

EYEOPENER

28 May 2018

Italian political stalemate improves moods

- Higher tensions in Italy support market sentiment at the beginning of the week
- EURPLN and USDPLN still high
- Bonds gain amid political uncertainty
- Polish state deficit still in surplus, unemployment rate fell
- Today, no important data releases

On Friday the zloty remained weak and bonds gained on continued political tension in Europe and in the USA. Brent oil price dropped to USD76.1/bbl amid an Russia-OPEC agreement to increase output. Polish April budget data surprised positively, and the unemployment rate declined.

At the start of this week, Italian politics play a key role on the markets again. President Mattarella said he accepts the new cabinet except the candidate for the post of finance minister, Paolo Savona, considered a euro-skeptic, who does not exclude the exit of Italy from the euro zone. PM designate Conte was disappointed with the president's decision, while the Five Star Movement leader suggested impeachment of Mattarella. The decrease of risk that the euro-skeptic will enter the government had a positive impact on the euro and Italian bonds at the start of this week. The risk of snap elections does not influence the market yet.

After April, Poland central budget showed a surplus of PLN9.3bn. Budget inflows amounted to PLN125.2bn (104.9% of the plan), while expenditure to PLN115.8bn (93.0% of the plan). In April alone, the budget balance improved by PLN6.2bn and this was the best April in years (average for 2010-2017 is -PLN2.7bn). CIT incomes rose by 71.8% y/y, but such a strong improvement was due to shift in payments. PIT increased by 21.4% y/y and VAT by about 2% y/y. Start of the year is extraordinarily positive for the budget. In our view, it cannot be rule out that at the year-end the deficit will be by half lower than assumed (PLN41.5bn).

LFS unemployment rate fell in 1Q18 to all-time low at 4.2%. Employment increased by only 0.4% y/y as compared to 1.4% on average in 2017. Number of the unemployed fell by 23.4% y/y. Activity index fell to 56% from 56.2% in 1Q17.

On Friday EURUSD resumed the down move owing to the geopolitical tensions and weak European data. Also, the US durable goods orders released in the afternoon supported the dollar. As a result, in the afternoon EURUSD fell from 1.173 to

1.166, the lowest level since November 2017. At the beginning of this week, euro is gaining due to the news from Italy and this morning EURUSD is close to the 1.17. Today the economic calendar is empty so the geopolitics may be crucial for EURUSD.

On Friday EURPLN oscillated close to 4.30 and ended the day above this level. USDPLN climbed above 3.70 from 3.68 in the morning. The strong US dollar still weighed on the zloty. Today at the start of the session, the mood was quite good as a reaction to the drop of the risk of forming the populist government in Italy, which can keep EURPLN slightly below the 4.30.

Developments on other CEE currencies were mixed. EURHUF remain elevated close to 320. EURCZK slid from 25.8 in the morning to 25.7 in the afternoon. USDRUB increased from 61.5 to 62.3 in reaction to falling oil prices.

On the global debt market yields fell in reaction to the uncertainty about the situation in Italy (where 10Y asset swap spread rose from 142bp to 153bp) and US – North Korea negotiations. As a result, the US yield curve went down by 4-6bp, more on the long end. Larger moves were seen on German market (7-8bp in the 5-10Y segment and 3bp in the 2Y segment). Japanese and Swiss bond yields, also sensitive to the rising risk, declined a few bps. Markets consider the developments in Italy as positive so bonds of the euro zone peripheries are strengthening amid decreased demand for safe assets like the Bunds.

The domestic debt gained thanks to higher geopolitical risk and surprisingly positive data on budget results after April. As a result, 10Y bond yields fell by 3bps, 5y by 6bps, 2Y by 2bps. Moves on the IRS curve were similar to developments on the yields curve. Only the long end stood out, as rates fell a bit more, bringing the 10Y asset swap spread up. Today we are expecting yields to go down further, yet slowly.

This week will be full of important data releases, including US labour market statistics, Polish CPI and GDP. In our view, May CPI will show a rebound to almost 2% y/y, but we think that it will be neutral for the Polish interest rate market. At the same time, we expect the dollar appreciation to halt, which can give the zloty a breath.

ECONOMIC ANALYSIS DEPARTMENT:

al. Jana Pawła II 17, 00-854 Warsaw fax +48 22 586 83 40

email: ekonomia@bzwbk.pl

Web site: skarb.bzwbk.pl

Piotr Bielski +48 22 534 18 87

Marcin Luziński +48 22 534 18 85

Grzegorz Ogonek +48 22 534 19 23

Konrad Soszyński +48 22 534 18 86

Marcin Sulewski +48 22 534 18 84

TREASURY SERVICES:

Poznań +48 61 856 5814/30

Warszawa +48 22 586 8320/38

Wrocław +48 71 369 9400

FX market

Today's opening

EURPLN	4.2985	CZKPLN	0.1673
USDPLN	3.6678	HUFPLN*	1.3479
EURUSD	1.1720	RUBPLN	0.0590
CHFPLN	3.7002	NOKPLN	0.4509
GBPPLN	4.8912	DKKPLN	0.5771
USDCNY	6.3914	SEKPLN	0.4204

