

# EYEOPENER

31 August 2018

## Worse business sentiment in August

- **Decline of ESI indices for euro zone and Poland, German inflation down**
- **Risk aversion hit the zloty and supported domestic debt**
- **Core market yields fell, dollar strengthened on Argentine crisis and weaker European data**
- **Today 2Q GDP and CPI in Poland, US Michigan index**

ESI indicators for the euro zone released on Thursday surprised to the downside, showing a worsening of sentiment. Data for Poland also showed a deterioration. Flash inflation data for Germany was also lower than expected (showing 1.9% y/y vs. 2.1% consensus). The US data releases (consumer spending, PCE inflation) were in line with expectations, while consumer income growth was slower, suggesting that the path of interest rate hikes declared by the Fed should not be lifted up. The emerging markets currencies were destabilised by the selloff in Argentinian peso (the currency down by 20% in two days, despite the central bank's sharp interest rate hike from 45% to 60%). The dollar strengthened, equity markets were falling (stronger in Europe than in the USA) and bond yields in core debt markets decreased (DE10Y by 5bp). The zloty depreciated together with other CEE currencies, while Polish bonds gained. Despite the positive surprise from August PMI from China, the Asian equity markets were mostly in decline. It was the result of Donald Trump's threat to impose new tariffs on China next week, as soon as the public consultations end. The US president also announced further pressure on trade relations with Europe.

In August, the main **economic sentiment index presented for Poland by the European Commission (ESI)** hit the new low this year. The indices declined in all sectors, especially in consumer sentiment, retail trade and industry. In industry, the indicator of the expected industrial production went down considerably (to hit the new low since mid 2017), as did the current production index. New orders also decreased although they still remain at historically high levels. In construction, problems with supply of manpower and materials intensified and the current activity index remained more or less flat vs July which had the worst reading this year. Inflation expectations did not increase among the entrepreneurs or consumers. Poorer consumer sentiment was accompanied by only slight decline of the index of major purchases and propensity to save. The ESI behaviour suggests that the economy has passed the peak of the business cycle and may start to lose the momentum.

On Thursday, **EURUSD** decreased. This time the US currency gained thanks to worries about Argentina and news that Donald Trump will soon impose new tariffs on imports from China. It meant an intraday drop of EURUSD to 1.165 from 1.710. US consumer expenditures and income data and PCE inflation were in line with consensus and supported the dollar. We assume that on Friday there will be further strengthening of the dollar due to volatility of EM currencies. However a morning comment by Ewald Nowotny (ECB) that Italy's problems won't influence the pace of monetary policy tightening in the euro zone sent EURUSD a bit higher.

On Thursday, **EURPLN** increased continuously due to the dollar's strengthening and exchange rate shock in Argentina. As a result EURPLN climbed from 4.287 in the morning to 4.301 in the afternoon. Today we expect the negative pressure on emerging market currencies to hold which can keep the zloty around 4.30 vs. the euro.

Other **CEE currencies** also went down as a reaction to the Argentina crisis. The most vulnerable fx rate was EURHUF, which rose to 327 from 325.70, while the most stable fx rates were EURCZK (increased to 25.77 from 25.73) and USDRUB (to 68.11 from 68.00), which was supported by rising oil prices.

On the **domestic debt market**, 5-10Y yields slid by 1-3bp, more in the middle part of the curve, following the dropping yields on the core markets bonds. Today we expect the yields to continue falling, as a reaction to today's inflation release for August (we see 1.8% y/y, less than the market consensus).

**Today** there will be publication of detailed GDP data in 2Q and flash data of CPI for August. We assume that private consumption stayed strong (c5% y/y), supported by the growth of household incomes. Data about investments of big companies and local governments suggest that investment growth could exceed 8% y/y. Share of net export to GDP growth was rather neutral. In our opinion, inflation was 1.8% y/y in August thanks to slower growth of food and fuel prices driven by base effect while core inflation was 0.7% y/y. Growth of natural gas prices may have added 0.05 pp. to CPI. Gradual drop of y/y CPI should follow this year.

