

EYEOPENER

4 June 2018

New governments in Italy and Spain improved market moods

- Further improvement of market sentiment after decrease of political uncertainty in Europe
- Zloty stable, Polish bonds gained
- US non-farm payrolls better than expected
- Today, US data on durable goods and factory orders

On Friday the European equities felt a relief thanks to the resolved issue of Italian political deadlock three months after the elections. A new government was sworn-in. While the euro-skeptic initial candidate for finance minister, who had been rejected by the president, was moved to a less exposed post, the cabinet is still made by two populist parties which could threaten fiscal stability of the country. The ousting of the Spanish PM Mariano Rajoy and the appointment of main opposition party leader Pedro Sanchez as his successor (to present his cabinet this week) was received positively by the markets, further decreasing the political uncertainty. For European bonds the political developments encouraged further reallocation from Bunds to euro zone periphery papers. It was also a good climate for Polish bonds. The zloty was stable through most of the day despite limited presence of domestic market participants and strong US labour market data, which gently lowered EURUSD. Only after the session close the domestic currency strengthened. The strong US labour market data make a June rate hike by Fed a done deal.

In the **May's edition of the MPC minutes**, the Council re-introduced statements saying that some MPC members would like to consider rate hikes if the wage growth strengthens and inflation expectations rise. Simultaneously, during the discussion there was also opinion about mulling potential rate cuts if the sentiment and the economy collapses. Such statements were not present in the April's minutes, but appeared in the previous months. In our opinion it is hard to judge if the MPC changed their stance to less dovish (as suggested recently by Kamil Zubelewicz). The oil price growth registered in the last months revived the discussion, however the MPC members' opinions were divided regarding the answer to the question if it will have a permanent impact on inflation and inflation expectations.

The European Commission presented its proposal for Common Agriculture Policy Budget. The whole budget is to amount to €365bn, i.e. by 12% less in constant prices than in the current financial framework. €265.2bn will be allocated for direct payments, with Poland claiming €21.2bn, 1% less than in

the current framework in nominal terms. Rural Development Programme for Poland will go down by 25% (other countries are to see reductions by 23-27%). The Commission also plans changes in disbursement rules for beneficiaries, like payment cap for one farm, degressive rate per hectare for bigger farms and lower possibility to juggle means between programmes.

In the first part of the Friday's session, the euro was gaining vs the dollar owing to political news from Italy. **EURUSD rose** to 1.171 from 1.168 but did not manage to stay above 1.17 for longer due to the solid US labour market data that reversed the trend and pulled the exchange rate back to the opening level.

On Friday **EURPLN was fairly stable** and held near 4.312 after the morning drop seen amid low liquidity. Only after closing of the Polish session the zloty gained more noticeably with EURPLN decreasing to c4.30. USDPLN was somewhat more volatile driven by changes of EURUSD and stayed in a 3.68-3.71 range. We think there is still room for stronger zloty this week.

The **koruna and forint remained pretty stable** with both currencies holding close to levels seen on Thursday: EURHUF a touch below 320 and EURCZK at 25.8. The ruble gained slightly thanks to rising oil prices – USDRUB fell to 62 from 62.4.

German and US yields were rising on Friday due to improving moods after Italian parties agreed on a new government. The better-than-expected data on non-farm payrolls weighed on the US papers, but this was a short-lived move. In daily terms, 10Y Germany yields rose by 2bps, US by 4bps. Italian yields moved down by more than 10bps and Spanish by almost 10 bps – the debt market was not concerned much about PM Rajoy stepping down. This week, we are expecting rising core yields amid lower risk aversion.

Despite lower liquidity on the Polish market, **domestic bonds gained on Friday.** Polish papers were supported by lower political risk in Europe. The Polish curve moved down by 1bp in 2Y segment, by 3bps in 5Y and by 5bps in 10Y. IRS rates remained stable, so asset swap spreads narrowed.

This week, we are to see the MPC meeting and a possible Fitch decision on Polish rating. We cannot rule out that the Fitch will follow the S&P and raise the rating outlook to positive due to better than expected macroeconomic situation and very good fiscal performance.

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FX market

Today's opening

EURPLN	4.3002	CZKPLN	0.1668
USDPLN	3.6817	HUFPLN*	1.3442
EURUSD	1.1680	RUBPLN	0.0592
CHFPLN	3.7260	NOKPLN	0.4513
GBPPLN	4.9193	DKKPLN	0.5777
USDCNY	6.4209	SEKPLN	0.4181

*for 100HUF

Last session in the FX market

01/06/2018

	min	max	open	close	fixing
EURPLN	4.300	4.323	4.316	4.304	4.3146
USDPLN	3.678	3.715	3.698	3.692	3.6934
EURUSD	1.162	1.172	1.167	1.166	-

Interest rate market

01/06/2018

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	-2	24-May-18	PS0123	2.481
WS0428 (10L)	3.21	-4	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	2.55	3	-0.24	-1
2L	1.90	0	2.73	5	-0.14	0
3L	2.06	1	2.81	5	0.01	1
4L	2.23	1	2.85	6	0.17	2
5L	2.39	1	2.87	6	0.33	1
8L	2.73	1	2.91	6	0.71	1
10L	2.90	1	2.95	6	0.93	2

