

EYEOPENER

2 August 2018

Poland manufacturing PMI disappoints

- Mixed data from Europe and US
- FOMC left rates unchanged, next hike likely in September
- Zloty stronger vs the euro, dollar gains after FOMC decision
- Higher volatility on the Poland FI market
- Today many US data and the Czech central bank

On Wednesday, bond yields increased on the core debt markets (also on UE peripheries) and the dollar appreciated against the euro. Hard commodities rather lost just like oil and equities. Final Eurozone PMIs were in line with consensus though some indices disappointed (similarly to Chinese manufacturing PMI). Data showed inconsistency of orders and export orders. In the case of Germany and France, they surprised on the positive side, while for South Europe were rather negative. ADP report from the US labour market was better than expected but ISM for the manufacturing disappointed after all categories except from employment and inventories got worse. In our opinion, it is a consequence of a disturbance in supply-chains after imposing trade tariffs on Chinese import. Information about USA-China negotiations were not encouraging after the US administration proposed to impose 25% trade tariffs on Chinese imports worth USD200bn. Domestic bond yields fluctuated in a wider range compared to Tuesday while the Polish zloty gained against euro and dollar. Domestic PMI disappointed.

On Wednesday evening, FOMC left the interest rates unchanged, as expected. The statement published after the meeting did not differ considerably from the one published in June. According to the American central bankers, the U.S. economy has been growing at a robust pace with a low unemployment rate and accelerating consumer and investment spending. In the FOMC view, this leaves space for further tightening of the monetary policy. The tone of the statement confirmed the investors' belief that a next hike in interest rates should be expected in September, and did not cause any sharp price volatility on the market.

EURUSD was climbing since the start of the session but resumed its downward move in the afternoon sliding to 1.167 from 1.17. The greenback was supported by worries about escalation of trade wars, US threat of sanction against Turkey and mixed signals from the PMI/ISM survey. Today at the start of the session the rate is close to 1.164, which may be due to the FOMC message, making the market believe that central bankers will raise rates in September despite trade wars. Weak moods at the start of the session should be supportive for the US currency ahead of tomorrow's US labour market data.

EURPLN fell again, reaching 4.26, the lowest level since the beginning of June, driven down by the U.S dollar depreciating against the euro for most of the day. Today, we are expecting correction and a slight depreciation of the Polish zloty, given the evening dollar appreciation and a poor sentiment at the today's session opening.

As regards the other CEE currencies, the forint was gaining on the back of higher PMI and positive data on car registration after some weakening in the morning. EURCZK went down and tried to go past a local low but failed given the surprisingly weak PMI. USDRUB jumped to 63.0 from 62.40 amid falling oil prices and surprisingly weak PMI.

Today, the Czech central bank will decide on interest rates. In June, investors were surprised with a 25bp rate hike. Rhetoric of the CNB after the June rate hike sounded rather neutral, but last week two members said that rates may rise already in August. We do not expect this to happen as so EURCZK could rise this week if our scenario materializes.

On the domestic debt market yields were fluctuating ± 4 bp in the 5-10Y segment. In the morning, yields fell continuing the reaction to information about the cancellation of August regular bond tender, in the afternoon yields were rising following the core bonds markets. In the afternoon, the core bond market yields were moving up (correcting the May-July appreciation) and affected the Polish bonds market. The US 10Y tried to break 3.0%, while the 2-5Y tried to reach the new post-crisis record. Today we expect the yield to climb, as a reaction for the Fed communique.

