EYEOPENER

6 August 2018

EURPLN at its lowest since mid-May

- **China pledges to impose tariffs on USD60bn of US exports**
- **Zloty and bonds still strong, CEE peers gain as well**
- **Dollar stable vs the euro, core bonds gain after week US nonfarm payrolls**
- **German factory orders weaker than expected**

On Friday, the zloty appreciated against the euro and the dollar, Polish bonds also gained. Domestic assets strengthened thanks to investors return to our region (the koruna, forint and ruble gained as well) which was caused partly by the US data about lower than expected growth of the US nonfarm payrolls. On the core markets, the dollar gained vs euro and bond yields fell strongly (bonds also benefited from the worse US data). Moreover, hard commodities were farily stable and equities did not move much. Friday's data showed further fall of economic activity indexes in services sector in the Eurozone and in the US. China announced that it will impose reprisal trade tariffs on the US at the value of USD60bn which had negative impact on risk assets during today session in Asia but the beginning of European trading hours is calm.

On Friday, **EURUSD** stayed in a 1.156-1.161 range reacting only mildly to the published data. After the end of the domestic session and today, the US dollar resumed appreciating and this morning EURUSD broke 1.155. We expect the exchange rate fall to continue as a response to weak data on German factory orders. EURUSD broke the low at c1.157 and may head towards 1.15 in the upcoming days.

EURPLN was falling throughout the day and hit 4.252 intraday, its lowest since mid-May. Appreciation of the zloty was driven up by good sentiment globally and its pace even gained steam due to weak data from the US. This morning, EURPLN is close to 4.26 and we do not expect the zloty to start appreciating again.

The other currencies of the region strengthened amid falling government bonds yields. The koruna gained despite a downside revision of central bank's economic growth forecasts, which was perceived as a signal that there is lower probability of further rate hikes in Czechia. EURCZK declined from 25.67 to 25.63. EURHUF from 321.24 to 219.80 – the lowest level since the first decade of June. The Russian ruble was an exception, USDRUB moved around 63.3.

On Friday, **on core debt market** yields fell fueld by weaker economic sentiment indices and news about China likely imposing trade tariffs' on US exports. As a result, the US and German curve moved c3-4bp down in the 5-10L segment.

On the domestic interest rate market, we watched yields falling 3-4bp thanks to still positive approach of investors towards assets in our region. The yield declines were accompanied by slightly smaller fall of IRS rates, which lead the ASW10Y spread dropping to 17bp, seen last time in June 2015. Today we expect further strengthening of domestic debt, but by the end of this week there the market could switch to profit taking.

Grażyna Ancyparowicz, a member of the MPC, said to Polish financial daily *Parkiet* that interest rates might remain flat by the end of 2020. In her opinion, potential acceleration of wage growth, exerting upward pressure on inflation, would not be a sufficient reason for an interest rate hike. On the other hand, she would not call for a rate cut in the situation of a slower economic growth. Ms. Ancyparowicz confirmed her stand is close to that of NBP President Glapiński, hence her comment does not change anything in the balance of power in the MPC.

This week is rich in German data, which may help assess the first impact of trade wars, with possible negative effect on orders and positive on exports (frontloading). In USA we will get to see CPI, but in our view this statistic will not gather much attention given that PCE is the favorite inflation measure of FOMC. There will be no major information from other countries, especially from Poland, so we are expecting Polish asset prices to follow global trends, with possible slight profit-taking on zloty and some upward correction of bond yields.

