

EYEOPENER

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Deficit in 2017 slightly below 3% of GDP

- **The week ended in weak moods**
- **According to press information, the Finance Ministry plotted GG deficit in 2017 at 2.9% of GDP**
- **Polish consumer confidence in August better than in July**
- **EURPLN above 4.30, dollar gained vs euro at the end of the week**
- **Short end of the Polish curve gained, the longer end stable**

For the better part of last week market sentiment was quite weak and the Friday was no different. There were no new data releases during the day that could improve moods, so equity markets in Europe fell quite considerably, while bonds on core and peripheral euro zone markets also remained under pressure. Meanwhile, changes on FX markets were relatively small.

At the end of last week the EURUSD departed from the Thursday's peak and was near 1.132 at the end of European session. The scale and pace of movements was small amid lack of new data releases. This week several important publications are in the agenda, but only in the following days, not today. Therefore, we think that Monday's session in the EURUSD market will be as calm as on Friday.

On Friday, EURPLN exchange rate went above the Thursday's peak and was slightly above 4.30 at the end of the Polish session. The decrease of EURUSD exchange rate strengthened the upward move of USDPLN which was testing 3.80 at the end of the week. As regards other CEE currencies, HUF remained stable against EUR and RUB decreased slightly against USD due to minor decrease of oil prices. For several days, EURPLN was testing support for 4.26, however the exchange rate failed to stay below this level. After publication of weak Polish data, interest rate cuts are strongly priced-in in Poland and in our opinion, a more lasting EURPLN growing impulse could have been triggered. The Polish zloty has already trimmed more than half of the gains noted after presentation of the President's proposals concerning the issue of foreign currency loans.

In the Polish interest rate market, the bond and IRS curves became steeper which was triggered by a stronger short end of the curve along with slight changes in the 5Y and 10Y sectors.

On Friday, the Central Statistical Office published survey data according to which the customers' confidence improved in

August as compared to July. In the case of index reflecting the assessment of the current situation, the improved results were triggered by such categories as making important purchases or the future and current economic situation of Poland. Even better improvement was noted in the case of expectations index, in all the categories, and most of the positive influence came from better prospects in the case of unemployment rate and saving opportunities.

According to information obtained by *Puls Biznesu* daily, the budget deficit is to reach PLN59.0-59.5bn in 2017 (which is a record-high) and the general government deficit is to total 2.9% of GDP (vs. 2.6% of GDP in 2016). The Ministry assumes no cut in VAT rate nor in minerals extraction tax rate and also an improvement in VAT tax collection of PLN10bn. The assumed economic growth is 3.4% in 2016 and 3.6% in 2017, which is more optimistic than our projections (3.1% in 2016 and 2.9% in 2017). The value of the projected budgetary deficit is roughly in line with our forecasts. The budget deficit alone totals ca. 3.1% of GDP, so the Ministry of Finance assumes a surplus in the remaining sectors (local government and Social Insurance Funds). The Friday's data published by the Ministry of Finance indicated that after 2Q2016, the local government recorded a surplus worth PLN16.6bn (vs PLN10.5bn in 2Q2015). Such a high surplus was partially triggered by considerable limitation of investment plans. In our opinion, assumption of the surplus in local government may mean further cuts in investments in this sector in 2017.

There are a few important macro events this week. We will get to see the flash PMI for manufacturing in Germany and the euro zone and this will be a crucial hint about the pace of economic growth in Europe. The EU's policymakers will meet in Italy to discuss Brexit. Recently, this issue has receded into background, but still remains on cards, so the outcome of this meeting can generate some market volatility. Moreover, GDP data from Germany and the US are due for release. The US data will be assessed in light of the monetary policy normalization so they will be eyed by investors, who will most probably also pay much attention to Janet Yellen's speech in Jackson Hole. Currently, the market sees a fifty-fifty chance that rates in the US will go up this year. In general, this can be a week of high volatility. In Poland, only some less important macro data are due for release, so Polish assets will remain vulnerable to global moods.

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FX market

Today's opening

EURPLN	4.3134	CZKPLN	0.1596
USDPLN	3.8234	HUFPLN*	1.3895
EURUSD	1.1282	RUBPLN	0.0596
CHFPLN	3.9672	NOKPLN	0.4633
GBPPLN	4.9894	DKKPLN	0.5796
USDCNY	6.6617	SEKPLN	0.4539

*for 100HUF

Last session in the FX market 19/08/2016

	min	max	open	close	fixing
EURPLN	4.281	4.299	4.294	4.291	4.2884
USDPLN	3.778	3.817	3.809	3.787	3.7905
EURUSD	1.124	1.134	1.127	1.133	-

Interest rate market 19/08/2016

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0418 (2Y)	1.56	-2	18.08.2016	OK1018	1.666
PS0421 (5Y)	2.08	0	18.08.2016	PS0721	2.114
DS0726 (10Y)	2.66	-2	18.08.2016	DS0726	2.704

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.58	-1	0.93	3	-0.20	1
2L	1.58	-2	1.01	4	-0.20	1
3L	1.60	-2	1.07	4	-0.19	2
4L	1.67	-2	1.12	4	-0.17	2
5L	1.75	-2	1.18	4	-0.12	2
8L	1.97	-1	1.35	4	0.13	3
10L	2.11	-1	1.45	4	0.33	4

WIBOR rates

Term	%	Change (bps)
O/N	1.62	0
T/N	1.62	0
SW	1.61	0
2W	1.62	0
1M	1.65	0
3M	1.71	0
6M	1.79	0
9M	1.80	0
1Y	1.81	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.67	0
3x6	1.58	-1
6x9	1.51	-1
9x12	1.48	-1
3x9	1.66	0
6x12	1.57	-1

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	72	0	2.71	-9
France	29	0	0.22	0
Hungary	135	0	2.83	-3
Spain	80	1	0.99	-1
Italy	133	5	1.17	1
Portugal	279	4	3.03	5
Ireland	65	1	0.48	0
Germany	17	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 CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*
				MARKET	BZWBK		
FRIDAY (19 August)							
No important data releases							
MONDAY (22 August)							
No important data releases							
TUESDAY (23 August)							
9:30	DE	Flash PMI – manufacturing	Aug	pts	53.7	-	53.8
10:00	EZ	Flash PMI – manufacturing	Aug	pts	52.0	-	54.4
14:00	HU	Central bank decision		%	0.90	-	0.90
16:00	US	New home sales	Jul	k	575	-	592
WEDNESDAY (24 August)							
8:00	DE	GDP	Q2	% y/y	3.1	-	1.5
10:00	PL	Unemployment rate	Jul	%	8.6	8.6	8.8
16:00	US	Home sales	Jul	m	5.55	-	5.57
THURSDAY (25 August)							
10:00	DE	Ifo	Aug	pts	108.5	-	108.3
14:30	US	Initial jobless claims	week	k	-	-	262
14:30	US	Durable goods orders	Jul	% m/m	3.5	-	-3.9%
FRIDAY (26 August)							
	US	Jackson Hole conference					
14:30	US	GDP	Q2	% y/y	1.2	-	0.8
16:00	US	Michigan index	Aug	pts	90.6	-	90.0

Source: BZ WBK, Reuters, Bloomberg

* in case of the revision, the data is updated

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