

# EYEOPENER

29 May 2018

## Polish bonds resilient to Italian turmoil

- Zloty and bonds gain despite uncertain situation in Italy
- EC wants to cut funds for Poland
- Local governments with PLN11bn surplus
- MPC's Łon suggests abandoning the inflation target
- Today, US consumer confidence index

In a comment sent to PAP Biznes, **MPC member Eryk Łon** proposed to abandon the inflation target or to classify it in the future. In his view, it is worth to consider such options to secure high flexibility of monetary policy. The MPC member stressed that there were many cases when CPI broke out of the 1.5-3.5% y/y tolerance band which affected the flexibility of the policy. Łon would like the NBP economic projections to also cover unemployment rate nad Gross National Income. He also pointed to consumer sentiment as a factor strongly affecting his stance on monetary policy. The MPC member thinks the current level of interest rates is the right one for now, lending support to investments and beneficial for consumers. His comment confirms him as the most dovish member in the Council. It is interesting that this time he did not list conditions that in his view would call for a rate cut. Kamil Zubelewicz signaled last week that many members who did not exclude further rate cuts have recently changed their mind.

According to PAP, **the European Commission proposed a cut of cohesion funds for Poland** in the 2021-2027 framework to €64.4bn vs €83bn in the 2014-2020 budget. It is a substantial reduction (by 23%), but it is important to note that this is a preliminary proposal and the negotiations will most likely take until 2019.

**In 1Q18 local governments had a surplus of PLN11.9bn**, slightly smaller than a year ago (PLN12.4bn). Incomes were PLN65.3bn (up 5% y/y) and expenditures PLN53.4bn (up 7.3% y/y). The Ministry of Finance has not published data on local governments investment outlays yet. The data for January suggested a growth rate of c60% y/y but the first month of the year has a low weight in the outcome for the whole 1Q (below 25%).

On Monday morning **EURUSD** rebounded to about 1.173, recovering after the weekend political turmoil in Italy. The relief for the euro did not last long. In the afternoon the exchange rate started to fall again, discounting the news about a growing risk of snap elections in Italy this autumn. As a result, EURUSD dropped to c1.16 at the end of the session, the lowest since

November. The pair is approaching the local trough of 1.155 from late 2017 and the coming days may decide if the dollar continues to gain or if it is already time for a rebound for EURUSD. In our view, the downside potential of EURUSD is depleting.

**EURPLN** began the Monday's session at 4.313 and was falling in the following hours despite dollar appreciation and falls on the European stock markets. As a result, EURPLN ended the day at 4.298. **USDPLN** took cue from EURUSD, sliding to 3.669 in the morning and then rebounding to 3.71. In our view, EURPLN will remain elevated with a slight downward tendency in the days to come.

**Other CEE currencies** followed a similar trend. The Hungarian forint, like the zloty, gained with EURHUF falling to 318.6 from 319.1. EURCZK moved up to 25.75 from 25.72. The koruna's depreciations was not even stopped by comments of Czech central bank's head Jiri Rusnok that the currency is immune to political turmoil and the restart of appreciation trend is expected. USDRUB jumped to 62.40 from 62.15 due to lower oil prices and comment of the Kremlin spokesman Dmitry Peskov, who was negative about intensified NATO forces presence in Europe.

On Monday the **yields of German** bonds were decreasing, after the temporarily morning rise, moving the yield curve down by 5-8bp. Still unstable political situation in Italy was the crucial factor for the market.

**On the domestic interest rates market** bonds were gaining owing to the political uncertainty connected with the risk of a new general election in Italy. As a result, the domestic yield curve eased by 1-2bp, stronger on the long end of the curve. At the beginning of today European session, stocks indices are falling slightly, which is positive for Bunds and Treasuries. We assume that domestic debt will follow the core markets.