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FX market

Today's opening

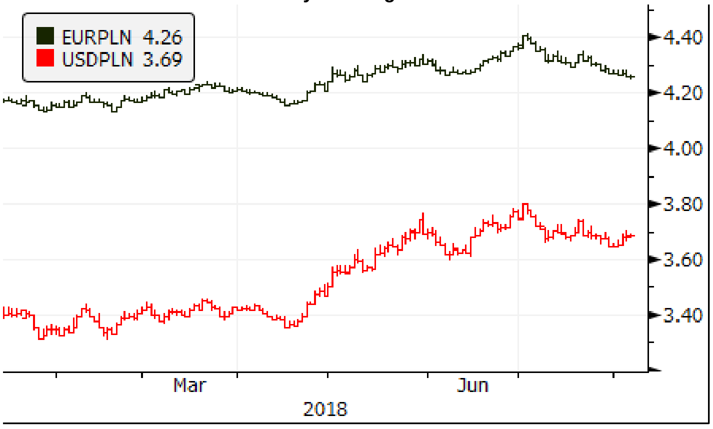
EURPLN	4.2613	CZKPLN	0.1661
USDPLN	3.6872	HUFPLN*	1.3309
EURUSD	1.1557	RUBPLN	0.0582
CHFPLN	3.7031	NOKPLN	0.4463
GBPPLN	4.7908	DKKPLN	0.5718
USDCNY	6.8382	SEKPLN	0.4131

*for 100HUF

Last session in the FX market 03/08/2018

	min	max	open	close	fixing
EURPLN	4.252	4.282	4.272	4.262	4.2758
USDPLN	3.666	3.703	3.680	3.685	3.6926
EURUSD	1.156	1.161	1.161	1.157	-

Zloty exchange rate

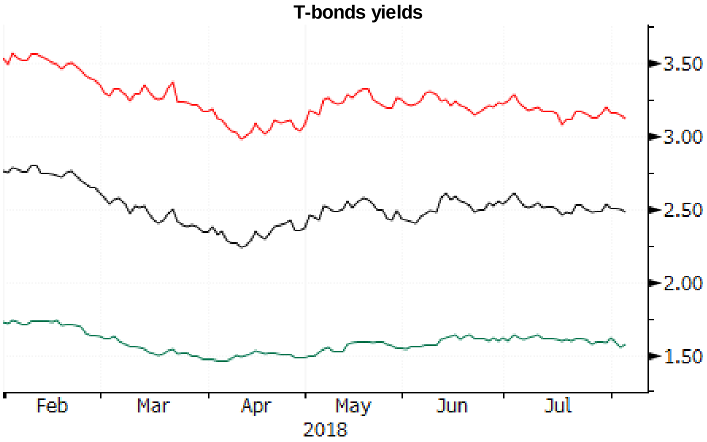


Interest rate market 03/08/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0720 (2L)	1.57	2	27-Jul-18	OK0720	1.592
DS1023 (5L)	2.47	-2	27-Jul-18	PS0123	2.335
WS0428 (10L)	3.11	-3	27-Jul-18	WS0428	3.144

T-bonds yields



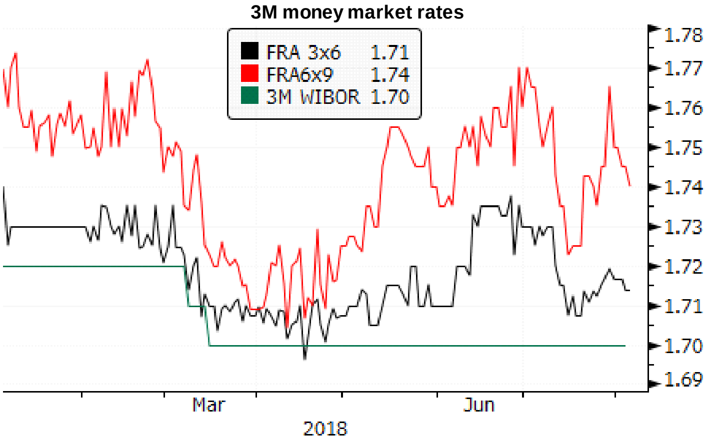
IRS on the interbank market**

Term	PL %	PL Change (bps)	US %	US Change (bps)	EZ %	EZ Change (bps)
1L	1.75	0	2.67	-1	-0.25	0
2L	1.94	-1	2.87	-2	-0.14	0
3L	2.13	0	2.93	-2	0.01	-1
4L	2.31	-2	2.95	-3	0.17	-1
5L	2.48	-1	2.97	-3	0.32	-2
8L	2.78	-2	3.00	-3	0.72	-3
10L	2.95	-1	3.03	-3	0.93	-3

