

EYEOPENER

25 June 2018

US plan next trade tariffs

- Donald Trump warns of next trade tariffs
- Flash euro zone PMIs not that bad, Poland economic sentiment still high
- EURUSD slightly up, EM currencies marginally stronger
- Poland and core yields rise
- Today Statistical Bulletin in Poland, abroad German and US data

On Friday markets were recovering after earlier worries about the impact of trade wars on global growth. The dollar lost to EM currencies while Polish and core yields climbed somewhat. Flash PMIs for the euro zone did not provide a clear signal: PMI services for Germany, France and the whole euro zone climbed versus May and were better than expected. Manufacturing PMI disappointed again, but fell only by 0.5pts in the euro zone, in line with consensus. The somewhat positive mood deteriorated in the evening due to Donald Trump threat to introduce a 20% tariff on EU cars. OPEC agreed to increase oil output, but less than expected, which translated into a 2.5% rise of oil prices.

Statistics Poland released June business sentiment indices. The broad index stayed at a historically high level of 109 pts. Only the services sector saw a deterioration of sentiment (due to weakening demand), for the fourth consecutive month. Still, the sectoral index remained well above its 2017 readings. Business optimism grew in industry due to further improvement in new orders (in June the component set a new record). It is interesting that we can now observe the largest positive gap in the 14.5-year history of the survey between the synthetic prognostic index (summarizing all the forward-looking components of the survey) and the diagnostic index (covering the current business environment, as seen by enterprises). The positive gap suggests that increased investment activity is needed and that wage pressures will continue. A confirmation of the wage pressure can be found in indicators of barriers to economic activity. In manufacturing, there was a rapid rise of indications that labor costs are posing such a barrier while the share of businesses indicating skilled labor shortages fell only marginally from its all-time high. In construction, the share of indications of skilled labor shortages as a barrier to activity keeps growing and, in June, exceeded 50% by a wide margin (however, the surveyed capacity utilization level, after seasonal adjustment, decreased to the lowest level year-to-date). In services and retail trade sectors, enterprises are not increasingly reporting that labor costs are an issue, yet this

factor remains as the main obstacle to their activity. In total, despite some minor negative elements, the June business sentiment report looks positive and does not signal a risk for a sharp slowdown in the economy in the coming quarters.

Poland M3 money supply rose in May by 6.6% y/y, more than expected (5.9% y/y). The acceleration versus April (5.7% y/y) was triggered mostly by higher rise of cash in circulation (9.5% y/y vs 7.0% y/y in April) and deposits (6.0% y/y vs 5.1% y/y), especially household deposits (5.9% y/y vs 4.5% y/y in April). Partially, this quick rise of deposits was due to the zloty weakening, which caused a revaluation of FX deposits. After FX correction, deposits would accelerate to 5.8% y/y from 5.6% y/y.

EURUSD rebounded slightly to 1.168 from 1.166 and stayed in the horizontal trend over the rest of the day. The morning euro gain was thanks to the PMI release. This morning EURUSD is close to 1.164, while the market mood is slightly negative. If the lfo reading does not disappoint, the euro could gain slightly vs the dollar. However, the fears about global trade can limit the EURUSD upside potential.

EURPLN fell on Friday from 4.33 to 4.31. USDPLN declined to 3.70 from 3.73. The other CEE currencies were also recovering after the Wednesday and Thursday losses. Despite a weaker sentiment at the start of the week, EURPLN is at c4.32 this morning. We think today the exchange rate will stay below the peak from last week, which was slightly above 4.33.

The domestic curve shifted up by 2bp in the 5-10Y segment, while the short end remained stable. These changes were accompanied by the 10Y asset swap spread rising 2bp. The poor mood at the morning trading and possible strengthening on the core markets should help the domestic bonds at the beginning of the week.

This week, the markets will be still under the influence of the global trade war, and this is likely to be rather negative for the risky assets. The leading indicators for June can only fuel the fears over global growth. In Poland, the rule of law story will also be back with the government called by EU Council for a formal hearing. Though the geopolitical situation remains unclear, we expect zloty to gain and bonds to weaken. The Polish data will not generate much interest. On the core markets, we expect a subdued reaction to EZ flash HICP and US personal incomes and spending, which are usually closely monitored.

