

EYEOPENER

11 June 2018

Fitch rating and its outlook for Poland unchanged

- **G7 meeting outcome negative for global trade and market sentiment**
- **Fitch kept Poland at A- with stable outlook**
- **Zloty and Polish debt weakened by geopolitics on Friday**
- **This week US-China/N.Korea talks, Fed and ECB decisions**

On Friday market sentiment was determined by news from the G7 summit. Donald Trump left the meeting earlier. Despite his earlier pledge the USA will sign the final G7 communique, he changed his mind on the plane and instructed his officials not to sign the statement. The events imply a risk of trade war escalation (Trump suggested he is mulling new tariffs on motor vehicles, EU informed about possible retaliatory decisions). At the start of the week the focus will be still on Donald Trump due to his meeting with North Korea leader scheduled for tomorrow and a continuation of trade talks with China. Later on the markets are likely to focus on the FOMC and ECB decisions.

Fitch Ratings confirmed Poland's rating at A- with a stable outlook. The agency raised GDP forecasts for 2018 from 3.9% to 4.4% and for 2019 from 3.2% to 3.4%. Predictions for public debt were decreased clearly – to 49.3% of GDP in 2019 from 52% expected in December. The statement said that the election cycle could put a pressure on the budget spending and the agency had doubts regarding Poland's determination to keep fiscal deficit below 3% of GDP. Fitch also underscored once again that factors working against the rating upgrade are the level of external debt (higher vs peers with the same grade) and relatively low GDP per capita.

EURUSD was under the down pressure of signals that the US may not sign the final protocol from the G7 meeting (which was actually the case) instead of staying stable waiting for the Fed rate hike and ECB press conference. As a result, the exchange rate eased to 1.176 from 1.184 hitting 1.173 intraday. We expect EURUSD to stay low amid still uncertain geopolitical situation (as Trump meets Kim Jong Un) and US-China trade negotiations.

EURPLN was rising on Thursday and on Friday from 4.2680 to 4.2930, to end the week at 4.2770, influenced by geopolitical factors and dollar appreciation. At the same time USDPLN soared from 3.6170 to 3.6350. Today, despite persisting geopolitical uncertainty, it seems possible that the zloty may trim some Friday's losses. The sentiment during the Asian session and weakening Japanese yen suggested that the market have not entered risk-off mood after the events at the G7 summit.

Other CEE currencies also depreciated on Friday, mainly due to global factors. EURHUF moved from 317.90 to 319.40, EURCZK from 25.62 to 25.74 and USDRUB from 61.90 to 62.30 (temporarily hitting 62.90).

The closing of the last week on the **core bond markets** was conducive to lowering yields. The biggest gain between Thursday and Friday had German bonds, where yields moved down by c5bp across the curve. The US curve slid by 3-4bp, with the biggest gain on Friday morning, where speculations about possibility that ECB will send hawkish signals were overshadowed by news about problems with reaching the G7 summit's agreement (between USA and rest of the group) and weak Germany and French economic data (lower than expected industrial production dynamic). Today we expect the yields to remain elevated due to trade war fears, after the US decision not to sign the G7 agreement.

Polish bond yields rose at the end of the week amid elevated volatility on the core markets. On Thursday domestic debt was under pressure of information of an accelerated monetary policy normalization in the euro zone (this Thursday ECB holds a press conference after the meeting). At the very end of the past week, when the global markets became more sensitive to the looming G7 meeting, Polish bonds were under pressure of concerns about economic growth in Europe (underperforming Bunds and Treasuries). As a result, the Polish 5Y yield rose 5bp and 10Y by 10bp, short end stayed flat. Fitch decision on Friday evening to leave Polish rating and its outlook unchanged shall not influence domestic debt today. No important data are on the agenda today so the market may focus on geopolitics and to a smaller extent on expectations for central bank decisions. This should keep upside pressure on Polish bond yields.

In the first part of **this week**, market attention may focus on the geopolitical issues while the next days should see attention shifting towards the ECB and Fed meetings. The market is fully pricing the June 25bp Fed rate hike and the key issue for investors will be the updated "dot chart". The ECB is expected to give some guidance on the process of QE program termination, which could further support the euro vs the dollar. We think that any release of more details on the end of the asset purchase program will be supplemented by comments confirming that rate hikes are not a scenario for the nearest future, which could help bonds to recover.

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FX market

Today's opening

EURPLN	4.2713	CZKPLN	0.1664
USDPLN	3.6143	HUFPLN*	1.3368
EURUSD	1.1818	RUBPLN	0.0581
CHFPLN	3.6687	NOKPLN	0.4494
GBPPLN	4.8547	DKKPLN	0.5735
USDCNY	6.4008	SEKPLN	0.4164

*for 100HUF

Last session in the FX market 08/06/2018

	min	max	open	close	fixing
EURPLN	4.273	4.295	4.274	4.278	4.2912
USDPLN	3.616	3.658	3.620	3.635	3.6479
EURUSD	1.173	1.182	1.181	1.177	-

Interest rate market 08/06/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.56	-1	24-May-18	OK0720	1.637
PS0123 (5L)	2.47	-2	24-May-18	PS0123	2.481
WS0428 (10L)	3.30	1	24-May-18	WS0428	3.211

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.76	0	2.57	0	-0.23	0
2L	1.95	0	2.77	-1	-0.12	-1
3L	2.15	2	2.85	-1	0.04	-1
4L	2.36	2	2.89	-1	0.21	-2
5L	2.55	3	2.91	-2	0.38	-2
8L	2.91	3	2.96	-1	0.78	-2
10L	3.08	4	2.99	-1	1.00	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.60	0
T/N	1.60	0
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	0
3x6	1.72	0
6x9	1.75	0
9x12	1.80	1
3x9	1.80	0
6x12	1.84	0

