

EYEOPENER

23 July 2018

Trump hit USD, consumption remained strong

- **US president remarks hit USD**
- **Domestic retail sales surprised on the positive side**
- **Zloty and CEE currencies little stronger**
- **Domestic and core market yields clearly up**
- **Today: In Poland money supply data, abroad US real estate**

On Friday the trade was relatively calm. The FX market was quite stable near to Thursday closing level, stock indices went down and bond yields climbed. A slightly higher volatility of the FX market was recorded in the afternoon, in reaction to comments of the US president that the USA is punished by positive economic results by rate hikes and strong dollar, while other countries keep rates low and their currencies are weak. This comment undermined the US currency, as it suggested that US interest rates go up too quickly. Today markets started the day with higher yields – given speculation that the Bank of Japan's policy may evolve into supporting higher rates – and stronger dollar, given last comments of US politicians and US threats against Iran..

In Poland, retail sales growth in June was 10.3% y/y in nominal terms and 8.2% y/y in constant prices. It was a clear acceleration vs May (with 7.6% y/y and 6.1% accordingly). The real growth easily beat the consensus of 6.8% and our above-consensus call (7.3%). What caught our attention was the strong rebound of durables, from 4.5% y/y to 11.8%. This was a consequence of continued very high consumer confidence and strong growth of wage bill as well as a time-shift in purchases as May, with two long weekends and nice weather discouraging from visits in malls, offered relatively little time for shopping. Retail sales in the final month of 2Q confirmed our call for private consumption and GDP to both stick to c5% y/y in the quarter.

The synthetic indicator of business climate increased in July from 109 to 109.6. The sentiment improved in manufacturing (thanks to better output expectations) and in trade. Moods in services deteriorated for the fifth straight month (due to a further decline of demand assessment). The indicator for construction, despite a small drop, has been the highest among all sectors. In the economy as a whole, the assessment of current situation improved while expectations about the future remained at high levels.

On Friday **EURUSD** fluctuated around 1.165 but in the second half of the session dollar started losing after USA president's statement. As a result, at the end of the day exchange rate was over 1.17. Today we won't see many important data, however the easing of Trump's statement by American administration representatives on the weekend should let dollar make up for part of losses. Technically, EURUSD is close to important resistances and with no significant data publication there might be a lack of impulses to EURUSD increases.

EURPLN slid on Friday to 4.315 and **USDPLN** to 3.685 due to the weaker dollar and despite weaker stock markets. The Polish currency was supported by domestic data on retail sales. Today the zloty is likely to weaken given some losses on the stock market.

The remaining CEE currencies also benefited from weaker dollar - **EURHUF** fell to 325 from 327.5, **EURCZK** eased to 25.84 from 25.9, while **USDRUB** dropped to 63.7 from 63.76..

On the domestic interest rate market IRS and bond yields were on the rise on Friday amid weakening observed abroad and due to profit taking after the recent strengthening. As a result, the bond curve moved 1-5bp up and IRS by 1-3bp. Part of this move was a reaction to the better than expected Poland retail sales data. Today in the morning yields rise abroad driven by market talking about a change in Bank of Japan policy on the bond market. This could weigh on the Polish bonds at the beginning of the week. Deputy PM Piotr Nowak said that the Ministry does not plan to increase the 4Q bond supply, he did not exclude that some debt could be issued on the foreign market..

This week, we will get to know the eurozone flash PMI reading for July and ECB decision. The risk factor for the stabilisation of the zloty may be the preliminary 2Q18 US GDP (the strong reading can strengthen demand for the USD). We estimate that in June Polish central budget was still in surplus. In our opinion, the redemption of bonds (PLN9.5bn principal and PLN5.2bn interest payments) will be the main driver of the domestic debt market. The bond auction, where the Ministry of Finance plans to offer PLN4-8bn, is not really likely to be an obstacle for yields drops. We think that solid liquidity position of the Polish budget will encourage the Ministry of Finance to lower supply and set up higher pricing criteria..

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FX market

Today's opening

EURPLN	4.3227	CZKPLN	0.1672
USDPLN	3.6866	HUFPLN*	1.3283
EURUSD	1.1725	RUBPLN	0.0583
CHFPLN	3.7193	NOKPLN	0.4508
GBPPLN	4.8432	DKKPLN	0.5801
USDCNY	6.7656	SEKPLN	0.4165

*for 100HUF

Last session in the FX market 20/07/2018

	min	max	open	close	fixing
EURPLN	4.314	4.352	4.342	4.318	4.3275
USDPLN	3.681	3.741	3.740	3.683	3.717
EURUSD	1.161	1.174	1.161	1.172	-

Interest rate market 20/07/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0720 (2L)	1.61	2	12-Jul-18	OK0720	1.627
DS1023 (5L)	2.52	6	12-Jul-18	PS0123	2.356
WS0428 (10L)	3.17	5	12-Jul-18	WS0428	3.167

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.74	0	2.65	0	-0.26	0
2L	1.94	2	2.83	1	-0.16	0
3L	2.12	2	2.89	1	-0.02	1
4L	2.30	3	2.90	2	0.13	2
5L	2.46	4	2.91	3	0.28	2
8L	2.76	4	2.93	4	0.68	3
10L	2.92	4	2.95	4	0.89	3

