

EYEOPENER

3 September 2018

GDP strength and PMI weakness

- **Weak market sentiment as the US withheld trade talks with Canada, wants to expand tariffs on China**
- **GDP growth at 5.1% y/y, but with low investment growth, CPI still at 2% y/y, negative surprise in PMI**
- **Intraday appreciation of the zloty, domestic yields up**

Friday releases of Polish GDP and flash CPI data which was in line with expectations and confirmed high economic activity. Chinese PMI data surprised slightly upward, but European inflation was below expectations. On the other hand, University of Michigan index describing US consumer sentiment was higher than forecasts. Stock indices on both sides of the Atlantic declined after Donald Trump expressed willingness to go on with tariff hikes (expansion of tariffs on China may come this week) and withheld trade talks with Canada until Wednesday. Bond yields were growing and USD increased in value while domestic assets let go of morning gains.

GDP growth in 2Q18 reached 5.1% y/y, confirming the flash estimate. The breakdown of growth surprisingly showed a significant slowdown in investments – to 4.5% y/y from 8.1% in 1Q, despite earlier indications from big companies and local governments of a significant acceleration of investment spending. The Stats office explained that the weakness came partly from changes in accounting of military spending and noted that other sectors saw improvement. Private consumption remained the main engine of growth, rising almost 5% y/y. Net exports added 0.5pp to GDP growth. We still think that the peak of the economic cycle is behind us and that 2H18 will show a gradual slowdown of GDP growth.

Inflation remained at 2.0% y/y in August, in line with market expectations and above our 1.8% forecast. This was caused by a significant rebound of core CPI from 0.6% y/y to 0.8-0.9% – the first rebound so far this year. In our view, this will not make the MPC more active. In the coming months we expect CPI growth to gradually subside due to high base effects, toward 1.6% y/y in December. At the same time, we estimate that core inflation should rise to 1.2-1.3% y/y by year-end.

Polish manufacturing PMI went down from 52.9 pts to 51.4 in August, while 53 was expected. This is the lowest reading in almost 2 years. Report mentions many areas of weaker activity – current output, new orders (the lowest in 2 years, export orders component the lowest in 4 years), employment, easing pressure on supply chains. In two months PMI lost 2.8 pts – this is a sharp turn signalling that 2H18 will in our view be about (gradual) economic slowdown. We expect real data for August to confirm the weakening of business activity the recent sentiment indices suggest.

On Friday **EURUSD** continued to drop. The dollar was supported by Donald Trump's remarks. As a result EURUSD declined from 1.168 to 1.159 at the end of the European session. Today we expect further decline of EURUSD due to fears of trade wars' escalation and Fitch's late Friday announcement about negative outlook for Italy's rating with a risk of a downgrade if political activities deteriorate country's fiscal condition.

At Friday opening, **EURPLN** dropped from 4.30 to 4.29 to go down to 4.2810. The zloty was supported by, among others, rebound of the Turkish lira, which stimulated the demand for the CEE assets. IMF declarations about support to Argentina helped to stabilise the peso. In the late afternoon, a sudden appreciation of the dollar pushed EURPLN back above 4.30. The domestic data did not make a lasting impression on the investors. We think that the beginning of the week will see the zloty weak if the fears of trade war escalation still trouble the market.

On Friday, the **CEE currencies** kept appreciating intraday amidst the growing Turkish lira. As a result, EURPLN slid to 25.72 from 25.77, while EURHUF to 325.90 from 327.00. In the late afternoon, a strong appreciation of the dollar drove their exchange rates back upward, leaving EURCZK and EURHUF close to the opening levels (HUF lost less). Unlike the koruna and the forint, the rubel's appreciation was lasting, supported by the comments that the new sanctions would not affect the Russian economy much. As a result, USDRUB moved from 68.20 to 67.50.

On the **domestic debt market** yields were rising in the belly and on the long end of the curve (by 3-4bp) and decreasing on the front end. This behaviour was a reaction to the disturbances on global financial markets, information about MoF plan to organise an auction (on Thursday, with offer PLN3-6bn) and strong banking sector demand for short-dated bonds. Today we expect the rise of yields to continue on the long end of the curve in the face of further equity weakness.

This week we expect the EURPLN to stabilize below 4.30 with the risk of exceeding this level in the event of increased tensions between the US and the rest of the world and/or further deterioration of mood on emerging markets. Polish PMI reading and MPC meeting should be neutral market-wise. On the debt market, we expect insignificant rise of yields in the belly and long-end of the curve (around 2-4bp) because of announced bonds auction. Short-end should stay low (1.55-1.57%) amid continued high banks' demand for liquid assets and smaller interest in NBP bills.

