

EYEOPENER

27 June 2018

Markets take a breather

- **Markets mood still driven by trade war info**
- **Zloty and CEE currencies stable after weakening, US dollar recovered slightly**
- **Yields of Polish T-bonds slightly up following the core markets**
- **Today: Decision of Czech central bank and US data**

Trade wars and their influence on the global economy are still key drivers for risk assets. Yesterday, from the start of the session the markets were recovering from the Monday rise of risk aversion. There were reassuring signals from the USA about the possible effects of new tariffs on economic activity. As a result, during the European session stock indices and bond yields were going up and CEE currencies stabilized. US consumer confidence declined unexpectedly in June and it was already the third sub-consensus reading in the last four months. Today there were minor losses of equities during the Asian session. We think the zloty and domestic bonds will be in good shape today. The US administration informed it wants to be less confrontational when it comes to negotiations of a new trade deal with China.

Deputy finance minister Paweł Gruza said in Tok FM radio that there is no answer to the question when Polish VAT rates could return to the 1pp lower level. In his view current macroeconomic and fiscal situation does not allow for a VAT rate cut next year. He stressed that the current budget surplus is temporary, and it will turn into a deficit by the end of the year.

On Tuesday, the government approved the bill linking **social security contributions** paid by entrepreneurs to revenues. This rule will apply for companies with revenues below minimal wage multiplied by 30 (i.e. PLN67.5k in 2019). Cost of this bill is estimated at total PLN5.3bn in the first 10 years. The bill will come into force on 1 January 2019.

The disciplinary **hearing over democratic values** of Polish government before the EU Council was held yesterday. According to deputy foreign minister Konrad Szymański, both parties are now closer to consensus. However, according to EU

Council vicepresident Frans Timmermans, the Polish government did not come up with any new proposals and the rule of law is still threatened.

EURUSD broke the set of three consecutive session of an increase and fell on Tuesday to 1.165 from 1.17. After a fast drop of the exchange rate seen in first decade of June in response to the dovish ECB rhetoric, now volatility of EURUSD is clearly lower. Since April the dollar has gained vs the euro noticeably thanks to, among others, decent US data that boosted market expectations for the Fed rate hikes. Now, when there is a high risk of slower economic growth due to trade war, the room for further dollar appreciation looks limited. Next US data is due today in the afternoon but we do not expect this release to have much impact on EURUSD.

EURPLN stabilized yesterday slightly below this year's peak at c4.35 reached on Monday after closing of the domestic session. USDPLN rebounded to 3.725 from 3.71. EURPLN is holding near local peak from March 2017 and the next days could determine if the Polish currency continues to depreciate or could start to recover.

In case of the other CEE currencies, the koruna and forint also stabilized after Monday depreciation. The ruble underperformed this time despite a slight rise in the oil price. Today the Czech central bank announces decision on the interest rates. Like we wrote yesterday, the 25bp hike is not a deal-done and should the central bank deliver this could be a positive factor for the koruna.

On the core debt market yields were hovering in a narrow range amid persisting concerns about the global economic growth and trendless session on the equity market.

On the domestic interest rate market yields and IRS rose 2-3bp on the long end and belly of the curve while the short end held steady. Polish debt was pressured by weakening of bonds on the core and euro zone peripheral markets and the information from the Ministry of Finance saying there will be no bond auction tomorrow helped to recover only part of losses. Today we expect a slight drop of Polish bond yields..

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FX market

Today's opening

EURPLN	4.3384	CZKPLN	0.1675
USDPLN	3.7222	HUFPLN*	1.3311
EURUSD	1.1656	RUBPLN	0.0590
CHFPLN	3.7578	NOKPLN	0.4577
GBPPLN	4.9220	DKKPLN	0.5822
USDCNY	6.5992	SEKPLN	0.4189

*for 100HUF

Last session in the FX market

26/06/2018

	min	max	open	close	fixing
EURPLN	4.331	4.350	4.346	4.331	4.3372
USDPLN	3.704	3.727	3.717	3.715	3.7151
EURUSD	1.165	1.172	1.169	1.166	-

