

EYEOPENER

29 June 2018

EU summit deal supported the euro

- Risk aversion was weighing on the zloty and bonds, but EU politicians came to aid
- EURUSD up on weaker US data and the EU migration deal
- Polish budget still with a large surplus
- Today important euro zone and US data

On Thursday risk aversion dominated trading on the global market amid concerns about impact of the trade wars on the global economic growth. The stock prices' downside impulse accelerated after the release of the US data showing weaker final 1Q GDP growth and higher weekly initial jobless claims. Poor US data stopped the dollar appreciation but did not help the EM currencies. At night, information emerged that the European leaders reached an agreement at the EU summit. It has been a deal on control of immigrants' inflow, tighter border control, burden sharing and voluntary allocation of immigrants. This answers Italian claims and might lead to less eurosceptic tone of local politicians. The agreement should also ease tensions within the German coalition.

Minutes from June MPC meeting did not signal neither shift in Council's bias nor any change in their assessment of economic trends in Poland. As regards high contribution of inventories into the 1Q GDP growth, opinion was divided – some members saw it as a warning sign showing that the slowdown in euro zone starts to take its toll; for some it was a proof of optimism among producers expecting high demand from abroad. There has also been no consensus if wages growth will accelerate. Some MPC members were of the opinion that pace of the economic growth might deviate to the upside from the March central bank projection (at the next meeting the MPC will have next projection at its disposal). Paragraphs concluding the members' discussion remained unchanged – most of the Council's members think stable rates are an optimal solution.

Poland state budget recorded a PLN9.6bn surplus after May vs PLN9.3bn surplus for Jan-Apr period. Last month, the positive deviation of the total revenues from the Finance Ministry's plan rose to 5.2%. Although May expenses were slightly above the plan, total spending since the beginning of the year is only 94.7% of the plan. After May, the subsidy for

the social security fund was still well below the amount allotted in the same period last year (-33%). Revenues were 7.5% higher than a year ago and expenses stood at a similar level (+0.6% y/y). PIT and CIT revenues rose 16% y/y. Inflows from VAT probably accelerated to 3% y/y from 1.1%. If we assume these trends will continue later in the year, the total 2018 deficit could be around PLN25bn instead of PLN41.5bn planned. However, we cannot exclude that some expenses will be accelerated in late 2018 to utilize the fiscal space to spend.

EURUSD fell to 1.152 shortly after the start of the session, but later during the day the dollar trimmed its gains due to weaker US data. As a result, the exchange rate was close to 1.158 at the end of the Polish session. Information from the EU summit quickly sent the rate above 1.165. Today new US data are due for release and these can set the direction for EURUSD for the end of the week. The EU summit is continuing so there could be further triggers for the euro, possibly weakening the original positive impulse. Still, we are expecting the euro to maintain a bulk of its recent gains. Mind that today is the last day of the quarter, which is likely to fuel market volatility.

Yesterday **EURPLN** climbed further due to further decline in risk appetite and set a new year-to-date high at 4.37. USDPLN was oscillating around 3.77. Today at the start of the session the market mood is positive, so the zloty is likely to trim some of its losses versus the euro.

Other CEE currencies, like the forint and the koruna lost versus the euro even more due to investors' retreat from risky assets. As a result, EURCZK and EURHUF set a new 2018 highs at 26.06 and almost 329, respectively. The ruble was again doing better than its peers due to further rise of oil prices.

On the **domestic interest rate market**, IRS and bond yields climbed by 3-5bps on the middle and the longer end of the curve. The Polish debt was underperforming the market. In the previous months, the debt was supported by positive budget results. This time the good fiscal statistics did not support demand for Polish papers. This week, Polish bonds were doing worse than core markets and this may be due to the fact that investors fear a negative link between trade wars, economic growth and Polish future budget performance.

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FX market

Today's opening

EURPLN	4.3561	CZKPLN	0.1681
USDPLN	3.7441	HUFPLN*	1.3272
EURUSD	1.1634	RUBPLN	0.0597
CHFPLN	3.7652	NOKPLN	0.4597
GBPPLN	4.9062	DKKPLN	0.5845
USDCNY	6.6153	SEKPLN	0.4173

*for 100HUF

Last session in the FX market

28/06/2018

	min	max	open	close	fixing
EURPLN	4.349	4.370	4.349	4.366	4.3566
USDPLN	3.754	3.784	3.755	3.770	3.7705
EURUSD	1.153	1.160	1.158	1.158	-

Interest rate market

28/06/2018

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)	2.55	3	15-Jun-18	PS0123	2.393
WS0428 (10L)	3.22	3	15-Jun-18	WS0428	3.197

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.77	2	2.60	2	-0.25	0
2L	1.94	4	2.78	2	-0.17	0
3L	2.11	4	2.84	2	-0.04	0
4L	2.28	5	2.87	2	0.12	0
5L	2.43	4	2.88	2	0.27	1
8L	2.74	4	2.90	1	0.66	0
10L	2.90	4	2.92	1	0.89	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.53	-1
T/N	1.53	-1
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	2
9x12	1.82	3
3x9	1.81	1
6x12	1.85	2

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.89	2
France	27	1	0.37	-2
Hungary	116	1	3.24	3
Spain	72	5	1.03	-1
Italy	229	-3	2.45	-4
Portugal	64	0	1.48	-2
Ireland	25	0	0.52	-2
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

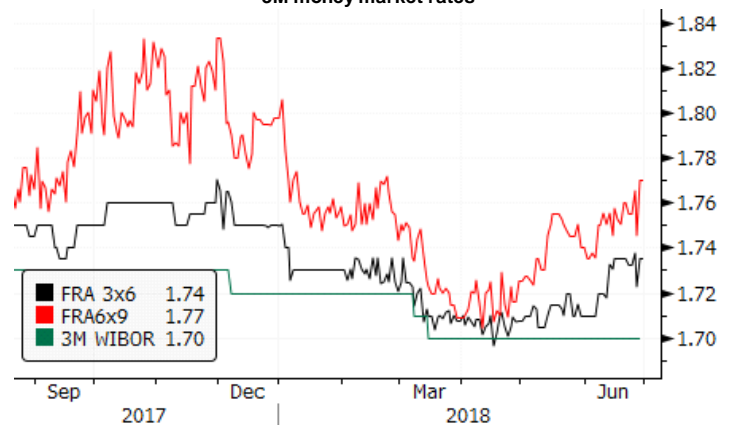
Zloty exchange rate



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	-	1.0	0.75
14:30	US	Durable Goods Orders	May	% m/m	-1.0	-	-0.6	-1.0
16:00	US	Pending Home Sales	May	% m/m	0.5	-	-0.5	-1.3
THURSDAY (28 June)								
11:00	EZ	ESI	Jun	pts	-	-	112.3	112.5
14:00	PL	MPC minutes						
14:00	DE	HICP	Jun	% m/m	2.1	-	2.1	0.6
14:30	US	GDP Annualized	1Q	% q/q	2.2	-	2.0	2.2
14:30	US	Initial Jobless Claims		k	220	-	227	218
FRIDAY (29 June)								
9:00	CZ	GDP SA	1Q	% y/y	4.4	-		4.4
11:00	EZ	Flash HICP	Jun	% y/y	2.0	-		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	-		0.2
16:00	US	Michigan index	Jun	pts	99.0	-		99.3

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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