

# EYEOPENER

2 July 2018

## Deal on migration shakes the German government

- End of the week in positive moods, but CEE currencies still under pressure
- Rising tension in German government
- Polish PMI unexpectedly up
- Euro kept its gains to dollar
- Polish bonds stronger thanks to global trends
- Today flash inflation in Poland

News about the agreement on migration policy at the EU summit was the first positive signal for the EU political scene in a long time and was expected to introduce political stability. Solid rise of European stock indices and appreciation of the euro at the start of the Friday session were natural. However, CEE currencies remained behind the improvement in global sentiment and the zloty and the forint saw some more losses. Decrease of risk aversion did not prevent core market bonds and euro zone periphery debt, which were mostly seen gaining. During the weekend, there were news about increased tension within the German coalition government. CSU party expressed dissatisfaction with the EU migration deal and its leader, Horst Seehofer, the German minister of internal affairs, resigned from office. This may weigh on the euro.

**PMI index for Poland's manufacturing** unexpectedly climbed in June to 54.2pts from 53.3 in May, driven by higher subindices for output, new orders and employment. New export orders also improved a bit, yet from a low level recorded in May. Output costs index was at the highest level since 2011, indicating rising price pressure. In our view, PMI index for Poland will go down in the months to come, given weaker economic climate in the euro zone.

NBP released Poland's **revised quarterly balance-of-payments data**. Compared to the previous periods, in 4Q17 the current account deteriorated by €600 million due to a revision of the primary income account while in 1Q18 the current account improved by €260 million, mainly thanks to upward revisions of export and primary income accounts. At the end of 2017, the C/A was at +0.2% of GDP, while at the end of 1Q18 the ratio fell to -0.2% of GDP.

**Poland's gross external debt** fell to 66.8% of GDP in 1Q18, the lowest since 2011. In annual terms, debt-to-GDP fell by 7.8 percentage points, mostly thanks to strong GDP growth (6.3% y/y in nominal terms) and a low current account deficit. The governmental sector contributed most to this decline (-3.3 pp), yet the indebtedness of other sectors, including the central bank, banking sector and debt within capital groups also fell as a percentage of GDP. A further decline in gross external debt could encourage rating agencies to improve Poland's score (currently, S&P: BBB+, Fitch: A-, Moody's: A2). The net international investment position also improved, to -59.2% of GDP from -64.0% of GDP in 1Q17.

**EURUSD** stayed around 1.164 after the morning rise from 1.156 on the news from the EU summit. The US data did not have impact on the exchange rate. Today, US industrial ISM index might have some short-term effect on EURUSD. Information from the German coalition may have negative influence on the euro.

**EURPLN** was rising for the third day in a row, despite the rebound on the stock markets and USD weakening. EURPLN rose above 4.37 and reached the new high in this year. USDPLN rebounded to 3.76 at the end of the day, after the morning falls to c3.73. Today EURPLN rose to c4.39 fueled by news about German government crisis.

**In the case of other CEE currencies**, the Hungarian forint and Czechish koruna weakened further. The forint was extremely weak with EURHUF reaching new record high-level at c330. EURCZK remained below the Thursday peak. The Czech GDP data were worse than estimated previously but it did not weigh on the koruna.. Ruble stayed stable against USD, amid rising oil prices.

**The domestic yields decreased** by 3bp on the long end and slightly less on the belly, while the IRS rates rose by 1-2 bp. On Thursday Polish bonds were performing in linewith the core markets bonds and worse than euro zone periphery bonds.

**According to the Ministry of Finance data about POLGBs holders**, at the end of May foreign investors held Polish PLN-denominated marketable bonds worth PLN196.7 billion in nominal terms, nearly PLN1 billion less than at the end of April. After two months of selling, the nominal value of non-resident portfolios fell to the lowest level since February 2017. During May, the most active institutions within this group were commercial banks (+PLN1.4bn, to PLN6.9bn) and mutual funds (-PLN1bn, to PLN38bn). In terms of geography, the most active buyers were non-euro zone EU entities (+PLN1.5bn) while the sellers were mainly from the North America (-PLN900mn). Among Polish investors, commercial banks were the most active, purchasing more than PLN7.4bn of bonds, and the nominal value of their portfolios reached a new all-time high at PLN257.8bn. At the end of May, Polish banks had 40.6% share in Poland PLN-denominated marketable debt while non-residents had 30.9%.

