

EYEOPENER

18 July 2018

Wage growth accelerated, 10Y bonds strongest since April

- Wages rose at a higher pace, employment growth stable
- Dollar regained strength, yields dropped
- Zloty gained for a fourth session running
- Domestic yields kept decreasing
- Today data output and PPI in Poland, Fed's Beige Book

The zloty has been appreciating against euro on Tuesday, hand in hand with debt strengthening. Yields of US and German bonds were also in decline, although at slower pace than Polish ones. Dollar was gaining against euro, which was a consequence of Fed Governor's speech in the US Senate. Equity markets were gaining, oil prices remained stable (after few days of declines), similarly as most industrial metals. Global markets were focusing on comments after the Trump-Putin meeting, and negotiations on car tariffs between EU and USA. US industrial output data surprised positively and the Fed Chairman in his testimony before Senate positively assessed the state of the economy. At the same time, he expressed worries about the impact of tariff introduction on the economy in the long horizon. Polish data about wage growth surprised to the upside and employment was in line with expectations. In today's agenda we have the Fed's Beige Book, Jerome Powell's second speech in the US Congress and the European HICP data.

In June, Poland **wages in the corporate sector accelerated to 7.5% y/y from 7.0% y/y**. It was a slightly slower pace of growth than we estimated (7.7% y/y), but much higher than the market consensus of 7.0% y/y. In our view, wage pressure is still present in the economy and we might soon see wage growth breaching 8% y/y. Employment still rose 3.7% y/y, but we expect a deceleration in 2H18. With real wage bill rising 9.4% y/y in June we still can count on increases in private consumption of c5% y/y in 2Q and the following quarters.

Today at 10:00 the **stat office will release Poland output and PPI data**. We expect the industrial output accelerated in June.

The sector was supported by positive working-day effect. The improvement in May data from Germany also bodes well for the Polish manufacturing. Construction, on the other hand, did not accelerate in June versus May, in our view. We expect the sector to be slowing down in the months to come. We forecast the PPI inflation to jump above 3% y/y on weaker zloty and higher commodity prices. Usually higher PPI precedes spikes in CPI.

EURUSD rose during the first half of the day to 1.174 continuing the Monday impulse. With the begging of the US session, the dollar started to make up losses thanks to the publication of the Fed chairman's speech in the US Senate. As a result, at the end of the day, the exchange rate was slightly lower than 1.17 and today in the morning it fell to less than 1.165.

Yesterday **EURPLN** fell for the fourth session in a row and broke 4.30. **USDPLN** was stable close to 3.67 until the evening, when the dollar strengthening pushed the rate 0.02PLN higher. Today we will get to see data on Polish industrial output and our forecast is above the consensus, but domestic data can be overshadowed by rising EURUSD volatility. In our view, today EURPLN will stay close to 4.30. **Other CEE currencies** remained stable yesterday (the forint and the koruna) or lost somewhat (the ruble).

On the **domestic interest rate market**, Tuesday was another day of significant falls in yields, with the trend clearly gaining strength (10Y bond yield fell by 8bps). The better-than-expected data on wages were ignored by investors, who remain focused on next week's buyback (when PLN15bn are flowing into market). Foreign debt also gained, but less considerably. Strengthening at the longer end of the yield curve accelerated after yields broke support at 3.20%. If downward move of core yields holds, then today's data on industrial output and possible rebound of PPI above 3% do not have to affect Polish bonds negatively.

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FX market

Today's opening

EURPLN	4.3022	CZKPLN	0.1663
USDPLN	3.6970	HUFPLN*	1.3285
EURUSD	1.1637	RUBPLN	0.0589
CHFPLN	3.6885	NOKPLN	0.4523
GBPPLN	4.8425	DKKPLN	0.5771
USDCNY	6.7079	SEKPLN	0.4168

*for 100HUF

Last session in the FX market

17/07/2018

	min	max	open	close	fixing
EURPLN	4.291	4.310	4.309	4.297	4.2998
USDPLN	3.661	3.687	3.681	3.687	3.6619
EURUSD	1.165	1.175	1.171	1.165	-

Interest rate market

17/07/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0720 (2L)	1.59	-1	15-Jun-18	OK0720	1.605
DS1023 (5L)	2.45	0	15-Jun-18	PS0123	2.393
WS0428 (10L)	3.08	-8	15-Jun-18	WS0428	3.197

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.74	0	2.65	1	-0.26	0
2L	1.91	-2	2.83	1	-0.17	0
3L	2.09	-4	2.89	1	-0.03	0
4L	2.26	-5	2.90	1	0.12	1
5L	2.41	-5	2.90	1	0.27	-1
8L	2.71	-6	2.91	0	0.65	-1
10L	2.87	-6	2.92	0	0.87	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.59	0
T/N	1.59	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	1.71	0
6x9	1.73	0
9x12	1.77	-1
3x9	1.79	0
6x12	1.81	-1

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.72	-8
France	26	0	0.28	0
Hungary	116	1	2.95	0
Spain	67	-1	0.90	0
Italy	229	-3	2.11	-1
Portugal	64	0	1.38	0
Ireland	25	0	0.45	0
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

