

EYEOPENER

5 June 2018

Unemployment at new all-time low

- Markets rebounded after easing of geopolitical worries
- Zloty stronger, Polish yield curve slightly lower
- Eurostat revised lower the unemployment data
- Today the services PMIs in Europe

On Monday global markets rebounded after the last week's geopolitical swings. As a result domestic bonds decreased a bit while the zloty and other CEE currencies strengthened significantly. Investors ignored lower than expected PPI from the euro zone (2% y/y vs 2.4% forecasts) and weak European Sentix index describing investors' sentiment.

The seasonally-adjusted LFS unemployment rate fell in April to all-time low at 3.8%. At the same time, Eurostat has markedly revised values for the previous months. March reading at 4.4% went down to 3.9%, a few previous months were also corrected, yet less significantly. Over the last 12 months, the unemployment rate fell in Poland by 1.4pp, vs. 0.7pp drop in the euro zone. Non-seasonally-adjusted number of unemployed people was at 643k in April, down by 242k y/y. The number of economically active people, derived from LFS data, fell by 432k in the corresponding period.

On Monday **EURUSD** has been rising most of the day, recovering from the Friday decline, when investors were buying the dollar in fear that US tariffs on steel and aluminum against Europe, Mexico and Canada could have a negative effect on global trade. In the afternoon the exchange rate corrected most of the rise, returning in the evening to the opening levels. As a result, EURUSD having moved from 1.1670 to 1.1740 in the middle of the yesterday's session, today starts near 1.1690. Today, the room for further appreciation of the euro seems limited by expectations that European services PMI will be soft and by the scheduled exposé of the new Italian prime minister and the confidence vote for his cabinet in the afternoon.

On Monday **EURPLN** was falling as the political situation in Europe stabilized leading to dollar depreciation. As a result, the exchange rate fell from 4.305 to 4.285 and after closing of the Polish session the down move was extended to 4.27. In the case of USDPLN we have also seen a noticeable drop. We think EURPLN could stabilize today as the yesterday's decline was pretty big, EURUSD corrected yesterday's rise and today the sentiment on the Asian and European stock exchanges is somewhat weaker than on Monday.

The **koruna and forint** also gained amid improvement of global market sentiment. EURHUF eased to 318.5 from 320.2 and EURCZK fell to 25.7 from 25.82. Comment of the Czech central banker Mojmir Hampl saying that more than one hike may be needed later this year did not provide additional fuel for the down move. The Russian ruble continued to benefit from a geopolitical relief with USDRUB easing to 62.1 from 62.2 despite falling oil prices (to \$USD75.9/bbl from \$USD76.9/bbl).

Yields of German Bunds and US Treasuries have oscillated on Monday in the narrow range. Investors were having a rest after last week's elevated volatility. The light European economic calendar supported low volatility (the exceptions were Eurozone PPI and Sentix Index releases – both surprised on the negative side). As a result, the yields of US10Y bonds rose by 1 bp to 2.92%, while the similar scale upshift put the yield of 10Y Bund to 0.41%. Today the Eurozone PMI-services and retail sales data will be released – we expect readings below consensus, which should help European bonds.

Yesterday in the morning, **Polish bonds** saw a downward move of yield curve (by 2-4bps) thanks to a rebound after geopolitics-related events seen last week. However, during the day Polish bond yields climbed following core markets, so the debt market ended the session 1bp below the Friday close in 10Y tenor and 3bps in case of 5Y tenor. IRS curve was rather stable, so asset swap spreads narrowed. Today, we are expecting bond prices to go up in reaction to weaker services PMI in the euro zone.

