

# EYEOPENER

23 May 2018

## Business sentiment still high

- **Ease of geopolitical risk helps euro and zloty for a while**
- **Polish business sentiment still high**
- **Domestic bonds gain on low supply information, global debt under pressure**
- **Today Poland retail sales, abroad flash PMIs and FOMC minutes**

The euro and the zloty strengthened temporarily thanks to a drop of the geopolitical tension. Domestic bond yields reversed much of the previous rise amid news on small supply planned for the Thursday auction.

Over the night, global sentiment worsened when Donald Trump said he was not satisfied with the results of the trade negotiations with China. At the start of the week, the US secretary of state declared truce in the US-China trade war which had a positive impact on the risky assets. Today at the opening, European futures are falling due to the US president's remark.

**Statistics Poland published the first business sentiment indicators for May.** The synthetic index improved after two months of large declines. Strong growth of new orders continued in industry and construction. In both sectors, the indices set new records (the highest since the start of the series in 2004). What caught our attention in the construction sector was the further decline of expected employment, to the lowest level since September 2017. What is more, the problem of skilled labor shortages increased in May for construction (while in industry and retail it eased a bit), judging by the share of companies pointing to vacancies as a barrier to business activity, suggesting that the construction sector may be unable to meet the very high demand due to capacity constraints. This is how we explain the weaker-than-expected construction output data for April (which still posted c20% y/y growth). In general, the largest obstacle for businesses continues to be labor costs, which corresponds with the April acceleration of wage dynamics in the corporate sector. In the retail sector, for several months the indicators for current and expected sales had been deteriorating, which we linked to the introduction of Sunday trade ban, but in May there was a rebound of expectations. In short, business sentiment remained firm, which suggests that the economy is not at risk of a sharp slowdown.

**EURUSD** started the Tuesday session with a decline to 1.176 from 1.178 which might be linked to the news from Italy that the

next prime minister could be a political newcomer Giuseppe Conte. However, the single currency started to recover fast in reaction to China plans to cut trade tariffs on cars. In the afternoon, EURUSD returned to the levels from Tuesday opening, and this morning is close to 1.175 due to the deterioration of the global sentiment and looming FOMC minutes release due this evening. Today we expect EURUSD to stay above 1.17.

On Tuesday morning **EURPLN** fell benefiting from the decrease of geopolitical tension. The rate dropped from 4.296 to 4.273. In the second half of the day, the zloty trimmed all the morning gains as the global sentiment was gradually deteriorating and the dollar appreciation resumed. The mood at the start of today's session is slightly negative, which may limit the scope for EURPLN decrease. Our forecast of retail sales is close to market consensus, so the global trends may remain crucial for the currency market.

In case of EURHUF and EURCZK we observed similar trends as in case of the zloty. Both rates closed near the Tuesday's opening levels. The data released in Hungary (business climate indicators) and the central bank's decision about keeping interest rates on hold did not have influence on the market.

The **core interest rate market** was relatively calm. No data releases and slight falls on the stock market translated into an upward move of the US yield curve by 1-2bp in 5-10Y segment. German bond yields climbed following the stock market but then corrected this move. In the course of the day, yield curve moved up by 2-3bp.

**On the domestic interest rate market**, yields and IRS rates were falling since the start of the day thanks to better global moods. In the afternoon, the downward impulse was amplified by information on lower supply on the Thursday auction (PLN3.0bn). As a result, the domestic curve fell by 2-6bp, more on the longer end of the curve, while IRS slid by 2-4bp. Today, we are expecting bond prices to go no further up thanks to positive data on retail sales.

**Today at 10:00CET we will get to see data on April retail sales.** In our view this will be an interesting reading, given high base effect of Easter in April 2017 and only one trading Sunday. We are expecting some slowdown versus March but are generally more optimistic than the market.

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## FX market

## Today's opening

EURPLN	4.2954	CZKPLN	0.1669
USDPLN	3.6544	HUFPLN*	1.3468
EURUSD	1.1754	RUBPLN	0.0596
CHFPLN	3.6807	NOKPLN	0.4519
GBPPLN	4.8949	DKKPLN	0.5768
USDCNY	6.3809	SEKPLN	0.4196

\*for 100HUF

## Last session in the FX market

22/05/2018

	min	max	open	close	fixing
EURPLN	4.271	4.297	4.294	4.286	4.2812
USDPLN	3.613	3.649	3.648	3.637	3.6252
EURUSD	1.176	1.183	1.177	1.179	-

## Interest rate market

22/05/2018

## T-bonds on the interbank market\*\*

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.58	0	10-May-18	OK0720	1.580
PS0123 (5L)	2.52	-4	10-May-18	PS0123	2.490
WS0428 (10L)	3.24	-8	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	2.57	1	-0.25	0
2L	1.94	-2	2.81	0	-0.13	0
3L	2.14	-2	2.92	1	0.05	0
4L	2.34	-2	2.97	0	0.24	0
5L	2.53	-3	3.00	0	0.41	1
8L	2.89	-4	3.07	-1	0.82	2
10L	3.05	-4	3.10	-1	1.03	2

## WIBOR rates

Term	%	Change (bps)
O/N	1.55	-1
T/N	1.55	-1
SW	1.56	0
2W	1.60	1
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	1.75	0
9x12	1.80	-1
3x9	1.80	1
6x12	1.83	0

## Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.70	-7
France	21	0	0.27	0
Hungary	116	1	2.64	1
Spain	55	1	0.89	0
Italy	140	4	1.76	0
Portugal	64	0	1.39	0
Ireland	25	0	0.49	4
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

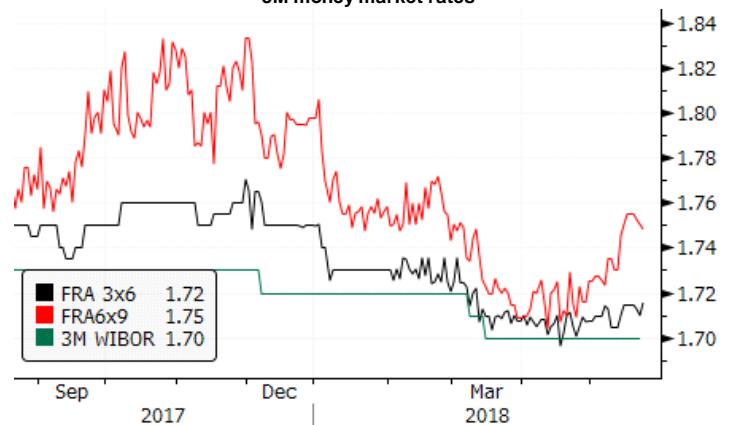
## Zloty exchange rate



## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic calendar

TIME		INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST	
CET				MARKET	BZWBK		VALUE	
FRIDAY (18 May)								
10:00	PL	Employment in corporate sector	Apr	% y/y	3.7	3.7	3.7	3.7
10:00	PL	Average Gross Wages	Apr	% y/y	7.2	7.4	7.8	6.7
MONDAY (21 May)								
10:00	PL	Sold Industrial Output	Apr	% y/y	8.5	8.1	9.3	1.8
10:00	PL	Construction Output	Apr	% y/y	24.5	22.2	19.7	16.2
10:00	PL	PPI	Apr	% y/y	0.9	1.0	1.1	0.5
TUESDAY (22 May)								
10:00	PL	Stats Office business sentiment	May	pts				
14:00	HU	Central Bank Rate Decision		%	0.90	-	0.90	0.90
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	5.8	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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