*for 100HUF

Last session in the FX market 25/05/2018

	min	max	open	close	fixing
EURPLN	4.296	4.319	4.312	4.313	4.3022
USDPLN	3.663	3.706	3.675	3.702	3.6686
EURUSD	1.165	1.174	1.173	1.165	-

Interest rate market 25/05/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.57	-2	24-May-18	OK0720	1.637
PS0123 (5L)	2.44	-6	24-May-18	PS0123	2.481
WS0428 (10L)	3.19	-1	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	-0.24	1
2L	1.91	-1	2.71	-3	-0.15	0
3L	2.08	-2	2.80	-4	-0.01	-2
4L	2.26	-4	2.85	-4	0.15	-4
5L	2.42	-5	2.87	-4	0.31	-5
8L	2.76	-6	2.93	-4	0.72	-5
10L	2.92	-6	2.97	-4	0.92	-5

WIBOR rates

Term	%	Change (bps)
O/N	1.54	1
T/N	1.54	-1
SW	1.56	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	1.70	-1
3x6	1.71	-1
6x9	1.75	0
9x12	1.80	0
3x9	1.79	-1
6x12	1.83	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.74	-6
France	21	0	0.28	-3
Hungary	116	1	2.58	-5
Spain	59	-1	0.98	-7
Italy	165	15	1.90	-15
Portugal	64	0	1.42	-11
Ireland	25	0	0.52	-2
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

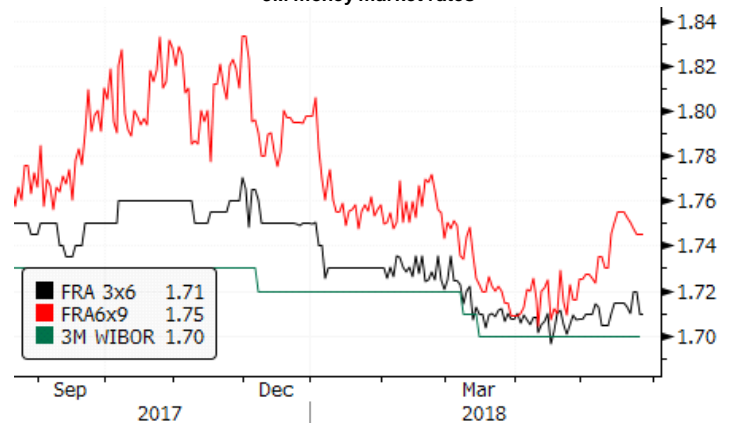
Zloty exchange rate



T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME		INDICATOR	PERIOD	FORECAST		ACTUAL	LAST	
CET	MARKET			BZWBK	VALUE	VALUE		
FRIDAY (25 May)								
10:00	DE	IFO Business Climate	May	pts	102.0	-	102.2	102.2
10:00	PL	Unemployment Rate	Apr	%	6.3	6,3	6.3	6.6
14:30	US	Durable Goods Orders	Apr	% m/m	-1.3	-	-1.7	2.7
16:00	US	Michigan index	May	pts	98.8	-	98.0	98.8
MONDAY (28 May)								
No important events								
TUESDAY (29 May)								
16:00	US	Consumer Conference Board index	May	pts	128.0	-		128.7
WEDNESDAY (30 May)								
08:00	DE	Retail Sales	Apr	% m/m	0.5	-		-0.3
10:00	PL	CPI	May	% y/y	1.8	1.9		1.6
10:00	PL	GDP	1Q	% y/y	5.1	5.1		4.9
11:00	EZ	ESI	May	pct.	112.0	-		112.7
14:00	DE	HICP	May	% m/m	0.3	-		-0.1
14:15	US	ADP report	May	k	190.0	-		204.1
14:30	US	GDP Annualized	1Q	% Q/Q	2.3	-		2.3
20:00	US	Beige Book						
THURSDAY (31 May)								
11:00	EZ	Flash HICP	May	% y/y	1.6	-		1.2
11:00	EZ	Unemployment Rate	Apr	%	8.4	-		8.5
14:30	US	Initial Jobless Claims	Mar-01	k	229	-		234
14:30	US	Personal Spending	Apr	% m/m	0.4	-		0.4
14:30	US	Personal Income	Apr	% m/m	0.3	-		0.3
14:30	US	PCE Deflator SA	Apr	% m/m	0.2	-		0.0
16:00	US	Pending Home Sales	Apr	% m/m	0.5	-		0.4
FRIDAY (1 June)								
09:00	CZ	GDP SA	1Q	% y/y	4.5	-		4.5
09:00	PL	Poland Manufacturing PMI	May	pts	53.1	52.9		53.9
09:55	DE	Germany Manufacturing PMI	May	pts	56.8	-		56.8
10:00	EZ	Eurozone Manufacturing PMI	May	pts	55.5	-		55.5
14:00	PL	MPC minutes			-			
14:30	US	Change in Nonfarm Payrolls	May	k	190	-		164
14:30	US	Unemployment Rate	May	%	3.9	-		3.9
16:00	US	ISM manufacturing	May	pts	58.0	-		57.3

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

This publication has been prepared by Bank Zachodni WBK S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Bank Zachodni WBK S.A., its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Bank Zachodni WBK S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Bank Zachodni WBK S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

Additional information is available on request. Please contact Bank Zachodni WBK S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawla II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@bzwbk.pl, http://www.bzwbk.pl.