

# EYEOPENER

30 May 2018

## Risk aversion persists

- Zloty and bonds pressured by situation in Italy
- EC confirms plans to cut funds for Poland
- Today, Poland 1Q GDP and flash May CPI, abroad inflation data in Europe and GDP release in the US

On Tuesday the global markets were struck with risk aversion due to fears about Italian politics. European equity indices plummeted and the dollar strengthened, which also led to gains on core debt markets. The euro zone periphery debt was under pressure, Italian papers in particular. The zloty was showing resistance to the sudden deterioration of sentiment, but losses came after the session closing. Polish bonds were losing for the whole day.

**European Commission proposed a reduction of cohesion funds for Poland** in the 2021-2027 budget to €64.4bn vs €83.9bn in the current financial framework, so down 23.2%. This is an initial proposal, and negotiations could last until 2019. In total, cohesion funds should be €374bn, and a similar scale of reduction as in Poland was also offered to Hungary, Lithuania, Estonia, Czechia, Slovakia and Germany. Increase of the budget was proposed for Romania, Bulgaria, Greece (by 8%), Italy (6%), Cyprus and Finland (5%) and Spain (2%).

**EURUSD** collapsed on Tuesday from 1.163 to 1.15, continuing the trend fuelled by the situation in Italy. Later during the day investors took a breath and the exchange rate has stabilised slightly above 1.15. Today in the morning it was near 1.155. Today the important data from the USA will be released, which in our view may have short-term market impact. The situation in Italy remains key for the currency.

**EURPLN** has been stable near 4.30 for the better part of the day and only after the close of the domestic session the zloty surrendered to the global risk aversion. Overnight the EURPLN approached 4.34, its highest level since March 2017. USDPLN has been rising throughout the session and reached 3.766. Today's Polish GDP data are not likely to affect market significantly, in our view. At the same time, the CPI data are likely to show a rebound in May to 1.9% y/y, which may be slightly positive for the zloty. A slight improvement of the global market sentiment observed at the start of the day could be also stabilising for the Polish currency.

**Elsewhere in CEE**, the koruna and the forint weakened vs the euro – EURHUF rebounded from 318.6 in the morning to 320.3 (the highest since December 2014), while EURCZK rose from 25.75 to 25.91 (the highest since December 2017). Despite the

strong appreciation of the dollar and the recent declines of oil prices the Russian ruble was relatively stable faced with the Tuesday market turbulence. USDRUB rose from 62.30 to 62.90 (the highest in 10 days), but then returned to 62.50.

It the morning, the **core bond yields** slumped reacting to the news from Italy and sharp drop on the European stock markets. As a result, the yields of 10Y Bunds decreased to 0.19% (last seen in July 2016) from 0.35% in the morning and rebounded back to 0.28%. The rest of the German curve was changing on the same scale. Yields of Italian bonds rose in the morning from 2.67% to 3.42%, and recovered to the 3.06% in the afternoon. It means the price changing close to 4%.

The US curve was following German yields, and slipped by 3-6bp (stronger on the long end). The US curve ignored high, but close to the expectations, Conference Board consumer confidence index.

Yesterday the **domestic bond market** was under pressure. The domestic curve negatively reacted for the rising political risk in Europe and jumped by 5-7bp in the belly and on the long end of the curve. On the front end the move up was close 2bp. The relatively stable situation on the IRS market resulted in the ASW curve moving up by 3-4bp in the 5-10Y segment.

**Today at 10:00CET Polish CPI and GDP data are due for release.** CPI has likely continued in May, mainly due to rising oil prices. In our view, core inflation also increased in May, to 0.7% y/y. We expect core CPI to rise above 1.5% this year. We expect the headline GDP growth to be confirmed at 5.1%, private consumption to stay around 5% y/y and investments to accelerate to c10%.

Our forecast of investment growth was underpinned by yesterday's data from the Finance Ministry on local governments. Investment outlays in this sector amounted to PLN3.4bn, rising by 83% y/y. Previous quarters have already indicated a major rise in investment activity in the local governments (over 40% y/y in 3Q and 4Q17). In 1Q18, local governments contributed as much as 3 percentage points to total investment growth, in our view. EU-funded investment in local governments amounted to PLN1.7bn and rose by 185.7% y/y in 1Q18.

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## FX market

## Today's opening

EURPLN	4.3227	CZKPLN	0.1669
USDPLN	3.7372	HUFPLN*	1.3513
EURUSD	1.1565	RUBPLN	0.0596
CHFPLN	3.7640	NOKPLN	0.4518
GBPPLN	4.9587	DKKPLN	0.5807
USDCNY	6.4298	SEKPLN	0.4182

\*for 100HUF

## Last session in the FX market

29/05/2018

	min	max	open	close	fixing
EURPLN	4.295	4.323	4.302	4.323	4.3056
USDPLN	3.694	3.744	3.699	3.743	3.7299
EURUSD	1.151	1.164	1.163	1.155	-

## Interest rate market

29/05/2018

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

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.55	0	24-May-18	OK0720	1.637
PS0123 (5L)	2.48	6	24-May-18	PS0123	2.481
WS0428 (10L)	3.26	7	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	2.47	-5	-0.22	1
2L	1.92	1	2.62	-7	-0.15	0
3L	2.08	0	2.69	-7	-0.04	-2
4L	2.26	0	2.74	-9	0.10	-3
5L	2.43	0	2.76	-11	0.25	-3
8L	2.77	1	2.82	-11	0.66	-2
10L	2.93	1	2.86	-14	0.87	-3

## WIBOR rates

Term	%	Change (bps)
O/N	1.10	-5
T/N	1.49	28
SW	1.55	0
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	1.72	0
6x9	1.75	0
9x12	1.81	1
3x9	1.80	0
6x12	1.84	1

## Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.95	1
France	28	7	0.36	-3
Hungary	116	1	2.78	-5
Spain	92	33	1.30	-5
Italy	267	102	2.72	-17
Portugal	64	0	1.84	-7
Ireland	25	0	0.67	-3
Germany	14	2	-	-

\* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

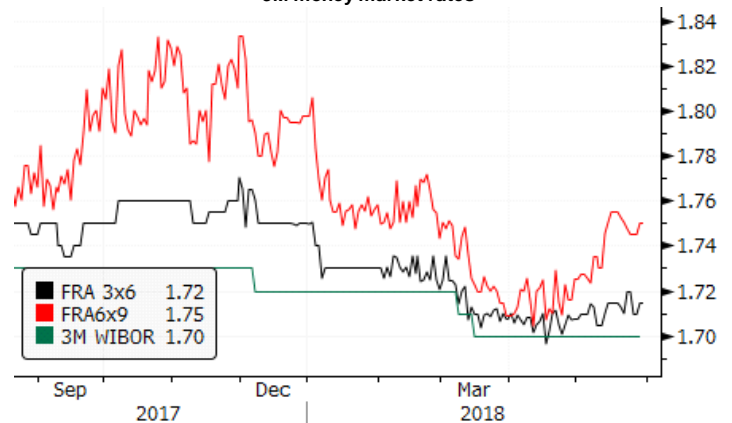
## Zloty exchange rate



## 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	-	128.0	128.7
WEDNESDAY (30 May)								
08:00	DE	Retail Sales	Apr	% m/m	0.5	-	2.3	-0.4
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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