-10Y segment, and was flat on the front end. The German curve moved in a similar way, but then returned to the opening level.

Domestic bond yields fell further, supported by weaker dollar, lower UST yields and downward surprise in US CPI. As a result, the domestic curve slid by 1-2bps in 5-10Y segment and 4bps in 2Y segment. These changes were accompanied by stabilization of asset swap spreads in 5-10Y segment and a 2bp fall in 2Y. Today we are expecting a further fall of yields, like on Thursday.

According to the Ministry of Finance, at the end of April, the **balance of funds in PLN and foreign currency** fell to PLN 62 billion, from PLN 67.2 billion at the end of March.

On the **Thursday's switch auction** Ministry of Finance (MoF) bought back PS0718, OK1018 and WZ0119 bonds for PLN4.58bn, in exchange for OK0720, PS0123, WZ0524, WS0428 and WZ0528 (for PLN4.67bn in total; auction yields on page 2). After the auction, MoF informed that they financed 57% of this borrowing needs.

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FX market

Today's opening

EURPLN	4.2548	CZKPLN	0.1670
USDPLN	3.5772	HUFPLN*	1.3517
EURUSD	1.1894	RUBPLN	0.0579
CHFPLN	3.5632	NOKPLN	0.4463
GBPPLN	4.8328	DKKPLN	0.5711
USDCNY	6.3455	SEKPLN	0.4131

*for 100HUF

Last session in the FX market

10/05/2018

	min	max	open	close	fixing
EURPLN	4.236	4.267	4.263	4.244	4.2473
USDPLN	3.548	3.600	3.596	3.563	3.5773
EURUSD	1.184	1.195	1.186	1.191	-

Interest rate market

10/05/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.52	-1	10-May-18	OK0720	1.580
PS0123 (5L)	2.49	0	10-May-18	PS0123	2.490
WS0428 (10L)	3.23	-3	10-May-18	WS0428	3.242

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.74	-1	2.57	-1	-0.25	0
2L	1.89	-1	2.78	-1	-0.14	-1
3L	2.08	-2	2.87	-1	0.04	0
4L	2.28	-3	2.92	-1	0.22	0
5L	2.45	-4	2.94	-1	0.39	0
8L	2.79	-3	2.99	-2	0.79	0
10L	2.96	-3	3.02	-2	0.99	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.56	-1
T/N	1.56	-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	1.71	0
6x9	1.73	0
9x12	1.76	-1
3x9	1.79	0
6x12	1.81	-1

Measures of fiscal risk

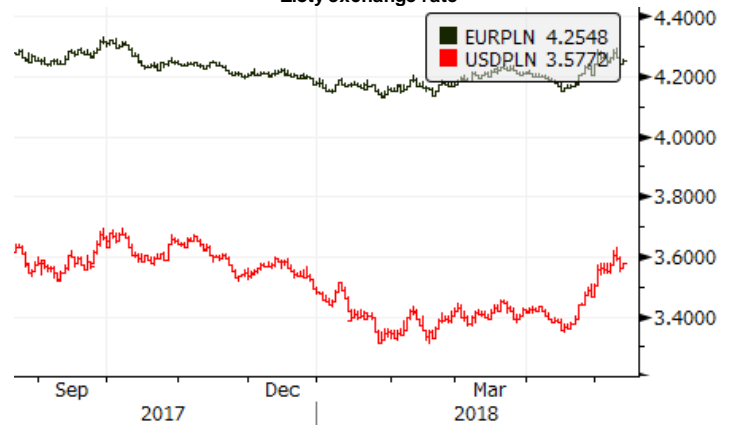
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.68	-2
France	17	0	0.24	0
Hungary	116	1	2.17	3
Spain	39	1	0.75	-1
Italy	89	0	1.37	-1
Portugal	64	0	1.15	-1
Ireland	25	0	0.41	0
Germany	10	0	-	-

* 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	-	2.3	2.0
THURSDAY (May 10)								
9:00	CZ	Inflation	Apr	% y/y	1.8	-	1.9	1.7
11:30	PL	Switch bond auction						
14:30	US	Inflation	Apr	% m/m	0.3	-	0.2	-0.1
14:30	US	Initial jobless claims	Week	k	218	-	211	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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