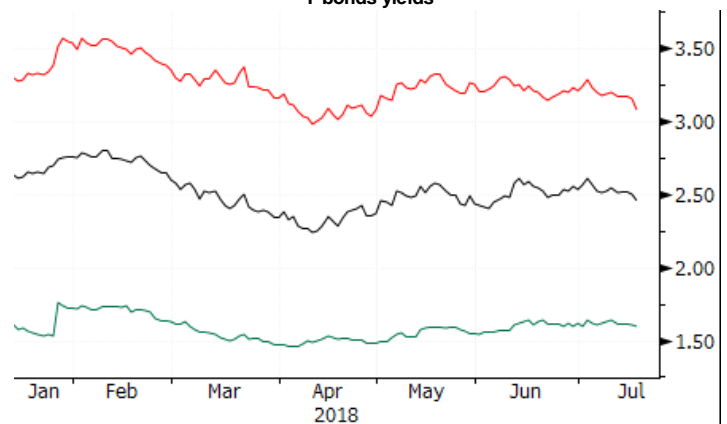
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

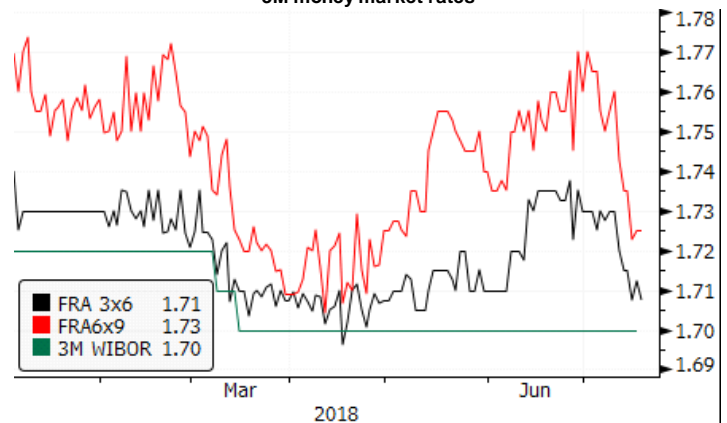
Zloty exchange rate



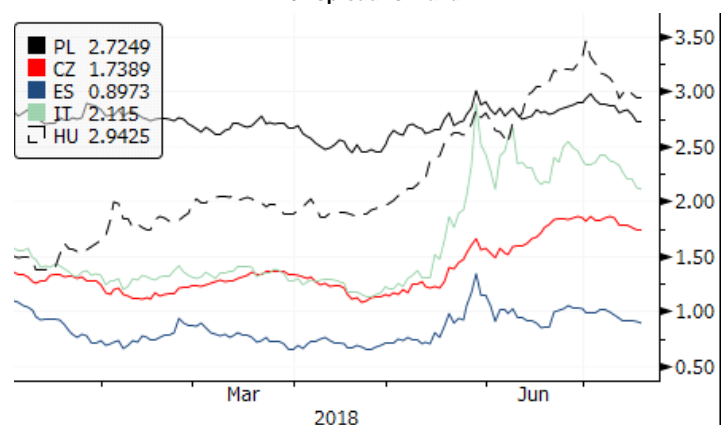
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar								
TIME		INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST
CET	MARKET				BZWBK	VALUE		
FRIDAY (13 July)								
09:00	CZ	CNB minutes	Mar-01		-			
10:00	PL	CPI	Jun	% y/y	-	1.9	2.0	1.9
16:00	US	Michigan index	Jul	pts	98.0	-	97.1	98.2
MONDAY (16 July)								
14:00	PL	CPI Core	Jun	% y/y	0.6	0.5	0.6	0.5
14:00	PL	Current Account Balance	May	€mn	-153.0	-563.3	42	-21.0
14:00	PL	Trade Balance	May	€mn	-25.0	-272.0	98	314.0
14:00	PL	Exports	May	€mn	17325.0	17148.0	17251	17176.0
14:00	PL	Imports	May	€mn	17410.0	17420.0	17153	16862.0
14:30	US	Retail Sales Advance	Jun	% m/m	0.5	-	0.5	0.8
TUESDAY (17 July)								
10:00	PL	Employment in corporate sector	Jun	% y/y	3.7	3.62	3.7	3.7
10:00	PL	Average Gross Wages	Jun	% y/y	7.0	7.7	7.5	7.0
15:15	US	Industrial Production	Jun	% m/m	0.55		0.6	-0.09
WEDNESDAY (18 July)								
10:00	PL	Sold Industrial Output	Jun	% y/y	5.95	7.0	-	5.4
10:00	PL	Construction Output	Jun	% y/y	20.35	19.5	-	20.8
10:00	PL	PPI	Jun	% y/y	3.6	3.5	-	2.8
10:00	PL	Consumer Confidence	Mar-01					
11:00	EZ	HICP	Jun	% y/y	2.0		-	2.0
14:30	US	Housing Starts	Jun	% m/m	-1.7		-	5.0
20:00	US	Beige Book						
THURSDAY (19 July)								
14:30	US	Initial Jobless Claims		k	225.0		-	214.0
14:30	US	Index Philly Fed	Jul		20.5		-	19.9
FRIDAY (20 July)								
10:00	PL	Retail Sales Real	Jun	% y/y	6.8	7.3	-	6.1
10:00	PL	Stats Poland business sentiment	Jul-18	pts				

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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