

EYEOPENER

9 July 2018

German data above forecasts again

- After orders and output, also German exports surprise to the upside
- German data supported the euro and CEE currencies
- Trade wars and cheaper oil push yields down
- British minister for Brexit resigned
- Poland's unemployment down, S&P forecasts up

Friday saw a further rebound on the financial markets. The Polish bonds gained further, following the core markets, the zloty gained versus the dollar and the dollar weakened to euro, driving EURPLN higher. Other CEE currencies gained. Data from the German industry surprised to the upside, and so did US non-farm payrolls (yet unemployment and wage data were not that positive). Additionally, this morning we saw better-than-expected data on German exports in May. US launch of trade duties against China triggered an immediate retaliatory action. However, threat of introduction of further duties by the US president against China (on imports worth as much as \$500bn) did not undermine US and Asian stock markets, which were in black thanks to positive US data on information about possible agreement about trade tariff on cars between the EU and the US. Polish Ministry of Labour informed about fall of registered unemployment rate and the S&P agency revised its forecasts for Poland upwards. Yesterday late in the evening the British minister for Brexit David Davis resigned as he did not agree with the PM May's strategy of further negotiations with the EU ("soft Brexit"). Today the pound is gaining versus the main currencies.

The Ministry of Labour informed that **unemployment rate** fell to 5.9% in June. The number of the unemployed went below one million (969k) for the first time since early 90s. The data from the ministry support our forecast that the final reading from Statistics Poland will show 5.9%. In our view the unemployment rate will stay below 6% until the end of the year, but the decline of the unemployment will be slowing down.

S&P agency reviewed its macroeconomic forecasts for Poland. Main changes were GDP growth for 2018 (up from 4.5% to 4.7%) and average inflation (from 2.5% to 1.7%) Fiscal forecasts were not changed much – general government deficit is still expected by the agency at 2% of GDP and the estimate of gross public debt-to-GDP ratio was lowered from 49.5% to 49.4%.

On Friday **EURUSD** rose to 1.1740 from 1.1690, fueled by solid Germany industry data and information that the US can mitigate their negotiation position about tariffs on car imports. Quite solid US labour market data did not stop the upward trend in EURUSD, as the simultaneous increase in employment and professional activity does not, according to investors, generate the risk of Fed turning towards more aggressive policy tightening. Today EURUSD is already above 1.1770 and we expect a further appreciation of the single currency against the greenback, which will likely be fueled by solid German export data (released this morning).

There was a failed upward rebound of **EURPLN** on Friday, prevented by a rise of euro vs the dollar. USDPLN decreased from 3.72 to 3.71. This morning the zloty took advantage from the improved global sentiment and EURPLN descended below 4.35. The exchange rate may move even lower today with a further rise of EURUSD.

In case of other currencies of the region, the forint and the koruna strengthened vs the euro, and the ruble vs the dollar. EURHUF came down from 323.8 to 322.9, supported by improved readings from industry. EURCZK was stable close to 25.90. In case of USDRUB there was a decrease from 63.30 to 63, despite weaker oil and Russia placing tariffs on US goods. The ruble was supported by a slightly higher than expected print of inflation for June.

On the core bond markets, US and German curves shifted down by 1 bp, reacting to the information about new trade duties and fall of oil prices. Today we expect yields to increase slightly in reaction to the solid German export data.

On Friday **domestic and CEE bonds** were strengthening further, following the core markets. Sovereign yields decreased by 3bp in the 5-10Y segment and by 1bp in 2Y segment. The IRS curve fell slightly less considerably, which was translated into narrowing of the asset swap spread. Today we expect the Polish bonds yield to stabilise.

This week should be calmer. Donald Trump is currently eyeing oil-producing countries, so markets will have some time to recover, but USA-EU-China talks on new trade framework are on, and we cannot exclude another round of retaliatory measures for the already introduced tariffs. Macro calendar is not really rich. We will get to see some data on inflation, new NBP projection and MPC decision.

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FX market

Today's opening

EURPLN	4.3414	CZKPLN	0.1678
USDPLN	3.6877	HUFPLN*	1.3455
EURUSD	1.1773	RUBPLN	0.0588
CHFPLN	3.7363	NOKPLN	0.4606
GBPPLN	4.9127	DKKPLN	0.5826
USDCNY	6.6223	SEKPLN	0.4245

*for 100HUF

Last session in the FX market

06/07/2018

	min	max	open	close	fixing
EURPLN	4.347	4.371	4.354	4.355	4.36
USDPLN	3.702	3.730	3.722	3.718	3.7222
EURUSD	1.167	1.177	1.170	1.175	-

Interest rate market

06/07/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0720 (2L)	1.62	1	15-Jun-18	OK0720	1.605
DS1023 (5L)	2.50	-2	15-Jun-18	PS0123	2.393
WS0428 (10L)	3.17	-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	0	-0.26	0
2L	1.96	-1	2.80	-1	-0.17	0
3L	2.13	-1	2.86	-1	-0.03	0
4L	2.30	-2	2.87	-1	0.12	0
5L	2.45	-1	2.88	0	0.26	-1
8L	2.77	-2	2.89	0	0.65	-1
10L	2.93	-2	2.91	0	0.86	0

WIBOR rates

Term	%	Change (bps)
O/N	1.57	-1
T/N	1.58	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	1.75	0
9x12	1.81	-1
3x9	1.80	-1
6x12	1.84	-2

