

EYEOPENER

5 September 2018

Emerging market turmoil continues

- Domestic bonds lost amid higher core market yields
- Finance minister expects budget deficit after August
- Dollar appreciation weighs on forint, koruna and ruble stable
- Today MPC decision, euro zone services PMIs and retail sales

Tuesday saw the information that the Republic of South Africa slid into recession (the GDP declined for the 2nd quarter in a row - by 0.7% y/y in Q2) and a remarkably good US ISM manufacturing release. As a result, EM currencies and shares, copper and other industrial commodities were sold off. Oil was an exception as the tropical storm in the Gulf of Mexico supported oil prices (by threatening drilling operation in the region). As for the core markets, shares and bonds sold off while the dollar saw more demand. The zloty and the forint were depreciating, whereas the koruna and the rubel remained fairly stable. Domestic bonds were kept under pressure on the long end of the yield curve. The Chinese PMI services for August took a surprising tumble to hit the new low this year. The Monday negative mood continued to affect the Asian session.

The **Ministry of Finance** announced that it will offer 3-4 bln PLN in bonds on September auction (scheduled on this Thursday) – less than initially suggested (3-6 bln PLN). At the same time, Finance Minister Teresa Czerwińska expressed her opinion that despite disturbances on emerging markets, she does not see reasons to worry about demand for Polish sovereign bonds as domestic political and macroeconomic situation are stable. In her opinion, there is no need to reduce bond supply. She also told that central budget most likely remained in deficit after August. In January-July period, a deficit (of PLN0.9bn) was recorded for the first time in 2018. In recent years, August budget balance usually improved by an average about PLN0.5bn.

On Tuesday **EURUSD** resumed a fall, in a reaction to declines of EM, European and US equity indices. These moves were triggered by information that South African GDP decreased for the 2nd quarter in a row, the new wave of depreciation of Turkish Lira, Argentinian Peso and Indonesian Rupiah. As a result, EURUSD slid to 1.1575 in the evening from 1.1615 in the morning, hitting 1.1535 on the way. The fall was supported by manufacturing ISM index that beat market expectations. Today we expect the USD appreciation to continue as a reaction to the release of European services PMIs (we expect readings below market forecasts).

On Tuesday **EURPLN** increased driven by weak appetite for risk assets and by the stronger dollar. Information that budget deficit

will continue in August did not impress investors. As a result EURPLN climbed from 4.283 to 4.307 in the afternoon. Today we expect further weakening of the zloty due to data to be released in the euro zone, with possibly smaller scale of depreciation than on Tuesday.

As for **other CEE currencies**, on Tuesday the forint got weaker due to aversion on risk assets. EURHUF increased from 326.80 to 327.90 (the highest level since the beginning of the July). EURCZK fluctuated between 25.72 and 25.76. The relatively strong position of the koruna was a result of solid wages data (in 2Q 6.2% y/y vs. 5.9% in 1Q) which supported expectations of interest rate hike. At the beginning of the day there was an increase of USDRUB (from 68.00 to 68.50) but in the afternoon it dropped to 68.10. Afternoon strengthen of the ruble is partly caused by increasing oil prices and by suggestion of the Russian central bank that next week it will consider an interest rate hike.

On the **domestic debt market**, the yields in the 5-10Y segment were decreasing in the morning and rising in the afternoon. The rise of yields was driven by both local factors (local financial institutions closing their bond positions) as well as by external environment (core markets yields increases). Consequently the domestic yield curve surged by 4 bp in the 10Y segment and decreased by 1bp in the 2-5Y segment. Today we expect domestic yields to increase some more in the 5-10Y segment on further local market tensions, the bond auction scheduled for Thursday and risk aversion on the global market.

Today MPC decision. The first MPC meeting after the summer holidays is unlikely to show any change in the central bank's policy bias, as the data released recently have probably reassured the MPC members that their patient approach is appropriate - inflation remains low, despite decent economic activity. Given the surprisingly poor investment growth in 2Q, dovish members might reiterate that the Council should run its policy in such a way to support this component of GDP, with rate hikes out of scope in 2018 and 2019.

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FX market

Today's opening

EURPLN	4.3173	CZKPLN	0.1677
USDPLN	3.7320	HUFPLN*	1.3155
EURUSD	1.1568	RUBPLN	0.0545
CHFPLN	3.8283	NOKPLN	0.4436
GBPPLN	4.7908	DKKPLN	0.5791
USDCNY	6.8390	SEKPLN	0.4095

*for 100HUF

Last session in the FX market

04/09/2018

	min	max	open	close	fixing
EURPLN	4.288	4.314	4.293	4.308	4.3073
USDPLN	3.691	3.739	3.695	3.720	3.7241
EURUSD	1.153	1.162	1.162	1.158	-

Interest rate market

04/09/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0720 (2L)	1.60	3	23-Aug-18	OK0720	1.578
DS1023 (5L)	2.54	-1	23-Aug-18	PS0123	2.335
WS0428 (10L)	3.21	1	23-Aug-18	WS0428	3.156

