

EYEOPENER

17 August 2018

Silence after the storm

- Improvement of market moods supporting the zloty
- Turkish government wants to cap inflation and fiscal gap
- Debt markets stable
- Polish inflation unchanged in July
- Today, Polish data on wages and employment, inflation in the euro zone, US Michigan index

On Thursday the market sentiment has improved. One of the supportive factors was information about the planned continuation of US-China trade negotiations at the end of August (the last round of negotiations was a failure). Market also reacted positively to the announcement of the meeting of the Turkish finance minister Berat Albayrak with investors, so the lira strengthened significantly. USDTRY fell temporarily below 5.7 and later in the day it rebounded slightly to 5.8 as a reaction on US Treasury Secretary's new threat that Turkey will face more sanctions if American Pastor is not released. In the 2nd half of the day, there was a publication of US data (worse than expected) which negatively influenced the dollar.

At a teleconference with investors, Turkish finance minister Albayrak said the banking sector is strong and will weather the current 'market anomalies', and if needed the government may step in with support. According to the minister Turkish companies will not have difficulties servicing short-term debt, and the Turkish economy is not leveraged too much. The main challenge for the government is to quickly decrease inflation to a single digit size (15.9% y/y in July) and to tighten fiscal policy (the target is to reach a primary surplus of TRY6bn). Albayrak stressed the government's attachment to market economy, no plans to introduce capital controls or to apply for IMF support. His words did not influence financial markets much.

Polish core inflation, excluding prices of food and energy, remained stable at 0.6% y/y in July, in line with our estimate. Three other core inflation measures also stayed stable. We predict that the core inflation should start mounting slowly in the coming months, to c.1.2% y/y in Dec. However, after the recent lower-than-expected readings the risk is clearly asymmetric on the downside. At the same time the headline CPI will drop from the 2.0% local peak towards 1.6% by year-end amid very high base effect in food and fuels. It is interesting that already in July the headline CPI was only a small fraction of percentage point above the 1.9% y/y (which was our forecast).

Yesterday the euro strengthened vs. the dollar. Information about coming trade negotiations between China and US supported the single currency and worse data from the American economy weakened the dollar. As a result, **EURUSD** was close to 1.14 vs. 1.137 on the opening session. Today data confirming solid current account surplus in the Eurozone in June and inflation above EBC's target in July should support the European currency. However, Thursday's high at 1.409 and then Monday high at 1.433 could offer some resistance for EURUSD.

On Thursday, the zloty strengthened after Wednesday sell-off amid lower liquidity. In the morning, **EURPLN** was close to 4.32 and till the end of the day it went down to almost 4.305. USDPLN dropped from 3.80 to 3.775. Better risk appetite favored the zloty but in our opinion uncertainty regarding Turkey will not be positive for the polish currency and we don't expect the EURPLN to break 4.29 for good.

Other CEE currencies also gained, yet less considerably than the zloty. The Hungarian forint was only slightly stronger than at Wednesday close, and EURHUF ended the day slightly below 324, despite successful auction of Hungarian bonds. EURCZK approached 25.70 and USDRUB 66.7. The ruble was supported by the central bank decision to abstain from currency purchases.

The core **debt markets** were stable on Thursday and POLGBs took cue. Euro zone peripheries' debt gained slightly, while Turkish bonds kept on losing.

Today at 10:00 CET the stats office will release **labour market data**. We have doubts if the market consensus is right expecting corporate wage growth to have accelerated in July from 7.5% y/y to 7.7%. While we agree that the labour market remains tight and is generating wage pressure, the June outcome was pushed up by one-off extra payments in mining. We think wages grew 7.3% y/y in July. Significantly higher pace may come in the final months of 2018. We think corporate employment may also come a bit lower than expected, at 3.5% y/y vs 3.7% previously.

ECONOMIC ANALYSIS DEPARTMENT:

al. Jana Pawła II 17, 00-854 Warsaw fax +48 22 586 83 40

email: ekonomia@bzwbk.pl

Web site: skarb.bzwbk.pl

Piotr Bielski +48 22 534 18 87

Marcin Luziński +48 22 534 18 85

Grzegorz Ogonek +48 22 534 19 23

Konrad Soszyński +48 22 534 18 86

Marcin Sulewski +48 22 534 18 84

TREASURY SERVICES:

Poznań +48 61 856 5814/30

Warszawa +48 22 586 8320/38

Wrocław +48 71 369 9400

FX market

Today's opening

EURPLN	4.3046	CZKPLN	0.1673
USDPLN	3.7788	HUFPLN*	1.3292
EURUSD	1.1392	RUBPLN	0.0566
CHFPLN	3.7923	NOKPLN	0.4464
GBPPLN	4.8125	DKKPLN	0.5773
USDCNY	6.8871	SEKPLN	0.4116

*for 100HUF

Last session in the FX market

16/08/2018

	min	max	open	close	fixing
EURPLN	4.301	4.334	4.328	4.311	4.3105
USDPLN	3.771	3.821	3.815	3.793	3.7871
EURUSD	1.134	1.141	1.134	1.136	-

Interest rate market

16/08/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0720 (2L)	1.58	0	27-Jul-18	OK0720	1.592
DS1023 (5L)	2.49	0	27-Jul-18	PS0123	2.335
WS0428 (10L)	3.15	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	2.65	2	-0.25	0
2L	1.92	0	2.83	3	-0.16	0
3L	2.10	0	2.87	3	-0.02	0
4L	2.28	-1	2.89	3	0.12	0
5L	2.43	-1	2.89	3	0.26	0
8L	2.73	0	2.92	3	0.65	0
10L	2.90	0	2.94	2	0.87	0

