

EYEOPENER

11 July 2018

Trade wars: empire strikes back

- **Trump announced new tariffs on Chinese goods, market sentiment weakened**
- **Dollar strengthening prevented CEE currencies from gaining**
- **Polish IRS and bond yields higher, following Bund**
- **Today, Polish MPC decision and inflation in Czechia**

The new hope, which appeared on Monday, was also present on the market yesterday. The end of German political crisis and lower menace of trade wars intensification made the European stock markets record some gains. This was negative for core bonds. Return of the demand for risky assets did not translate into strengthening of EM currencies, as weak data from Germany undermined the euro versus the dollar. July ZEW fell more than expected – current situation subindex fell for the sixth time in a row, to the lowest level since December 2016, while expectations index fell to the lowest level since August 2012 (-24.7pts).

The trade wars theme was muted for only a short period. Yesterday evening the US president Donald Trump launched the process of **extension tariffs on Chinese goods**, this time to cover goods worth \$200bn. The 10% charge might come into force in September. Together with the tariffs already in place, higher rates would cover nearly half of current Chinese exports to the USA. China has already declared it will have no other way but to retaliate. Trump's decision worsened sentiment on financial markets, triggering a decline of oil and metal prices and slump on Asian equities. Fears about the impact of escalating trade wars on global economy are back, however they have not caused a significant impact on European markets yet.

EURUSD fell yesterday temporarily below 1.169 after the below-consensus German data, nearing the Friday's bottom. In the evening, the exchange rate rebounded to c1.174 and is slightly below this level today in the morning. Taking a broader look at the market, EURUSD is hovering near 1.18 resistance and the next days could determine if the upside trend accelerates or the euro will give up part of its recent gains. No important events are on the agenda today so the exchange rate could remain fairly stable slightly below 1.18 waiting for the tomorrow's US CPI data.

EURPLN rebounded yesterday temporarily to 4.34 after a significant drop seen in the previous days but at the end of the session the exchange rate returned below 4.32. USDPLN rebounded to 3.70 from 3.67 also thanks to dollar appreciation vs the euro. The recent decline of EURPLN was pretty sharp and we think the exchange rate could stabilize just above 4.30 later this week. Next months could bring EURPLN lower if the global sentiment is supportive and not distorted by escalation of trade wars concerns.

In case of the **other CEE currencies**, the koruna and forint depreciated in the first part of the session just like the zloty but later in the day managed to recover partly. The ruble outperformed in the CEE region thanks to rising oil prices.

On the **domestic bond market**, IRS rates and bond yields rose by 2-3bp on the belly and the long end of the curve, while the short end the curve remained stable. Polish T-bonds followed the core bond markets, where the debt prices fell due to decreased demand for the safe haven assets. Last week, yield of Polish 10Y treasuries rebounded from a resistance at 3.35% and made an unsuccessful attempt to drop below the support at 3.20%. Since May, yield of 10Y benchmark has oscillated in the horizontal trend and the today's MPC press conference should not change this.

The Ministry of Finance (MoF) informed it plans to buy back bonds PS0718, OK1018 and WZ0119 and to sell OK0720, PS0123, WZ0524, WS0428 and WZ0528. MoF data show that Polish banks are to most significant holder of bonds due for buyback.

The MPC decision will be announced today. It is the last meeting before the summer break and the Council will see the results of the new NBP's economic projection. NBP governor Adam Glapiński signalled he expects to see a lower path of CPI vs. March edition (given that, so far, the actual path deviated down from the last projection and that, in his view, wage pressure is not significant). While in the short run it may be indeed the case, we have doubts if the projection would really drop notably in longer horizon. Moreover, we think that even a large swing in projection is not very likely to destabilise the strong conviction of the majority of MPC members to keep rates stable for long.

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FX market

Today's opening

EURPLN	4.3354	CZKPLN	0.1673
USDPLN	3.6950	HUFPLN*	1.3353
EURUSD	1.1733	RUBPLN	0.0595
CHFPLN	3.7279	NOKPLN	0.4591
GBPPLN	4.9021	DKKPLN	0.5817
USDCNY	6.6581	SEKPLN	0.4210

*for 100HUF

Last session in the FX market

10/07/2018

	min	max	open	close	fixing
EURPLN	4.308	4.338	4.315	4.318	4.3356
USDPLN	3.665	3.703	3.673	3.680	3.6973
EURUSD	1.169	1.176	1.175	1.173	-

