

EYEOPENER

7 September 2018

Market uncertainty still high

- Emerging markets' currencies calmed down, ruble in trouble
- Zloty slightly trimmed recent losses
- Polish debt clearly weaker, in contrast to core markets
- Today, US employment data, euro zone GDP

On Thursday global market sentiment remained poor. Equity indices registered further decreases (with US technological stocks index dropping significantly for the second day in a row, probably on worries about escalation of US-China trade war), yields on core bond markets were also going down. This time there was no negative reaction of EM currencies. Only the ruble saw a heavy loss on worries about possible further sanctions and government's pressure on central bank to cut rates. At the same time oil prices decreased significantly, also hurting the Russian currency. US data flow was mixed, with surprisingly strong services ISM, but also much worse-than-expected ADP report on employment. Domestic bonds were weakening until a news came that the Ministry of Finance considers dropping the planned September switch auction and issuing Eurobonds. During the Asian session market sentiment remained mostly negative and stock indices dropped. Disappointing German output and exports data that came in this morning added to the list of worrying economic signals.

On Thursday **EURUSD** stayed above 1.16 fluctuating without clear direction. The topic of extending US tariffs on the Chinese goods is still open, so the dollar may get stronger on Friday at least in the first part of the day. Weak German data also support such move, although the EURUSD have not reacted to publication yet. In the afternoon there will be release of US non-farm employment data and if they are relatively weak as ADP report suggests (employment growth in August c160k vs. expected 200k) it could cool down expectation on Fed's interest rate hike and weaken the dollar.

On Thursday, on the opening **EURPLN** moved from 4.335 to slightly below 4.32. Exchange rate approached 4.311 after the bond auction but afterwards it came back quickly to 4.315-

4.324 range. Although the day was calmer for emerging market currencies than previous session, the zloty stayed near the weakest levels since the half of August. In our opinion it could be difficult for EURPLN to break below 4.30 without global markets' impulse.

Among **CEE currencies**, the forint and the koruna got stronger in a relatively stable atmosphere following earlier sell-off of emerging markets currencies (which, however affected CEE currencies in much smaller scale than for example currencies of South America, Asia or Turkish lira). EURHUF declined from 327.50 to 326.61 and EURCZK dropped from 25.74 to 25.71. The ruble however was the weakest since April 2016. USDRUB rose in the afternoon from 68.6 to 69.4, due to heightened risk of new sanctions after the joint statement by several North American and EU countries condemning Russian engagement in the chemical weapon attack in the UK in March. What is more, Russian PM Medvediev called the central bank to cut interest rates. In the same part of the day there was a large drop of oil prices, with Brent price going from cUS\$77.5/bbl, to below US\$76/bbl, as the risk that a hurricane affects oil output around the Gulf of Mexico decreased.

On the **domestic interest rate market**, yields were under upward pressure despite core markets going the other way (and euro zone peripheries as well). In case of domestic 10Y paper, the rise of yield reached 5bp. Thursday auction did not break the upward drift of the yield curve, which started at the turn of the month. Bid-to-cover ratio was the highest for 2Y bond (4), while for 5Y and 10Y it reached 1.4-1.6. The rise of yields was curbed only when the Ministry of Finance informed it might remove the switch auction from September issuance calendar. At the same time, it said it considers an issuance in euro. Positive reaction of the market was not big enough to cover the earlier losses, however. Polish IRS rates moved higher by 4-5bp across the curve, sending main tenors to the highest levels since mid-August. The rise was substantial and came after a week of relative stability of IRS rate.

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FX market

Today's opening

EURPLN	4.3186	CZKPLN	0.1679
USDPLN	3.7099	HUFPLN*	1.3241
EURUSD	1.1640	RUBPLN	0.0536
CHFPLN	3.8450	NOKPLN	0.4409
GBPPLN	4.8028	DKKPLN	0.5792
USDCNY	6.8372	SEKPLN	0.4076

*for 100HUF

Last session in the FX market

06/09/2018

	min	max	open	close	fixing
EURPLN	4.312	4.340	4.328	4.323	4.3218
USDPLN	3.701	3.736	3.724	3.719	3.7143
EURUSD	1.161	1.166	1.162	1.163	-

Interest rate market

06/09/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0720 (2L)	1.60	1	23-Aug-18	OK0720	1.578
DS1023 (5L)	2.59	0	23-Aug-18	PS0123	2.335
WS0428 (10L)	3.27	4	23-Aug-18	WS0428	3.156

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.78	2	2.67	0	-0.25	0
2L	1.95	3	2.83	-1	-0.15	0
3L	2.14	4	2.86	-2	-0.01	-1
4L	2.32	4	2.87	-2	0.15	-1
5L	2.47	5	2.88	-2	0.29	-1
8L	2.78	5	2.91	-2	0.67	-1
10L	2.95	5	2.94	-2	0.88	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.55	0
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	1.75	2
6x9	1.79	4
9x12	1.82	3
3x9	1.83	2
6x12	1.87	3

