

# EYEOPENER

1 June 2018

## Polish GDP at the peak again

- Less euro-skeptic government in Italy, zloty and domestic bonds stronger
- Polish GDP up 5.2% y/y in 1Q, PMI down in May
- CPI up to only 1.7% y/y, downside surprise in food prices
- Today US non-farm payrolls

On Wednesday the global market were a bit more optimistic thanks to higher probability of end in Italian political turmoil. On Thursday a new government was outlined, with Giuseppe Conte as the new Prime Minister, with euro-skeptical candidate for finance minister moved to another post and with pro-EU foreign affairs minister. Today the new government is to be sworn-in and the confidence votes are scheduled for Monday and Tuesday. As a result, the zloty and the domestic bonds gained on Wednesday and today the demand for Italian papers is strengthening, while investors are selling Bunds. Polish data on inflation in May surprised to the downside, while GDP to the upside. From today on, US trade tariffs on steel and aluminum from the EU, Mexico and Canada are effective. Representatives of these countries declared this move illegal and announced that counter tariffs will be introduced soon. Today the US non-farm payrolls are due for release, and most likely will gather much attention.

**Flash CPI inflation rose in May to 1.7% y/y while GDP growth accelerated in 1Q18 to 5.2% y/y.** Once again, inflation data were lower than expected and GDP headline surprised to the upside. High fuel prices and the base effect should push CPI slightly above 2% in the next two months but later in the year inflation is likely to return below this level despite the gradual rise of core inflation. As regards the breakdown of the GDP growth, it looks a bit disappointing as it appears that surge in inventories was the only source of the positive surprise adding as much as 1.9pp, while the remaining components disappointed. We maintain our view that it will be difficult to sustain 5-percent pace of growth in the quarters to come. Still, the slowdown should be very gradual and the total 2018 growth should be only slightly below 4.6% seen in 2017.

**PMI for Polish manufacturing fell to 53.3pts in May from 53.9pts in April** versus our forecast at 52.9. The report underlined a relatively weak output, which was offset by longer delivery times. New orders subindex also declined, with new export orders subindex below neutral mark of 50pts. In our view, 2Q18 will see a gradual slowdown of the economic growth in Poland.

**Frank Gill, S&P analyst for Poland**, said in an interview with PAP that cuts in cohesion funds in the 2021-27 EU financial framework will not be rating negative, but encourages a downward revision of post-2020 GDP growth and challenges the Polish government in regard to keeping Poland's attractiveness to foreign investors. The European Parliament was negative on the European Commission's budget proposal.

On Wednesday, **EURUSD** rebounded. The dollar was negatively affected by disappointing US numbers (second GDP reading for 1Q18 and ADP employment data). EURUSD climbed to 1.1620 from 1.1530. On Thursday, the pair attacked 1.17 thanks to calmer situation in Italy. Today in the morning, the Spanish PM Mariano Rajoy is likely to step down due to corruption scandal, and this can make it difficult for EURUSD to break this level. US non-farm payrolls are likely to be positive, on the other hand, and this will be USD-positive.

**EURPLN** fell on Wednesday to 4.3180 from 4.3390, temporarily reaching 4.3080. On Thursday, the pair stayed below 4.32. Today low liquidity may put negative pressure on the zloty, but PMI reading offered some support in the morning.

**The koruna and the forint** gained after an overnight sell-off. EURHUF slid to 319.70 from 320.80 and EURCZK to 25.83 from 25.94. Both exchange rates are close to these levels today. **USDRUB** also went down, partially due to a weaker dollar and partially thanks to higher oil prices (Brent prices surpassed 77\$). As a result, USDRUB fell to 62.20 from 62.90.

**On the core debt markets**, today US and German bond yields resumed the upward move after some rebound yesterday. Higher yields were supported by gaining stock markets. On Wednesday, the US curve shifted up by 6-8bps and Germany between 9-11bps, coming closer to levels seen at the start of the week. Today, we are expecting this move to continue. US labour market data should be supportive for such a development.

**The Polish yield curve** went down by 6bps in 5-10Y segment thanks to lower political risk in Europe. The shorter end went down by 2bps, mainly due to lower inflation in May. Today, the lower liquidity may keep yields elevated.

**The Finance Ministry** is planning one switching tender in June (15 June) and on regular auction (28 June) with offer at PLN0-3bn.

