

EYEOPENER

20 June 2018

Output and PPI above forecasts

- **Poland data above forecasts, Polish national team play at World Cup below expectations**
- **EURUSD down, zloty and its CEE peers under pressure of global growth concerns**
- **New trade threats pull yields down**
- **Today Polish consumer confidence data, ahead US home sales**

On Tuesday financial markets were again dominated by the 3T factor (Trump's Trade Tariffs), after the US president informed that a response to Chinese retaliatory tariffs on US goods worth USD50bn will be a 10% tariff on Chinese merchandise worth USD200bn. Core bond yields moved lower, so did Polish yields and the dollar gained vs the euro. Another factor supporting the debt markets was a remark of ECB's Mario Draghi at the central bankers' conference in Sintra. He said his bank will be patient when it comes to signaling the moment of the first rate hike and will be adjusting its policy only gradually. At the same time he stressed that while the euro zone economy is expanding and inflation is moving towards the target, the level of uncertainty about future economic environment is high. In Poland, May output data were released and markedly beat market expectations, both in industry and in construction. PPI rose faster than expected.

In May, industrial output rose 5.4% y/y, above market consensus (3.6% y/y) and our forecast (3.9% y/y). Headline growth was driven down from April's 9.3% y/y by the negative working-day effect, but it seems that May saw improvement in foreign demand. We still expect that the next few quarters may bring further growth deceleration abroad, and this is likely to adversely influence Poland's exports and industrial output. Construction and assembly output rose 20.8% y/y, in line with our expectations and above market consensus (17.8% y/y). We assume that in the coming months, we will see capacity constraints and decelerating growth in construction production, albeit gradual.

PPI inflation accelerated to 2.8% y/y in May from 1.0% y/y in April after a rise in prices of 1.2% m/m. Industry prices were driven higher by the weaker zloty (average EUR/PLN at 4.28 in May versus 4.19 in April) and higher commodity prices. However, the PPI components describing the behavior of prices of highly processed goods grew slowly. We expect PPI to rise further in the coming months.

EURUSD continued to decline on Tuesday amid suggestions from the US president that new tariffs could be imposed on China and dovish remarks by Mario Draghi. As a result, EURUSD moved from 1.164 to 1.153. The dollar appreciation was accompanied by European and US stock indexes falling by nearly 2%. Today we will learn US real estate data, so the exchange rate should be rather stable following the large fall from last week.

EURPLN was still rising on Tuesday and approached 4.32. The pressure on the zloty came from the stronger US dollar and equity losses. Despite the fact that Polish football team lost with Senegal at the World Cup, today at the opening XOF/PLN is slightly lower than yesterday before the game. This morning sentiment on European stock exchanges is quite positive, which may be a chance for the zloty to stop depreciating and we could see EURPLN moving slightly lower.

In the CEE region, the koruna and the ruble were under pressure for the better part of the day. EURCZK climbed to 25.86 from 25.78 but fell to 25.80 at the end of the day. USDRUB climbed to 64.20 in the morning, but managed to offset this move and closed at 63.60. The morning ruble weakening was accompanied by Russian declaration to impose retaliatory tariffs. EURHUF climbed to 324.90 from 323.90 but fell to 321.80 at the end of the day after the central bank envisaged to keep loose monetary policy for at least 5-8 quarters to come (earlier the bank only suggested it will last for a longer time).

The yields of German and US bonds slipped in the morning as a reaction to escalation of Trump's trade tariffs policy. In the afternoon there was a slight rebound. However, over the day the core market yields curves shifted 2-4bp down.

The domestic curve fell by 1-3bp in the 5-10Y segment, while the short end was relatively stable. In the afternoon yields rose somewhat and the belly and the long of the curve landed only 1bp below the Monday's closing. Simultaneously, the asset swap spreads increased. Today, we expect the debt prices to stabilize amid lack of important data in the economic calendar.

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FX market

Today's opening

EURPLN	4.3100	CZKPLN	0.1671
USDPLN	3.7245	HUFPLN*	1.3368
EURUSD	1.1572	RUBPLN	0.0584
CHFPLN	3.7388	NOKPLN	0.4548
GBPPLN	4.8996	DKKPLN	0.5783
USDCNY	6.4726	SEKPLN	0.4181

*for 100HUF

Last session in the FX market 19/06/2018

	min	max	open	close	fixing
EURPLN	4.297	4.320	4.297	4.316	4.3113
USDPLN	3.697	3.741	3.703	3.730	3.7316
EURUSD	1.153	1.165	1.161	1.157	-

Interest rate market 19/06/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0720 (2L)	1.62	2	15-Jun-18	OK0720	1.605
DS1023 (5L)	2.54	0	15-Jun-18	PS0123	2.393
WS0428 (10L)	3.19	-1	15-Jun-18	WS0428	3.197

