

EYEOPENER

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Geopolitics jiggling markets

- **Core bonds and dollar gained, while Polish bonds, zloty and CEE currencies lost due to rising geopolitical risk**
- **Sino-American trade war on hold**
- **Strong data from Polish labour market**
- **Today industrial and construction output**

On Friday there was a rise of geopolitical risk due to increasing tension of the US-EU relations after the implementation of sanctions on Iran. Another issue was the publication of the political agenda of the new Italian government (with a postulate to rewrite the EU Treaties). Financial markets were negatively influenced by these factors. Domestic wage data were stronger than expected at 7.8% y/y (0.6pp above the consensus). Steven Mnuchin, US secretary of state, said on Sunday that the US-China trade war is now on hold. This news restored risk appetite and supported equities during the Asian session.

The minister of investment and development Jerzy Kwieciński said that, according to the estimates of his ministry, in the **next EU budget 2021-2027** Cohesion policy will get 10% less funds and agriculture policy 15% less than in the current financial framework.

On Friday **core yields** were decreasing. The US and German bond yields were pushed down by rising tension in the US-EU relations. The news from Italy about government agreement between the Northern League and Five Stars Movement supported the sovereign bonds. In reaction, the US curve slid by 2-5 bp, stronger on the long end. The German curve decreased little more, by 5-7bp in the 5-10Y segment, thus the sovereign curves returned to the levels from the beginning of the last week.

The **domestic bond** prices fell in the face of rising of political tension in Europe. Consequently, the domestic curve went up by 1-3bp across the curve. The IRS curve moved similarly. Today we expect slight recovery and stabilisation on the domestic market, after the morning negative reaction. In our opinion, the risk of weakening of relations inside the UE as well as risk of opening the new front of the trade war between EU and USA (in the connection with sanctions imposed on Iran) should help domestic bonds.

EURUSD fell to 1.175 on Friday amid lower risk appetite on the global market. No important data are today on the agenda so the exchange rate should remain fairly stable near local low awaiting events planned for the coming days. Later this week, we will see numerous European and US data and many central bankers will speak. We think the dollar may stay strong in the short term. The most recent signals from Italy were not too encouraging but flash

PMIs could be positively received by the market keeping EURUSD above 1.17.

EURPLN remained at an elevated level on Friday testing 4.30 again. USDPLN broke 3.66 for a while amid lower EURUSD. Today in the morning EURPLN is near 4.305. Some down correction on the European equity market after a week of stock indexes rising generated an upside pressure on the other CEE currencies. EURHUF broke 318 reaching its highest level since mid-2016 and the past week was already fifth in a row of forint depreciation vs the euro. Today we will see Polish industrial output data and our forecast is below market consensus. Last week, the zloty did not gain after the strong 1Q GDP flash estimate and we think this means it could actually not respond positively to today's figure.

Wage growth surprised to the upside in April, rising by 7.8% y/y versus our expectations at 7.4% y/y and market consensus at 7.2% y/y. In our view, wage growth was underpinned by positive working day effect and pay rises in mining. We gather that a further acceleration of wages is possible in the months to come and this may come as a surprise for NBP president Adam Glapiński, who has recently stressed that wage growth surprised to the downside in March (6.7% y/y) and there is no wage pressure in the economy. Note that the NBP projection assumes wage growth to anchor at 7.0% y/y this year. Employment growth was flat at 3.7% y/y, in line with expectations. We are expecting employment growth to be slowing down towards 3.0% y/y in the months to come. Wage bill rose by 10.0% y/y in real terms, at the fastest pace since 2008. Strong growth of disposable income will warrant strong growth of private consumption (near 5% y/y).

Today at 10:00CET the stat office will release Polish industrial and construction output and PPI. We are expecting positive data from industry in April, after weak results in March. However, this will be mostly thanks to statistical base effect and our estimates are below consensus for industrial output and only a fraction above for retail sales. The zloty did not gain after the strong 1Q flash estimate and we think this means it could actually not respond positively to this week's macro releases. As far as bonds are concerned, we expect yields might move slightly down amid macro data releases. Globally, we will see numerous European and US data, especially flash PMI as well as GDP data, and many central bankers will deliver their speeches.

