

EYEOPENER

25 July 2018

Zloty stronger, another US-EU negotiation round

- **German and Eurozone data surprised on the positive side supporting risky assets**
- **Zloty and CEE currencies gain thanks to better market mood**
- **Polish bonds still stronger than core markets peers**
- **Today: German Ifo, US real estate data and EU-US trade tariffs meeting in White House**

The optimism has dominated global markets on Tuesday, which to large extent was triggered by data from Europe. Flash readings of July PMIs for euro zone and Germany were much above expectations. Although a clear rebound of those indicators after a few months of declines has impressed investors (stock markets on the rise, euro stronger against dollar, CEE currencies appreciated), the details did not look as good as it seems. There was a discrepancy between trends in production and new orders, which rose faster in Germany, but the entire euro zone recorded a slowdown. Moreover, flash services PMI for Germany and euro zone were lower than forecast. Also, the data showed still persisting worries about business climate remaining at current level and weak assessment of export orders (except Germany). While during the yesterday's session the data improved investors' sentiment, earlier depressed by worries about potential impact of trade wars on world economy, in our view it was not enough to confirm that the weakness of economic growth in the euro zone at the start of the year was only transitory. In the afternoon the US administration informed about planned \$12bn aid for farmers hit by trade war, which is yet another signal that the process of lifting tariffs by the USA will be continued. Today the next round of negotiations between EU and USA takes place, which was preceded by Donald Trump's comment that all tariffs and subsidies between EU and USA could be dropped.

EURUSD rose to 1.172 from 1.165 in response to the European data. In the afternoon, the dollar gained pushing EURUSD below the opening level after the US suggested plans to introduce more trade tariffs. Today we will see next German data, this time the Ifo index. It seems that after strong surprise

in PMI headline figures and time investors had to analyze details, there is little chance today's release will trigger significant market reaction. EURUSD could stay below 1.17 waiting for the tomorrow's ECB decision.

Detailed data on wages confirmed that June acceleration to 7.5% y/y from 7.0% y/y was mainly driven by wage increase and bonus payments in mining (+23.9% y/y). Wage growth excluding mining stayed flat at 7.0% y/y and in services wages grew 6.7% y/y vs 6.5% y/y in May.

EURPLN and USDPLN stayed in the down trend for the whole yesterday's session thanks to better-than-expected European data that boosted demand for risky assets. As a result, exchange rates fell to below 4.30 and to 3.67, respectively. EURPLN neared its July bottom at c4.29 and this level could be tested in the coming days should positive global market sentiment persists.

The other CEE currencies also benefited from weaker dollar and higher demand for the risky assets. The ruble was additionally boosted by rising oil prices. The Hungarian central bank left interest rates unchanged and maintained its dovish bias but this did not prevent the forint from gaining amid positive global market mood. Yesterday, EURHUF fell to 325.2 from 327.2, USDRUB declined to 62.63 from 63.15, and EURCZK fell to 25.7 from 25.84 (which was the biggest daily drop since early June). Significant appreciation of koruna was a result of the next hawkish signals from the Czech central bank suggesting that there are still members willing to hike rates after the unexpected rate increase in June.

On the domestic interest rate market Polish bonds continued to outperform their core and euro zone peripheral peers. Bond curve moved 2-4bp down while abroad yields rose or fell only marginally. Polish IRS rose 1-2bp again leading to further narrowing of the 5Y and 10Y asset swap spreads. In our view, domestic debt may remain strong until the end of the week amid positive liquidity situation (today's PLN9.5bn buyback and PLN5.2bn coupon payments) and expected dovish ECB rhetoric.

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FX market

Today's opening

EURPLN	4.2945	CZKPLN	0.1675
USDPLN	3.6725	HUFPLN*	1.3202
EURUSD	1.1693	RUBPLN	0.0581
CHFPLN	3.6993	NOKPLN	0.4494
GBPPLN	4.8357	DKKPLN	0.5764
USDCNY	6.7797	SEKPLN	0.4169

*for 100HUF

Last session in the FX market

24/07/2018

	min	max	open	close	fixing
EURPLN	4.296	4.336	4.328	4.304	4.3256
USDPLN	3.669	3.718	3.699	3.684	3.702
EURUSD	1.166	1.172	1.170	1.168	-

Interest rate market

24/07/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0720 (2L)	1.61	0	12-Jul-18	OK0720	1.627
DS1023 (5L)	2.51	1	12-Jul-18	PS0123	2.356
WS0428 (10L)	3.15	-3	12-Jul-18	WS0428	3.167