The Sunday **ruling party's (PiS) convention** there was no questioning of Polish EU membership and in our opinion announced new points of political agenda do not mean large additional fiscal burden. The event should be neutral for the markets.

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FX market

Today's opening

EURPLN	4.2965	CZKPLN	0.1669
USDPLN	3.7043	HUFPLN*	1.3161
EURUSD	1.1599	RUBPLN	0.0548
CHFPLN	3.8197	NOKPLN	0.4419
GBPPLN	4.7831	DKKPLN	0.5762
USDCNY	6.8268	SEKPLN	0.4053

*for 100HUF

Last session in the FX market

31/08/2018

	min	max	open	close	fixing
EURPLN	4.281	4.305	4.303	4.304	4.2953
USDPLN	3.669	3.714	3.691	3.700	3.6808
EURUSD	1.159	1.169	1.166	1.160	-

Interest rate market

31/08/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0720 (2L)	1.54	-2	23-Aug-18	OK0720	1.578
DS1023 (5L)	2.51	4	23-Aug-18	PS0123	2.335
WS0428 (10L)	3.18	4	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	-1	-0.25	0
2L	1.92	0	2.82	-2	-0.15	0
3L	2.10	1	2.86	-3	-0.01	0
4L	2.28	1	2.87	-3	0.13	-1
5L	2.43	1	2.87	-3	0.27	-2
8L	2.73	2	2.89	-3	0.66	-1
10L	2.90	2	2.92	-3	0.87	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.52	1
T/N	1.55	4
SW	1.55	0
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	1.81	0
6x12	1.85	0

Measures of fiscal risk

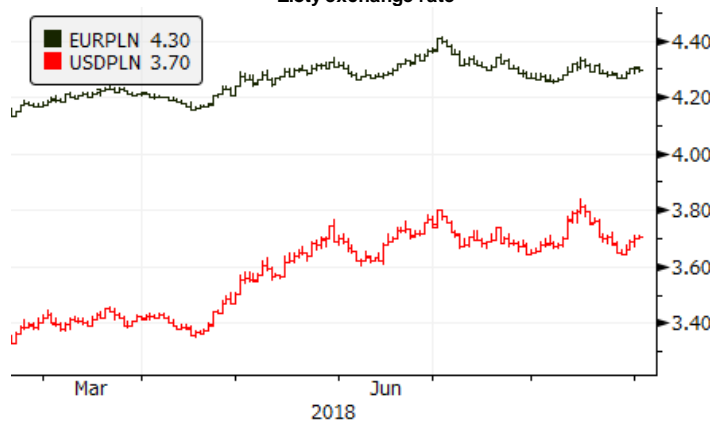
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.84	3
France	26	-1	0.36	0
Hungary	116	1	3.12	0
Spain	71	1	1.13	-1
Italy	253	1	2.89	-2
Portugal	64	0	1.58	-1
Ireland	25	0	0.52	-2
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

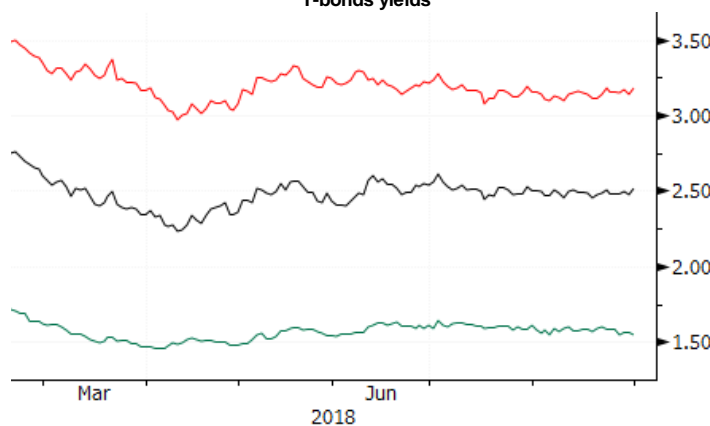
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