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FX market

Today's opening

| | | | |
|--------|--------|---------|--------|
| EURPLN | 4.2721 | CZKPLN | 0.1663 |
| USDPLN | 3.6506 | HUFPLN* | 1.3409 |
| EURUSD | 1.1702 | RUBPLN | 0.0590 |
| CHFPLN | 3.6969 | NOKPLN | 0.4505 |
| GBPPLN | 4.8640 | DKKPLN | 0.5740 |
| USDCNY | 6.4059 | SEKPLN | 0.4175 |

*for 100HUF

Last session in the FX market 04/06/2018

| | min | max | open | close | fixing |
|--------|-------|-------|-------|-------|--------|
| EURPLN | 4.283 | 4.316 | 4.301 | 4.284 | 4.2931 |
| USDPLN | 3.649 | 3.702 | 3.690 | 3.666 | 3.6665 |
| EURUSD | 1.165 | 1.175 | 1.166 | 1.169 | - |

Interest rate market 04/06/2018

T-bonds on the interbank market**

| Benchmark (term) | % | Change (bps) | Last auction | Paper offered | Average yield |
|------------------|------|--------------|--------------|---------------|---------------|
| PS0420 (2L) | 1.56 | 0 | 24-May-18 | OK0720 | 1.637 |
| PS0123 (5L) | 2.41 | -1 | 24-May-18 | PS0123 | 2.481 |
| WS0428 (10L) | 3.20 | -1 | 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 | 2.57 | 2 | -0.25 | -1 |
| 2L | 1.90 | 0 | 2.76 | 4 | -0.14 | 0 |
| 3L | 2.06 | 0 | 2.85 | 4 | 0.01 | 0 |
| 4L | 2.23 | 0 | 2.89 | 4 | 0.18 | 1 |
| 5L | 2.39 | 0 | 2.91 | 4 | 0.33 | 0 |
| 8L | 2.73 | 0 | 2.95 | 4 | 0.75 | 3 |
| 10L | 2.90 | 0 | 2.98 | 4 | 0.95 | 2 |

WIBOR rates

| Term | % | Change (bps) |
|------|------|--------------|
| O/N | 1.58 | 1 |
| T/N | 1.58 | 1 |
| SW | 1.56 | 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 | 1.71 | 0 |
| 3x6 | 1.71 | 0 |
| 6x9 | 1.74 | 0 |
| 9x12 | 1.78 | 0 |
| 3x9 | 1.79 | 0 |
| 6x12 | 1.81 | 0 |

Measures of fiscal risk

| Country | CDS 5Y USD | | 10Y spread* | |
|----------|------------|--------------|-------------|--------------|
| | Level | Change (bps) | Level | Change (bps) |
| Poland | | | 2.80 | 1 |
| France | 26 | -1 | 0.31 | 1 |
| Hungary | 116 | 1 | 2.66 | 2 |
| Spain | 74 | -10 | 0.93 | 3 |
| Italy | 219 | -31 | 2.16 | 6 |
| Portugal | 64 | 0 | 1.36 | 4 |
| Ireland | 25 | 0 | 0.57 | 2 |
| 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



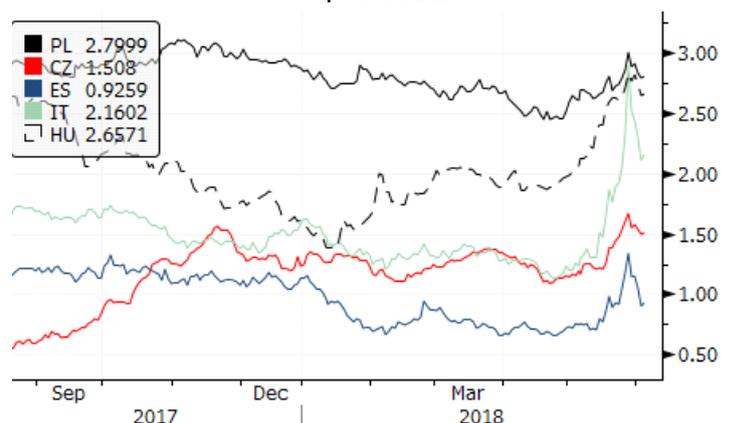
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

| TIME CET | INDICATOR | PERIOD | FORECAST | | ACTUAL | LAST VALUE | |
|---------------------------|------------------------------------|---------------|------------|-------------|-------------|---------------|-------------|
| | | | MARKET | BZWBK | | | |
| 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 | - | - | -1.6 | -1.7 |
| 16:00 | US Factory Orders | Apr | % m/m | -0.5 | - | -0.8 | 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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