

# EYEOPENER

13 August 2018

## Focus on Turkey

- Concerns about Turkey weigh on emerging markets
- Yields of Polish bonds higher due to rising risk aversion
- Balance of payments data due today

On Friday the problems of Turkey and investors' fears that its worsening outlook could affect other emerging economies was still the main highlight. As a result, the lira set a new record of weakness, also taking CEE currencies down. Additional pressure on the zloty, forint and ruble was caused by further dollar appreciation and big losses on global equities. New week starts with risk aversion mode on and with a sell-off on emerging markets due to concerns that the Turkish crisis could spread across Asia.

**Background behind the sell-out of Turkish assets:** The last few days the eyes of the investors have been turned to Turkey which has been balancing on the verge of a currency crisis. It had all begun with concerns about overheating of the Turkish economy where high economic growth was accompanied with 2-digit inflation and loose fiscal policy. The market began to expect interest rate hikes. However, president Erdogan stated that higher rates were bad for the economy and needed to be cut, which caused concerns about independence of the Turkish central bank. As a result, mid-May saw USDTRY quickly grow to 4.75 (from c4.0 in April). In July, Erdogan won the presidential elections and appointed his son-in-law the minister of finance, which further undermined lira. The level of 5.0 liras per US dollar was broken in early August when the USA imposed sanctions against two Turkish ministers in response to imprisonment of an American pastor accused of taking part in an unsuccessful coup in July 2016. Recently, the ECB expressed concerns about exposure of the Eurozone banks to Turkey, which further depreciated the lira. Friday speech of president Erdogan calling the Turks to sell out foreign currencies, and of the minister of finance, Albayrak, assuring that fiscal discipline will be tighter, only worsened the situation. On top of all that, Donald Trump announced on Friday that he was going to double the tariffs on Turkish steel and aluminium. In effect, USDTRY broke 7.20 during the weekend, rising by over 90% since the beginning of 2018. This morning, a slight rebound took place to c.6.65.

Today, the Turkish minister of finance is to present a plan to ease the markets, but in our opinion the task will not be easy. One of the main challenges for the Turkish economy is high current account deficit (6% of the GDP) and high foreign debt, also in foreign currencies (including corporate debt). Therefore,

Turkey needs external financing while the capital is draining off from the country, which may mean problems with solvency and debt servicing (Turkish FX reserves are not very high).

**EURUSD** dropped from 1.153 to near 1.14 (the lowest level since the July 2017) continuing downward move after breaking of support at 1.15. The euro was under pressure in fear of impact of Turkey's situation on the European banking system (after the EBC expressed worry about banks' exposure).

**EURPLN** increased on Friday to almost 4.30 and **USDPLN** above 3.76 due to poor sentiment on global market and further appreciation of the dollar. Other CEE currencies were also under pressure, although the forint and the ruble lost less than one day earlier. At the end of the day, despite still significant selloff on equity markets dollar strengthening, the zloty and the forint were able to trim the morning losses but today morning **EURPLN** is again above 4.30.

On the **domestic FI market**, bond yields and IRS rates climbed by 5bp on the longer end and under impact of EM bond weakening. Bund and UST gained, which caused a major correction of the recent narrowing of spreads vs Polish securities.

**Today at 14:00CET the NBP releases the balance of payments data.** The C/A balance probably turned slightly negative in June while trade balance stayed almost flat. Y/y working day difference, better than in May, should lead to acceleration in both export and import, but we are slightly less upbeat on this than the market consensus (our forecast is 7.3% y/y vs 2.7% previously for export and 5.7% y/y, up from 1.7% for import), as the seasonally adjusted y/y output actually slowed down vs May.

**This week, we will see important Polish and US data.** Flash estimate of Poland 2Q GDP growth should confirm that the domestic economy is still expanding at a c5% pace. We assume the final July CPI to be confirmed at 2% y/y and the June C/A deficit to be smaller than the market expects. In the US, we will see important economic activity data that could verify if the Fed's scenario of two more rate hikes this year is still likely. We think there is little room for a stronger zloty in the short term, given the poor sentiment on the EM market and strong dollar. Low debt supply in August could stabilise POLGBs but the US data and EM sell-off could generate upside pressure on yields.

