

EYEOPENER

4 September 2018

Złoty stronger despite worse global sentiment

- Domestic bonds lost in spite of yields decreasing in Europe
- Polish and European PMIs below expectations
- Złoty and koruna gained despite disappointing PMIs
- Today US industrial ISM index

The Monday release of manufacturing PMI index for Poland surprised negatively, with all key components showing deterioration. The indices for main European economies were also below expectations (except Hungary where PMI index unexpectedly increased). Situation on European equities was rather stable, oil prices went up but copper was depressed by fears regarding world trade prospects. It was another day of big losses for the Argentinian peso, the Turkish lira, but also the Brazilian real and the South-African rand. Despite negative attitude towards emerging market currencies, the złoty and the koruna gained, unlike the forint and the ruble. Polish yields rose in response to sell-off performed by local market participants amid declining yields in European (including Italy).

The **Ministry of Family, Labour and Social Policy** estimated the annual cost of the draft bill on the minimum pensions for mothers who raised at least four children to be between PLN727.5mn and PLN831.7mn in the next decade. When the government presented the idea in April, we estimated the cost of such a solution at cPLN350mn a year (although on some assumptions concerning the range of beneficiaries the estimate reached PLN1bn).

On Monday **EURUSD** recovered marginally, after the Friday fall, with the US market closed for the Labour Day. The weaker European manufacturing PMIs did not affect EURUSD. As a result, EURUSD closed at 1.1620 vs. 1.1600 in the morning. Today we expect the dollar to return appreciation, in face of gloomy stock market mood.

On Monday **EURPLN** was slipping over the day, which stood it out among EM currencies. The weaker USD and relatively stable

European equity market helped the złoty to strengthen. The sell-off of the most EM currencies, which is related to market fears related to the Argentina crisis and uncertainty about the global trade future, did not affect the złoty. Moreover, weaker than expected Polish manufacturing PMI data release did not touch the złoty. As a consequence EURPLN slide to 4,2930 at the end of the day from 4,3000 at the open. Today we expect PLN to depreciate slightly as a reaction to the anticipate USD appreciation.

As for **other CEE currencies**, the forint weakened and the Czech koruna got stronger. EURHUF moved from 326.50 in the morning to 326.80 at the close of the session. Better than expected manufacturing PMI index for Hungary did not have bigger impact on the forint. EURCZK went down on Monday benefiting from a slight rebound in the region. As a result the exchange rate dropped from 25.76 in the morning to 25.74 at the close. Weaker-than-expected Czech manufacturing PMI did not influence the koruna's pricing. The Russian ruble got weaker as market considered if further sanctions against Russia would be discussed in the US Congress. The ruble was not supported by better-than-expected, but still staying below the break-even level of 50 pts, manufacturing PMI and rising oil prices. In response to this, USDRUB climbed from 67.60 to 68.10.

On the **domestic debt market**, yields went up on the long end and the belly of the curve (by 2-4 bp). The short end was also under pressure, but here the fluctuations were insignificant (below 1bp). Movements were probably generated by the domestic market players, as they were against the trends on the markets which are usually well-correlated with the Polish market. The domestic debt deteriorated despite slight decrease in yields of German and Italian bonds (after the Italian officials declared that the 2019 budget was going to be kept within the constraints obligatory to the euro zone members) and stable debt standing in the region. Today, we are expecting the corrections to continue on the long end and the belly of the curve, along with accompanying asset swap spreads increases.

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 | 4.2970 | CZKPLN | 0.1670 |
| USDPLN | 3.7105 | HUFPLN* | 1.3120 |
| EURUSD | 1.1581 | RUBPLN | 0.0544 |
| CHFPLN | 3.8199 | NOKPLN | 0.4429 |
| GBPPLN | 4.7664 | DKKPLN | 0.5764 |
| USDCNY | 6.8294 | SEKPLN | 0.4071 |

*for 100HUF

Last session in the FX market

03/09/2018

| | min | max | open | close | fixing |
|--------|-------|-------|-------|-------|--------|
| EURPLN | 4.286 | 4.305 | 4.305 | 4.293 | 4.2954 |
| USDPLN | 3.688 | 3.714 | 3.700 | 3.695 | 3.6991 |
| EURUSD | 1.159 | 1.163 | 1.160 | 1.162 | - |

Interest rate market

03/09/2018

T-bonds on the interbank market**

| Benchmark (term) | % | Change (bps) | Last auction | Paper offered | Average yield |
|------------------|------|--------------|--------------|---------------|---------------|
| OK0720 (2L) | 1.56 | 2 | 23-Aug-18 | OK0720 | 1.578 |
| DS1023 (5L) | 2.55 | -1 | 23-Aug-18 | PS0123 | 2.335 |
| WS0428 (10L) | 3.20 | 2 | 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 | 0 | -0.25 | 0 |
| 2L | 1.92 | 0 | 2.83 | 1 | -0.15 | 0 |
| 3L | 2.10 | 0 | 2.87 | 1 | -0.01 | 0 |
| 4L | 2.28 | 0 | 2.87 | 0 | 0.13 | 0 |
| 5L | 2.43 | 0 | 2.88 | 1 | 0.27 | 0 |
| 8L | 2.73 | 0 | 2.90 | 1 | 0.66 | 0 |
| 10L | 2.90 | 0 | 2.93 | 1 | 0.87 | 0 |