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FX market

Today's opening

EURPLN	4.2640	CZKPLN	0.1668
USDPLN	3.6648	HUFPLN*	1.3286
EURUSD	1.1635	RUBPLN	0.0581
CHFPLN	3.6888	NOKPLN	0.4473
GBPPLN	4.7973	DKKPLN	0.5722
USDCNY	6.8162	SEKPLN	0.4152

*for 100HUF

Last session in the FX market

01/08/2018

	min	max	open	close	fixing
EURPLN	4.260	4.283	4.270	4.263	4.2758
USDPLN	3.647	3.669	3.648	3.654	3.6603
EURUSD	1.166	1.171	1.171	1.167	-

Interest rate market

01/08/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0720 (2L)	1.58	-3	27-Jul-18	OK0720	1.592
DS1023 (5L)	2.50	-1	27-Jul-18	PS0123	2.335
WS0428 (10L)	3.16	-1	27-Jul-18	WS0428	3.144

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.76	0	2.69	1	-0.25	0
2L	1.96	1	2.90	2	-0.14	0
3L	2.14	1	2.97	3	0.02	1
4L	2.33	1	2.99	3	0.19	1
5L	2.48	1	3.01	4	0.35	2
8L	2.79	2	3.04	4	0.75	2
10L	2.96	2	3.06	4	0.97	3

WIBOR rates

Term	%	Change (bps)
O/N	1.52	9
T/N	1.52	1
SW	1.55	0
2W	1.60	1
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	0
6x9	1.75	0
9x12	1.80	0
3x9	1.79	0
6x12	1.85	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.69	0
France	26	0	0.30	0
Hungary	116	1	2.82	2
Spain	67	0	0.97	0
Italy	213	0	2.31	0
Portugal	64	0	1.30	0
Ireland	25	0	0.46	4
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

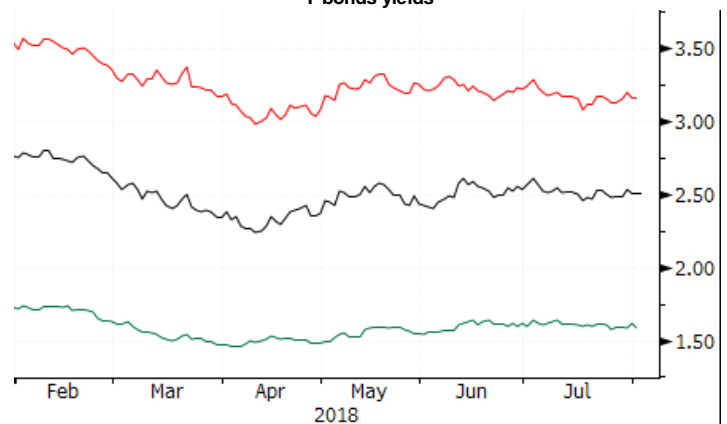
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

