

EYEOPENER

20 August 2018

Crucial data at the beginning of the week

- Turkey and trade wars on the spotlight
- Polish labour market data slightly weaker
- Domestic debt stable, zloty mildly stronger
- Today, Polish retail sales and output data

On Friday, the start of the session passed in good atmosphere, as the approaching trade talks between USA and China (August 21-22) had positive impact on investors' sentiment. In the second part of the day, the negative moods prevailed, boosted by next sanctions aimed at Turkey and Turkish court's denial to release the American pastor. Bonds in the emerging markets and euro zone peripheries lost, while the core bonds gained. Data about euro zone inflation were in line with expectations and did not influence the trading.

Labour market data for July were in line with our expectations and weaker than the market expected. Employment growth slowed to 3.5% y/y from 3.7% y/y in June (in line with our call and vs. market consensus at 3.6%), after an increase of 9k m/m. Still, the slowdown was mostly due to a high base effect (+20k m/m in July 2017), as the newest reading is one of the strongest months of July in recent years. In our view, the demand for labour remains strong. Wage growth decelerated to 7.2% y/y from 7.5% y/y in June (our forecast: 7.3% y/y, market: 7.6% y/y). June's result was boosted by one-off payments in mining, so July saw a normalisation of wage growth. Detailed data on wages and employment will be released at the end of August. We expect wage growth to gain strength in the months to come. The strong labour market should be supportive for households' disposable income and hence private consumption, in our view.

On Friday, the euro gained vs. the dollar under better sentiment on markets pushing **EURUSD** from 1.138 to 1.144. Release of the below-consensus Michigan Index was one of drivers for this move on Friday. This week, we will know many important US and German data. However situation in Turkey should still have significant impact on markets.

Volatility on the zloty market was higher on Friday than on Thursday. All in all, after morning rise to 4.32, **EURPLN** fell to below 4.30 thanks to higher **EURUSD**. **USDPLN** also recorded a drop in the end of the week and closed domestic session at c3.77. At the beginning of today's session, sentiment is rather positive which together with solid Polish data that we expect could strengthen the zloty slightly.

The Czech koruna outperformed its **CEE** peers and was stable slightly above 25.70 per euro. The forint behaved similar to the zloty, i.e. **EURHUF** began the day at 323.7, then fell to 322.8 and rose to 324.5 to close the day at 323.0. The rubel did much worse, pressured by the falling oil prices. **USD RUB** rose to 67.5 from 66.7 at the beginning of the session.

On Friday, the **domestic debt market** was stable and we think this may continue in the next few days. The supply of the domestic bonds remains low (no standard auctions) and the fiscal situation is still good with investors' activity limited at the end of the holiday season. All the above factors should stabilize Polish bonds. However, the potential for strengthening is still limited due to unsolved Turkish problems. At Thursday switch auction, the Ministry of Finance will redeem **OK1018**, **WZ0119** and **OK0419** and will offer **OK0720**, **PS0123**, **WZ9524**, **WS0428** and **WZ0528** bonds.

Today at 10:00CET the Statistics Office is releasing industrial and retail sales data. While we expect some economic slowdown in 2H18, figures on real economic activity in July may be quite strong. Industrial output may have approached 10% y/y in July, construction output growth most likely stayed above 20% and retail sales likely grew ~8% y/y in real terms, according to our estimates.

On Tuesday, August 21, the government will work on the 2019 central budget draft. According to the finance minister Teresa Czerwińska, the next year's deficit is to stay below **PLN41bn**, the limit for 2018.

This week, there will be a number of new data releases to watch, both in Poland and abroad. But the market sentiment may remain more vulnerable to news regarding further developments in Turkey and new information regarding the international trade arrangements. Robust data from Poland and from the euro zone theoretically could be supportive for the zloty, but only if global sentiment improves. The Turkey's economic problems are still far from being solved, in our view, and the recent currency rebound was probably only a short-term break in a downward trend. Worries about growth outlook in other emerging economies may also persist. At the end of the week the global markets could be under influence of the starting central bankers' annual conference in Jackson Hole.

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	4.3011	CZKPLN	0.1671
USDPLN	3.7668	HUFPLN*	1.3303
EURUSD	1.1418	RUBPLN	0.0560
CHFPLN	3.7869	NOKPLN	0.4456
GBPPLN	4.7975	DKKPLN	0.5767
USDCNY	6.8568	SEKPLN	0.4108

*for 100HUF

Last session in the FX market 17/08/2018

	min	max	open	close	fixing
EURPLN	4.293	4.319	4.311	4.293	4.3061
USDPLN	3.751	3.797	3.793	3.753	3.7784
EURUSD	1.135	1.145	1.136	1.144	-

Interest rate market 17/08/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0720 (2L)	1.59	1	27-Jul-18	OK0720	1.592
DS1023 (5L)	2.48	-1	27-Jul-18	PS0123	2.335
WS0428 (10L)	3.14	-1	27-Jul-18	WS0428	3.144

