

# EYEOPENER

10 August 2018

## Contagious problems of Turkish lira

- Morning massive loss of value of Turkish lira weighed on all EM currencies and the euro
- ECB sees growing risk to economy from protectionism
- Domestic bonds, strengthened yesterday in line with dropping yields on core markets, face risk aversion today
- Today US CPI inflation, Turkish president's speech

Thursday session was characterized by poor sentiment on emerging markets and slight changes on core markets. Ruble, lira and other CEE currencies kept depreciating and, as there were no important releases, the fluctuations of the main fx rates were limited. European bonds were gaining, driven up by the ECB report, warning about a higher risk of protectionist measures in trade and its impact on the pace of the global growth. This morning, Financial Times wrote that, ECB, as a financial system supervisor, was allegedly worried about the exposure of some of the European banks to the Turkish lira. The article sent EURUSD plummeting. The Turkish lira had an even more eventful morning. At 8:00 a.m. lira increased the loss to dollar intraday from c.3% to 10-13%, the historical record low, which stirred a wave of risk aversion on the markets. Although Turkish currency managed to go up several per cent, Turkey still seems to be on the verge of an fx crisis. President Recep Erdogan is going to have a speech today. The last wave of rapid depreciation of TRY was related to a diplomatic conflict with the USA.

Yesterday, **EURUSD** was oscillating slightly below 1.16. The dollar pared a part of its losses in reaction to weaker global sentiments. The US data did not affect the trade considerably. A strong impulse appeared only this morning, with Financial Times' column on ECB worries. This was enough to drag the pair down below 1.15, to 1.145. Today we will get to see data on US inflation in July.

**EURPLN** saw yesterday the biggest daily rise since mid-July reaching nearly 4.28 vs 4.26 at the opening. **USDPLN** held stable around 3.68. We think that the poor sentiment on the emerging markets and strong dollar could generate an upside pressure on EURPLN in the coming weeks. Sharp sell-off of the Turkish lira weighs on the EM currencies since the beginning of the Friday's session. EURPLN neared 4.30 for a while this morning but soon corrected back to around 4.28 where it stayed during the night. Due to the morning appreciation of the dollar, USDPLN could not erase all the sudden loss due to lira's

sell-off (that sent it to 3.75) and today in the morning the exchange rate is close to 3.73.

Among **other CEE currencies**, yesterday we observed further depreciation of the ruble (USDRUB broke the Wednesday's peak and it increased to c66.71 from 65.5 during yesterday session), the leu and the lira. Today morning, cumulated effect of the euro's weakening vs. the dollar and rapid weakening of the lira had negative impact on CEE currencies and other exchange rates of emerging markets. As a result USDRUB fluctuated around 66.9 and EURHUF around 322. The Czech koruna (vs. the euro) quickly recovered from the morning shock caused by the lira's downward move. However, all CEE currencies reveal big, daily losses vs. USD. Since the end of previous week the lira and the ruble are the weakest currencies vs. the euro and the dollar of emerging markets (with losses vs. the dollar, c13% and c5.5% respectively). The Polish zloty places itself in the middle of the EM fx losses table.

On the **domestic interest rate market** IRS and bond yields fell by no more than 3bp on the long end of the curves. Polish bonds benefited from core debt strengthening. Bonds were gaining thanks to the tone of the ECB report, Polish debt ignored the comment of the deputy finance minister about the Polish state budget performance. Tensions on the Turkish market helped Bunds and Treasuries today pushing yields down by 3bp. At the moment, we do not see investors disposing of Polish bonds but the 10Y Turkish bond yield was seen skyrocketing by c60bp in the morning.

**Deputy finance minister Leszek Skiba** said that the central budget fell into deficit in July after recording a surplus of PLN9.5bn in June. This is clearly a weak result, given that average deficit in July was equal to PLN0.3bn in 2010-2017 on average. Skiba suggested that spending in earlier months was below the plan due to postponement in infrastructural projects, so higher deficit in July may mean these projects were finally started. Additionally, it is likely that the government booked the new school-age child subsidy worth cPLN1.5bn. Skiba also said that year-end deficit at half of the budget act limit (PLN41.5bn) should not be expected. This comment is surprising, given that finance minister Teresa Czerwińska said recently she views a 50% budget realization as possible. We are expecting year-end central budget deficit at cPLN25bn and GG deficit at 1.7% of GDP.

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## FX market

## Today's opening

EURPLN	4.2844	CZKPLN	0.1673
USDPLN	3.7374	HUFPLN*	1.3297
EURUSD	1.1464	RUBPLN	0.0557
CHFPLN	3.7537	NOKPLN	0.4479
GBPPLN	4.7797	DKKPLN	0.5747
USDCNY	6.8552	SEKPLN	0.4136

\*for 100HUF

## Last session in the FX market

09/08/2018

	min	max	open	close	fixing
EURPLN	4.260	4.280	4.261	4.279	4.2715
USDPLN	3.666	3.703	3.675	3.702	3.6846
EURUSD	1.156	1.162	1.160	1.156	-

## Interest rate market

09/08/2018

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

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0720 (2L)	1.58	-2	27-Jul-18	OK0720	1.592
DS1023 (5L)	2.46	0	27-Jul-18	PS0123	2.335
WS0428 (10L)	3.09	0	27-Jul-18	WS0428	3.144

## IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.75	0	2.66	-1	-0.24	0
2L	1.92	-1	2.85	-2	-0.14	0
3L	2.11	-1	2.91	-2	0.00	0
4L	2.28	-2	2.93	-2	0.15	-1
5L	2.43	-2	2.94	-2	0.30	-1
8L	2.73	-2	2.97	-3	0.70	-1
10L	2.90	-2	2.99	-3	0.92	-1

