

EYEOPENER

22 June 2018

Bonds gain on global growth fears

- Retail sales confirm solid consumer confidence
- EURUSD up, EM currencies under pressure
- Polish and core yields decline amid concerns about global politics
- Today leading indicators from euro zone and Poland

On Thursday the global markets remained under the pressure of fears regarding global trade. The additional factor which hit the market mood was Italy's political situation, where two prominent euroskeptics were given key posts in parliament committees. The stock market and emerging markets currencies dropped, while the bonds strengthened, driven by information about expected lower Daimler profits and concerns about economic growth expressed by central bankers on the summit in Sintra. The Fed chairman Jerome Powell, stated that he started to receive signals about the postponed investments and hiring in US companies. The worsening of economic outlook was stressed by a decline of the Philly Fed index. As a consequence, the zloty as well as other CEE currencies weakened, EURUSD slightly rebounded, while the domestic bond prices increased. On the domestic front, we saw the release of retail sales data (close to expectations), which confirmed good consumer confidence. Today EU is imposing trade tariffs on selected US goods, which is a response to the US tariffs on aluminum and steel. Moreover, the EU targeted other US products, but the decision to impose a tariff will depend on the WTO judgment on US trade practices.

Retail sales advanced in May by 6.1% y/y versus 4.0% y/y in April, in line with the market consensus (6.0% y/y) and below our expectations (7.6% y/y). May saw a normalisation of sales of food (2.8% y/y) and in non-specialised stores (7.8% y/y), after two months of distortions caused by the timing of Easter and introduction of Sunday trade ban. Sales of durable goods were relatively weak, especially as regards cars and clothing. In our view, these categories were undermined by negative working day effect and combination of holidays. We expect the retail sales to accelerate in the next months. Private consumption will remain the main driver of GDP growth this year rising by c5% y/y, in our view.

S&P wrote that Polish economy is sound, supported by independent and credible NBP policy (one of the reasons why the agency downgraded Poland in 2016 was risk to central bank and other key institutions' independence). S&P does not

see any imbalances in Poland (incl. on real estate market). The agency assumes that widening institutional uncertainty caused delays in private investment in 2017 and may lead to further weakness in foreign direct investments coming to Poland. The agency does not read much from the Poland-EU rule of law conflict.

MPC member Eryk Łon said the current level of interest rates is favourable, but one cannot rule out a scenario of interest rate cuts if the economic climate declines and consumer confidence falters.

EURUSD on Thursday started from 1.1590, rebounded from this year's low and important resistance at 1.15 and ended the day at 1.1610. These moves were a result of shaky global moods and incoming information from the European politics. Today, we are expecting a further upward march of EURUSD, supported by stronger data on euro zone PMI.

EURPLN climbed on Thursday and in the afternoon reached the highest level since the end of May, 4.33. The zloty was weaker due to stock market losses, weak global moods, information about new tensions in the euro zone and worries about political situation in Italy. Today, we are expecting some PLN strengthening thanks to leading indicators data.

A strong sell-off was witnessed also by **other CEE currencies**. EURHUF climbed to 326.30, the highest since 2015. EURCZK jumped to 25.98, the highest since end May, due to lower probability of rate hike at the upcoming central bank meeting. USDRUB remained pretty stable, with a temporary leap to 64.00 from 63.60. Falling oil prices did not affect the Russian currency. OPEC and other oil-producing countries are holding a meeting today, aimed at agree on new output quotas.

German and US bond yields fell on Thursday after Wednesday's afternoon rebound. This happened due to geopolitical turmoil. The US curve shifted down by 2-4bp, mostly on the longer end of the curve, and German by 3-5bps, also mostly on the longer end.

The domestic yield curve went down by 5bp in 5-10Y segment and by 3bp on the short end. These changes were accompanied by some narrowing of asset swap spreads in 2-5Y segment and a rise in 10Y segment. Today's release of flash PMI data for the euro zone (we are expecting some improvement) can trigger some rebound..