WIBOR rates

Term	%	Change (bps)
O/N	1.55	1
T/N	1.55	1
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

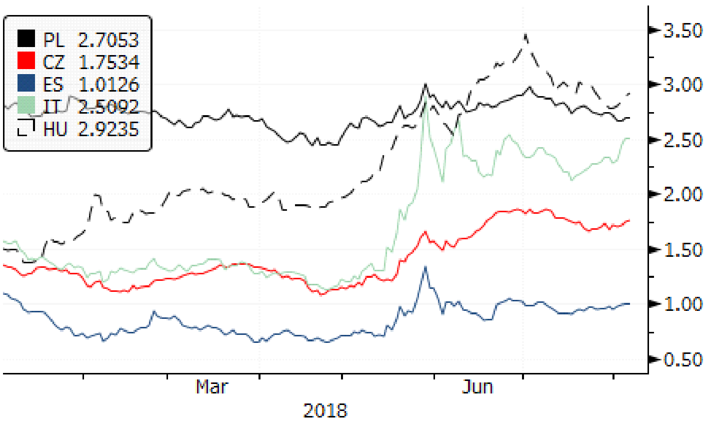
3M money market rates



FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.70	0
3x6	1.71	0
6x9	1.75	0
9x12	1.79	0
3x9	1.79	1
6x12	1.82	-1

10Y spread vs. Bund



Measures of fiscal risk

Country	CDS 5Y USD Level	CDS 5Y USD Change (bps)	10Y spread* Level	10Y spread* Change (bps)
Poland			2.71	-3
France	26	0	0.33	0
Hungary	116	1	2.92	4
Spain	67	0	1.01	0
Italy	213	0	2.51	-1
Portugal	64	0	1.37	1
Ireland	25	0	0.48	-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

Economic calendar

TIME CET		INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE
			FRIDAY (3 August)					
03:45	CH	Caixin China PMI Services	Jul	pts	53.5	-	52.8	53.9
09:55	DE	Markit Germany Services PMI	Jul	pts	54.4	-	54.1	54.4
10:00	EZ	Eurozone Services PMI	Jul	pts	54.4	-	54.2	54.4
11:00	EZ	Retail Sales	Jun	% m/m	0.4	-	0.3	0.3
14:30	US	Change in Nonfarm Payrolls	Jul	k	192	-	157	248
14:30	US	Unemployment Rate	Jul	%	3.9	-	3.9	4.0
16:00	US	ISM services	Jul	pts	58.6	-	55.7	59.1
			MONDAY (6 August)					
08:00	DE	Factory Orders	Jun	% m/m	-0.4	-	-4.0	2.6
09:00	CZ	Industrial Production	Jun	% y/y	1.9	-		1.4
			TUESDAY (7 August)					
08:00	DE	Exports SA	Jun	% m/m	0.0	-		1.8
08:00	DE	Industrial Production SA	Jun	% m/m	-0.6	-		2.6
09:00	HU	Industrial Production SA	Jun	% y/y	-	-		3.8
			WEDNESDAY (8 August)					
03:00	HU	MNB minutes			-			
09:00	HU	CPI	Jul	% y/y	3.3	-		3.1
			THURSDAY (9 August)					
09:00	CZ	CPI	Jul	% y/y	2.3	-		2.6
14:30	US	Initial Jobless Claims	week	k	220	-		217
			FRIDAY (10 August)					
14:30	US	CPI	Jul	% m/m	0.2	-		0.1

Source: BZ WBK. Bloomberg, Parkiet

** in case of the revision the data is updated*

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