Today at 10:00 we will get to see **flash CPI for June**. We are expecting the inflation rate to break through 2.0% y/y, mostly due to rising fuel prices.

The unexpected agreement at the EU summit about migration policy was about to mitigate some internal EU tensions but it seems that the risk for German ruling coalition breakdown rose instead. This week we will see important euro zone PMIs (flash readings showed further decline) and the US nonfarm payrolls that will be viewed in through the Fed monetary policy.

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## FX market

## Today's opening

EURPLN	4.3848	CZKPLN	0.1685
USDPLN	3.7644	HUFPLN*	1.3290
EURUSD	1.1648	RUBPLN	0.0596
CHFPLN	3.7950	NOKPLN	0.4601
GBPPLN	4.9570	DKKPLN	0.5885
USDCNY	6.6468	SEKPLN	0.4188

\*for 100HUF

## Last session in the FX market

29/06/2018

	min	max	open	close	fixing
EURPLN	4.351	4.377	4.366	4.372	4.3616
USDPLN	3.735	3.779	3.770	3.743	3.744
EURUSD	1.155	1.169	1.158	1.168	-

## Interest rate market

29/06/2018

## 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)	2.53	-2	15-Jun-18	PS0123	2.393
WS0428 (10L)	3.21	-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	-1	2.60	0	-0.25	0
2L	1.95	0	2.79	1	-0.18	0
3L	2.12	1	2.85	1	-0.04	0
4L	2.30	2	2.87	1	0.12	0
5L	2.46	2	2.88	0	0.26	-1
8L	2.77	4	2.89	0	0.66	0
10L	2.94	4	2.91	-1	0.87	-1

## WIBOR rates

Term	%	Change (bps)
O/N	1.43	-10
T/N	1.55	2
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	1.73	0
6x9	1.76	-1
9x12	1.81	-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			2.91	-1
France	27	0	0.37	1
Hungary	116	1	3.32	0
Spain	70	-2	1.03	1
Italy	229	-3	2.40	3
Portugal	64	0	1.49	2
Ireland	25	0	0.51	1
Germany	11	0	-	-

\* 10Y treasury bonds over 10Y Bunds

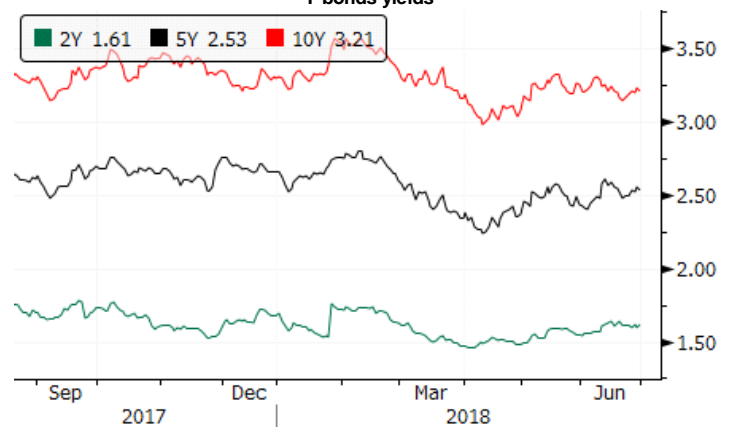
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