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.88	-3
France	26	0	0.34	0
Hungary	116	1	3.16	0
Spain	68	0	1.01	-1
Italy	229	-3	2.38	-4
Portugal	64	0	1.51	0
Ireland	25	0	0.50	0
Germany	12	0	-	-

* 10Y treasury bonds over 10Y Bunds

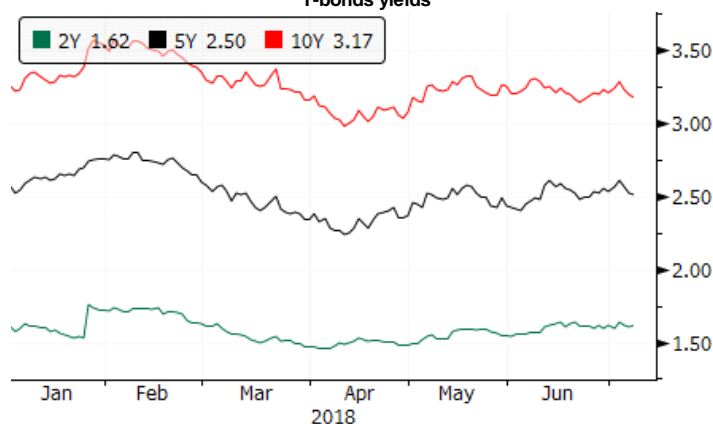
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

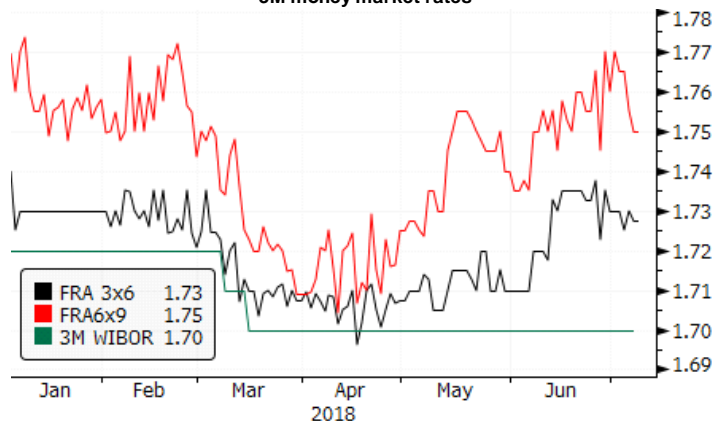
Zloty exchange rate



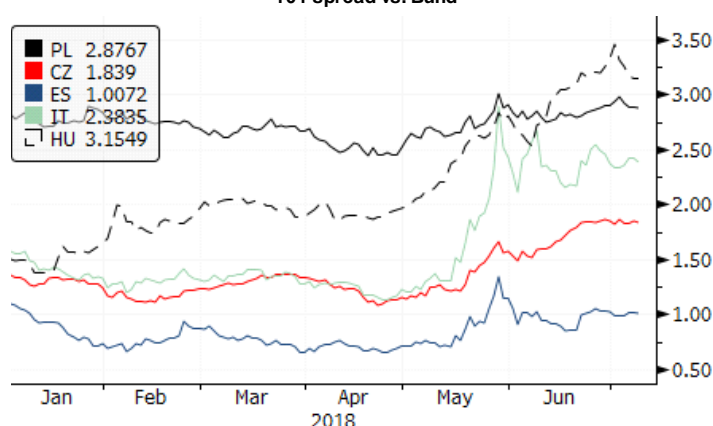
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME	INDICATOR		PERIOD		FORECAST		ACTUAL	LAST
CET					MARKET	BZWBK	VALUE	VALUE
FRIDAY (6 July)								
08:00	DE	Industrial Production SA	May	% m/m	0.3		2.6	-1.0
09:00	HU	Industrial Production SA	May	% y/y	2.1		3.8	2.9
14:30	US	Change in Nonfarm Payrolls	Jun	k	195		213	244
14:30	US	Unemployment Rate	Jun	%	3.8		4.0	3.8
MONDAY (9 July)								
08:00	DE	Exports SA	May	% m/m	0.3		-	-0.3
09:00	CZ	Industrial Production	May	% y/y	-		-	5.5
TUESDAY (10 July)								
09:00	HU	CPI	Jun	% y/y	3.1		-	2.8
11:00	DE	ZEW Survey Current Situation	Jul	pts	78.1		-	80.6
WEDNESDAY (11 July)								
	PL	MPC decision		%	1.5	1.5	-	1.5
09:00	CZ	CPI	Jun	% y/y	2.5		-	2.2
THURSDAY (12 July)								
08:00	DE	HICP	Jun	% m/m	0.1		-	0.1
10:00	PL	GUS Trade Balance	May	€mn	-		-	-
11:00	EZ	Industrial Production SA	May	% m/m	0.7		-	-0.9
11:30	PL	Bond Switch Auction			-			
14:30	US	CPI	Jun	% m/m	0.2		-	0.2
14:30	US	Initial Jobless Claims		k	225.0		-	227.0
FRIDAY (13 July)								
09:00	CZ	CNB minutes	Jun-18		-			
10:00	PL	CPI	Jun	% y/y	1.9	1.9	-	1.6
16:00	US	Michigan index	Jul	pts	98.2		-	98.2

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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