Interest rate market

26/06/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0720 (2L)	1.59	-2	15-Jun-18	OK0720	1.605
DS1023 (5L)	2.54	0	15-Jun-18	PS0123	2.393
WS0428 (10L)	3.20	2	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	0	-0.25	0
2L	1.92	0	2.79	0	-0.17	0
3L	2.09	1	2.85	0	-0.04	0
4L	2.27	2	2.88	0	0.12	1
5L	2.42	2	2.89	0	0.27	1
8L	2.74	1	2.92	0	0.68	2
10L	2.90	1	2.94	0	0.90	1

WIBOR rates

Term	%	Change (bps)
O/N	1.53	4
T/N	1.53	3
SW	1.55	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	1
6x9	1.77	1
9x12	1.81	1
3x9	1.82	0
6x12	1.85	1

Measures of fiscal risk

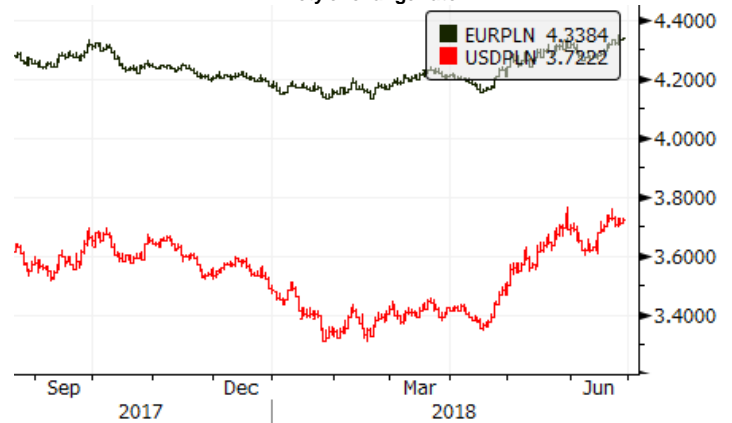
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.87	3
France	27	-1	0.40	0
Hungary	116	1	3.22	1
Spain	67	0	1.05	0
Italy	229	-3	2.53	-2
Portugal	64	0	1.53	0
Ireland	25	0	0.55	4
Germany	12	-1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

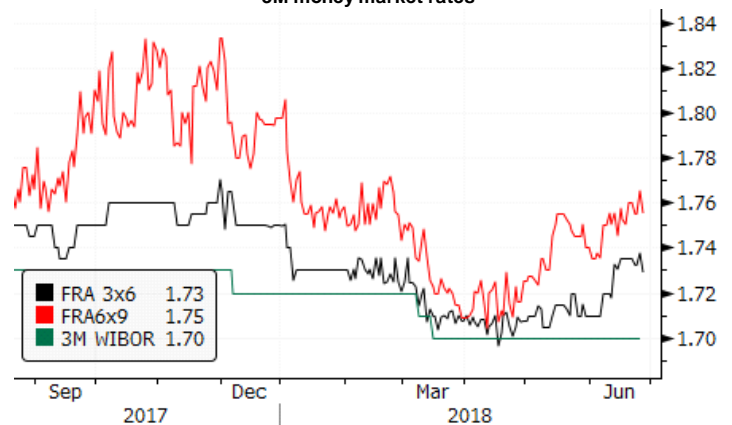
Zloty exchange rate



T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar								
TIME		INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE
CET					MARKET	BZWBK		
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	-	-	101.8	102.2
10:00	PL	Unemployment Rate	May	%	-	6.1	6.1	6.3
16:00	US	New Home Sales	May	% m/m	1.2	-	6.7	-3.7
TUESDAY (26 June)								
16:00	US	Consumer Conference Board	Jun	pts	128.0	-	126.4	128.8
WEDNESDAY (27 June)								
13:00	CZ	Central Bank Rate Decision		%	0.75	-		0.75
14:30	US	Durable Goods Orders	May	% m/m	-1.0	-		-1.6
16:00	US	Pending Home Sales	May	% m/m	0.5	-		-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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