## 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

## FRA rates on the interbank market\*\*

Term	%	Change (bps)
1x4	1.70	0
3x6	1.71	0
6x9	1.73	0
9x12	1.78	0
3x9	1.79	0
6x12	1.81	1

## Measures of fiscal risk

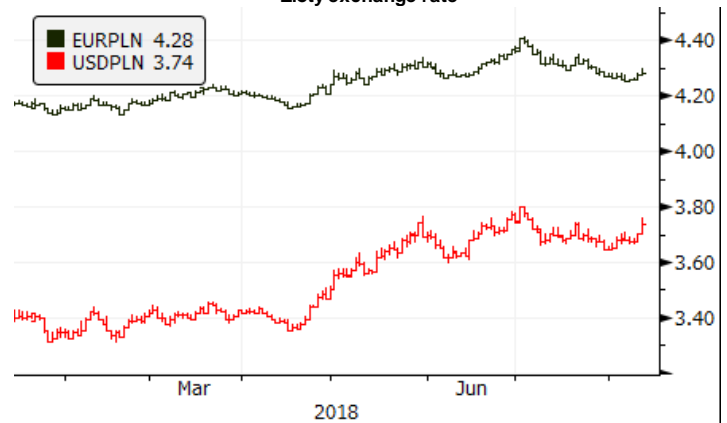
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.76	3
France	26	0	0.34	1
Hungary	116	1	3.11	5
Spain	68	2	1.05	3
Italy	233	5	2.58	6
Portugal	64	0	1.42	3
Ireland	25	0	0.49	1
Germany	11	0	-	-

\* 10Y treasury bonds over 10Y Bunds

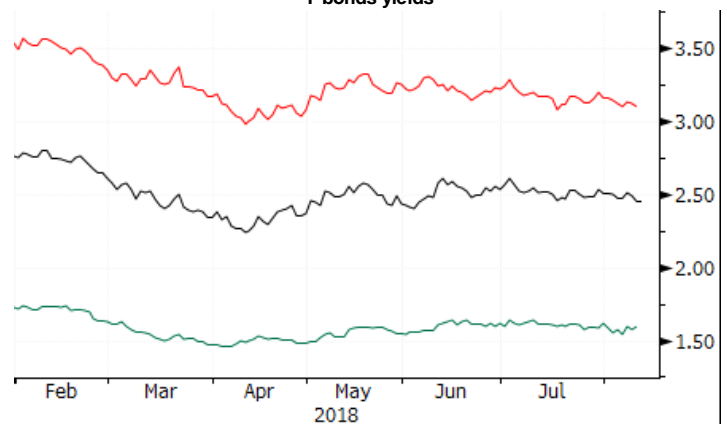
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

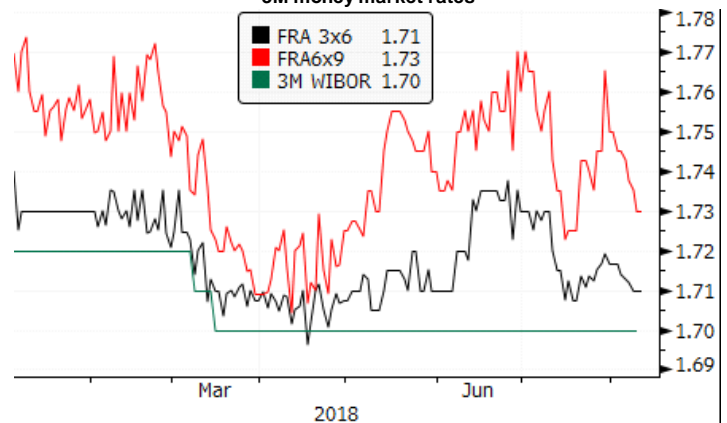
## Zloty exchange rate



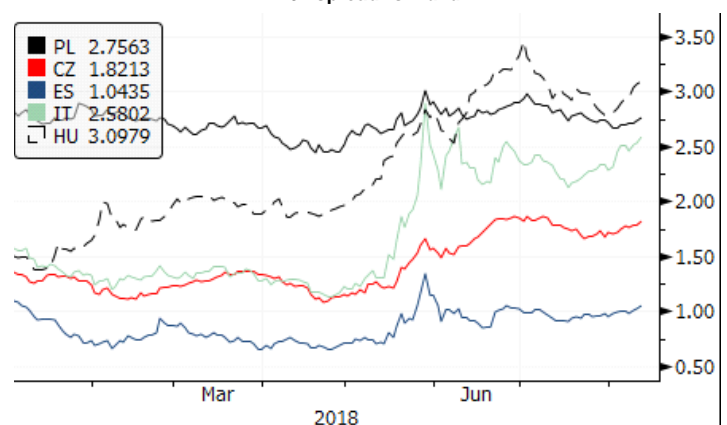
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic calendar

Economic calendar								
TIME		INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST
CET					MARKET	BZWBK		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	-	3.4	1.4
TUESDAY (7 August)								
08:00	DE	Exports SA	Jun	% m/m	-0.4	-	0.0	1.7
08:00	DE	Industrial Production SA	Jun	% m/m	-0.5	-	-0.9	2.6
WEDNESDAY (8 August)								
09:00	HU	CPI	Jul	% y/y	3.3	-	3.4	3.1
14:00	HU	MNB minutes						
THURSDAY (9 August)								
09:00	CZ	CPI	Jul	% y/y	2.3	-	2.3	2.6
14:30	US	Initial Jobless Claims	week	k	220	-	213	219
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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