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## FX market

## Today's opening

EURPLN	4.3092	CZKPLN	0.1676
USDPLN	3.7793	HUFPLN*	1.3304
EURUSD	1.1402	RUBPLN	0.0551
CHFPLN	3.8008	NOKPLN	0.4505
GBPPLN	4.8224	DKKPLN	0.5782
USDCNY	6.8712	SEKPLN	0.4129

\*for 100HUF

## Last session in the FX market

10/08/2018

	min	max	open	close	fixing
EURPLN	4.271	4.306	4.279	4.293	4.2942
USDPLN	3.701	3.777	3.702	3.766	3.7481
EURUSD	1.139	1.156	1.156	1.141	-

## Interest rate market

10/08/2018

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

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0720 (2L)	1.60	1	27-Jul-18	OK0720	1.592
DS1023 (5L)	2.49	4	27-Jul-18	PS0123	2.335
WS0428 (10L)	3.14	4	27-Jul-18	WS0428	3.144

## IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.75	1	2.62	-3	-0.24	0
2L	1.94	2	2.80	-4	-0.15	-1
3L	2.13	2	2.86	-5	-0.01	-2
4L	2.31	2	2.87	-6	0.13	-2
5L	2.46	3	2.88	-6	0.27	-3
8L	2.76	3	2.91	-6	0.67	-3
10L	2.93	3	2.93	-6	0.88	-4

## WIBOR rates

Term	%	Change (bps)
O/N	1.56	1
T/N	1.56	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	1.72	1
6x9	1.75	2
9x12	1.79	1
3x9	1.80	1
6x12	1.83	2

## Measures of fiscal risk

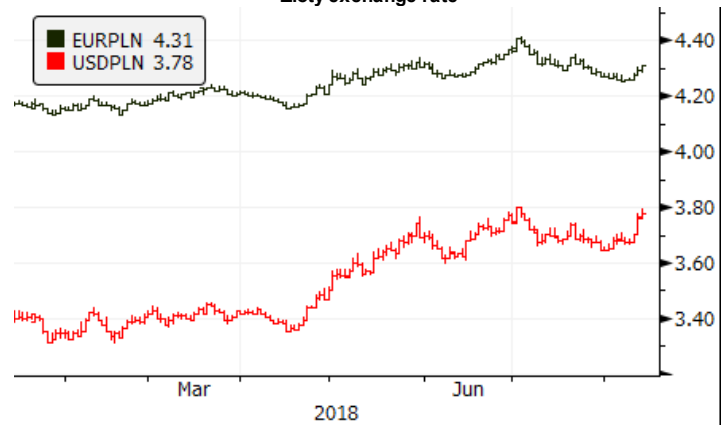
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.81	3
France	26	0	0.35	0
Hungary	116	1	3.17	-1
Spain	71	3	1.10	1
Italy	243	10	2.71	4
Portugal	64	0	1.46	1
Ireland	25	0	0.50	0
Germany	11	0	-	-

\* 10Y treasury bonds over 10Y Bunds

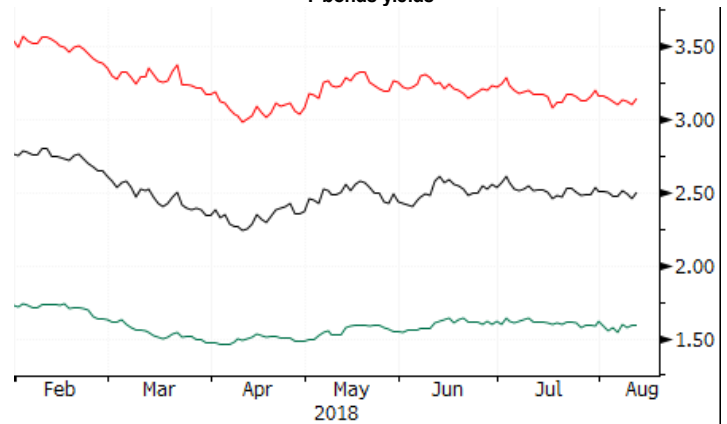
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