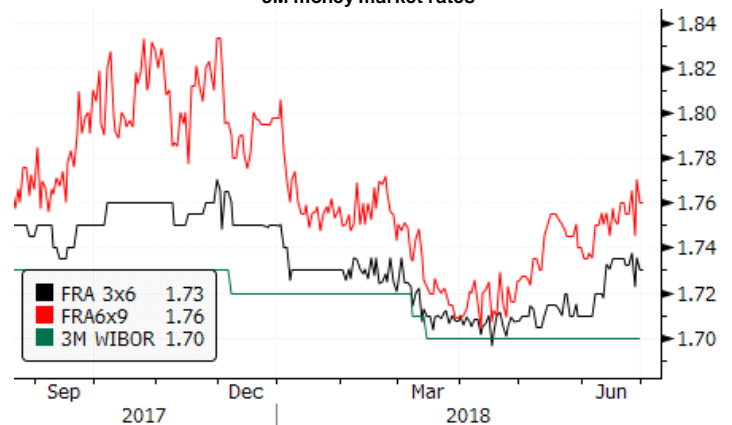
## Zloty exchange rate



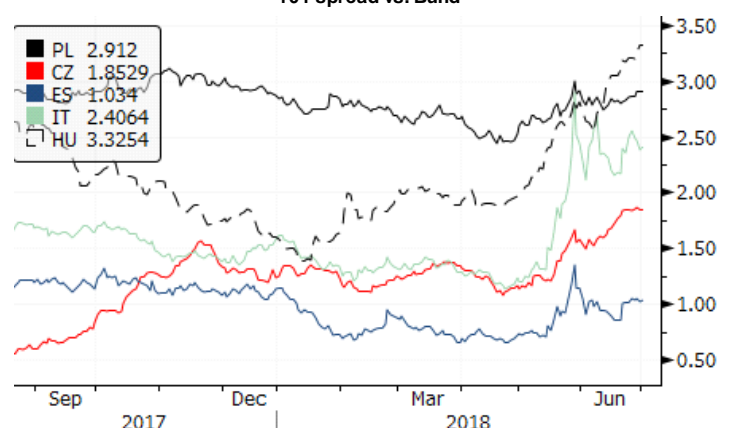
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic calendar

Economic calendar								
TIME		INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST	
CET				MARKET	BZWBK		VALUE	
FRIDAY (29 June)								
9:00	CZ	GDP SA	1Q 18	% y/y	4.4	-	4.2	4.4
11:00	EZ	Flash HICP	Jun	% y/y	2.0	-	2.0	1.9
14:00	PL	Current Account Balance Q	1Q18	€mn	-	118	378	-578
14:30	US	Personal Spending	May	% m/m	0.4	-	0.2	0.6
14:30	US	Personal Income	May	% m/m	0.4	-	0.4	0.3
14:30	US	PCE Deflator SA	May	% m/m	0.2	-	0.2	0.2
16:00	US	Michigan index	Jun	pts	99.0	-	98.2	99.3
MONDAY (2 July)								
9:00	PL	PMI – manufacturing	Jun	pts	53.1	52.9		53.3
9:55	DE	PMI – manufacturing	Jun	pts	55.9	-		55.9
10:00	EZ	PMI – manufacturing	Jun	pts	55.0	-		55.0
10:00	PL	Flash CPI	Jun	% y/y	2.0	2.1		1.7
16:00	US	ISM – manufacturing	Jun	pts	58.0	-		58.7
TUESDAY (3 July)								
16:00	US	Industrial orders	May	% m/m	0.0	-		-0.8
WEDNESDAY (4 July)								
9:55	DE	PMI – services	Jun	pts	53.9	-		53.9
10:00	EZ	PMI – services	Jun	pts	55.0	-		55.0
THURSDAY (5 July)								
8:00	DE	Industrial orders	May	% m/m	1.0	-		-2.5
14:15	US	ADP report	Jun	k	190	-		178
14:30	US	Initial jobless claims	Jun	pts	-	-		227
16:00	US	ISM-services	week	k	58.0	-		58.6
20:00	US	FOMC minutes						
FRIDAY (6 July)								
8:00	DE	Industrial output	May	% m/m	0.2	-		-1.0
14:30	US	Non-farm payrolls	Jun	k	+198	-		+223
14:30	US	Unemployment rate	Jun	%	3.8	-		3.8

Source: BZ WBK, Bloomberg, Parkiet

\* in case of the revision the data is updated

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