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.76	0	2.60	-1	-0.25	0
2L	1.92	-1	2.80	-2	-0.18	-1
3L	2.10	-2	2.87	-3	-0.04	-2
4L	2.28	-2	2.89	-4	0.10	-2
5L	2.44	-2	2.90	-4	0.25	-3
8L	2.78	-3	2.93	-4	0.65	-4
10L	2.95	-2	2.95	-4	0.88	-3

WIBOR rates

Term	%	Change (bps)
O/N	1.62	1
T/N	1.61	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	1.75	0
9x12	1.79	0
3x9	1.82	0
6x12	1.85	0

Measures of fiscal risk

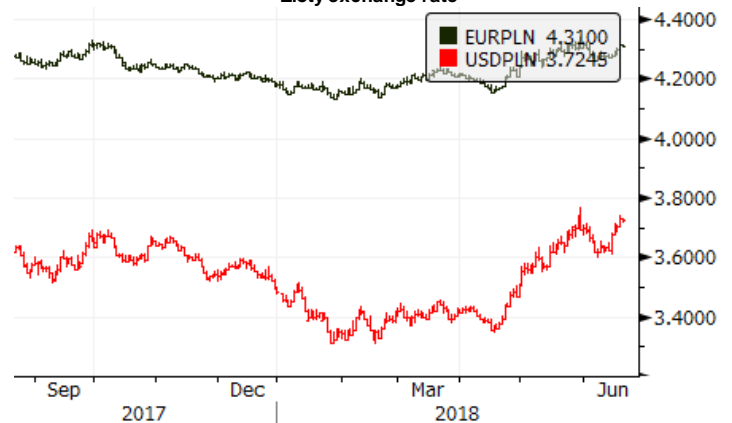
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.81	-2
France	27	-1	0.32	-1
Hungary	116	1	3.05	-1
Spain	67	0	0.86	-1
Italy	229	-3	2.17	-2
Portugal	64	0	1.35	-1
Ireland	25	0	0.47	-1
Germany	12	-1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

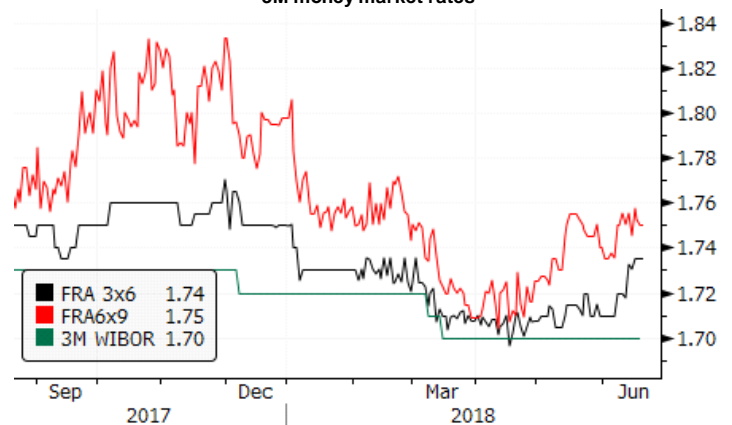
Zloty exchange rate



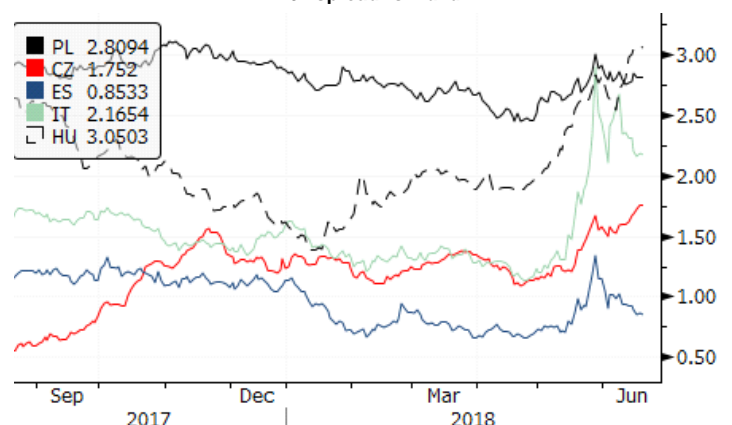
T-bonds yields



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	3.7
10:00	PL	Average Gross Wages	May	% y/y	7.1	7.6	7.0	7.8
TUESDAY (19 June)								
10:00	PL	Sold Industrial Output	May	% y/y	3.6	3.9	5.4	9.3
10:00	PL	Construction Output	May	% y/y	17.8	20.8	20.8	19.7
10:00	PL	PPI	May	% y/y	2.7	2.7	2.8	1.1
14:00	HU	Central Bank Rate Decision		%	0.9	-	0.9	0.9
14:30	US	Housing Starts	May	% m/m	1.9	-	5.0	-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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