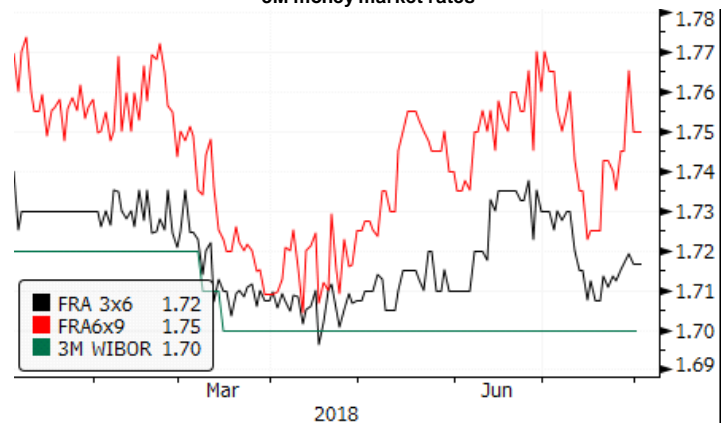
Zloty exchange rate



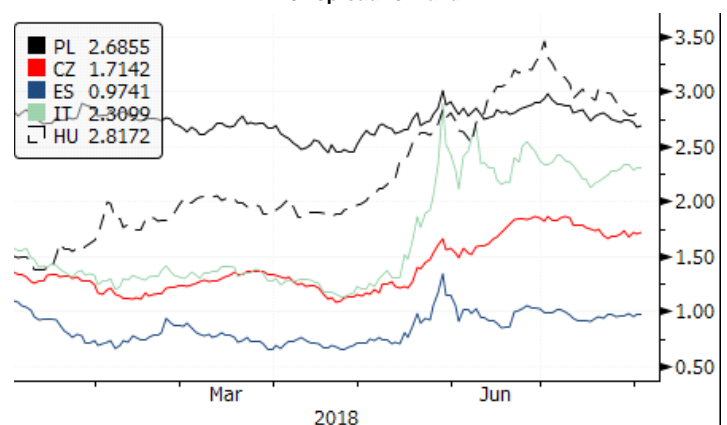
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar								
TIME		INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE	
CET				MARKET	BZWBK			
FRIDAY (27 July)								
	PL	Central Budget Cumul.	Jun	bn PLN	9.5		9.5	9.6
11:30	PL	Bond Auction			-			
14:30	US	GDP Annualized	2Q	% Q/Q	4.2	-	4.1	2.0
16:00	US	Michigan index	Jul	pts	97.1	-	97.7	97.1
MONDAY (30 July)								
11:00	EZ	ESI	Jul	pct.	112.0	-	112.1	112.3
14:00	DE	HICP	Jul	% m/m	0.4	-	0.4	0.1
16:00	US	Pending Home Sales	Jun	% m/m	0.4	-	0.9	-0.5
TUESDAY (31 July)								
08:00	DE	Retail Sales	Jun	% m/m	1.0	-	1.2	-2.1
10:00	PL	CPI	Jul	% y/y	2.0	1.9	2.0	2.0
11:00	EZ	Flash HICP	Jul	% y/y	2.0	-	2.1	2.0
11:00	EZ	GDP SA	2Q	% y/y	2.2	-	2.1	2.5
11:00	EZ	Unemployment Rate	Jun	%	8.3	-	8.3	8.4
14:30	US	Personal Spending	Jun	% m/m	0.4	-	0.4	0.2
14:30	US	Personal Income	Jun	% m/m	0.4	-	0.4	0.4
14:30	US	PCE Deflator SA	Jun	% m/m	0.1	-	0.1	0.2
16:00	US	Consumer Conference Board	Jul	pts	126.0	-	127.4	126.4
WEDNESDAY (1 August)								
09:00	PL	Poland Manufacturing PMI	Jul	pts	54.5	54.5	52.9	54.2
09:55	DE	Germany Manufacturing PMI	Jul	pts	57.3	-	56.9	57.3
10:00	EZ	Eurozone Manufacturing PMI	Jul	pts	55.1	-	55.1	55.1
14:15	US	ADP report	Jul	k	180	-	219	177
16:00	US	ISM manufacturing	Jul	pts	59.2	-	58.1	60.2
20:00	US	FOMC decision		%	2.0	-	2.0	2.0
THURSDAY (2 August)								
13:00	CZ	Central Bank Rate Decision		%	1.25	-		1.0
14:30	US	Initial Jobless Claims	week	k	215	-		217
16:00	US	Durable Goods Orders	Jun	% m/m	3.0	-		1.0
16:00	US	Factory Orders	Jun	% m/m	1.7	-		0.4
FRIDAY (3 August)								
03:45	CH	Caixin China PMI Services	Jul	pts	0.0	-		53.9
09:55	DE	Markit Germany Services PMI	Jul	pts	54.4	-		54.4
10:00	EZ	Eurozone Services PMI	Jul	pts	54.4	-		54.4
11:00	EZ	Retail Sales	Jun	% m/m	0.35	-		0.0
14:30	US	Change in Nonfarm Payrolls	Jul	k	190	-		213
14:30	US	Unemployment Rate	Jul	%	3.9	-		4.0
16:00	US	ISM services	Jul	pts	58.6	-		59.1

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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