

EYEOPENER

25 May 2018

Korea issue weighed on moods again

- Risk aversion back again, US data below expectations, Trump-Kim meeting called off
- EURPLN and USDPLN still high despite rebound in EURUSD
- Polish bonds supported by falling yields abroad
- Today Polish unemployment rate, further data from USA

After the sharp worsening of market sentiment on Wednesday, the Thursday session started much better. Stock indices stabilised and the dollar appreciation vs the euro stopped. Large moves were still seen on the debt market, where yields continued to slip due to weak data from Europe and FOMC minutes, which did not leave a hawkish impression on investors. The situation on the equity market deteriorated during the day, as the US cancelled the meeting with North Korea and the US data failed to meet expectations. Donald Trump decided to resign from the meeting planned for June 12 in Singapore after remarks by North Korean deputy foreign affairs minister Choe Son-hui about the earlier statements of US vice-president Mike Pence. As a consequence of worse sentiment, the CEE currencies could not benefit from the pause in the dollar appreciation vs the euro. The Turkish lira was still depreciating and did not manage to hold on to gains after the Wednesday emergency rate hike by 300bp (from 13.5% to 16.5%).

M3 money supply rose in April by 5.7% y/y vs 5.8% in March while market expected an acceleration to 6.0%. Credit to enterprises slowed down again. After fx adjustment its growth rate went from 7.8% y/y in February to 6.9% in March and 5.0% in April. Deceleration was mainly seen in investment loans, from above 6% to 2.1%, working capital loans also eased, from 7.3% y/y to 6.6%, the lowest since October last year. However, enterprise real estate credit maintained a double-digit pace of growth for a third month in a row. There was a further stabilisation in household loans (after fx correction) at 5.1% y/y, with consumer credit growth still at 9% y/y and a gradual rise in mortgage loans, from 3.6% y/y to 3.7% (which happens to be the strongest pace since December 2014). PLN-denominated mortgage loans rose by 10.9% y/y in April vs 10.7% previously. On the deposit side, current accounts of households and enterprises increased by more than 10% y/y (12.1% and 10.6% accordingly), at the expense of term deposits, which shrank by 5.5% and 5.9% accordingly.

Detailed survey on business confidence released by the stat office showed that foreign orders for durable consumption goods

deteriorated in May. The last three months saw also weaker orders for autos, other transport equipment and furniture. Non-durable consumer goods did not change much. Index for price changes expected by manufacturing companies fell for the fourth month in a row, in construction the index remained fairly stable, and for retail trade it rose marginally but held below levels seen in September 2017 – March 2018 (for this category, the index for current prices has been falling for four months and is now at its lowest since December 2016). In services sector, expectations for prices regarding insurance and organized tourism revived. For the latter, the index is at its highest since 2009 after a temporary drop in March. Communication insurances and trips prices dragged inflation down unexpectedly in the last few months.

EURUSD was rising gradually since the beginning of the session reaching 1.175 at the end of the Polish trading hours. Dollar appreciation vs the euro paused after the FOMC minutes release and the below-consensus US data also contributed to the exchange rate rise. The current week is already sixth in a row of dollar appreciation vs the euro. We assume that the downside impulse should be running out of steam and today we could see some rebound amid profit taking.

Yesterday **EURPLN** stayed close to 4.30, while **USDPLN** oscillated close to 3.67. The zloty did not benefit from the halt in the dollar appreciation versus the euro, and due to the negative global mood both exchange rates stayed close to the session peaks. In our opinion there is not much room for the further weakening of the zloty against the euro. We assume that **EURUSD** will not go down further, so **EURPLN** will not go above 4.32. In the coming weeks, **EURPLN** could gradually be going down, in our view.

Other CEE currencies were also depreciating. **EURCZK** and **USD RUB** stayed below Wednesday peaks and **EURHUF** set the new weekly high.

On the domestic debt market yields and IRS rates slid by 1-2bps, thanks to stronger core debt (as a reaction to rather dovish FOMC minutes). The move of Polish T-bonds yield curve was stronger than on the core markets, but at the end of the day, yields were moved up slightly. On the yesterday's regular auction the Ministry of Finance sold PLN3bn bonds, 5Y fixed-coupon PS0123 being the most demanded (cPLN1.4 sold). The bid-to-cover ratio was slightly above the last April auction level. After this auction Ministry of Finance covered the 59% of its borrowing needs for 2018.