ECONOMIC ANALYSIS DEPARTMENT:

al. Jana Pawła II 17, 00-854 Warsaw fax +48 22 586 83 40

email: ekonomia@bzwbk.pl

Web site: skarb.bzwbk.pl

Piotr Bielski +48 22 534 18 87

Marcin Luziński +48 22 534 18 85

Grzegorz Ogonek +48 22 534 19 23

Konrad Soszyński +48 22 534 18 86

Marcin Sulewski +48 22 534 18 84

TREASURY SERVICES:

Poznań +48 61 856 5814/30

Warszawa +48 22 586 8320/38

Wrocław +48 71 369 9400

FX market

Today's opening

| | | | |
|--------|--------|---------|--------|
| EURPLN | 4.3198 | CZKPLN | 0.1674 |
| USDPLN | 3.7099 | HUFPLN* | 1.3299 |
| EURUSD | 1.1644 | RUBPLN | 0.0587 |
| CHFPLN | 3.7527 | NOKPLN | 0.4569 |
| GBPPLN | 4.9145 | DKKPLN | 0.5798 |
| USDCNY | 6.5343 | SEKPLN | 0.4180 |

*for 100HUF

Last session in the FX market

22/06/2018

| | min | max | open | close | fixing |
|--------|-------|-------|-------|-------|--------|
| EURPLN | 4.310 | 4.331 | 4.331 | 4.322 | 4.3149 |
| USDPLN | 3.695 | 3.732 | 3.731 | 3.709 | 3.6977 |
| EURUSD | 1.160 | 1.168 | 1.161 | 1.165 | - |

Interest rate market

22/06/2018

T-bonds on the interbank market**

| Benchmark (term) | % | Change (bps) | Last auction | Paper offered | Average yield |
|------------------|------|--------------|--------------|---------------|---------------|
| OK0720 (2L) | 1.62 | 0 | 15-Jun-18 | OK0720 | 1.605 |
| DS1023 (5L) | 2.50 | 2 | 15-Jun-18 | PS0123 | 2.393 |
| WS0428 (10L) | 3.16 | 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 | 1.92 | 1 | 2.81 | 0 | -0.17 | 0 |
| 3L | 2.08 | 1 | 2.89 | 0 | -0.04 | 1 |
| 4L | 2.24 | 1 | 2.91 | 1 | 0.12 | 1 |
| 5L | 2.40 | 1 | 2.92 | 1 | 0.27 | 2 |
| 8L | 2.72 | 1 | 2.95 | 1 | 0.68 | 2 |
| 10L | 2.88 | 1 | 2.97 | 1 | 0.89 | 1 |

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 | 1.73 | 0 |
| 6x9 | 1.76 | -1 |
| 9x12 | 1.80 | 1 |
| 3x9 | 1.81 | 0 |
| 6x12 | 1.85 | 0 |

Measures of fiscal risk

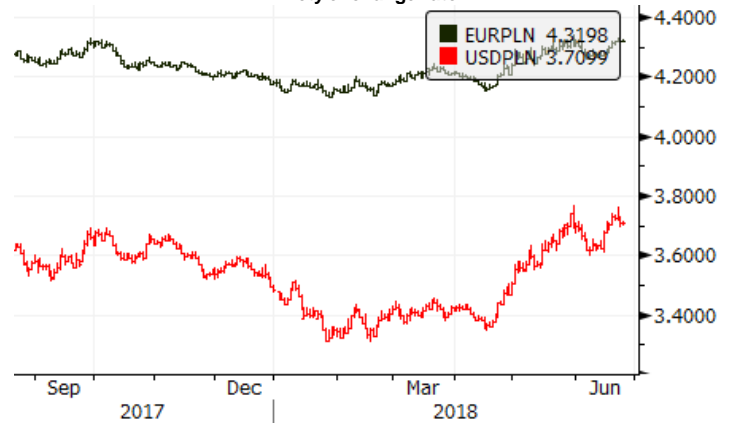
| Country | CDS 5Y USD | | 10Y spread* | |
|----------|------------|--------------|-------------|--------------|
| | Level | Change (bps) | Level | Change (bps) |
| Poland | | | 2.84 | 4 |
| France | 27 | -1 | 0.38 | 1 |
| Hungary | 116 | 1 | 3.18 | 1 |
| Spain | 67 | 0 | 1.04 | 3 |
| Italy | 229 | -3 | 2.42 | 7 |
| Portugal | 64 | 0 | 1.51 | 4 |
| Ireland | 25 | 0 | 0.52 | 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

