

# EYEOPENER

18 June 2018

## Core CPI lowest for 15 months

- **Recovery after ECB decision despite trade wars and crisis in German coalition**
- **EURUSD up after sharp drop, EURPLN holds in a narrow range, Polish bonds under pressure**
- **Poland core CPI down to 0.5% y/y**
- **Today, Poland labour market data**

On Friday the market was focused on news about USA-China trade conflict, as the US decided to place trade tariffs on imports from China worth \$50bn. Moreover, information about crisis in the German GroKo piqued markets' interest. Stock futures are going down this morning and this shows that these issues are in the fore today. Friday data from Europe confirmed HICP rising to 1.9% y/y in May, showed a downward surprise in US industrial output and a positive in Michigan consumer index. FX market volatility decreased after abrupt changes recorded on Thursday in reaction to ECB meeting. Core bond yields went down a bit, while Polish climbed.

**Poland HICP inflation** rebounded in May from 0.9% y/y to 1.2%. A steep increase in fuel prices acted more strongly on the headline measure than the deceleration of food price growth (especially fruits). The HICP-based measure of core inflation went from -0.2% y/y to 0% in May. Interestingly, the internationally tradable portion of core HICP came in at -0.7% y/y, representing the third-strongest reading since the start of 2014. Non-tradables (mostly services) also saw prices growth, from 0.4% y/y to 0.5% despite further declines in insurance and financial services prices, which were down 14% y/y.

**Poland core inflation** ex food and energy prices fell in May from 0.6% y/y to 0.5%, representing the fourth consecutive month of deceleration and the lowest reading since February 2017. Of the remaining three measures of price trends published by NBP, two rose while one decelerated in y/y terms. In the coming months, we expect core CPI to rise above 1% y/y in autumn and toward c1.3% by the end of the year.

**EURUSD** stabilized on Friday close to 1.16 after the rapid Thursday's decline. The euro did not suffer from the conflict between the USA and China and from the news about tensions inside the German ruling coalition. Today we expect the exchange rate to rise somewhat rebounding after the Thursday drop and with no important publications scheduled in major economies.

**On Friday, EURPLN** was hovering close to 4.28 and stayed in consolidation channeled observed since the start of the month.

Polish monthly labour market data are due for release today, but these numbers are likely to be PLN-neutral. At the start of the day, moods are slightly negative, so chances for a more pronounced zloty strengthening are slight today.

**In case of the other CEE currencies**, EURHUF climbed to 323.8 from 322.8 under impact of central bank's member declaration to maintain accommodative monetary policy. USDRUB rose to 63.1 from 62.6, reacting negatively to falling oil prices. Investors ignored suggestion of Russian central bank head who stated that further rate cuts will be postponed given higher indirect taxes and resulting price growth.

**The yields of German and US Treasuries** decreased slightly while investors tried to discount information about the trade war between the US and China (potentially negative for growth) and looming risk of government crisis in Germany.

**The domestic curve** has shifted up by 3bp in the 5-10Y segment, negatively reacting for the geopolitics information. Today we anticipate some recovery after the domestic labour market data release (which probably will surprise on the positive side), which potentially will improve the perceptions of credit risk.

**Today** at 10:00CET Statistical Poland is due to release May wages and employment data. In our opinion labour market data will continue to show strong prints, with employment accelerating to 3.8% y/y and wages rising by 7.6% y/y.

**This week** there are some important data from Poland on the agenda, including industrial output, retail sales and labour market data. We expect these numbers to confirm that the domestic demand remains strong, but external demand may be somewhat weakening. Still, these readings are unlikely to move the Polish market, given MPC's strong dedication to dovish bias. Global calendar is rather light: we will get to see flash PMIs from Europe and they are likely to suggest a further slowdown. On Monday, central bankers' convention in Sintra starts and some interesting comments on monetary policy are likely to pop up. Polish national football team is to play with Senegal, we are expecting a tough game, but a slim win. In our view, the zloty will remain stable for the better part of the next week given lack of important global events. Bond markets are likely to strengthen on the back of last week's central bank decisions.

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## FX market

## Today's opening

EURPLN	4.2830	CZKPLN	0.1665
USDPLN	3.6978	HUFPLN*	1.3277
EURUSD	1.1583	RUBPLN	0.0585
CHFPLN	3.7059	NOKPLN	0.4531
GBPPLN	4.9025	DKKPLN	0.5749
USDCNY	6.4387	SEKPLN	0.4194

\*for 100HUF

## Last session in the FX market

15/06/2018

	min	max	open	close	fixing
EURPLN	4.275	4.291	4.279	4.286	4.2802
USDPLN	3.676	3.716	3.678	3.688	3.6922
EURUSD	1.154	1.164	1.163	1.161	-

## Interest rate market

15/06/2018

## T-bonds on the interbank market\*\*

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0720 (2L)	1.63	0	24-May-18	OK0720	1.637
DS1023 (5L)	2.58	2	24-May-18	PS0123	2.481
WS0428 (10L)	3.24	3	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	2.61	-1	-0.26	0
2L	1.94	0	2.82	-1	-0.17	-1
3L	2.14	1	2.90	-2	-0.02	-2
4L	2.33	1	2.93	-2	0.14	-3
5L	2.50	1	2.94	-1	0.30	-3
8L	2.85	1	2.96	-2	0.71	-3
10L	3.02	1	2.98	-2	0.92	-3

