

# EYEOPENER

28 August 2018

## US-Mexico deal improved the mood

- Risk appetite improved after news about new US-Mexico trade deal
- Ifo index beat expectations
- Zloty stronger amid rising stock indices
- Domestic bonds stable, yields up globally
- Today US consumer sentiment data

The beginning of the week brought news about a new trade agreement between the USA and Mexico. The US also announced plans to withdraw from the NAFTA agreement, leaving Canada out in the cold. The Ifo release in Germany surprised to the upside thanks to stronger foreign orders. Opening of the Turkish market after the holiday break, although painful for the lira, did not harm the EM currencies. Neither were investors moved by the announcement of the meeting of the leaders of Turkey, Russia and Iran concerning conflict in Syria (which would have been seen as throwing down the gauntlet to the US). The investors' sentiments were positively affected by the news that the Chinese central bank changed the regime used to manage the yuan fluctuations, thus reducing the risk of yuan sudden depreciation.

Information about US-Mexico trade negotiations and better-than-expected readings of Ifo index supported growth of stock indices and emerging market currencies. Growth of risk appetite affected negatively bond prices on core markets and the dollar. We also observed strengthening of the zloty, but domestic bonds stayed stable.

**Chairman of Energy Regulatory Office Maciej Bando** stated that he cannot imagine the situation that energy companies do not ask for higher tariffs for individual clients in 2019, given their higher costs. This opinion goes against earlier signals that utilities could resign from applying for price hikes. In his opinion gas and heating will become more expensive too. According to our estimates, the scale of energy price hikes may be a decisive factor if inflation reaches 2.5% y/y target next year or gets slightly lower.

On Monday, **EURUSD** climbed higher, but only within the 1.1590-1.1690 range. In the morning, EURUSD was rising in a reaction to better-than-expected Ifo data release. Later in the day, USD weakened on news about the negotiation of a new trade deal between the USA and Mexico and US plans to abandon the

NAFTA deal. This news overshadowed the information that the last round of negotiations between the US and China made no progress. As a result, at the end of the day, EURUSD reached 1.1690. Today we expect EURUSD to decline correcting of Monday gains.

On Monday **EURPLN** and **USDPLN** declines continued, driven by weakening USD and increasing risk appetite. The positive environment for the zloty and CEE currencies was also a consequence of higher German Ifo reading and better mood on the global markets after the US and Mexico announced the new preliminary trade deal. As a result, EURPLN slid to 4.2680 from 4.2780, while USDPLN to 3.6510 from 3.6850. Today we expect zloty to give back some of the gains over the last days.

In case of **other CEE currencies**, HUF and CZK strengthened slightly against euro. EURCZK decreased from 25.75 in the morning to 25.70 at the session close, supported by Czech Finance Ministry's suggestions that the expected continued wage rise will be supportive for the budget in the coming years. EURHUF rose slightly in the morning, from 323.6 to 324.1, due to weaker data about consumer and business sentiment. During the day there was a rebound and EURHUF dropped to 323.5 in reaction to dollar weakening and Moody's statement, which said that tightening of mortgage criteria by the Hungarian central bank would be supportive for the country's credit risk. USDRUB was hovering on Monday between 67.4 and 67.1, remaining in downward trend. Stronger ruble was supported by rising crude oil prices, higher global risk appetite, dollar weakening and the pause in currency purchases by the Russian central bank. The factor negative for the Russian currency was implementation of US tariffs announced several weeks ago.

On the **core debt markets** yields were rising in reaction to better Ifo index from Germany, higher risk appetite and information about the new trade deal between USA and Mexico. As a result, the US yield curve moved up by 2-3bp and similar move was observed in case of the German curve. Today we expect to see stabilisation of yields amid lack of important macro data in Europe.

On **domestic interest rate market** yields stayed relatively stable (+1bp), despite the growth of yields on core debt markets. The IRS curve behaved similarly. Today we expect small yield increases following Monday changes on core markets.

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## FX market

## Today's opening

EURPLN	4.2704	CZKPLN	0.1662
USDPLN	3.6517	HUFPLN*	1.3188
EURUSD	1.1695	RUBPLN	0.0543
CHFPLN	3.7302	NOKPLN	0.4391
GBPPLN	4.7074	DKKPLN	0.5726
USDCNY	6.8103	SEKPLN	0.4018

\*for 100HUF

## Last session in the FX market 27/08/2018

	min	max	open	close	fixing
EURPLN	4.266	4.286	4.283	4.268	4.2748
USDPLN	3.650	3.689	3.680	3.652	3.682
EURUSD	1.160	1.169	1.163	1.169	-

## Interest rate market 27/08/2018

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

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0720 (2L)	1.59	0	23-Aug-18	OK0720	1.578
DS1023 (5L)	2.49	0	23-Aug-18	PS0123	2.335
WS0428 (10L)	3.16	0	23-Aug-18	WS0428	3.156

## IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.77	0	2.66	2	-0.25	0
2L	1.92	0	2.83	3	-0.15	1
3L	2.10	0	2.87	3	-0.01	1
4L	2.27	0	2.88	3	0.14	1
5L	2.42	0	2.88	3	0.29	1
8L	2.72	0	2.90	3	0.68	2
10L	2.89	0	2.93	3	0.90	2

## WIBOR rates

Term	%	Change (bps)
O/N	1.33	-11
T/N	1.38	-12
SW	1.54	-1
2W	1.60	0
1M	1.64	0
3M	1.71	0
6M	1.79	0
9M	1.82	0
1Y	1.87	0

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

Term	%	Change (bps)
1x4	1.72	0
3x6	1.74	0
6x9	1.77	0
9x12	1.80	0
3x9	1.82	0
6x12	1.86	0

## Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.79	0
France	26	-1	0.34	0
Hungary	116	1	2.98	0
Spain	71	0	1.03	0
Italy	253	1	2.78	1
Portugal	64	0	1.46	1
Ireland	25	0	0.51	0
Germany	11	0	-	-

\* 10Y treasury bonds over 10Y Bunds

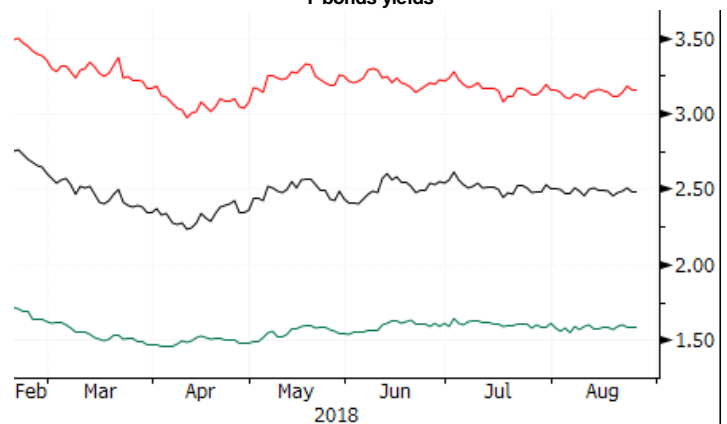
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

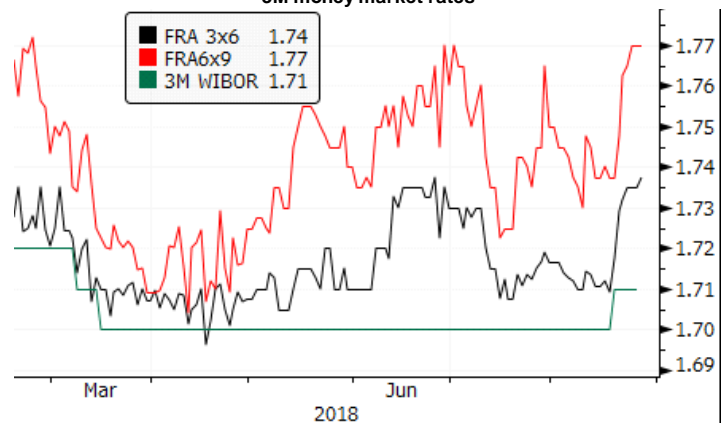
## Zloty exchange rate



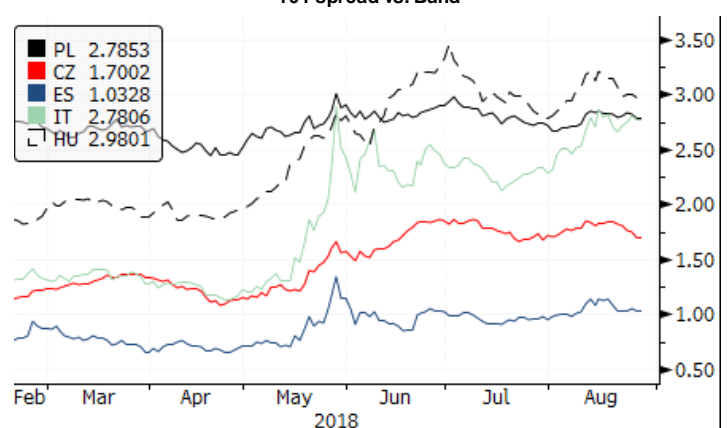
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic calendar

TIME		INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE
CET				MARKET	BZWBK		
FRIDAY (24 August)							
08:00	DE	GDP WDA	% y/y	2.0		2.0	2.0
10:00	PL	Unemployment Rate	%	5.9		5.9	5.9
16:00	US	Durable Goods Orders	% m/m	-1.0		-1.7	0.8
MONDAY (27 August)							
10:00	DE	IFO Business Climate	Aug pts	101.8		103.8	101.7
TUESDAY (28 August)							
	PL	Central Budget Cumul.	Jul mln PLN	-			9535.5
16:00	US	Consumer Conference Board	Aug pts	126.6		-	127.4
WEDNESDAY (29 August)							
14:30	US	GDP Annualized	2Q % Q/Q	4.0		-	4.1
16:00	US	Pending Home Sales	Jul % m/m	0.25		-	0.9
THURSDAY (30 August)							
11:00	EZ	ESI	Aug pct.	111.88		-	112.1
14:00	DE	HICP	Aug % m/m	0.2		-	0.4
14:30	US	Initial Jobless Claims	Aug-18 k	213.0		-	210.0
14:30	US	Personal Spending	Jul % m/m	0.4		-	0.4
14:30	US	Personal Income	Jul % m/m	0.4		-	0.4
14:30	US	PCE Deflator SA	Jul % m/m	0.12		-	0.1
FRIDAY (31 August)							
08:00	DE	Retail Sales	Jul % m/m	-0.15		-	0.9
09:00	CZ	GDP SA	2Q % y/y	2.3		-	2.3
10:00	PL	CPI	Aug % y/y	2.0	1.8	-	2.0
10:00	PL	GDP	2Q % y/y	-	5.1	-	5.1
11:00	EZ	Flash HICP	Aug % y/y	2.1		-	2.1
11:00	EZ	Unemployment Rate	Jul %	8.2		-	8.3
16:00	US	Michigan index	Aug pts	95.5		-	95.3

Source: BZ WBK, Bloomberg, Parkiet

\* in case of the revision the data is updated

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