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## FX market

## Today's opening

EURPLN	4.3094	CZKPLN	0.1669
USDPLN	3.6838	HUFPLN*	1.3495
EURUSD	1.1698	RUBPLN	0.0593
CHFPLN	3.7328	NOKPLN	0.4509
GBPPLN	4.8963	DKKPLN	0.5791
USDCNY	6.4121	SEKPLN	0.4185

\*for 100HUF

## Last session in the FX market 31/05/2018

	min	max	open	close	fixing
EURPLN	4.302	4.322	4.306	4.316	4.3195
USDPLN	3.670	3.709	3.691	3.698	3.72
EURUSD	1.164	1.172	1.166	1.167	-

## Interest rate market 31/05/2018

## 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)	2.42	-1	24-May-18	PS0123	2.481
WS0428 (10L)	3.23	-2	24-May-18	WS0428	3.211

## IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.74	0	2.52	3	-0.23	0
2L	1.90	0	2.68	2	-0.14	0
3L	2.05	0	2.75	2	0.00	1
4L	2.22	0	2.79	2	0.16	1
5L	2.38	0	2.81	1	0.31	2
8L	2.72	0	2.86	0	0.70	0
10L	2.89	0	2.89	-1	0.91	-3

## WIBOR rates

Term	%	Change (bps)
O/N	1.50	40
T/N	1.54	5
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	1.71	0
6x9	1.74	0
9x12	1.79	0
3x9	1.80	0
6x12	1.83	0

## Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.84	-6
France	27	-1	0.31	-2
Hungary	116	1	2.76	-5
Spain	84	-1	1.03	-12
Italy	250	-4	2.22	-21
Portugal	64	0	1.47	-15
Ireland	25	0	0.57	-3
Germany	13	0	-	-

\* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

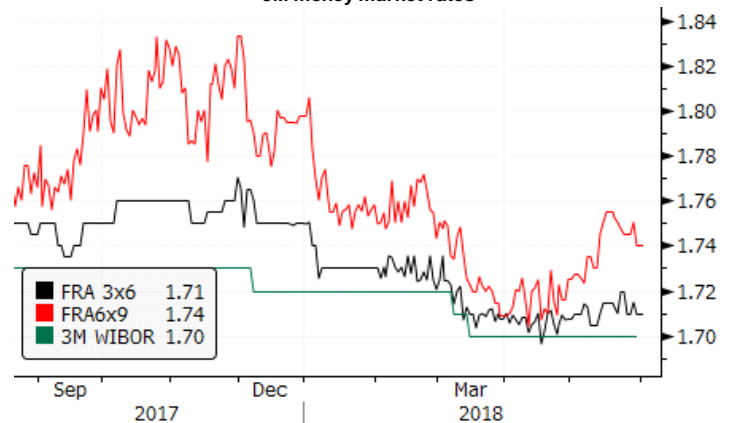
## Zloty exchange rate



## 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	-	128.0	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	1.7	1.6
10:00	PL	GDP	1Q	% y/y	5.1	5.1	5.2	4.9
11:00	EZ	ESI	May	pct.	112.0	-	112.5	112.7
14:00	DE	HICP	May	% m/m	0.3	-	0.6	-0.1
14:15	US	ADP report	May	k	190.0	-	178	204.1
14:30	US	GDP Annualized	1Q	% Q/Q	2.3	-	2.2	2.3
20:00	US	Beige Book						
THURSDAY (31 May)								
11:00	EZ	Flash HICP	May	% y/y	1.6	-	1.9	1.2
11:00	EZ	Unemployment Rate	Apr	%	8.4	-	8.5	8.5
14:30	US	Initial Jobless Claims	week	k	229	-	221	234
14:30	US	Personal Spending	Apr	% m/m	0.4	-	0.6	0.4
14:30	US	Personal Income	Apr	% m/m	0.3	-	0.3	0.3
14:30	US	PCE Deflator SA	Apr	% m/m	0.2	-	0.2	0.0
16:00	US	Pending Home Sales	Apr	% m/m	0.5	-	-1.3	0.4
FRIDAY (1 June)								
09:00	CZ	GDP SA	1Q	% y/y	4.5	-	4.4	4.5
09:00	PL	Poland Manufacturing PMI	May	pts	53.1	52.9	53.3	53.9
09:55	DE	Germany Manufacturing PMI	May	pts	56.8	-	56.9	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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