Measures of fiscal risk

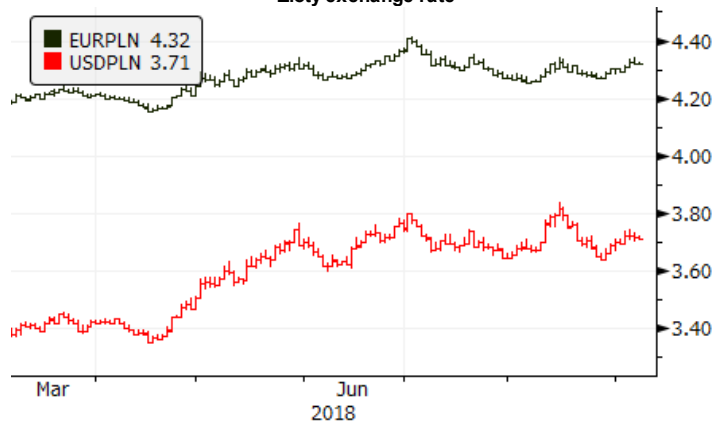
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.92	4
France	25	0	0.34	0
Hungary	116	1	3.15	0
Spain	65	-1	1.09	0
Italy	242	-3	2.68	-2
Portugal	64	0	1.52	0
Ireland	25	0	0.50	-3
Germany	10	0	-	-

* 10Y treasury bonds over 10Y Bunds

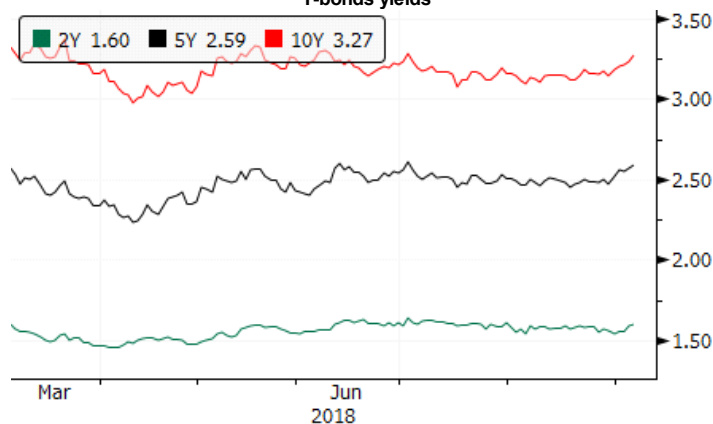
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

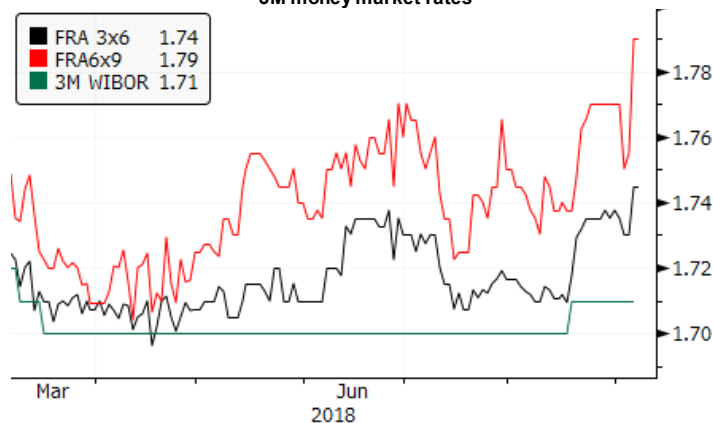
Zloty exchange rate



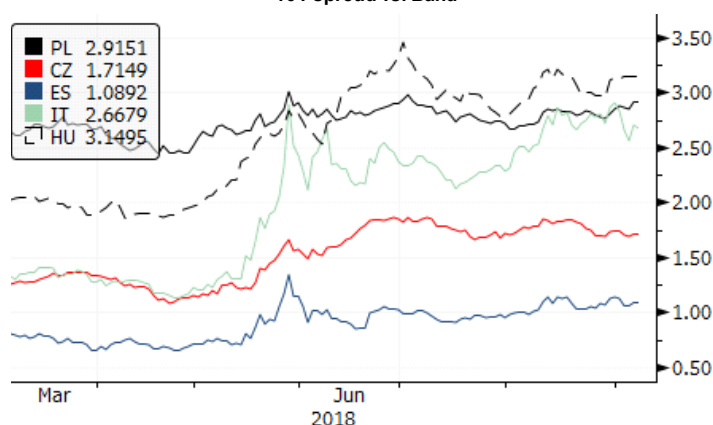
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME	INDICATOR		PERIOD		FORECAST		ACTUAL	LAST
CET					MARKET	BZWBK	VALUE	VALUE
FRIDAY (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	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		55.0	55.2
10:00	EZ	Eurozone Services PMI	Aug	pts	54.4		54.4	54.4
11:00	EZ	Retail Sales	Jul	% m/m	-0.1		-0.2	0.3
THURSDAY (6 September)								
08:00	DE	Factory Orders	Jul	% m/m	1.8		-0.9	-4.0
09:00	CZ	Industrial Production	Jul	% y/y	7.8		10.3	3.1
09:00	HU	Industrial Production SA	Jul	% y/y	8.0		3.9	3.0
14:15	US	ADP report	Aug	k	200		163	217
14:30	US	Initial Jobless Claims	week	k	213		203	213
16:00	US	Durable Goods Orders	Jul	% m/m	-1.7		-1.7	-1.7
16:00	US	ISM services	Aug	pts	56.8		58.5	55.7
16:00	US	Factory Orders	Jul	% m/m	-0.6		-0.8	0.6
FRIDAY (7 September)								
08:00	DE	Exports SA	Jul	% m/m	0.2		-0.9	0.1
08:00	DE	Industrial Production SA	Jul	% m/m	0.2		-1.1	-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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