

# EYEOPENER

10 July 2017

## New tax on fuels?

- Quite positive data on US labour market
- Zloty stable, dollar slightly stronger at the end of the week
- Yields globally up, Polish down
- German export above expectations
- Fitch affirmed Polish rating at A-, government plans to introduce new tax on fuels

Monthly data on US labour market released on Friday were rather positive. Increase in number of non-farm payrolls was clearly above the forecast (ADP report released on Thursday implied that the reading may be poor) while that May readings were significantly revised to the upside. Data on wages were only slightly below the forecast. The data release caused some volatility on the market but did not manage to trigger more permanent trend at the end of the week. Stock prices went up temporarily and the US dollar strengthened slightly. There was a more noticeable reaction on the global debt market with yields growing from the very beginning of the session.

Fitch rating agency affirmed the credit rating for Poland at A- with stable outlook. The analysts of the agency are of the opinion that Poland has sound economic foundations and monetary framework as well healthy banking sector. The agency noted strong tax revenue increase supported by the stronger economy and improved tax compliance, lower tension between the government and the European Union and probably limited and manageable costs of bills supporting CHF mortgage borrowers. Fitch expects the general government deficit at 2.6% of GDP in 2017, and 2.5% in 2018 and 2019 with debt-to-GDP ratio going down. What is interesting, Fitch is not overly optimistic with regards to GDP growth and forecasts it will rise by 3.3% in 2017 (vs. Bloomberg consensus at 3.8%) and 3.2% in 2018 and 2019. The rating may be decreased if the deficit goes over 3% and if public debt increases in medium term or if economic policy framework deteriorates. The rating may be improved if economic growth further continues or net external debt goes down. It is worth noting that the latter has been the main obstacle to increase the rating for Poland, according to Fitch. In 2016 the net external debt for Poland stood at 34% of GDP vs median of -3% for peers A rating group.

Polish government plans to introduce a new fuel tax of PLN0.20 per liter. The new tax (called 'road fee') is expected to bring in PLN4-5bn. Receipts will be equally split into Krajowy Fundusz Drogowy (Polish Road Fund) and new Local Road Fund, entities financing road construction in Poland. According to our estimate, the new road fee would trigger a rise in fuel prices by c7.5% (or by PLN0.25), lifting the CPI inflation by 0.3-0.4pp. The draft bill is already in the Sejm (lower chamber of parliament) and in our view September 2017 is the earliest possible date of its entry into force. If implemented in September, the

new tax would raise our end-year CPI forecast to 1.6% y/y from 1.2% y/y.

EURUSD was fairly stable near 1.142 before the monthly US job report and the data release spurred volatility. All in all, at the end of the day the dollar was a touch stronger vs the euro and the exchange rate closed just below 1.14. EURPLN did not move much on Friday and remained close to 4.235. Somewhat bigger changes were recorded for USDPLN that rose to 3.72 after it fell to 3.70. The last week's EURPLN trading range was the lowest since June 2016.

The Czech koruna started to gain vs the euro after the morning domestic data. May retail sales surprised to the upside rising 5.3% y/y after -0.3% y/y in April while industrial output expanded 8.1% y/y also beating expectations. Construction rose 4.7% y/y, more than anticipated. Sound Czech macro data support the currency and EURCZK is nearing 26.0. We think the koruna could gain this month thanks to recent economic activity data and central bank's suggestion that rate hike is on the agenda this year. On Wednesday we will learn the June CPI figure (2.4% y/y in May) that may be key for EURCZK this week. The Hungarian forint was stable before the weekend and EURHUF remains stable near 308. The ruble lost again as the oil prices fell. Higher oil extraction in the US and OPEC countries pushed oil prices down resulting in USDRUB breaking 60.51, its highest since early February.

On the domestic interest rate market IRS remained stable while bond yields fell 1-3bp. Polish debt was outperforming cores and euro zone peripheries and the 10Y yield spread vs Bund continued to decline and reached 282bp. Bond curve flattened and the 10Y asset swap spread fell below 50bp.

With central banks' policy in the spotlight what will be particularly important for the markets this week will be further remarks by Fed and ECB members (eg Janet Yellen's testimony in the US Congress on Wednesday) and June inflation data (USA, Poland and other CEE countries). This week we will learn what stood behind the strong decline in Poland's CPI in June. It seems to us that the low CPI headline could not have been achieved without core inflation moving down. However, the CPI decline below 2% may prove temporary, as an opposite signal may be delivered by the new 'road fee'. Additionally, according to data provided by The Society for Promotion of Dwarf Fruit Orchards, this year's harvest of apples and pears will be lower by 30% y/y and 40% y/y, respectively which in our view may put an upside pressure on fruit prices. We expect the May 2017 data on balance of payments to show a major acceleration of exports and imports as well as current account surplus higher than market forecast. Today morning German exports data surprised to the upside which supports our forecast for Polish exports and C/A (both above consensus).