WIBOR rates

| Term | % | Change (bps) |
|------|------|--------------|
| O/N | 1.54 | 2 |
| T/N | 1.55 | 0 |
| 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 | 1 |
| 6x9 | 1.77 | 0 |
| 9x12 | 1.80 | 0 |
| 3x9 | 1.81 | 0 |
| 6x12 | 1.85 | 0 |

Measures of fiscal risk

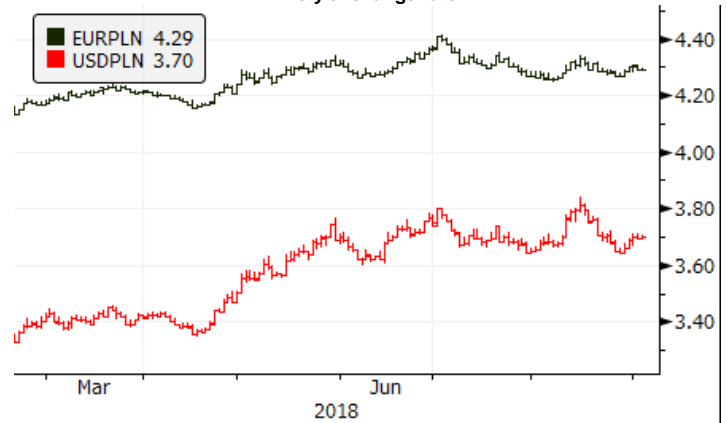
| Country | CDS 5Y USD | | 10Y spread* | |
|----------|------------|--------------|-------------|--------------|
| | Level | Change (bps) | Level | Change (bps) |
| Poland | | | 2.86 | 2 |
| France | 26 | -1 | 0.36 | 0 |
| Hungary | 116 | 1 | 3.12 | -1 |
| Spain | 71 | 1 | 1.11 | -1 |
| Italy | 253 | 1 | 2.80 | -3 |
| Portugal | 64 | 0 | 1.56 | -1 |
| Ireland | 25 | 0 | 0.53 | 1 |
| Germany | 11 | 0 | - | - |

* 10Y treasury bonds over 10Y Bunds

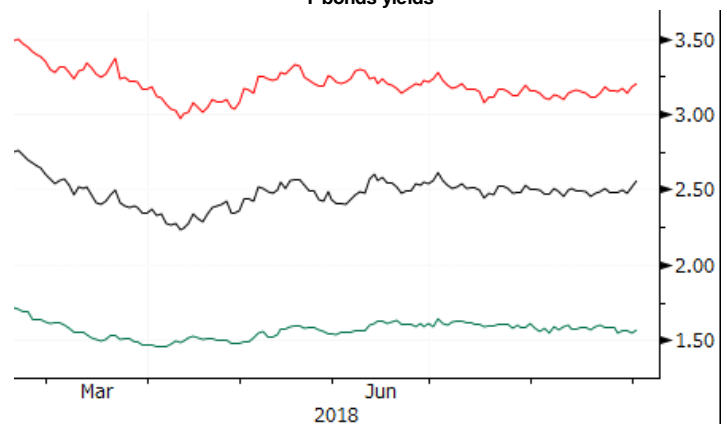
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

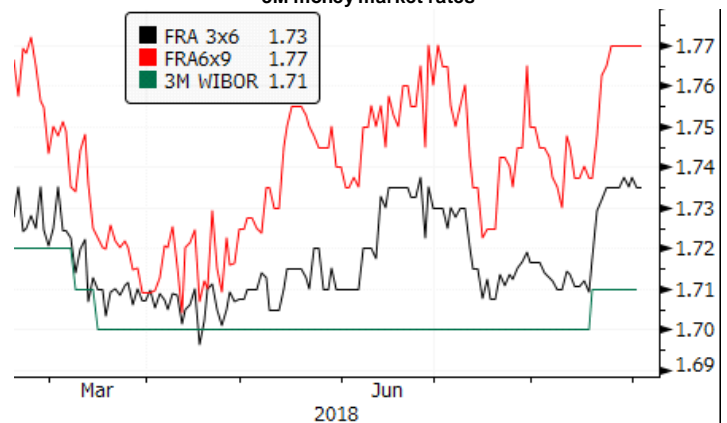
Zloty exchange rate



T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

| TIME | | 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 | | 55.9 | 56.1 |
| 10:00 | EZ | Eurozone Manufacturing PMI | Aug | pts | 54.6 | | 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

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.