Measures of fiscal risk

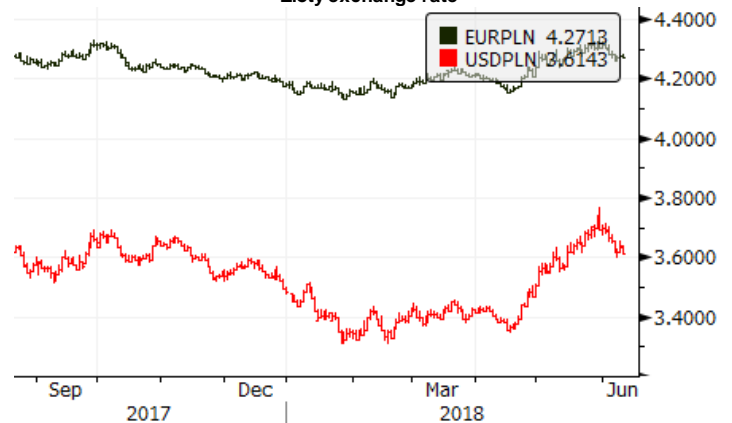
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.82	-2
France	27	1	0.40	3
Hungary	116	1	2.68	-3
Spain	71	4	0.91	-10
Italy	255	17	2.37	-30
Portugal	64	0	1.48	-11
Ireland	25	0	0.56	-4
Germany	12	-1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

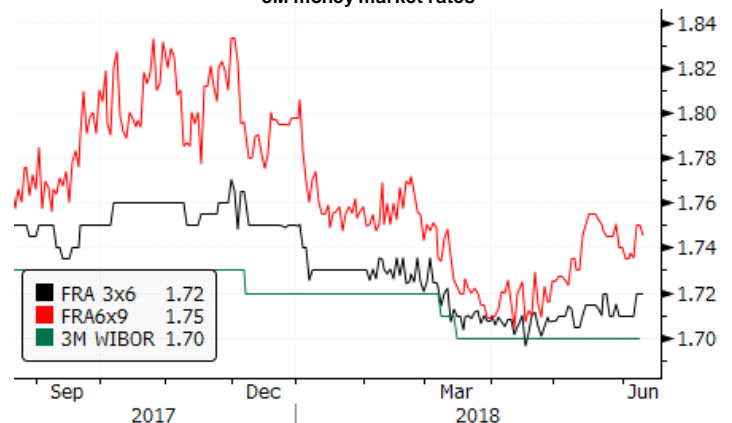
Zloty exchange rate



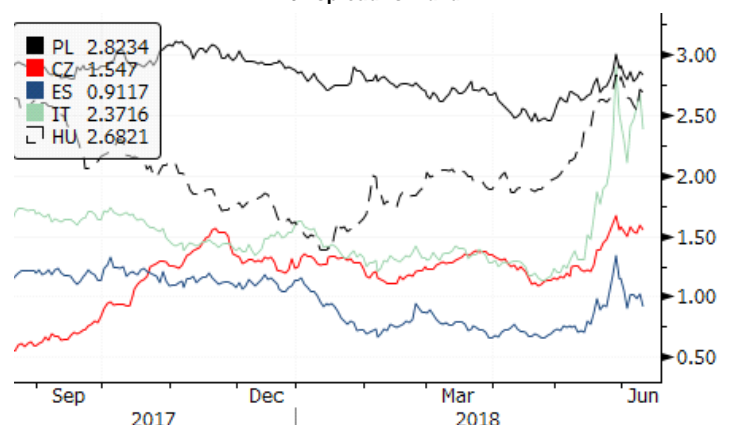
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar								
TIME		INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST
CET	MARKET				BZWBK	VALUE		
FRIDAY (8 June)								
	PL	Fitch Rating Review						
8:00	DE	Exports SA	Apr	% m/m	-0.3	-		1.8
8:00	DE	Industrial Production SA	Apr	% m/m	0.3	-		1.0
9:00	HU	CPI	May	% y/y	2.6	-		2.3
MONDAY (11 June)								
9:00	CZ	CPI	May	% y/y	-	-		1.9
TUESDAY (12 June)								
11:00	DE	ZEW Survey Current Situation	Jun	pts	-	-		87.4
14:30	US	CPI	May	% m/m	0.2	-		0.2
WEDNESDAY (13 June)								
11:00	EZ	Industrial Production SA	Apr	% m/m	-	-		0.5
14:00	PL	Current Account Balance	Apr	€mn	-	-237		-982
14:00	PL	Trade Balance	Apr	€mn	-	-20		-317
14:00	PL	Exports	Apr	€mn	-	17 288		18 117
14:00	PL	Imports	Apr	€mn	-	17 308		18 434
20:00	US	FOMC decision		%	1.75-2.0	-		1.50-1.75
THURSDAY (14 June)								
8:00	DE	HICP	May	% m/m	-	-		0.6
10:00	PL	CPI	May	% y/y	-	1.7		1.7
13:45	EZ	ECB Main Refinancing Rate		%	-	-		0.0
14:30	US	Initial Jobless Claims	week	k	220	-		221.0
14:30	US	Retail Sales Advance	May	% m/m	0.4	-		0.2
FRIDAY (15 June)								
11:00	EZ	HICP	May	% y/y	-	-		1.9
14:00	PL	CPI Core	May	% y/y	-	0.6		0.6
15:15	US	Industrial Production	May	% m/m	0.3	-		0.72
16:00	US	Michigan index	Jun	pts	98.2	-		98.0

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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