

EYEOPENER

3 July 2018

EURPLN at 4.40, inflation below 2.0%

- Moods undermined by tensions in European politics, dollar appreciated
- Inflation in Poland below expectations, unemployment flat at 3.8%
- European Commission started infringement procedure against Poland
- EURPLN highest since 2017
- Not many important data releases today

At the start of the week, investors' attention went in the direction of the European politics, where a risk of German government breakdown has appeared (due to CDU-CSU conflict about migration policy). On the data front, there were negative surprises in Chinese and South Korean PMIs (due to weak new export orders – which could be linked to trade wars) and European PMIs. The US ISM reading was stronger than expected. Domestic PMI data beat forecasts and previous readings and inflation rose less than expected. Equity indices fell, and so did CEE currencies including the zloty. The dollar strengthened, European bond yields went down slightly and prices of domestic government papers moved without clear direction. This morning the Chinese yuan recorded a sharp drop, which weighed on Asian stock indices.

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.

According to a flash estimate, CPI climbed in June to 1.9% y/y from 1.7% y/y in May, less than expected (consensus at 2.0%, our forecast at 2.1%). The downward surprise was mostly due to a weaker-than-expected increase in fuel prices, which rose 1.1% m/m, while data from gas stations suggested a rise of more than 2% m/m. Trends in core categories remained subdued. According to our estimates, core inflation excluding food and energy prices remained unchanged at 0.5% y/y. In our view, we are close to this year's peak in inflation, although a further increase is possible in July. Oil prices rose again recently, and the zloty weakened substantially (4.39 vs. the euro at the start of July, the highest level since January 2017), which could translate into higher prices of imported goods. Additional upward pressure on consumer prices may come from the effects of the drought, in our view. After summer, however, we believe inflation may start moving lower, to end the year around 1.5%.

According to Eurostat, **the LFS unemployment rate in Poland** fell in May from 3.8% to 3.6%. The seasonally adjusted measure stabilised at 3.8%, which implies an interruption in the 12-month long series of declines. The downward trend in the seasonally adjusted jobless rate persists since 2013 and already witnessed some months of stabilisation. Also this time we think a further decline from the already record low level is still possible.

The European Commission informed that it has launched the **EU law infringement procedure** against Poland, regarding the Polish law on the Supreme Court. The Commission wrote in the statement that given the lack of progress through the Rule of Law dialogue, and the imminent implementation of the new retirement regime for Supreme Court judges, the EC decided to launch the infringement procedure as a matter of urgency and gave Poland one month deadline to address the issue.

In case of **other currencies in the region**, koruna and forint were depreciating against euro. EURHUF climbed from 329.30 to 330.70 (setting another record), which was partly the effect of the selloff of Hungarian bonds (10Y yield reached 3.758% - the level last seen in mid-2015) and weak PMI reading. The upward move of the rate was not stopped by the central bank's verbal intervention. EURCZK climbed from 25.98 to 26.06 (its highest since autumn 2017) despite solid budget data and upward surprise from the PMI. USDRUB rose from 63 to 63.50 pushed by dropping oil prices and strong dollar.

On Monday **EURUSD** was going down, driven by trade war fears and better US ISM reading against European PMI. As a consequence EURUSD falls to 1,1610 at the evening from 1,1680 in the morning.

EURPLN was rising further, negatively reacting to elevated risk aversion and information about launch of infringement procedure by the European Commission. In due course, EURPLN rose to 4.3950 from 4.3720 (and hit 4.41 – the highest level since January 2017, and was the worst performer among big EM economies). USDPLN hit 3.7940 – the highest level since June 2017.

On core debt markets, US yields were going down, but reversed this move after the ISM release. The German curve went down by 1bp on fears about economic growth and political situation in the country. Yields of euro zone peripheries decreased.

The domestic yield curve was lower during the day by 2bp, but in the afternoon it returned to the opening level in reaction to tensions in Poland-European Commission relations and to falling equities. These changes were accompanied by declines of IRS rates by 1-3bp.

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	4.3978	CZKPLN	0.1686
USDPLN	3.7761	HUFPLN*	1.3335
EURUSD	1.1646	RUBPLN	0.0598
CHFPLN	3.7976	NOKPLN	0.4629
GBPPLN	4.9639	DKKPLN	0.5903
USDCNY	6.6802	SEKPLN	0.4218

*for 100HUF

Last session in the FX market 02/07/2018

	min	max	open	close	fixing
EURPLN	4.362	4.410	4.365	4.409	4.3899
USDPLN	3.735	3.801	3.750	3.801	3.7703
EURUSD	1.159	1.169	1.165	1.160	-

Interest rate market 02/07/2018

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)	2.56	0	15-Jun-18	PS0123	2.393
WS0428 (10L)	3.23	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	1	2.62	2	-0.25	0
2L	1.96	1	2.81	2	-0.18	0
3L	2.15	2	2.87	2	-0.04	-1
4L	2.33	3	2.90	2	0.11	-1
5L	2.49	3	2.90	2	0.26	-1
8L	2.81	4	2.92	3	0.67	0
10L	2.97	3	2.94	3	0.88	1

WIBOR rates

Term	%	Change (bps)
O/N	1.59	16
T/N	1.59	4
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	1.77	1
9x12	1.82	1
3x9	1.81	0
6x12	1.86	0

Measures of fiscal risk

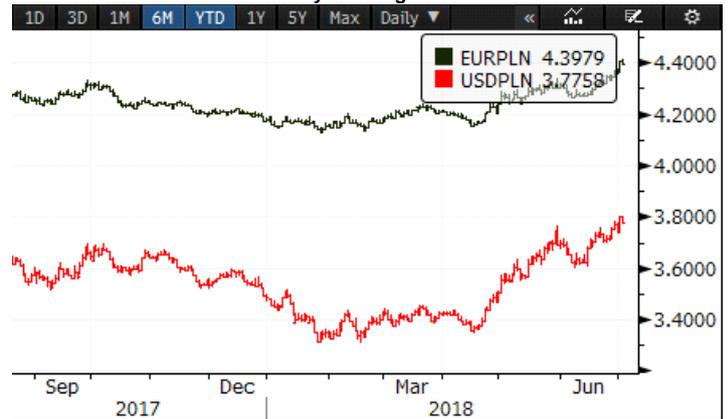
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.91	1
France	27	-1	0.34	-1
Hungary	116	1	3.41	-4
Spain	69	-1	0.97	-2
Italy	229	-3	2.31	-4
Portugal	64	0	1.44	-2
Ireland	25	0	0.50	-1
Germany	12	0	-	-

* 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

TIME CET	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE		
			MARKET	BZWBK				
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	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	54.2	53.3
9:55	DE	PMI – manufacturing	Jun	pts	55.9	-	55.9	55.9
10:00	EZ	PMI – manufacturing	Jun	pts	55.0	-	54.9	55.0
10:00	PL	Flash CPI	Jun	% y/y	2.0	2.1	1.9	1.7
16:00	US	ISM – manufacturing	Jun	pts	58.5	-	60.2	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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Additional information is available on request. Please contact Bank Zachodni WBK S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawla II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@bzbwbk.pl, http://www.bzbwbk.pl.