

EYEOPENER

3 August 2018

Poland bonds hold firm, zloty under pressure

- Trade war in the spotlight again
- Yields down, dollar gains, CEE currencies under pressure
- Today Eurozone services PMIs and US nonfarm payrolls

On Thursday, yields of Polish t-bonds were falling, while the zloty weakened, as a reaction to the Turkish lira depreciation and the European stock market falls. The CEE currencies followed the same path. EURUSD dropped as a response to Wednesday FOMC statement, where the US central bank suggested next rate hikes to be delivered this year. The pound has depreciated despite the Bank of England interest rate hike. Market viewed this move as irrational in the face of uncertainty about the global economic outlook. Investors again focused on the risk generated by the tariffs imposed. Moreover, the information about disappointing earnings of Siemens and Daimler harmed the market mood.

US factory orders was in the line with expectations but increase of prices in the eurozone's manufacturing surprised to the upside. Bank of England raised interest rates by 25pb, as expected. Similarly, Czech central bank hiked rates and suggested that further monetary policy normalization is possible even though the bank's forecasts of GDP for this year went down (but inflation's forecasts were revised up).

EURUSD was falling for the whole day being still under the impact of comments after the Wednesday's FOMC meeting (where the next rate hikes were suggested as likely this year). Moreover, the dollar gained amid fears of consequences trade wars could have on the economic growth (this time information of weaker earnings of German firms was essential). As a result, EURUSD went down from 1.167 to 1.161 and today in the morning it is below 1.16. After the morning drop, EURGBP rose in the afternoon in response to negative market reaction after the BoE rate hike. Today we expect EURUSD to stabilize on the low level awaiting data from US labour market. EURUSD is slightly above the support level at 1.157 and if it is broken, then the exchange rate could near 1.15 in the coming days.

EURPLN jumped as a negative response to depreciation of the Turkish lira and the rouble (driven by the sanctions imposed by the USA). In effect, EURPLN closed at 4.271, having hit 4.284 intraday. This afternoon, we expect the zloty to depreciate after the US labour market data release. Moreover, the Polish currency gained significantly in the past few weeks and in our view, unsuccessful attempt of EURPLN to break the support level at 4.255 may trigger profit taking.

As for the rest of the CEE currencies, the forint and koruna depreciated, following the Turkish lira. The fall of the koruna was not stopped even by the Czech central bank raising interest rates and declaring further hikes in the nearest future are likely. USDRUB was on the rise throughout the day, driven up by the falling oil prices. In the afternoon, the slump of the rouble was accelerated by reports on new sanctions for Russia considered by the USA.

On Thursday **on the core bonds market**, we saw correction, after the Wednesday's yields rise. Concerns about the negative effects of trade wars on the economy have returned to the market. Bonds were supported by the information about weak earnings of German blue chips and their investment plans (which should mitigate negative influence of tariffs). As a result, the German yield curve moved down by 1bp, while the US by 2bp. Today we expect some upward move as a response for the (likely to be better than expected) US non-farm payrolls data.

On the domestic interest rate market, bond yields fell following core market, moving the curve by 2-3bp down. Today we are expecting some rebound on the Polish yield curve amid expected correction on the core markets.

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FX market

Today's opening

EURPLN	4.2776	CZKPLN	0.1666
USDPLN	3.6939	HUFPLN*	1.3317
EURUSD	1.1580	RUBPLN	0.0583
CHFPLN	3.7081	NOKPLN	0.4480
GBPPLN	4.8068	DKKPLN	0.5740
USDCNY	6.8766	SEKPLN	0.4151

*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	4.2745
USDPLN	3.647	3.669	3.648	3.654	3.6783
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)	1.57	-1	27-Jul-18	OK0720	1.592
DS1023 (5L)	2.48	-3	27-Jul-18	PS0123	2.335
WS0428 (10L)	3.14	-2	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	1.54	2
T/N	1.54	2
SW	1.55	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	1.70	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			2.66	-2
France	26	0	0.31	1
Hungary	116	1	2.82	1
Spain	67	0	0.96	-1
Italy	213	0	2.34	3
Portugal	64	0	1.31	0
Ireland	25	0	0.45	0
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