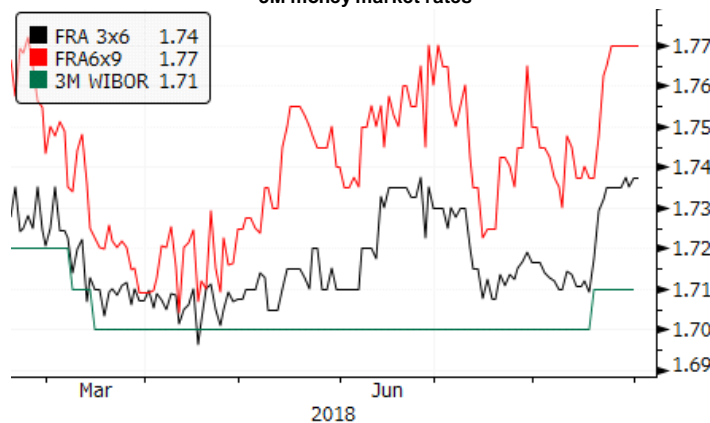
Zloty exchange rate



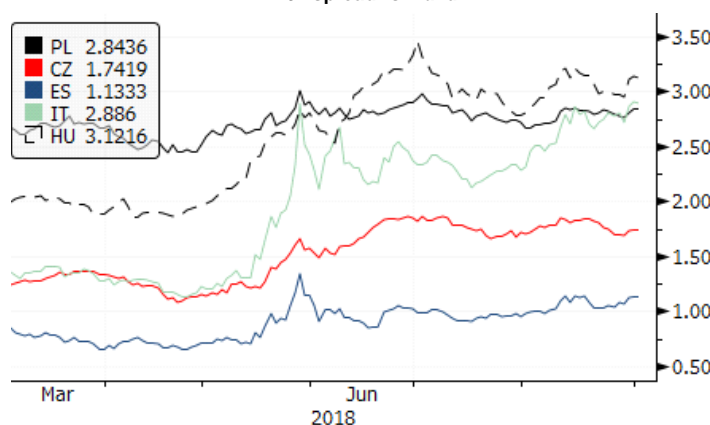
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME		INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE	
CET				MARKET	BZWBK			
FRIDAY (31 August)								
08:00	DE	Retail Sales	Jul	% m/m	-0.2		-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	2.0
10:00	PL	GDP	2Q	% y/y	5.1	5.1	5.1	5.1
11:00	EZ	Flash HICP	Aug	% y/y	2.1		2.0	2.1
11:00	EZ	Unemployment Rate	Jul	%	8.2		8.2	8.3
16:00	US	Michigan index	Aug	pts	95.5		96,2	95.3
MONDAY (3 September)								
09:00	PL	Poland Manufacturing PMI	Aug	pts	53.1	53.1	51.4	52.9
09:55	DE	Germany Manufacturing PMI	Aug	pts	56.1		-	56.1
10:00	EZ	Eurozone Manufacturing PMI	Aug	pts	54.6		-	54.6
TUESDAY (4 September)								
16:00	US	ISM manufacturing	Aug	pts	57.4		-	58.1
WEDNESDAY (5 September)								
	PL	MPC decision		%	1.5	1.5	-	1.5
03:00	HU	MNB minutes	Jul-18		-			
03:45	CH	Caixin China PMI Services	Aug	pts	52.5		-	52.8
09:00	HU	GDP	2Q	% y/y	4.6		-	4.6
09:55	DE	Markit Germany Services PMI	Aug	pts	55.2		-	55.2
10:00	EZ	Eurozone Services PMI	Aug	pts	54.4		-	54.4
11:00	EZ	Retail Sales	Jul	% m/m	-0.1		-	0.3
THURSDAY (6 September)								
08:00	DE	Factory Orders	Jul	% m/m	1.8		-	-4.0
09:00	CZ	Industrial Production	Jul	% y/y	7.8		-	3.4
09:00	HU	Industrial Production SA	Jul	% y/y	8.0		-	3.1
14:15	US	ADP report	Aug	k	190.5		-	219.0
14:30	US	Initial Jobless Claims		k	212.0		-	210.0
16:00	US	Durable Goods Orders	Jul	% m/m	-		-	-1.7
16:00	US	ISM services	Aug	pts	56.8		-	55.7
16:00	US	Factory Orders	Jul	% m/m	-0.5		-	0.7
FRIDAY (7 September)								
08:00	DE	Exports SA	Jul	% m/m	0.2		-	0.1
08:00	DE	Industrial Production SA	Jul	% m/m	0.2		-	-0.9
11:00	EZ	GDP SA	2Q	% y/y	2.2		-	2.2
14:30	US	Change in Nonfarm Payrolls	Aug	k	192.0		-	157.0
14:30	US	Unemployment Rate	Aug	%	3.8		-	3.9

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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