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.75	0	2.65	0	-0.26	0
2L	1.94	0	2.86	1	-0.15	1
3L	2.12	0	2.92	1	-0.01	0
4L	2.30	0	2.95	1	0.14	0
5L	2.47	0	2.96	1	0.30	0
8L	2.77	0	2.99	0	0.69	-1
10L	2.93	0	3.01	0	0.90	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.32	-2
T/N	1.40	0
SW	1.55	0
2W	1.59	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	1.70	0
3x6	1.72	1
6x9	1.74	0
9x12	1.80	0
3x9	1.79	0
6x12	1.82	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.76	-2
France	26	0	0.30	0
Hungary	116	1	2.99	1
Spain	67	0	0.98	0
Italy	213	3	2.28	0
Portugal	64	0	1.37	0
Ireland	25	0	0.47	0
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

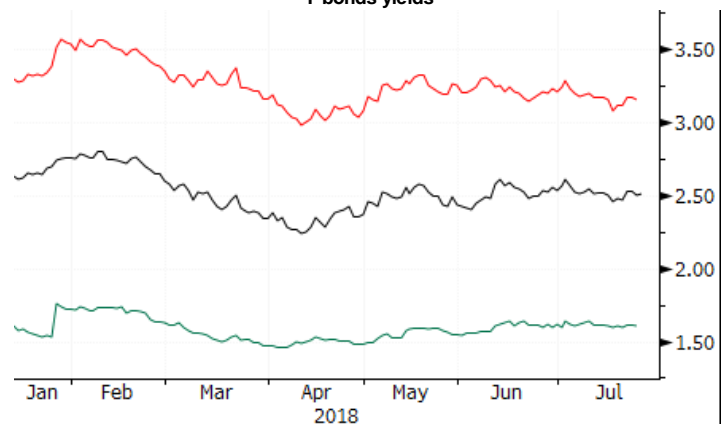
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

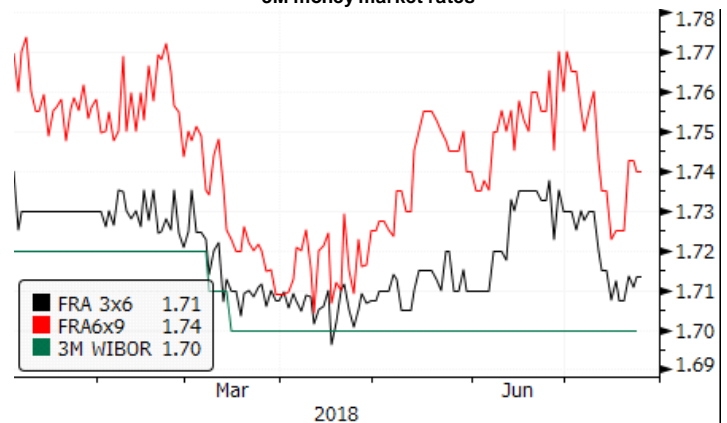
Zloty exchange rate



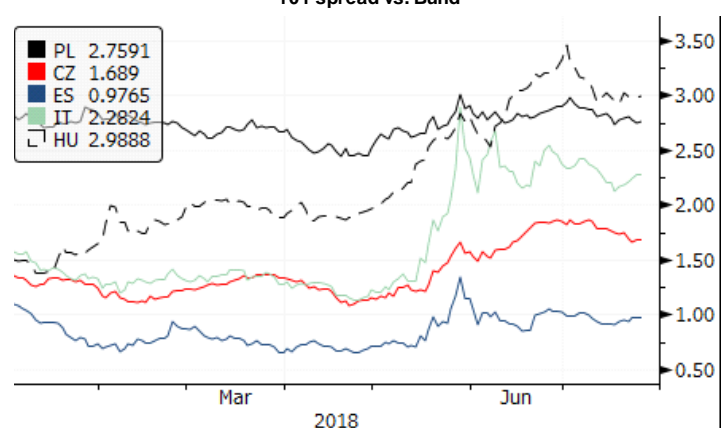
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic Calendar								
TIME		INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST 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	7.3	6.6
16:00	US	Existing Home Sales	Jun	% m/m	0.5	-	-0.6	-0.4
TUESDAY (24 July)								
09:30	DE	Flash Germany Manufacturing PMI	Jul	pts	55.5	57.3	57.3	55.9
09:30	DE	Flash Markit Germany Services PMI	Jul	pts	54.4	54.4	54.4	54.5
10:00	EZ	Flash Eurozone Manufacturing PMI	Jul	pts	54.7	-	55.1	54.9
10:00	EZ	Flash Eurozone Services PMI	Jul	pts	55.1	-	54.4	55.2
10:00	PL	Unemployment Rate	Jun	%	5.9	5.9	5.9	6.1
14:00	HU	Central Bank Rate Decision		%	0.90	-	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	-3.1	-		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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