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.76	-1	2.67	1	-0.25	0
2L	1.92	0	2.85	2	-0.15	0
3L	2.10	0	2.89	2	-0.01	0
4L	2.28	-1	2.90	3	0.14	1
5L	2.42	-1	2.91	3	0.28	1
8L	2.72	-1	2.94	3	0.67	1
10L	2.89	-1	2.96	4	0.88	1

WIBOR rates

Term	%	Change (bps)
O/N	1.55	1
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	1.73	-2
6x9	1.75	-2
9x12	1.79	-1
3x9	1.81	0
6x12	1.84	-1

Measures of fiscal risk

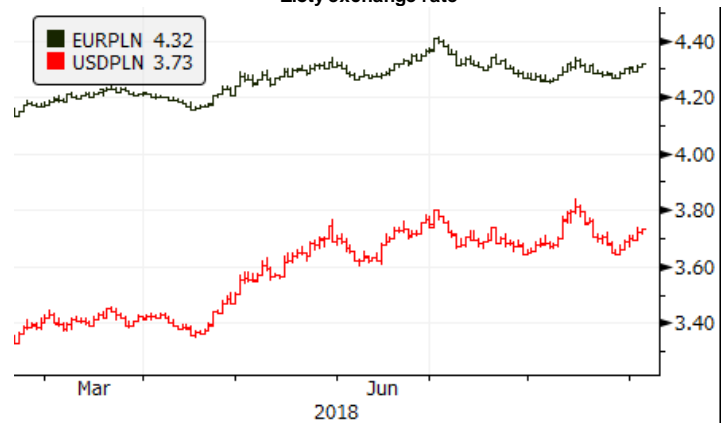
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.86	1
France	26	-1	0.34	0
Hungary	116	1	3.19	4
Spain	71	1	1.07	-1
Italy	253	1	2.59	-7
Portugal	64	0	1.50	-1
Ireland	25	0	0.51	0
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

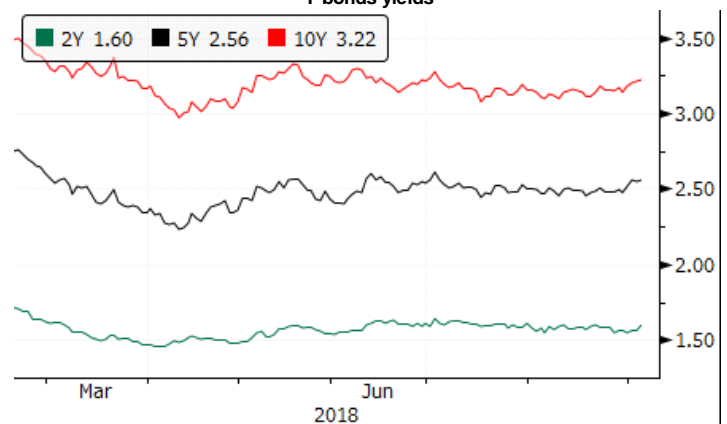
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

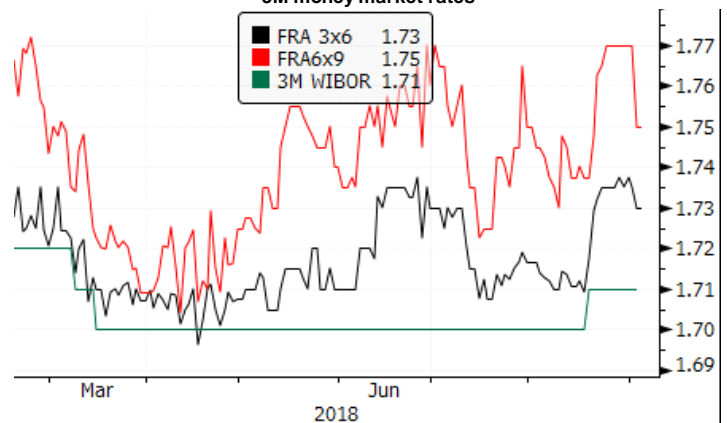
Zloty exchange rate



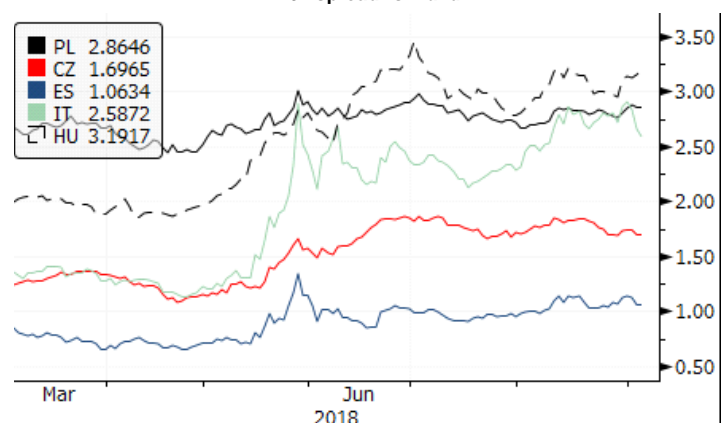
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME		INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE	
CET				MARKET	BZWBK			
FRIDAY (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		61,3	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		51,5	52.8
09:00	HU	GDP	2Q	% y/y	4.6		4.8	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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