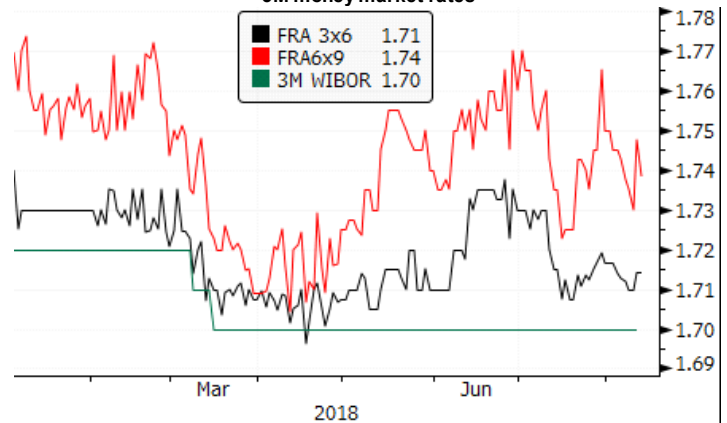
## Zloty exchange rate



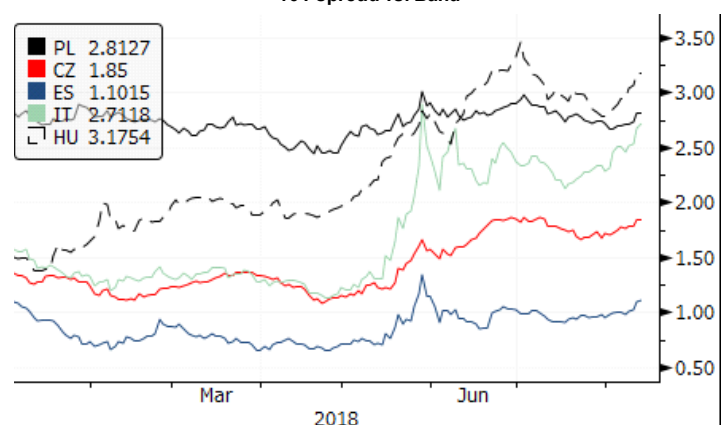
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic calendar

TIME	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
CET				MARKET	BZWBK	VALUE	VALUE
FRIDAY (10 August)							
14:30	US	CPI	JUL % m/m	0.2	-	0,2	0.1
MONDAY (13 August)							
14:00	PL	Current account	JUN €m	-476	-174	-	42
14:00	PL	Exports	JUN €m	17 810	17 787	-	17 251
14:00	PL	Imports	JUN €m	17 827	17 736	-	17 153
TUESDAY (14 August)							
9:00	CZ	Flash GDP	Q2 % y/y	-	-	-	4.2
9:00	HU	Flash GDP	Q2 % y/y	-	-	-	4.4
10:00	PL	CPI	JUL % y/y	2.0	2.0	-	2.0
10:00	PL	Flash GDP	Q2 % y/y	5.0	4.9	-	5.2
11:00	EZ	Industrial output	JUN % m/m	-	-	-	1.3
11:00	DE	ZEW index	AUG pts	-	-	-	72.4
WENDSDAY (15 August)							
	PL	Market holiday					
14:30	US	Retail sales	JUL % m/m	0.2	-	-	0.5
15:15	US	Industrial output	JUL % m/m	0.3	-	-	0.6
THURSDAY (16 August)							
14:00	PL	Core inflation	JUL % y/y	0.6	0.6	-	0.6
14:30	US	House starts	JUN k	1270	-	-	1173
14:30	US	Building permits	JUN k	1310	-	-	1292
14:30	US	Initial jobless claims	week k	-	-	-	213
14:30	US	Philly Fed index	AUG pts	22.3	-	-	25.7
FRIDAY (17 August)							
10:00	PL	Wages in corporate sector	JUL % y/y	7.7	7.3	-	7.5
10:00	PL	Employment in corporate sector	JUL % y/y	3.6	3.5	-	3.7
11:00	EZ	CPI	JUL % y/y	2.0	-	-	2.0
16:00	US	Flash Michigan	JUL pts	98.0	-	-	97.9

Source: BZ WBK, Bloomberg, Parkiet

\* in case of the revision the data is updated

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