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.74	-1	2.63	-2	-0.25	0
2L	1.91	-1	2.81	-2	-0.16	0
3L	2.09	-2	2.85	-2	-0.03	0
4L	2.25	-2	2.87	-2	0.12	0
5L	2.40	-2	2.87	-2	0.26	0
8L	2.71	-2	2.90	-2	0.65	0
10L	2.88	-2	2.93	-2	0.87	0

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	1.71	0
6x9	1.74	0
9x12	1.78	0
3x9	1.79	0
6x12	1.82	-1

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.84	-1
France	26	0	0.36	0
Hungary	116	1	3.15	0
Spain	71	3	1.14	0
Italy	243	10	2.81	0
Portugal	64	0	1.54	0
Ireland	25	0	0.53	0
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

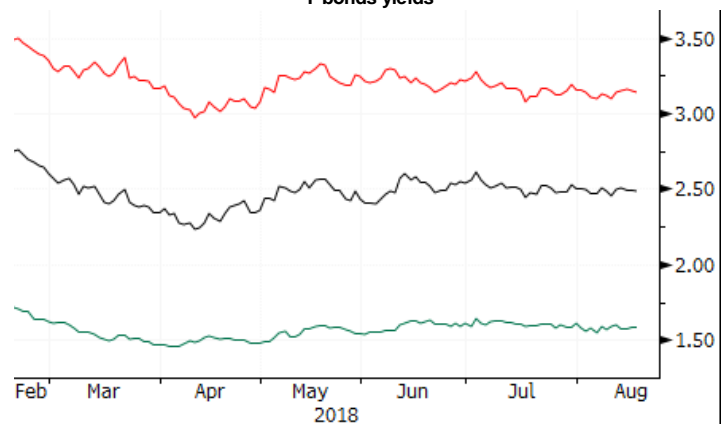
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

Zloty exchange rate



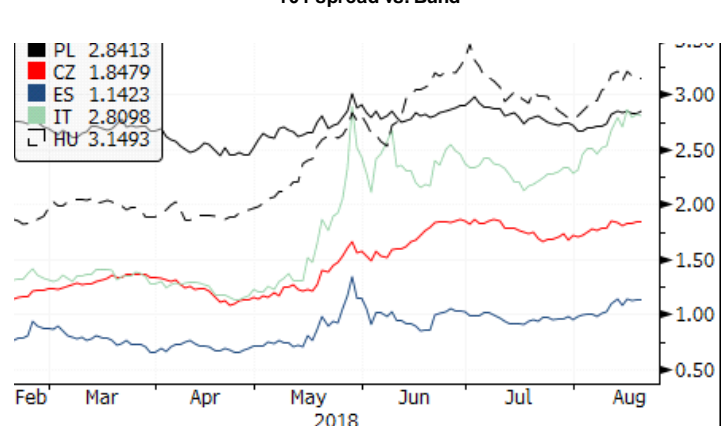
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar								
TIME	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST
CET					MARKET	BZWBK		VALUE
FRIDAY (17 August)								
10:00	PL	Wages in corporate sector	Jul	% y/y	7.7	7.3	7.2	7.5
10:00	PL	Employment in corporate sector	Jul	% y/y	3.6	3.5	3.5	3.7
11:00	EZ	CPI	Jul	% y/y	2.0	-	2.1	2.0
16:00	US	Flash Michigan	Jul	pts	98.0	-	95.3	97.9
MONDAY (20 August)								
10:00	PL	Sold Industrial Output	Jul	% y/y	9.8	9.9		6.8
10:00	PL	Construction Output	Jul	% y/y	22.4	21.9		24.7
10:00	PL	PPI	Jul	% y/y	3.5	3.4		3.7
TUESDAY (21 August)								
14:00	HU	Central Bank Rate Decision	Aug/18	%	0.90	-		0.90
WEDNESDAY (22 August)								
10:00	PL	Retail Sales Real	Jul	% y/y	7.4	7.6		8.2
16:00	US	Existing Home Sales	Jul	% m/m	1.3	-		-0.55
20:00	US	FOMC Meeting Minutes			-	-		0.0
THURSDAY (23 August)								
09:30	DE	Flash Germany Manufacturing PMI	Aug	pts	56.6	-		56.9
09:30	DE	Flash Markit Germany Services PMI	Aug	pts	54.3	-		54.1
10:00	EZ	Flash Eurozone Manufacturing PMI	Aug	pts	55.3	-		55.1
10:00	EZ	Flash Eurozone Services PMI	Aug	pts	54.4	-		54.2
11:30	PL	Bond Switch Auction						
14:00	PL	Money Supply M3	Jul	% y/y	7.3	7.3		7.3
14:00	PL	MPC minutes						
14:30	US	Initial Jobless Claims	week	k	215	-		212
16:00	US	New Home Sales	Jul	% m/m	3.0	-		-5.3
FRIDAY (24 August)								
08:00	DE	GDP WDA	2Q	% y/y	2.0	-		2.0
10:00	PL	Unemployment Rate	Jul	%	5.9	5.9		5.9
14:30	US	Durable Goods Orders	Jul	% m/m	0.95	-		0.8

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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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.