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FX market

Today's opening

EURPLN	4.3193	CZKPLN	0.1672
USDPLN	3.7113	HUFPLN*	1.3267
EURUSD	1.1638	RUBPLN	0.0585
CHFPLN	3.7494	NOKPLN	0.4585
GBPPLN	4.9289	DKKPLN	0.5795
USDCNY	6.4955	SEKPLN	0.4188

*for 100HUF

Last session in the FX market

21/06/2018

	min	max	open	close	fixing
EURPLN	4.314	4.333	4.320	4.331	4.3323
USDPLN	3.717	3.762	3.728	3.731	3.7607
EURUSD	1.151	1.163	1.159	1.161	-

Interest rate market

21/06/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0720 (2L)	1.61	-2	15-Jun-18	OK0720	1.605
DS1023 (5L)	2.48	0	15-Jun-18	PS0123	2.393
WS0428 (10L)	3.14	-3	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	2.61	0	-0.25	0
2L	1.91	-1	2.81	0	-0.17	0
3L	2.07	-2	2.88	-1	-0.04	-1
4L	2.24	-4	2.91	-1	0.10	-1
5L	2.39	-4	2.92	-1	0.25	-3
8L	2.71	-5	2.94	-1	0.65	-2
10L	2.87	-6	2.97	-1	0.88	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.60	-1
T/N	1.60	-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	1.74	0
6x9	1.76	0
9x12	1.80	0
3x9	1.81	0
6x12	1.85	0

Measures of fiscal risk

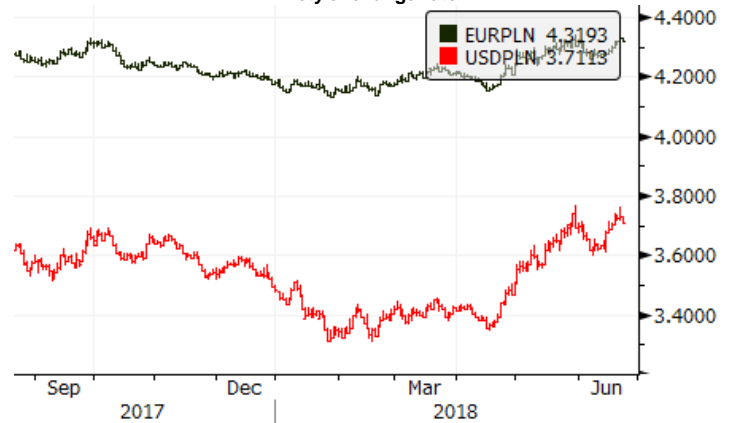
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.80	-3
France	27	-1	0.37	0
Hungary	116	1	3.18	-1
Spain	67	0	0.99	-1
Italy	229	-3	2.38	-1
Portugal	64	0	1.50	0
Ireland	25	0	0.51	0
Germany	12	-1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

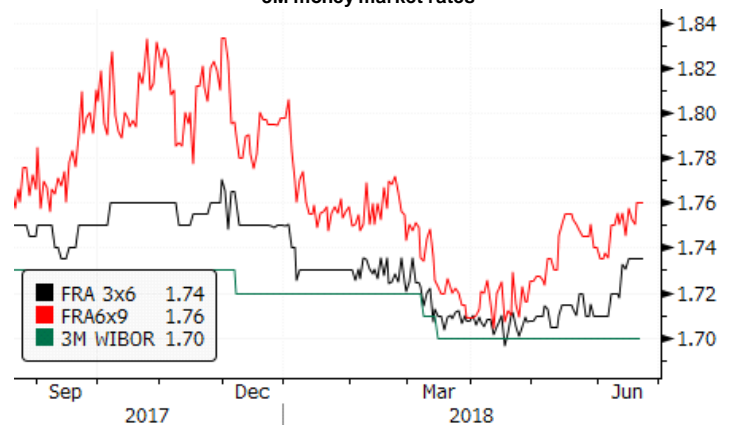
Zloty exchange rate



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	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	1.1	-	-0.4	-2.5
THURSDAY (21 June)								
10:00	PL	Retail Sales Real	May	% y/y	6.0	7.3	6.1	4.0
14:30	US	Initial Jobless Claims	week	k	220	-	218	218
14:30	US	Index Philly Fed	Jun	pts	29.0	-	19,9	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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