

EYEOPENER

6 June 2018

MPC unlikely to change the tone

- **Services PMI suggested further economic slowdown in the euro zone**
- **Zloty and bonds weaker after news from Italy**
- **Euro temporarily weaker but regained strength after suggestions about ECB's discussion on QE termination**
- **MPC decision today**

On Tuesday the services PMIs for the euro zone were released, showing (more or less in line with flash releases) further decline of pace of economic activity and a growing inflationary pressure. The exposé of Italian PM Giuseppe Conte included proposals from the election campaign like universal basic income, tax cuts, curbing immigration and a return to lower retirement age. The speech was received negatively by the markets and led to a decrease of US and German bond yields and a temporary weakening of the euro. The zloty and domestic bonds were also under the negative influence of this information.

Yesterday, **EURUSD** fell to 1.165 from 1.17 under impact of the new Italian PM's inaugural speech and better-than-expected data from the US. However, scale and pace of the move was not significant. A stronger move in the opposite direction took place late in the evening in reaction to comments of anonymous ECB representatives, stating that QE tapering will be discussed at the upcoming central bank meeting (next week). According to these sources, the official statement on this matter will be released in June or in July. EURUSD reacted to the news with quick march to 1.175 from 1.165. Today no important data are due for release, so EURUSD may stay under impact of information on ECB's QE termination.

On Tuesday, **EURPLN** corrected the Monday's downward move and was slightly below 4.29 at the end of the day versus 4.27 at the session start. The zloty did not take advantage of the positive moods on the European stock exchange, and profit taking could have been a result of stronger dollar. Today, the MPC is to make its decision on interest rates, but we are not expecting the outcome to affect the Polish currency. Global moods and USD developments will remain crucial – the overnight greenback weakening versus the single currency is supportive for the zloty this morning.

As regards **other CEE currencies**, the koruna gained for the fifth session in a row, underpinned by Czech central bank head

Jiří Rusnok who said that another hike may take place earlier than thought before (at the end of the year). The ruble was under pressure of lower oil prices and the forint remained stable.

On Tuesday fears connected with the political situation in Italy has returned to the **core bond markets**. The yields of Italian 10Y govies jumped by c20 bp in reaction to Italian PM Giuseppe Conte's inaugural speech. The yields of Spanish bonds rose also, however in the smaller scale (by 5 bp). Yields of German and US bonds were moving in the opposite direction. The US and Bund yield curves slid by 2-3 bp, stronger in the belly and on the short end of the curves. At the Tuesday's morning, the government bonds were supported by lower PMI-services readings in the euro zone. Later in the day, the US and German yields decreases were supported by afternoon falls on the European stock markets and US equity market opening in red. The gradually decreasing oil prices also helped the bonds. Investors ignored better than expected US ISM-services release. Yesterday the European bond market did not have time to react to information that the ECB may announce the ending of the bond-buying program at the next press conference. However this morning Bund reacted negatively to this information, with yields rising by 3bp. In the absence of relevant data in the economic calendar, the ECB topic will probably be in focus today, so yields may remain under pressure.

In case of the **Polish bonds**, we saw the 5-10Y bond curve moving 2bp up amid news flow from Italy. Today the MPC will hold a press conference after the meeting which might have a moderately positive impact on Polish debt as the dovish rhetoric is likely to be maintained. Impact of situation in Italy on the Polish market should start to diminish gradually but the recent unofficial news from the ECB may generate an upside pressure on euro zone yields which in turn may weigh on domestic bonds.

Today **the MPC will announce decision on interest rates**. Monetary policy parameters are highly likely to stay unchanged. Despite Kamil Zubelewicz's suggestion that markets have overlooked a change of rhetoric to somewhat more hawkish at the last meeting, minutes from the May meeting did not confirm that. We think NBP governor Adam Glapiński will maintain a very dovish rhetoric at the press conference after the MPC meeting.