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	1.74	2
9x12	1.79	2
3x9	1.79	0
6x12	1.81	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.78	3
France	26	0	0.32	1
Hungary	116	1	2.98	-1
Spain	68	1	1.00	6
Italy	211	2	2.21	-1
Portugal	64	0	1.40	-1
Ireland	25	0	0.48	1
Germany	12	1	-	-

* 10Y treasury bonds over 10Y Bunds

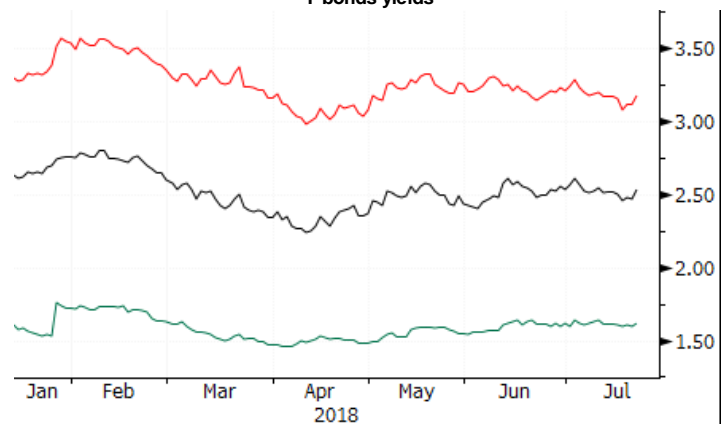
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

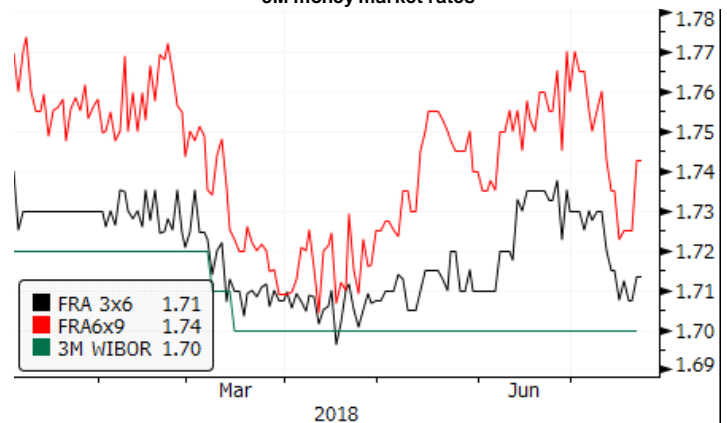
Zloty exchange rate



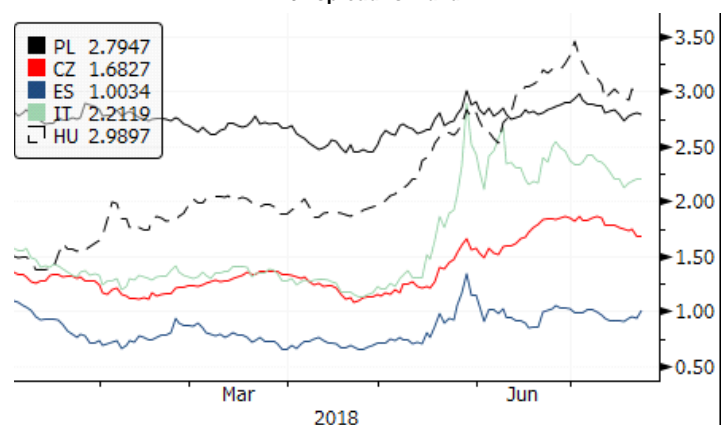
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic Calendar								
TIME		INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE	
CET				MARKET	BZWBK			
FRIDAY (20 July)								
10:00	PL	Retail Sales Real	Jun	% y/y	6.8	7.3	8.2	6.1
10:00	PL	Stats Poland business sentiment		pts				
MONDAY (23 July)								
14:00	PL	Money Supply M3	Jun	% y/y	7.3	7.3		6.6
16:00	US	Existing Home Sales	Jun	% m/m	0.5	-		-0.4
TUESDAY (24 July)								
09:30	DE	Flash Germany Manufacturing PMI	Jul	pts	55.5	-		55.9
09:30	DE	Flash Markit Germany Services PMI	Jul	pts	54.4	-		54.5
10:00	EZ	Flash Eurozone Manufacturing PMI	Jul	pts	54.5	-		54.9
10:00	EZ	Flash Eurozone Services PMI	Jul	pts	55.5	-		55.2
10:00	PL	Unemployment Rate	Jun	%	5.9	5.9		6.1
14:00	HU	Central Bank Rate Decision		%	0.90	-		0.90
WEDNESDAY (25 July)								
	PL	Central Budget Cumul.	Jun	bn PLN	-	5.2		9.5
10:00	DE	IFO Business Climate	Jul	pts	101.5	-		101.8
16:00	US	New Home Sales	Jun	% m/m	-2.8	-		6.7
THURSDAY (26 July)								
13:45	EZ	ECB Main Refinancing Rate		%	0.0	-		0.0
14:30	US	Durable Goods Orders	Jun	% m/m	2.7	-		-0.4
14:30	US	Initial Jobless Claims	week	k	220	-		214
FRIDAY (27 July)								
11:30	PL	Bond Auction						
14:30	US	GDP Annualized	2Q	% Q/Q	4.0	-		2.0
16:00	US	Michigan index	Jul	pts	97.3	-		97.1

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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