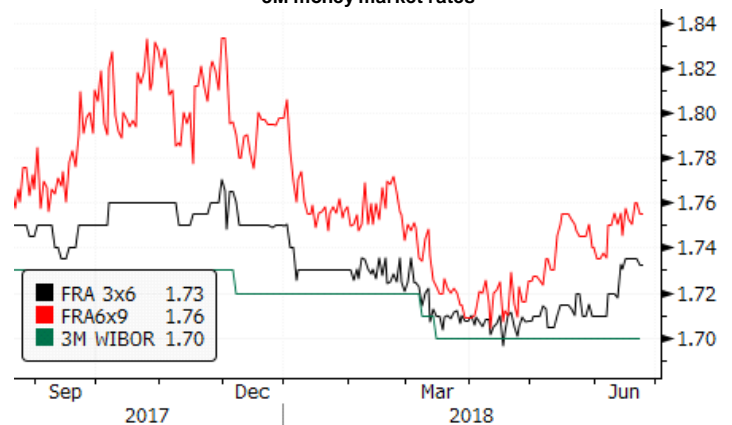
Zloty exchange rate



T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

| ECONOMIC CALENDAR | | | | | FORECAST | | ACTUAL | LAST |
|---------------------|----|---------------------------------|--------|--------|----------|-------|--------|--------|
| TIME | | INDICATOR | PERIOD | | | | VALUE | |
| CET | | | | | MARKET | BZWBK | VALUE | |
| FRIDAY (22 June) | | | | | | | | |
| 9:30 | DE | Germany Manufacturing PMI | Jun | pts | 56.3 | | 55.9 | 56.9 |
| 9:30 | DE | Markit Germany Services PMI | Jun | pts | 52.2 | | 53.9 | 52.1 |
| 10:00 | EZ | Eurozone Manufacturing PMI | Jun | pts | 55.0 | | 55.0 | 55.5 |
| 10:00 | EZ | Eurozone Services PMI | Jun | pts | 53.8 | | 55.0 | 53.8 |
| 10:00 | PL | Stats Poland business sentiment | Jun/18 | pts | | | | |
| 14:00 | PL | Money Supply M3 | May | % y/y | 5.9 | 5.9 | 6.6 | 5.7 |
| MONDAY (25 June) | | | | | | | | |
| 10:00 | DE | IFO Business Climate | Jun | pts | - | - | | 102.2 |
| 10:00 | PL | Unemployment Rate | May | % | - | 6.1 | | 6.3 |
| 16:00 | US | New Home Sales | May | % m/m | 1.2 | - | | -1.5 |
| TUESDAY (26 June) | | | | | | | | |
| 16:00 | US | Consumer Conference Board | Jun | pts | 127.2 | - | | 128.0 |
| WEDNESDAY (27 June) | | | | | | | | |
| 8:00 | DE | Retail Sales | May | % m/m | - | - | | 1.6 |
| 13:00 | CZ | Central Bank Rate Decision | | % | - | - | | 0.75 |
| 14:30 | US | Durable Goods Orders | May | % m/m | -0.7 | - | | -1.6 |
| 16:00 | US | Pending Home Sales | May | % m/m | 1.0 | - | | -1.3 |
| THURSDAY (28 June) | | | | | | | | |
| 11:00 | EZ | ESI | Jun | pts | - | - | | 112.5 |
| 11:30 | PL | Bond Auction | | | - | | | |
| 14:00 | DE | HICP | Jun | % m/m | - | - | | 0.6 |
| 14:30 | US | GDP Annualized | 1Q | % q/q | 2.2 | - | | 2.2 |
| 14:30 | US | Initial Jobless Claims | | k | 220 | - | | 218 |
| FRIDAY (29 June) | | | | | | | | |
| | PL | Central Budget Cumul. | May | bn PLN | - | - | | 9325.2 |
| 9:00 | CZ | GDP SA | 1Q | % y/y | - | - | | 4.4 |
| 11:00 | EZ | Flash HICP | Jun | % y/y | - | - | | 1.9 |
| 14:00 | PL | Current Account Balance Q | 1Q1 | €mn | | | | |
| 14:30 | US | Personal Spending | May | % m/m | 0.4 | - | | 0.6 |
| 14:30 | US | Personal Income | May | % m/m | 0.4 | - | | 0.3 |
| 14:30 | US | PCE Deflator SA | May | % m/m | - | - | | 0.2 |
| 16:00 | US | Michigan index | Jun | pts | - | - | | 99.3 |

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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Additional information is available on request. Please contact Bank Zachodni WBK S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@bzwbk.pl, http://www.bzwbk.pl.