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FX market

Today's opening

EURPLN	4.2761	CZKPLN	0.1668
USDPLN	3.6470	HUFPLN*	1.3417
EURUSD	1.1725	RUBPLN	0.0588
CHFPLN	3.7019	NOKPLN	0.4501
GBPPLN	4.8896	DKKPLN	0.5746
USDCNY	6.3898	SEKPLN	0.4174

*for 100HUF

Last session in the FX market

05/06/2018

	min	max	open	close	fixing
EURPLN	4.267	4.291	4.284	4.280	4.2804
USDPLN	3.645	3.678	3.666	3.653	3.6569
EURUSD	1.165	1.173	1.169	1.172	-

Interest rate market

05/06/2018

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)	2.40	0	24-May-18	PS0123	2.481
WS0428 (10L)	3.22	2	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	2.56	-1	-0.25	0
2L	1.90	0	2.74	-2	-0.15	0
3L	2.06	0	2.82	-2	0.00	-1
4L	2.24	1	2.86	-3	0.16	-1
5L	2.40	1	2.88	-3	0.32	-1
8L	2.74	1	2.93	-3	0.73	-2
10L	2.91	1	2.96	-2	0.93	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.59	1
T/N	1.59	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	1.70	-1
3x6	1.71	0
6x9	1.74	0
9x12	1.79	0
3x9	1.79	0
6x12	1.82	1

Measures of fiscal risk

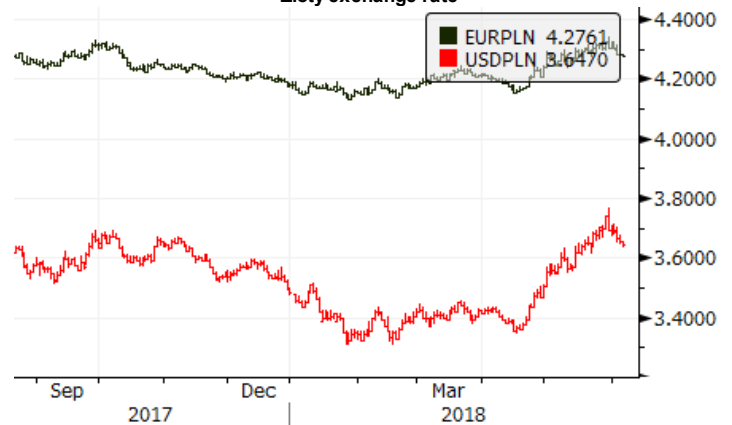
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.82	-1
France	25	-1	0.33	0
Hungary	116	1	2.59	-4
Spain	66	-8	1.00	-2
Italy	206	-15	2.45	4
Portugal	64	0	1.46	0
Ireland	25	0	0.57	0
Germany	12	-1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

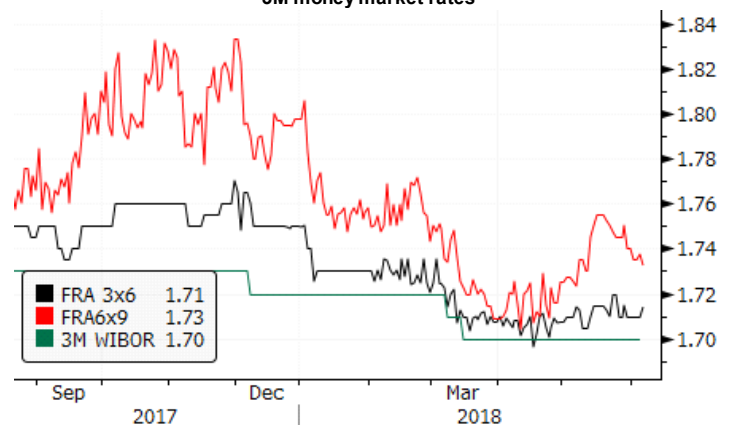
Zloty exchange rate



T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar			TIME	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
			CET			MARKET	BZWBK		VALUE
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	52.9
09:00	HU	GDP		1Q	% y/y	4.4	-	4.4	4.4
09:55	DE	Markit Germany Services PMI		May	pts	52.1	-	52.1	53.0
10:00	EZ	Eurozone Services PMI		May	pts	53.9	-	53.8	54.7
11:00	EZ	Retail Sales		Apr	% m/m	0.6	-	0.1	0.4
16:00	US	ISM services		May	pts	57.4	-	58.6	56.8
WEDNESDAY (6 June)									
	PL	MPC decision			%	1.50	1.50		1.50
09:00	CZ	Industrial Production		Apr	% y/y	9.0	-		-1.1
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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