

# EYEOPENER

26 April 2017

## Debt weakens, zloty gains

- **Investors still in good moods after French elections**
- **Zloty getting stronger versus main currencies, EURUSD above 1.09**
- **Yields of Polish bonds higher, following core markets**
- **Today Polish unemployment data, presentation of US tax reform plan**

On Tuesday the world markets were still in a good mood. The MSCI World Index, like German DAX, hit yesterday the all-time high. The continuing strong demand for risky assets has weighed on debt markets, this time also bonds from the periphery of the euro area were under pressure. The euro remained strong against the dollar. In the afternoon there were anonymous signals from the ECB that the outcome of the first round of presidential elections in France could prompt some members to curb monetary stimulation as early as June. It could be one of the factors that weighed yesterday on European bonds.

Yesterday Moody's agency revised its GDP growth forecast for Poland for 2017-18 to 3.2% and 3.1%, respectively. According to the agency, GDP growth will accelerate due to strong private consumption, a clear improvement in the labor market, and an increase in investment due to a higher use of EU funds (net inflow of 1.5% of GDP). The agency sees the risk of a worsening of Poland's fiscal situation and exceeding the 3% of GDP threshold by the public finance deficit, but does not predict it to happen either this or next year. In turn, according to Fitch among the five countries of Central and Eastern Europe the greatest risk for the deterioration of fiscal situation exists in Poland. Nevertheless, the EU fiscal deficit limit of 3% of GDP should play role of fiscal anchor, and compliance with it would be important to maintain our country's rating at current levels.

EURUSD rose yesterday to slightly above 1.09 (but remained below Monday's peak), which was largely influenced by weak April consumer confidence index in the US. In our opinion today the dollar may be under pressure awaiting the presentation of President Trump's tax reform objectives. Later this week, the ECB may also have a significant impact on the quotations (in our view it may be negative for the euro due to fairly dovish tone of the ECB statement).

Zloty was strengthening versus main currencies for the next consecutive day. EURPLN fell temporarily below 4.22 (breaking through its Tuesday's bottom), USDPLN fell in the afternoon to 3.87, and CHFPLN fell below 3.90. The Hungarian forint has weakened versus euro (EURHUF breached 312), which could have

been the result of the central bank's rhetoric (details below). Russian ruble was under pressure, while EURCZK remained quite stable. We think that the global risk appetite and tomorrow's ECB meeting may support the zloty in the coming days.

At the yesterday's meeting the Hungarian Central Bank (MNB) kept the main interest rate unchanged at 0.9%, in line with expectations. The MNB repeated the pledge to maintain accommodative monetary policy and to support the economy if needed. Inflation rate in Hungary rose to 2.7% y/y in March, which was below the level predicted in the central bank's March Inflation Report. The MNB expects that the CPI should decrease later in the year and the bank sees no risk of exceeding the target (3%) neither this year nor in the first half of 2018. However, if inflation rate keeps staying below the target, the bank is ready for further policy easing, using the non-conventional tools. The dovish rhetoric of the central bank could keep weighing on the forint, in our view.

Domestic interest rate market followed the global trend on Tuesday. As the global sentiment was positive, yields of Bunds, Treasuries and peripheral bonds were rising. Polish debt was pressured also by the bond auction results where the demand exceeded supply only slightly (detail below). As a result, the 10Y benchmark yield rose by more than 5bp, at a similar scale to its German peer. The 10Y PL-DE bond yield spread is now at its lowest since the US presidential elections (below 310bp). IRS rates rose 1-4bp yesterday.

Yesterday the Ministry of Finance sold bonds for PLN8.97bn amid demand near PLN11bn. The Ministry raised PLN2.34bn from the sale of PS0422 (issued at 2.862% yield) and PLN2.1bn from DS0727 (issued at 3.425% yield). The Ministry said that after the auction, this year's gross borrowing needs are covered in c61%.

The Ministry of Finance said also that after March the budget deficit reached PLN2.3bn (3.8% of the annual plan). VAT revenues rose 40.6% y/y, PIT collection rose by 4.8% y/y and CIT by 15.2% y/y in the Jan-Mar period. Acceleration in indirect taxes is the result of faster GDP growth, higher inflation and changes in regulations – reversed VAT charge, monthly settlements instead of quarterly. It still looks that there will be no problem with meeting this year's budget deficit plan.

Today at 10:00CET, the stat office will release data on registered unemployment rate in March. We have revised our forecasts from 8.1% to 8.2% after data from the Labour Ministry were released. In our view, unemployment will continue falling in the months to come, towards 7.0% at the year-end.

### ECONOMIC ANALYSIS DEPARTMENT:

al. Jana Pawła II 17, 00-854 Warsaw fax +48 22 586 83 40

email: [ekonomia@bzwbk.pl](mailto:ekonomia@bzwbk.pl)

Web site: [skarb.bzwbk.pl](http://skarb.bzwbk.pl)

Piotr Bielski +48 22 534 18 87

Marcin Luziński +48 22 534 18 85

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	4.2267	CZKPLN	0.1572
USDPLN	3.8660	HUFPLN*	1.3533
EURUSD	1.0933	RUBPLN	0.0689
CHFPLN	3.8913	NOKPLN	0.4512
GBPPLN	4.9588	DKKPLN	0.5681
USDCNY	6.8883	SEKPLN	0.4407