Rzeczpospolita daily informs that the government plans to raise the **minimum wage** in 2019 from PLN2100 to PLN2255 (by 7.3%) instead of PLN2220 (+5.7%) as it was announced earlier. It supports our projection of a 8% growth in wages in 2019.

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## FX market

## Today's opening

EURPLN	4.2984	CZKPLN	0.1668
USDPLN	3.6802	HUFPLN*	1.3161
EURUSD	1.1680	RUBPLN	0.0540
CHFPLN	3.8025	NOKPLN	0.4416
GBPPLN	4.7923	DKKPLN	0.5765
USDCNY	6.8303	SEKPLN	0.4040

\*for 100HUF

## Last session in the FX market

30/08/2018

	min	max	open	close	fixing
EURPLN	4.285	4.304	4.287	4.303	4.2917
USDPLN	3.659	3.695	3.663	3.691	3.6724
EURUSD	1.164	1.172	1.171	1.166	-

## Interest rate market

30/08/2018

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

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0720 (2L)	1.57	0	23-Aug-18	OK0720	1.578
DS1023 (5L)	2.47	0	23-Aug-18	PS0123	2.335
WS0428 (10L)	3.14	-3	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	2.67	0	-0.24	0
2L	1.91	-1	2.84	-1	-0.14	0
3L	2.09	-2	2.89	-2	-0.01	-1
4L	2.27	-3	2.90	-1	0.14	-1
5L	2.42	-3	2.90	-1	0.29	-2
8L	2.72	-3	2.92	-2	0.67	-2
10L	2.88	-3	2.94	-2	0.89	-3

## WIBOR rates

Term	%	Change (bps)
O/N	1.51	52
T/N	1.51	14
SW	1.55	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	-1
3x9	1.81	0
6x12	1.85	0

## Measures of fiscal risk

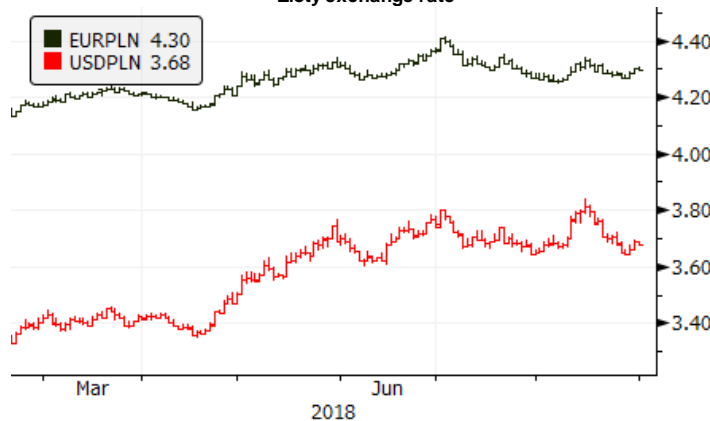
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.79	-3
France	26	-1	0.34	0
Hungary	116	1	3.09	-1
Spain	71	1	1.12	-1
Italy	253	1	2.85	-2
Portugal	64	0	1.56	-1
Ireland	25	0	0.51	-5
Germany	11	0	-	-

\* 10Y treasury bonds over 10Y Bunds

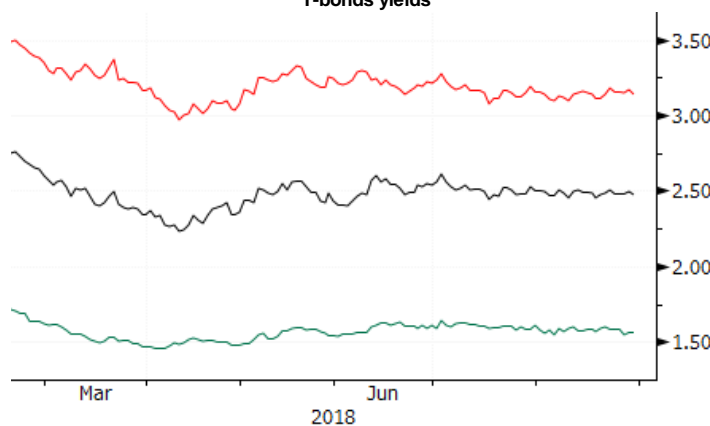
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

