

# EYEOPENER

26 July 2018

## Bonds gain before the auction, EU-US politicians support markets

- Strong lfo neutral for markets
- EURPLN stable close to July lows, EURUSD above 1.17
- Polish bonds gain before auction, core yields rise after the Trump-Juncker conference
- Today: ECB conference

On Wednesday the global financial market was much calmer than on Tuesday. Next data from Germany (lfo index) surprised to the upside, but as we expected they did not trigger as significant changes as the flash PMIs released one day earlier. As a result, equity markets in Europe trimmed some of the earlier gains, euro was stable against dollar, the appreciation of CEE currencies stopped, and European bond yields declined slightly. Small volatility resulted not only from lack of big surprise in the data but also from the expectation for the result of EU Juncker's visit to the US and today's ECB press conference. Joint declaration of Donald Trump and Jean Claude Juncker about starting the EU-US talks on reduction of tariffs and other trade barriers has been welcome by markets and triggered higher core bond yields and higher EURUSD. One should notice that the leaders also declared higher openness of the European market to American natural gas and soya. From the investors' point of view, one of the more important messages was US president's declaration to put on hold any new tariffs until the end of negotiations.

According to **NBP Quick Monitoring**, in 1H18 Polish companies were positive about their situation, but recorded some weakening of their financial results and profitability, fast growth of labour costs and further escalation of problems with finding staff. The economy was also struggling with high level of capacity utilization and this problem was especially acute in construction. Results of the survey are in line with our forecast of slight GDP deceleration in the quarters to come.

Yesterday **EURUSD** was moving in the Tuesday oscillation range and was close to 1.17. Overnight, EURUSD surpassed 1.17 in reaction to news from the Trump-Juncker meeting.

Today markets will focus on the ECB press conference. One month ago the bank confirmed it wants to end the QE programme in 2018 and the first rate hike is possible in 2H19. As these declarations were expressed already in June, the today's meeting is not expected to bring any crucial information and we do not think that comments from the press conference will be important for the trade.

On Wednesday **EURPLN** and **USDPLN** were fluctuating close to Tuesday's minimums achieved i.a. as a reaction to strong data from Europe. Yesterday, there were no new, strong enough, signals that would allow continuation of zloty appreciation. The other CEE currencies also didn't change significantly. Only ruble was positively outstanding, benefiting from further oil price increase. EURPLN exchange rate still remains slightly above July's minimum at about 4.29 and today, zloty should continue strengthening, as a reaction to positive message from UE-USA trade negotiation, trying to beat 4.29. If in the next few days, there are no positive signals, the pressure of realizing profits from the last EURPLN drop might progress while getting closer to the end of the week.

**On the domestic interest rate market** IRS and bond yields fell by c2bp along the curves owing to strengthening observed abroad. The Ministry of Finance reduced the planned supply at tomorrow's auction to PLN4-7bn (from PLN4-8bn) but it seems that investors counted for a more significant cut because yields rose c2bp after this information was released leading to market giving up half of earlier gains. In our view, the outlook for the tomorrow's auction is pretty good. In the recent days, Polish bonds were outperforming their foreign peers (thanks to positive liquidity conditions) but we think that global factors could again start to play main role on the domestic market in the days to come. Today, Polish bonds might follow core debt that saw yields rising after the Trump-Juncker meeting. Until the end of the week, the ECB will hold a post-meeting press conference (today) and we will see a first estimate of the US 2Q GDP (tomorrow). In our view, the latter could be more important for the market.

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## FX market

## Today's opening

EURPLN	4.2986	CZKPLN	0.1678
USDPLN	3.6655	HUFPLN*	1.3213
EURUSD	1.1727	RUBPLN	0.0583
CHFPLN	3.6951	NOKPLN	0.4507
GBPPLN	4.8387	DKKPLN	0.5769
USDCNY	6.7863	SEKPLN	0.4189

\*for 100HUF

## Last session in the FX market 25/07/2018

	min	max	open	close	fixing
EURPLN	4.294	4.311	4.304	4.303	4.3035
USDPLN	3.670	3.694	3.684	3.684	3.6793
EURUSD	1.166	1.171	1.168	1.168	-

## Interest rate market

25/07/2018

## T-bonds on the interbank market\*\*

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0720 (2L)	1.58	-2	12-Jul-18	OK0720	1.627
DS1023 (5L)	2.48	0	12-Jul-18	PS0123	2.356
WS0428 (10L)	3.12	-2	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	2.85	-1	-0.16	-1
3L	2.12	0	2.91	-1	-0.01	0
4L	2.30	0	2.94	-1	0.14	0
5L	2.45	-1	2.95	-1	0.30	0
8L	2.76	-1	2.97	-2	0.68	0
10L	2.92	-1	2.99	-2	0.89	-1