WIBOR rates

Term	%	Change (bps)
O/N	1.57	7
T/N	1.57	3
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	0
3x6	1.71	0
6x9	1.74	-1
9x12	1.78	0
3x9	1.79	-1
6x12	1.81	-1

Measures of fiscal risk

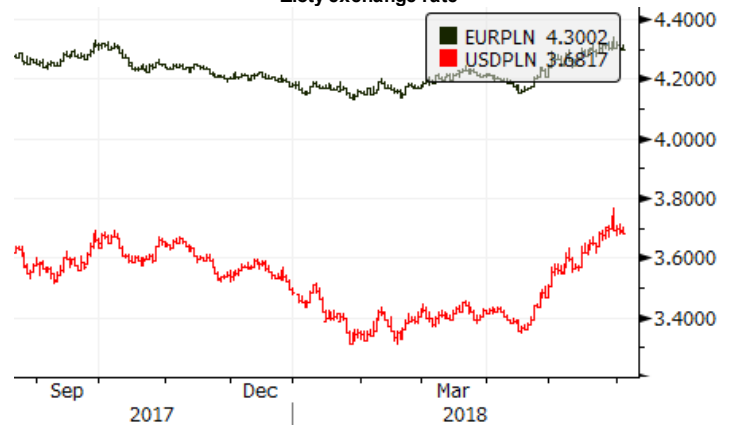
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.81	-5
France	26	-1	0.33	0
Hungary	116	1	2.71	-2
Spain	74	-10	0.98	-6
Italy	219	-31	2.21	-7
Portugal	64	0	1.41	-6
Ireland	25	0	0.58	1
Germany	13	-1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

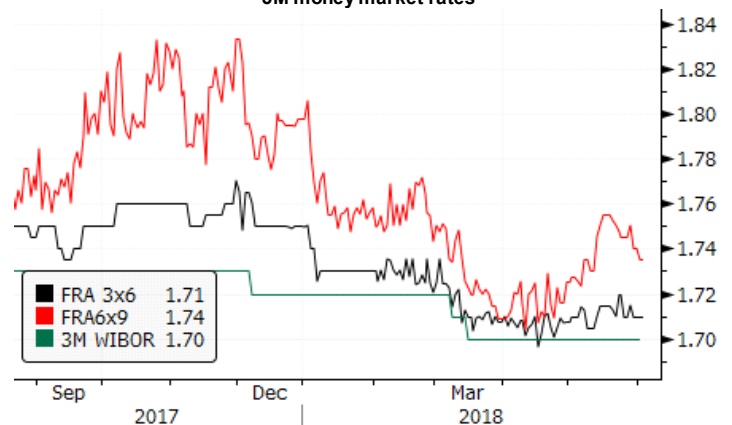
Zloty exchange rate



T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar					FORECAST		ACTUAL	LAST
TIME		INDICATOR	PERIOD		MARKET	BZWBK		VALUE
CET								
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	53.2	52.9	53.3	53.9
09:55	DE	Germany Manufacturing PMI	May	pts	56.8	-	56.9	58.1
10:00	EZ	Eurozone Manufacturing PMI	May	pts	55.5	-	55.5	56.2
14:00	PL	MPC minutes	May/18		-	-		
14:30	US	Change in Nonfarm Payrolls	May	k	190.0	-	223	159
14:30	US	Unemployment Rate	May	%	3.9	-	3.8	3.9
16:00	US	ISM manufacturing	May	pts	58.2	-	58.7	57.3
MONDAY (4 June)								
16:00	US	Durable Goods Orders	Apr	% m/m	-	-		-1.7
16:00	US	Factory Orders	Apr	% m/m	-0.5	-		1.6
TUESDAY (5 June)								
03:45	CH	Caixin China PMI Services	May	pts	52.9	-		52.9
09:00	HU	GDP	1Q	% y/y	4.4	-		4.4
09:55	DE	Markit Germany Services PMI	May	pts	52.1	-		53.0
10:00	EZ	Eurozone Services PMI	May	pts	53.9	-		54.7
11:00	EZ	Retail Sales	Apr	% m/m	0.6	-		0.1
16:00	US	ISM services	May	pts	57.4	-		56.8
WEDNESDAY (6 June)								
	PL	MPC decision		%	1.5	1.5		1.5
09:00	CZ	Industrial Production	Apr	% y/y	9.3	-		-1.1
09:00	HU	Industrial Production SA	Apr	% y/y	-	-		1.9
THURSDAY (7 June)								
08:00	DE	Factory Orders	Apr	% m/m	0.2	-		-0.9
11:00	EZ	GDP SA	1Q	% y/y	2.5	-		2.5
14:30	US	Initial Jobless Claims		k	-	-		221.0
FRIDAY (8 June)								
	PL	Fitch Rating Review						
08:00	DE	Exports SA	Apr	% m/m	-0.4	-		1.7
08:00	DE	Industrial Production SA	Apr	% m/m	0.4	-		1.0
09:00	HU	CPI	May	% y/y	2.8	-		2.3

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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