\*for 100HUF

## Last session in the FX market

25/04/2017

	min	max	open	close	fixing
EURPLN	4.221	4.248	4.239	4.228	4.2346
USDPLN	3.858	3.916	3.910	3.861	3.8873
EURUSD	1.084	1.095	1.084	1.095	-

## Interest rate market

25/04/2017

## T-bonds on the interbank market\*\*

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.97	1	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.89	5	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.45	6	23.03.2017	DS0727	3.568

## IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.78	0	1.40	2	-0.22	0
2L	1.96	2	1.60	3	-0.12	1
3L	2.12	3	1.75	4	-0.01	3
4L	2.28	4	1.87	4	0.11	3
5L	2.40	4	1.98	5	0.24	4
8L	2.69	3	2.20	6	0.61	6
10L	2.85	4	2.30	6	0.83	5

## WIBOR rates

Term	%	Change (bps)
O/N	1.52	-1
T/N	1.52	-2
SW	1.58	-1
2W	1.63	0
1M	1.66	0
3M	1.73	0
6M	1.81	0
9M	1.83	0
1Y	1.85	0

## FRA rates on the interbank market\*\*

Term	%	Change (bps)
1x4	1.74	0
3x6	1.74	0
6x9	1.77	2
9x12	1.82	0
3x9	1.81	0
6x12	1.84	0

## Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	3.07	5
France	34	3	0.51	-1
Hungary	116	1	2.91	0
Spain	71	4	1.29	1
Italy	167	4	1.89	1
Portugal	230	-10	3.21	1
Ireland	47	-5	0.53	-1
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

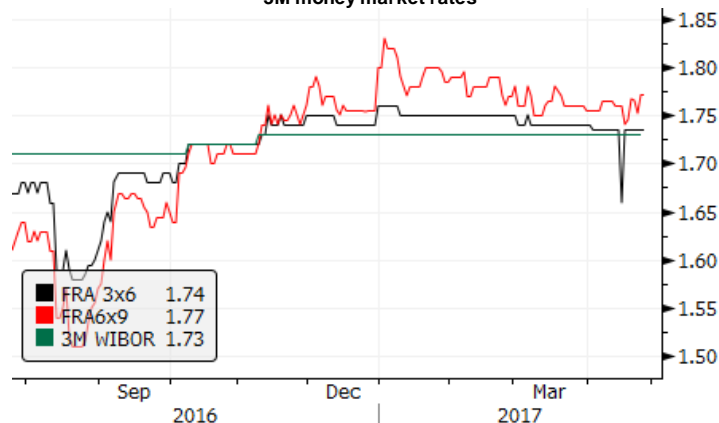
## Zloty exchange rate



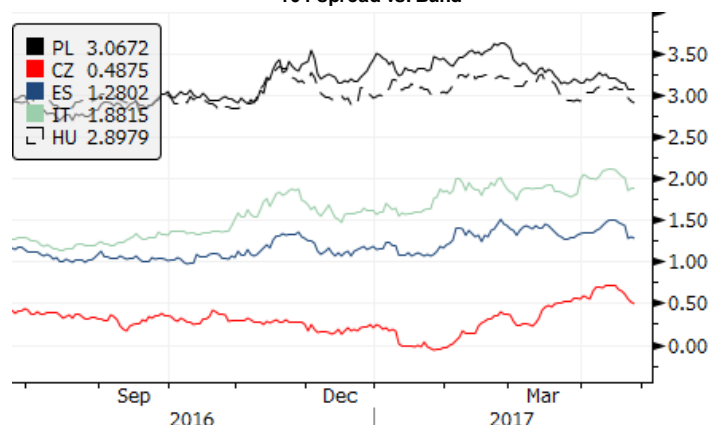
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic calendar

Economic calendar								
TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	BZWBK		
FRIDAY (21 April)								
9:30	DE	Flash PMI – services	Apr	pts	55.5	-	54.7	55.6
9:30	DE	Flash PMI – manufacturing	Apr	pts	58.0	-	58.2	58.3
10:00	EZ	Flash PMI – services	Apr	pts	56.0	-	56.2	56.0
10:00	EZ	Flash PMI – manufacturing	Apr	pts	56.0	-	56.8	56.2
14:00	PL	MPC minutes						
16:00	US	Home sales	Mar	m	5.6	-	5.71	5.47
MONDAY (24 April)								
10:00	DE	Ifo index	Apr	pts	112.3	-	112.9	112.3
TUESDAY (25 April)								
11:00	PL	Bond auction				-		
14:00	HU	Central bank decision		%	0.90	-		0.90
16:00	US	New home sales	Mar	% m/m	-0.3	-		6.1
16:00	US	Consumer confidence index	Apr	pts	124.0	-		125.6
WEDNESDAY (26 April)								
10:00	PL	Unemployment rate	Mar	%	8.2	8.2		2.0
THURSDAY (27 April)								
13:45	EZ	Central bank decision		%	?	-		?
14:30	US	Durable goods orders	Mar	% m/m	1.2	-		1.8
14:30	US	Initial jobless claims	week	k				
16:00	US	Pending home sales	Mar	% m/m	-	-		5.5
FRIDAY (28 April)								
14:00	EZ	Flash CPI	Apr	% y/y	1.7	-		1.5
14:00	PL	Flash CPI	Apr	% y/y	-	2.0		2.0
14:30	US	Advance GDP	Q1	% y/y	1.2	-		2.1
16:00	US	Michigan index	Apr	pts	98.5	-		96.9

Source: BZ WBK, Reuters, Bloomberg

\* in case of the revision, the data is updated

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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.