

# EYEOPENER

29 August 2017

## Korean missile launch triggered risk-off mood

- This year's fiscal deficit may go down to 2.5% of GDP
- Boring Monday on FX market supported the zloty
- Bonds awaiting better economic data
- Clear rise of risk aversion in the evening, after North Korea launched a missile towards Japan

After the first news about the 2018 budget pointing to a general government deficit planned at 2.7% GDP, yesterday we received fresh government estimates of the 2017 result. Deputy PM Mateusz Morawiecki sees this year's deficit close to 2.5% GDP if there is a rebound of investments in 2H of the year. The two numbers form a different fiscal trajectory than suggested in the this year's update of Poland's Convergence Programme (2.9% in 2017 and a reduction to 2.5% next year). The abandonment of the fiscal tightening plans may trigger a critical response of the European Commission (EC), albeit the next EC forecasting round is only in early November. Apart from obeying the 3% deficit limit the EU member states are also obliged to pursue a medium-term objective, cutting fiscal slack especially when the economy is performing well (which is the case now in Poland). EC is not obliged to react, but judging by the current poor state of relations with the Polish government (yesterday the EC received a formal response to its launch of the rule-of-law probe against Poland, in which the Polish government was questioning legal grounds of the EC decision) it may seize every opportunity to step up its critique. Nevertheless, we doubt the mentioned fiscal plans could lead to an equally tense situation as in the case of Hungary in 2012, when the EU was at the verge of blocking the transfer of cohesion funds for one year due to the country's lack of fiscal discipline. Especially when the Polish 2017 deficit is likely to be way lower than planned, and the 2018 result would be still clearly below the 3% GDP threshold.

Morawiecki suggested also yesterday that this year the central budget deficit may be below PLN40bn. Earlier, he estimated that the gap may be lower than planned PLN59.3bn by c.PLN10bn or only slightly more.

London Bank Holiday reduced activity on the debt markets. German yield curve slid down over the day. As a result the Bund yields decreased by c1bp to 0.37% on the long end and by c2bp on the short end and in the belly of the curve. Simultaneously US debt prices rose slightly. 10Y UST yield has shifted down by c2bp to 2.15%, 5Y by c3bp, while the short end of the US curve stabilised. These changes were accompanied

by stocks, energy and soft commodities markets drop. In the evening core debt markets strengthened after North Korea fired a missile over Japan.

Domestic debt market was stable throughout the day. Only at the long end of the curve yield decreased by c1bp to 3.28%, which was reflected in the credit risk curve. IRS rates remained stable. PLN forward swap rates 5YX5Y still stayed at 3.28% (which was anchored at the beginning of the last week). On the contrary to the last week PLN 5YX5Y rates were "sticky" to EUR rates than USD rates. FRA and Wibor rates remained stable.

Later this week we expect to see a moderate selloff of Polish debt, mainly at the long end of the curve. The triggers may be on one hand technical, on the other hand (at least temporarily) caused by a rise in global risk aversion after the launch of Korean missile. The release of GDP and PMI data later this week may be also an argument for the higher yields (we expect solid readings). Nevertheless, the scale of yields' increase should not exceed 2-3bp, in our view. In the next month, we think that a stabilization of yields near current levels is more likely than a steep upward trend.

EURUSD stayed in the upside trend on Monday fueled by comments from the Jackson Hole symposium. Yesterday's US data releases were not too important so the market ignored them. Consequently, EURUSD rose to 1.198 from 1.192.

EURPLN was falling gradually during the Monday's session and the euro's appreciation vs the dollar did not stop the zloty's appreciation. Comment of deputy PM Mateusz Morawiecki on this year's budget likely performance (2.5% of GDP) created a positive environment for the Polish currency. As a result, EURPLN eased to 4.246 from 4.262 seen on Friday. In the case of the other CEE currencies, EURHUF stayed in the 303.9-304.5 range showing very reserved positive reaction to Friday's decision of S&P rating agency to upgrade Hungarian credit outlook to positive. EURCZK remained flat while USDRUB dropped to 58.4 from 58.6 despite lower oil prices.

At the time of writing, there has been no big FX market reaction to the higher geopolitical risk after the Korean missile launch but we do not exclude that the zloty could lose temporarily today on this factor. In the days to come, we expect EURPLN to stay close to the current level and the outlook for further slight increase of EURUSD shall prove irrelevant. Polish currency could be supported by macro data due to be released later in the week (GDP and PMI).