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## FX market

## Today's opening

EURPLN	4.3088	CZKPLN	0.1674
USDPLN	3.7140	HUFPLN*	1.3514
EURUSD	1.1601	RUBPLN	0.0595
CHFPLN	3.7384	NOKPLN	0.4522
GBPPLN	4.9372	DKKPLN	0.5786
USDCNY	6.4145	SEKPLN	0.4201

\*for 100HUF

## Last session in the FX market

28/05/2018

	min	max	open	close	fixing
EURPLN	4.295	4.326	4.313	4.302	4.3031
USDPLN	3.667	3.707	3.696	3.699	3.6849
EURUSD	1.161	1.173	1.166	1.163	-

## Interest rate market

28/05/2018

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

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.54	-1	24-May-18	OK0720	1.637
PS0123 (5L)	2.42	-1	24-May-18	PS0123	2.481
WS0428 (10L)	3.19	0	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	2.52	-2	-0.24	0
2L	1.91	0	2.69	-2	-0.15	0
3L	2.08	0	2.77	-3	-0.02	-1
4L	2.26	0	2.83	-2	0.13	-2
5L	2.42	0	2.87	0	0.28	-3
8L	2.76	0	2.93	0	0.69	-3
10L	2.92	0	3.00	3	0.90	-2

## WIBOR rates

Term	%	Change (bps)
O/N	1.15	-39
T/N	1.21	-33
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	1.70	0
3x6	1.71	0
6x9	1.75	0
9x12	1.80	0
3x9	1.79	0
6x12	1.83	0

## Measures of fiscal risk

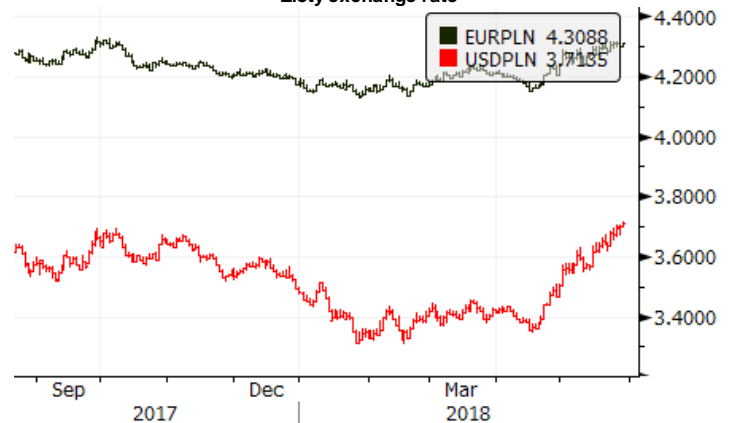
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.89	3
France	21	0	0.39	4
Hungary	116	1	2.74	3
Spain	59	-1	1.28	11
Italy	165	15	2.54	21
Portugal	64	0	1.97	27
Ireland	25	0	0.65	4
Germany	12	0	-	-

\* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

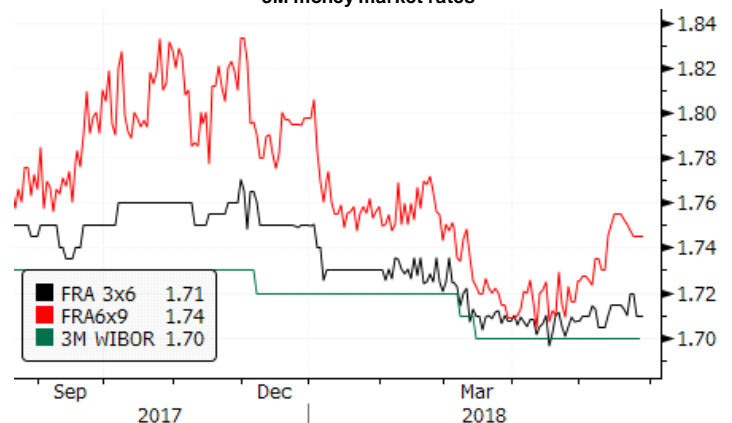
## Zloty exchange rate



## 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 (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	week	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

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