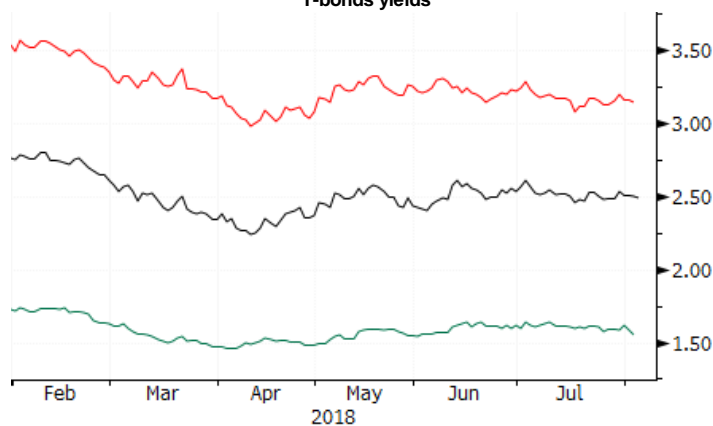
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

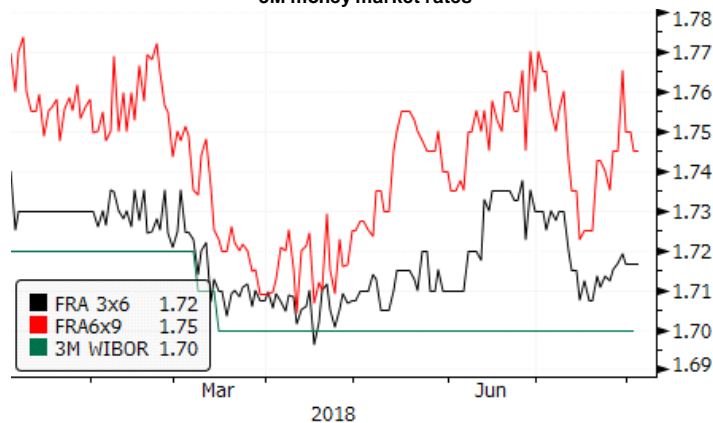
Zloty exchange rate



T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

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
16:00	US	Michigan index	Jul	pts	97.1	-	97.7
MONDAY (30 July)							
11:00	EZ	ESI	Jul	pct.	112.0	-	112.1
14:00	DE	HICP	Jul	% m/m	0.4	-	0.4
16:00	US	Pending Home Sales	Jun	% m/m	0.4	-	0.9
TUESDAY (31 July)							
08:00	DE	Retail Sales	Jun	% m/m	1.0	-	1.2
10:00	PL	CPI	Jul	% y/y	2.0	1.9	2.0
11:00	EZ	Flash HICP	Jul	% y/y	2.0	-	2.1
11:00	EZ	GDP SA	2Q	% y/y	2.2	-	2.1
11:00	EZ	Unemployment Rate	Jun	%	8.3	-	8.3
14:30	US	Personal Spending	Jun	% m/m	0.4	-	0.4
14:30	US	Personal Income	Jun	% m/m	0.4	-	0.4
14:30	US	PCE Deflator SA	Jun	% m/m	0.1	-	0.1
16:00	US	Consumer Conference Board	Jul	pts	126.0	-	127.4
WEDNESDAY (1 August)							
09:00	PL	Poland Manufacturing PMI	Jul	pts	54.5	54.5	52.9
09:55	DE	Germany Manufacturing PMI	Jul	pts	57.3	-	56.9
10:00	EZ	Eurozone Manufacturing PMI	Jul	pts	55.1	-	55.1
14:15	US	ADP report	Jul	k	180	-	219
16:00	US	ISM manufacturing	Jul	pts	59.2	-	58.1
20:00	US	FOMC decision		%	2.0	-	2.0
THURSDAY (2 August)							
13:00	CZ	Central Bank Rate Decision		%	1.25	-	1.25
14:30	US	Initial Jobless Claims	week	k	220	-	218
16:00	US	Durable Goods Orders	Jun	% m/m	3.0	-	0.8
16:00	US	Factory Orders	Jun	% m/m	0.7	-	0.7
FRIDAY (3 August)							
03:45	CH	Caixin China PMI Services	Jul	pts	53.5	-	52.8
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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