WIBOR rates

Term	%	Change (bps)
O/N	1.55	0
T/N	1.55	0
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	1.74	0
9x12	1.78	0
3x9	1.79	0
6x12	1.83	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.84	0
France	26	0	0.36	0
Hungary	116	1	3.17	0
Spain	71	3	1.12	0
Italy	243	10	2.78	-1
Portugal	64	0	1.53	1
Ireland	25	0	0.53	1
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

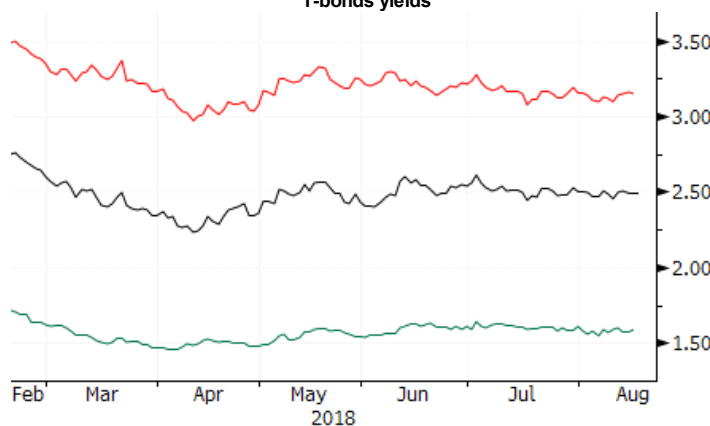
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

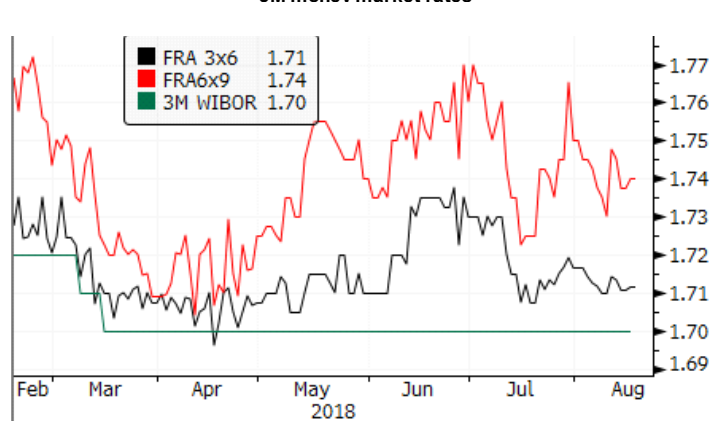
Zloty exchange rate



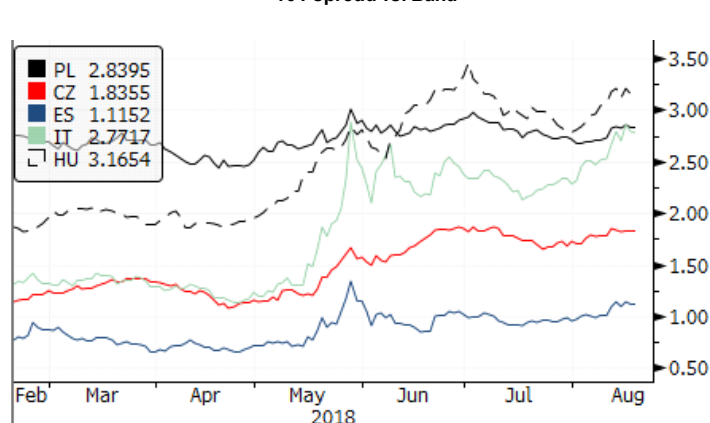
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE
				MARKET	BZWBK		
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	-240	42
14:00	PL	Exports	JUN €m	17 810	17 787	18071	17 251
14:00	PL	Imports	JUN €m	17 827	17 736	18484	17 153
TUESDAY (14 August)							
9:00	CZ	Flash GDP	Q2 % y/y	-	-	2.3	4.2
9:00	HU	Flash GDP	Q2 % y/y	-	-	4.6	4.4
10:00	PL	CPI	JUL % y/y	2.0	2.0	2.0	2.0
10:00	PL	Flash GDP	Q2 % y/y	5.0	4.9	5.1	5.2
11:00	EZ	Industrial output	JUN % m/m	-	-	1.4	1.3
11:00	DE	ZEW index	AUG pts	-	-	72.6	72.4
WENDSDAY (15 August)							
	PL	Market holiday					
14:30	US	Retail sales	JUL % m/m	0.2	-	0.5	0.5
15:15	US	Industrial output	JUL % m/m	0.3	-	0.1	0.6
THURSDAY (16 August)							
14:00	PL	Core inflation	JUL % y/y	0.6	0.6	0.6	0.6
14:30	US	House starts	JUN k	1270	-	1168	1158
14:30	US	Building permits	JUN k	1310	-	1311	1292
14:30	US	Initial jobless claims	week k	215	-	212	214
14:30	US	Philly Fed index	AUG pts	22.3	-	11.9	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

This publication has been prepared by Bank Zachodni WBK S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Bank Zachodni WBK S.A., its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Bank Zachodni WBK S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Bank Zachodni WBK S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

Additional information is available on request. Please contact Bank Zachodni WBK S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@bzwbk.pl, http://www.bzwbk.pl.