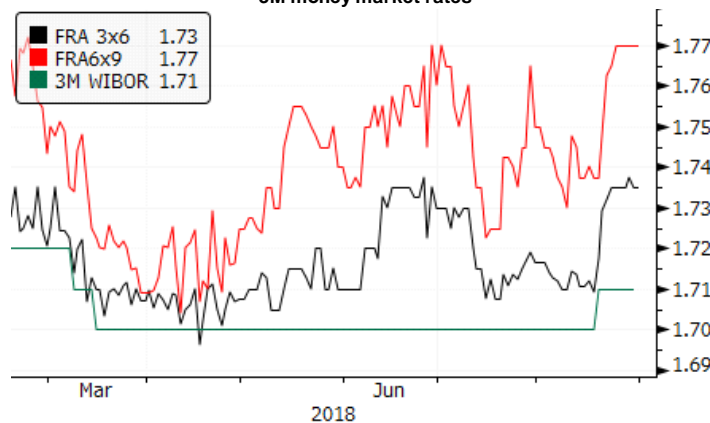
## Zloty exchange rate



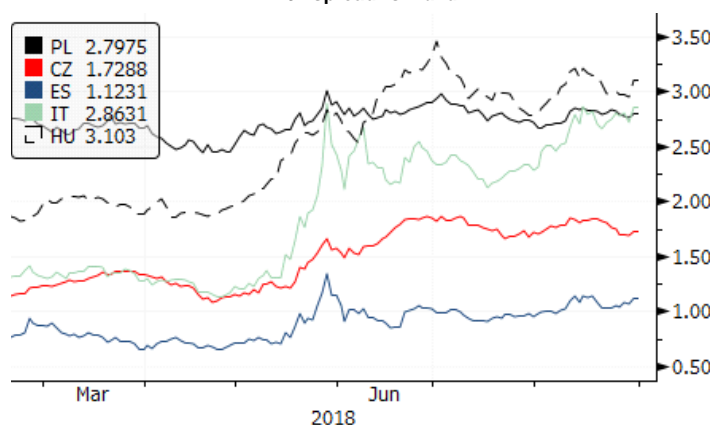
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic calendar

TIME		INDICATOR		PERIOD		FORECAST		ACTUAL	LAST
CET	MARKET					BZWBK	VALUE	VALUE	
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)									
16:00	US	Consumer Conference Board	Aug	pts	126.6		-	127.4	
WEDNESDAY (29 August)									
	PL	Central Budget Cumul.	Jul	mIn PLN	-		-858.7	9535.5	
14:30	US	GDP Annualized	2Q	% Q/Q	4.0		4.2	4.1	
16:00	US	Pending Home Sales	Jul	% m/m	0.25		-0.7	0.9	
THURSDAY (30 August)									
11:00	EZ	ESI	Aug	pct.	111.88		111.6	112.1	
14:00	DE	HICP	Aug	% m/m	0.2		0.0	0.4	
14:30	US	Initial Jobless Claims	Aug-18	k	212.0		213	210.0	
14:30	US	Personal Spending	Jul	% m/m	0.4		0.4	0.4	
14:30	US	Personal Income	Jul	% m/m	0.4		0.3	0.4	
14:30	US	PCE Deflator SA	Jul	% m/m	0.2		0.2	0.1	
FRIDAY (31 August)									
08:00	DE	Retail Sales	Jul	% m/m	-0.15		-0.4	0.9	
09:00	CZ	GDP SA	2Q	% y/y	2.3	2.4	-	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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