## WIBOR rates

Term	%	Change (bps)
O/N	1.49	17
T/N	1.49	9
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	1.71	0
6x9	1.74	-1
9x12	1.79	0
3x9	1.79	0
6x12	1.82	0

## Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change
Poland			2.71	-4
France	26	0	0.30	0
Hungary	116	1	2.88	-3
Spain	67	0	0.94	-1
Italy	213	0	2.27	-1
Portugal	64	0	1.33	-1
Ireland	25	0	0.44	-3
Germany	11	0	-	-

\* 10Y treasury bonds over 10Y Bunds

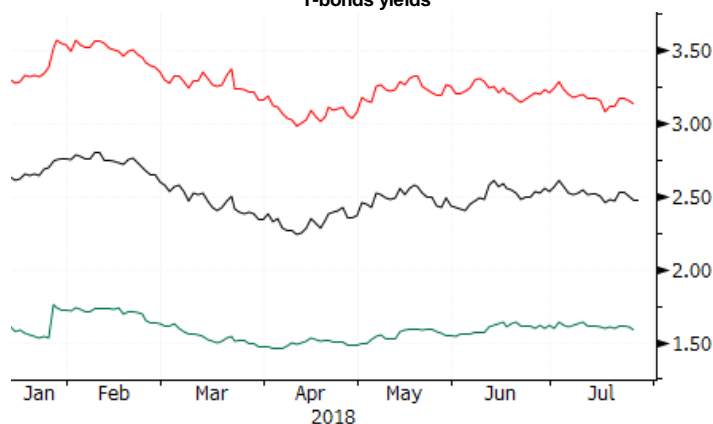
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

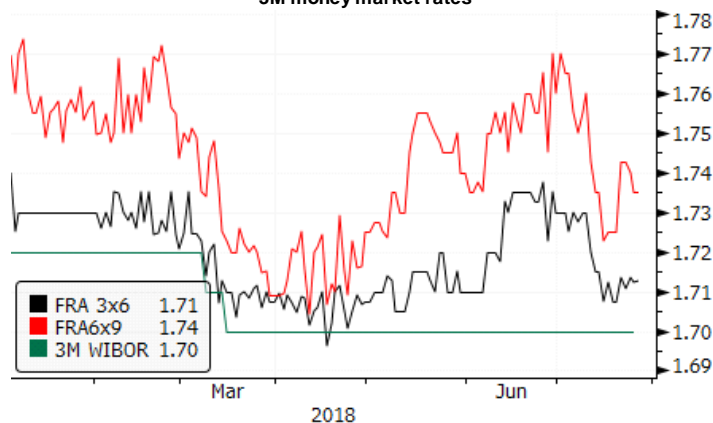
## Zloty exchange rate



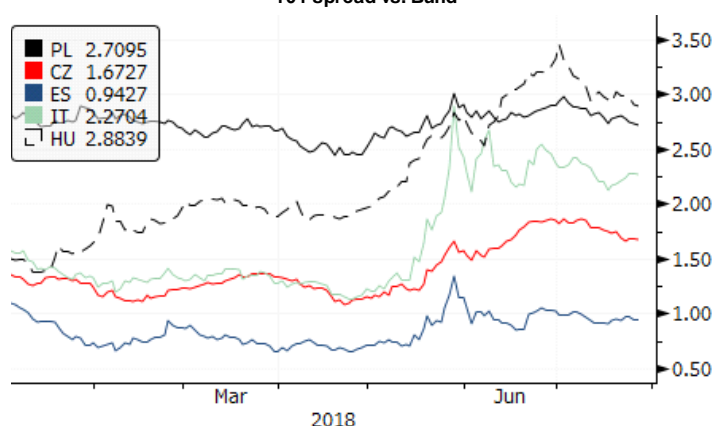
## T-bonds yields



## 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)								
10:00	DE	IFO Business Climate	Jul	pts	101.5	-	101.7	101.8
16:00	US	New Home Sales	Jun	% m/m	-3.1	-	-5.3	3.9
THURSDAY (26 July)								
13:45	EZ	ECB Main Refinancing Rate		%	0.0	-		0.0
14:30	US	Durable Goods Orders	Jun	% m/m	3.0	-		-0.4
14:30	US	Initial Jobless Claims	week	k	215	-		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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