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FX market

Today's opening

EURPLN	4.3175	CZKPLN	0.1673
USDPLN	3.6884	HUFPLN*	1.3502
EURUSD	1.1706	RUBPLN	0.0599
CHFPLN	3.7189	NOKPLN	0.4546
GBPPLN	4.9295	DKKPLN	0.5796
USDCNY	6.3887	SEKPLN	0.4206

*for 100HUF

Last session in the FX market

24/05/2018

	min	max	open	close	fixing
EURPLN	4.290	4.318	4.305	4.312	4.2953
USDPLN	3.654	3.695	3.681	3.675	3.659
EURUSD	1.168	1.175	1.169	1.173	-

Interest rate market

24/05/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.58	-1	24-May-18	OK0720	1.637
PS0123 (5L)	2.50	0	24-May-18	PS0123	2.481
WS0428 (10L)	3.21	-2	24-May-18	WS0428	3.211

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.75	0	2.53	-3	-0.25	0
2L	1.92	-1	2.74	-4	-0.15	-1
3L	2.11	-2	2.84	-4	0.01	-1
4L	2.30	-2	2.89	-4	0.19	-2
5L	2.47	-2	2.92	-4	0.36	-2
8L	2.81	-2	2.97	-4	0.77	-3
10L	2.98	-2	3.01	-4	0.97	-3

WIBOR rates

Term	%	Change (bps)
O/N	1.53	-1
T/N	1.55	0
SW	1.55	-1
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	1.71	0
3x6	1.72	0
6x9	1.75	0
9x12	1.80	0
3x9	1.80	0
6x12	1.83	1

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.74	-1
France	21	0	0.30	1
Hungary	116	1	2.59	-1
Spain	59	-1	0.94	3
Italy	150	0	1.96	4
Portugal	64	0	1.46	4
Ireland	25	0	0.50	-5
Germany	12	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

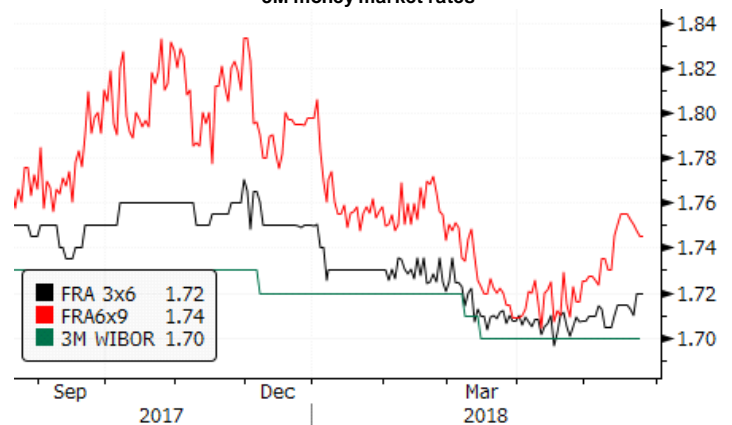
Zloty exchange rate



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	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	-	56.8	58.1
09:30	DE	Markit Germany Services PMI	May	pts	53.2	-	52.1	53.0
10:00	EZ	Eurozone Manufacturing PMI	May	pts	56.1	-	55.5	56.2
10:00	EZ	Eurozone Services PMI	May	pts	54.5	-	53.9	54.7
10:00	PL	Retail Sales Real	Apr	% y/y	7.6	7.7	4.0	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	-	-1,5	2.0
20:00	US	FOMC Meeting Minutes						
THURSDAY (24 May)								
08:00	DE	GDP WDA	1Q	% y/y	2.3	-	2.3	2.3
11:30	PL	Bond Auction			-			
14:00	PL	Money Supply M3	Apr	% y/y	5.8	5.9	5.7	5.8
14:30	US	Initial Jobless Claims	week	k	220	-	234	223
16:00	US	Existing Home Sales	Apr	% m/m	-0.9	-	-2.5	1.1
FRIDAY (25 May)								
10:00	DE	IFO Business Climate	May	pts	102.0	-		102.1
10:00	PL	Unemployment Rate	Apr	%	6.3	6.3		6.6
14:30	US	Durable Goods Orders	Apr	% m/m	-1.3	-		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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