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## FX market

## Today's opening

EURPLN	4.2398	CZKPLN	0.1621
USDPLN	3.7139	HUFPLN*	1.3741
EURUSD	1.1416	RUBPLN	0.0615
CHFPLN	3.8638	NOKPLN	0.4438
GBPPLN	4.8111	DKKPLN	0.5701
USDCNY	6.8016	SEKPLN	0.4398

\*for 100HUF

## Last session in the FX market

06/07/2017

	min	max	open	close	fixing
EURPLN	4.226	4.251	4.236	4.232	4.2388
USDPLN	3.706	3.740	3.736	3.706	3.7351
EURUSD	1.132	1.142	1.134	1.142	-

## Interest rate market

06/07/2017

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

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.86	2	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.74	9	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.40	9	23.03.2017	DS0727	3.568

## IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.78	1	1.48	1	-0.24	0
2L	1.95	4	1.66	2	-0.12	1
3L	2.10	5	1.80	2	0.03	3
4L	2.27	6	1.92	3	0.18	4
5L	2.44	8	2.02	3	0.33	6
8L	2.74	9	2.25	4	0.75	7
10L	2.91	10	2.35	4	0.98	7

## WIBOR rates

Term	%	Change (bps)
O/N	1.62	0
T/N	1.62	1
SW	1.60	0
2W	1.62	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	1.76	0
9x12	1.81	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	2.83	8
France	22	0	0.36	0
Hungary	116	1	2.58	-3
Spain	65	2	1.11	0
Italy	147	2	1.71	1
Portugal	183	1	2.47	7
Ireland	40	1	0.38	8
Germany	15	0	-	-

\* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

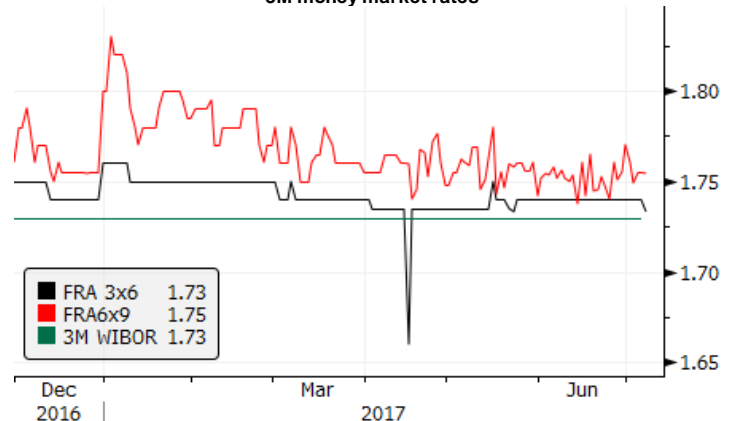
## Zloty exchange rate



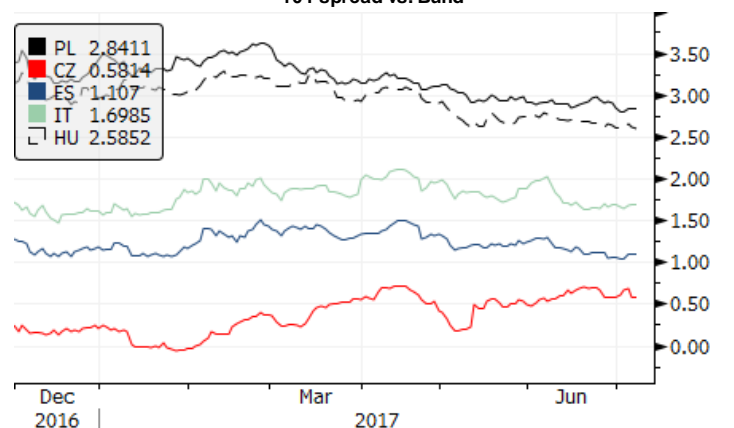
## T-bonds yields



## 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 (7 July)								
08:00	DE	Industrial output	May	% m/m	0.2	-	1,2	0.70
09:00	CZ	Industrial output	May	% y/y	3.50	-	8.10	-2.50
14:30	US	Change in nonfarm payrolls	Jun	k	180	-		138
14:30	US	Unemployment rate	Jun	%	4.30	-		4.30
	HU	Rating review by Moody's				-		
	PL	Rating review by Fitch				-		
MONDAY (10 July)								
8:00	GE	Exports	May	% m/m	0.3	-	1.4	0.9
TUESDAY (11 July)								
9:00	HU	CPI	Jun	% y/y	2.0	-		2.1
14:00	PL	CPI	Jun	% y/y	1.5	1.5		1.9
WEDNESDAY (12 July)								
9:00	CZ	CPI	Jun	% y/y	2.3	-		2.4
11:00	EZ	Industrial output	May	% m/m	-	-		0.5
14:00	PL	Core inflation	Jun	% y/y	0.8	0.6		0.8
20:00	US	Fed Beige Book						
THURSDAY (13 July)								
14:30	US	Initial jobless claims	week	k	-	-		
FRIDAY (14 July)								
14:00	PL	Current account	May	€m	247	609		-275
14:00	PL	Exports	May	€m	16 083	16 449		15 176
14:00	PL	Imports	May	€m	16 182	16 397		15 090
14:30	US	CPI	Jun	% m/m	0.1	-		-0.1
14:30	US	Retail sales	Jun	% m/m	0.1	-		-0.3
15:15	US	Industrial output	Jun	% m/m	0.3	-		0.0
16:00	US	Flash Michigan	Jul	pts	-	-		95.1

Source: BZ WBK. Reuters. Bloomberg

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

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