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FX market			
Today's opening			
EURPLN	4.2515	CZKPLN	0.1629
USDPLN	3.5446	HUFPLN*	1.3968
EURUSD	1.1995	RUBPLN	0.0605
CHFPLN	3.7243	NOKPLN	0.4575
GBPPLN	4.5922	DKKPLN	0.5715
USDCNY	6.6046	SEKPLN	0.4457

\*for 100HUF

Last session in the FX market 28/08/2017					
	min	max	open	close	fixing
EURPLN	4.243	4.277	4.254	4.249	4.264
USDPLN	3.545	3.579	3.576	3.548	3.5736
EURUSD	1.192	1.198	1.193	1.198	-

## Interest rate market 28/08/2017

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

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.71	0	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.60	0	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.27	-1	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	1.45	0	-0.26	0
2L	1.94	1	1.55	-1	-0.18	0
3L	2.07	1	1.64	-1	-0.07	0
4L	2.20	1	1.72	-1	0.04	-1
5L	2.32	1	1.80	-1	0.18	-1
8L	2.61	1	2.01	0	0.58	0
10L	2.77	1	2.11	0	0.82	0

## WIBOR rates

Term	%	Change (bps)
O/N	1.32	-20
T/N	1.35	-18
SW	1.57	-1
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	1.75	0
6x9	1.78	0
9x12	1.82	0
3x9	1.83	0
6x12	1.85	0

## Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.92	2
France	21	0	0.32	0
Hungary	116	1	2.54	2
Spain	70	0	1.22	0
Italy	145	0	1.72	2
Portugal	163	-2	2.47	2
Ireland	32	-1	0.35	0
Germany	13	0	-	-

\* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

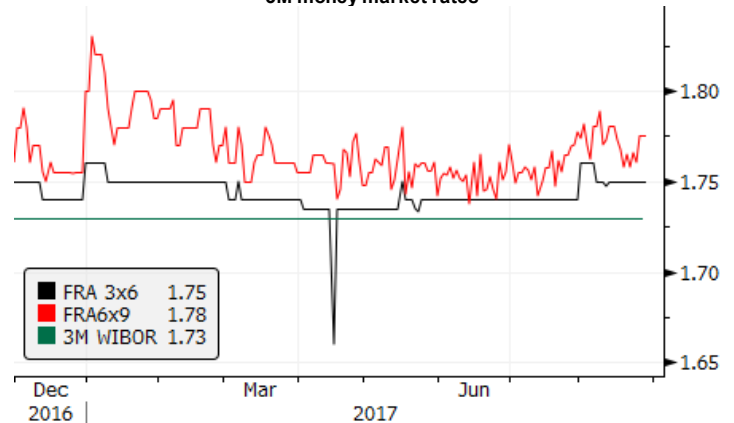
## Zloty exchange rate



## 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 (25 August)								
8:00	DE	GDP SA	2Q	% q/q	0.6	-	0.6	0.6
10:00	DE	Ifo index	Aug	pts	115.5	-	115.9	116.0
14:30	US	Durable goods orders	Jul	% m/m	-6.0	-	-6.8	6.4
MONDAY (28 August)								
No important data releases								
TUESDAY (29 August)								
16:00	US	Consumer confidence index	Aug	pts	120	-		121.1
WEDNESDAY (30 August)								
14:15	US	ADP report	Aug	k	185	-		178
14:30	US	Preliminary GDP	Q2	% q/q	2.7	-		1.2
THURSDAY (31 August)								
10:00	PL	GDP	Q2	% y/y	3.9	3.9		4.0
10:00	PL	Fixed investments	Q2	% y/y	2.5	2.1		-0.4
10:00	PL	Private consumption	Q2	% y/y	4.5	4.7		4.7
11:00	EZ	Flash CPI	Aug	% y/y	1.4	-		1.3
14:00	PL	Flash CPI	Aug	% y/y	-	1.7		1.7
14:30	US	Consumer spending	Jul	% m/m	0.4	-		0.1
14:30	US	Personal income	Jul	% m/m	0.3	-		0.0
14:30	US	Initial jobless claims	week	k	237	-		234
16:00	US	Pending home sales	Jul	% m/m	0.6	-		1.5
FRIDAY (1 September)								
3:45	CN	PMI – manufacturing	Aug	pts	51.0	-		51.1
9:00	PL	PMI – manufacturing	Aug	pts	-	54.0		52.3
9:00	CZ	Preliminary GDP	Q2	% y/y	4.5	-		3.0
9:55	DE	PMI – manufacturing	Aug	pts	59.4	-		58.1
10:00	EZ	PMI – manufacturing	Aug	pts	57.4	-		56.6
14:30	US	Non-farm payrolls	Aug	k	180	-		209
14:30	US	Unemployment rate	Aug	%	4.3	-		4.3
16:00	US	ISM – manufacturing	Aug	pts	56.4	-		56.3
16:00	US	Michigan index	Aug	pts	97.3	-		93.4

Source: BZ WBK, Reuters, Bloomberg

\* in case of the revision the data is updated

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