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FX market

Today's opening

EURPLN	4.3046	CZKPLN	0.1676
USDPLN	3.6662	HUFPLN*	1.3519
EURUSD	1.1741	RUBPLN	0.0587
CHFPLN	3.6697	NOKPLN	0.4512
GBPPLN	4.9226	DKKPLN	0.5780
USDCNY	6.3819	SEKPLN	0.4181

*for 100HUF

Last session in the FX market

18/05/2018

	min	max	open	close	fixing
EURPLN	4.285	4.303	4.295	4.301	4.2958
USDPLN	3.626	3.662	3.639	3.650	3.6385
EURUSD	1.175	1.182	1.181	1.177	-

Interest rate market

18/05/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.60	1	10-May-18	OK0720	1.580
PS0123 (5L)	2.57	2	10-May-18	PS0123	2.490
WS0428 (10L)	3.32	3	10-May-18	WS0428	3.242

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.75	0	2.55	-2	-0.25	0
2L	1.96	1	2.78	-3	-0.13	0
3L	2.17	3	2.89	-4	0.06	-1
4L	2.38	2	2.95	-4	0.25	-2
5L	2.56	2	2.99	-5	0.41	-4
8L	2.91	2	3.06	-5	0.83	-4
10L	3.08	2	3.09	-4	1.04	-5

WIBOR rates

Term	%	Change (bps)
O/N	1.56	1
T/N	1.56	1
SW	1.56	0
2W	1.59	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	1.72	0
6x9	1.76	0
9x12	1.80	0
3x9	1.80	0
6x12	1.83	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.75	3
France	20	3	0.26	1
Hungary	116	1	2.52	-1
Spain	51	4	0.86	1
Italy	125	13	1.66	2
Portugal	64	0	1.29	1
Ireland	25	0	0.44	-3
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

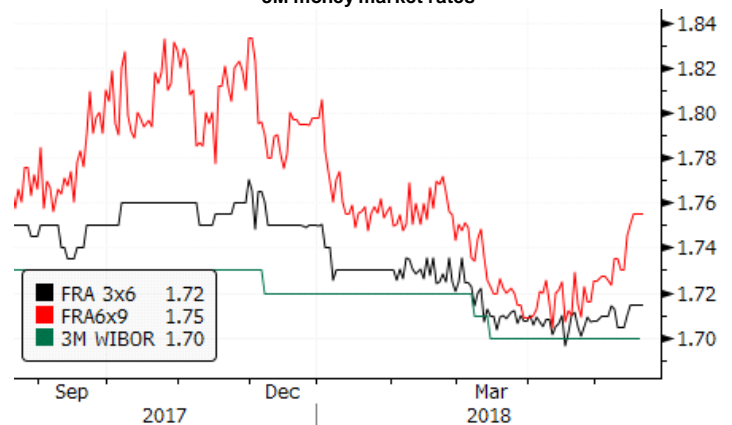
Zloty exchange rate



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 (18 May)							
10:00	PL	Employment in corporate sector	Apr	% y/y	3.7	3.7	3.7
10:00	PL	Average Gross Wages	Apr	% y/y	7.2	7.4	7.8
MONDAY (21 May)							
10:00	PL	Sold Industrial Output	Apr	% y/y	8.5	8.1	1.8
10:00	PL	Construction Output	Apr	% y/y	24.5	22.2	16.2
10:00	PL	PPI	Apr	% y/y	0.9	1.0	0.3
TUESDAY (22 May)							
10:00	PL	Stats Office business sentiment	May	pts			
14:00	HU	Central Bank Rate Decision		%	0.9	-	0.9
WEDNESDAY (23 May)							
09:30	DE	Germany Manufacturing PMI	May	pts	57.9	-	58.1
09:30	DE	Markit Germany Services PMI	May	pts	53.2	-	53.0
10:00	EZ	Eurozone Manufacturing PMI	May	pts	56.1	-	56.2
10:00	EZ	Eurozone Services PMI	May	pts	54.5	-	54.7
10:00	PL	Retail Sales Real	Apr	% y/y	7.6	7.7	8.8
10:00	PL	Enterprises Financial Results	1Q				
10:00	PL	Consumer Confidence	May				
16:00	US	New Home Sales	Apr	% m/m	-2.0	-	4.0
20:00	US	FOMC Meeting Minutes			-	-	0.0
THURSDAY (24 May)							
08:00	DE	GDP WDA	1Q	% y/y	2.3	-	2.3
11:30	PL	Bond Auction			-		
14:00	PL	Money Supply M3	Apr	% y/y	0.0	5.9	5.8
14:30	US	Initial Jobless Claims	week	k	215	-	222
16:00	US	Existing Home Sales	Apr	% m/m	-0.5	-	1.1
FRIDAY (25 May)							
10:00	DE	IFO Business Climate	May	pts	101.9	-	102.1
10:00	PL	Unemployment Rate	Apr	%	6.3	6.3	6.6
14:30	US	Durable Goods Orders	Apr	% m/m	-1.5	-	2.6
16:00	US	Michigan index	May	pts	98.8	-	98.8

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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