Interest rate market

10/07/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0720 (2L)	1.63	0	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	2.63	1	-0.26	0
2L	1.97	1	2.82	1	-0.17	0
3L	2.16	2	2.89	1	-0.03	1
4L	2.34	2	2.91	1	0.13	1
5L	2.49	2	2.91	2	0.28	2
8L	2.82	3	2.93	2	0.68	2
10L	2.97	2	2.95	2	0.88	2

WIBOR rates

Term	%	Change (bps)
O/N	1.59	1
T/N	1.59	1
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	-1
3x6	1.73	0
6x9	1.76	1
9x12	1.82	0
3x9	1.80	0
6x12	1.85	1

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.83	-3
France	26	0	0.27	-6
Hungary	116	1	3.03	-3
Spain	66	-1	0.91	-5
Italy	229	-3	2.31	-3
Portugal	64	0	1.38	-5
Ireland	25	0	0.44	-6
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

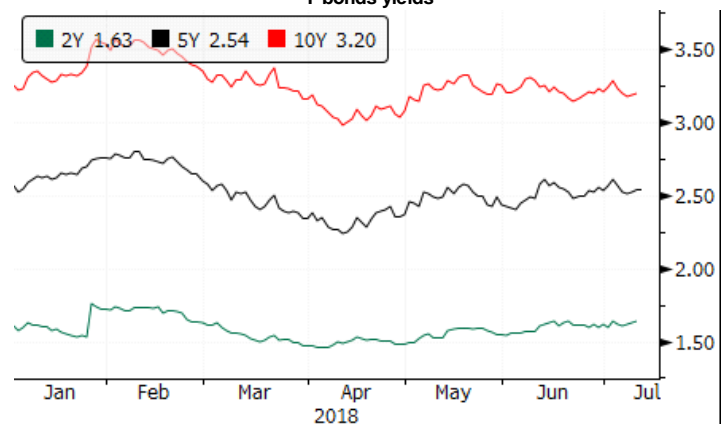
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

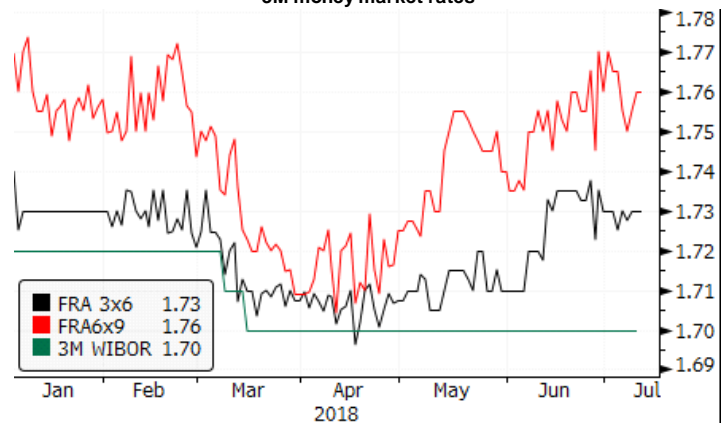
Zloty exchange rate



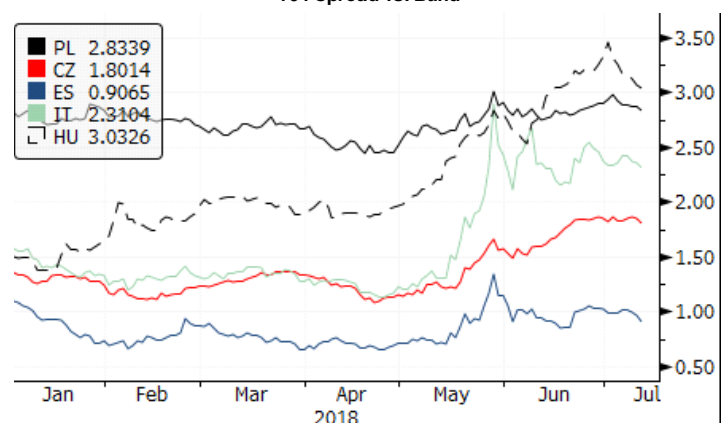
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME		INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE	
CET				MARKET	BZWBK			
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	-	1.8	-0.3
09:00	CZ	Industrial Production	May	% y/y	-	-	1.4	5.5
TUESDAY (10 July)								
09:00	HU	CPI	Jun	% y/y	3.1	-	3.1	2.8
11:00	DE	ZEW Survey Current Situation	Jul	pts	78.1	-	72.4	80.6
WEDNESDAY (11 July)								
	PL	MPC decision		%	1.50	1.50		1.50
09:00	CZ	CPI	Jun	% y/y	2.5	-	2.6	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	week	k	225	-		227
FRIDAY (13 July)								
09:00	CZ	CNB minutes			-			
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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