## 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	1.71	0
3x6	1.74	0
6x9	1.76	1
9x12	1.81	2
3x9	1.82	0
6x12	1.85	0

## Measures of fiscal risk

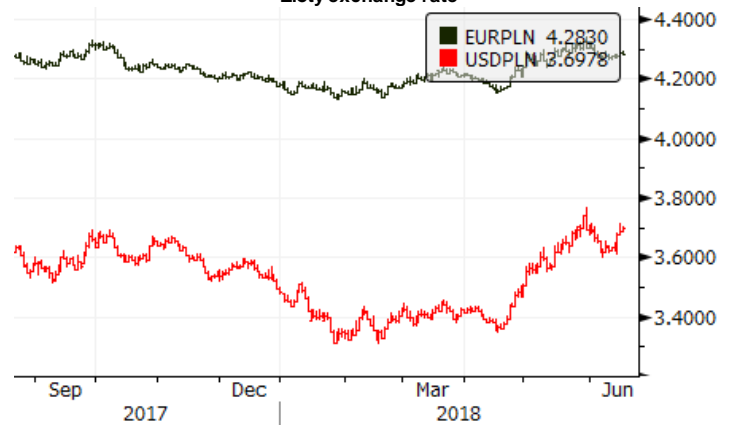
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.83	3
France	27	-1	0.33	0
Hungary	116	1	3.04	-2
Spain	67	0	0.89	-1
Italy	229	-3	2.17	-3
Portugal	64	0	1.39	-1
Ireland	25	0	0.49	0
Germany	12	-1	-	-

\* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

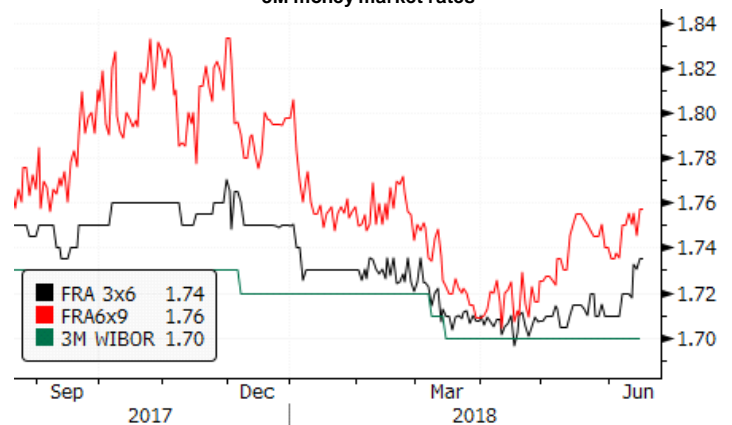
## Zloty exchange rate



## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic calendar

Economic calendar								
TIME		INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST	
CET				MARKET	BZWBK		VALUE	
FRIDAY (15 June)								
11:00	EZ	HICP	May	% y/y	1.9	-	1.9	1.9
11:30	PL	Bond Switch Auction						
14:00	PL	CPI Core	May	% y/y	0.6	0.6	0.5	0.6
15:15	US	Industrial Production	May	% m/m	0.2	-	-0.1	0.72
16:00	US	Michigan index	Jun	pts	98.5	-	99.3	98.0
MONDAY (18 June)								
10:00	PL	Employment in corporate sector	May	% y/y	3.8	3.8		3.7
10:00	PL	Average Gross Wages	May	% y/y	7.1	7.6		7.8
TUESDAY (19 June)								
10:00	PL	Sold Industrial Output	May	% y/y	3.6	3.9		9.3
10:00	PL	Construction Output	May	% y/y	17.8	20.8		19.7
10:00	PL	PPI	May	% y/y	2.7	2.7		1.1
14:00	HU	Central Bank Rate Decision		%	0.9	-		0.9
14:30	US	Housing Starts	May	% m/m	2.1	-		-3.7
WEDNESDAY (20 June)								
10:00	PL	Consumer Confidence	May					
16:00	US	Existing Home Sales	May	% m/m	1.28	-		-2.5
THURSDAY (21 June)								
10:00	PL	Retail Sales Real	May	% y/y	6.4	7.3		4.0
14:30	US	Initial Jobless Claims	week	k	220	-		218
14:30	US	Index Philly Fed	Jun	pts	28.7	-		34.4
FRIDAY (22 June)								
09:30	DE	Germany Manufacturing PMI	Jun	pts	56.2	-		56.9
09:30	DE	Markit Germany Services PMI	Jun	pts	52.1	-		52.1
10:00	EZ	Eurozone Manufacturing PMI	Jun	pts	55.0	-		55.5
10:00	EZ	Eurozone Services PMI	Jun	pts	53.7	-		53.8
10:00	PL	Stats Office business sentiment	May	pts				
14:00	PL	Money Supply M3	May	% y/y	5.9	5.88		5.7

Source: BZ WBK, Bloomberg, Parkiet

\* in case of the revision the data is updated

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