

EYEOPENER

30 August 2017

This year's budget gap may be close to PLN33bn

- **Zubelewicz: earlier rate hike justified, but not likely**
- **FinMin expects much lower budget deficit than planned in 2017**
- **Bonds gained after Korean missile launch**
- **EURPLN rose, following higher EURUSD**

MPC member Kamil Zubelewicz said yesterday in the interview for Reuters that in his opinion the economic situation already justifies a small interest rate hike. In his view, such move would have a limited negative impact on investment activity, as the latter depends on the cost of credit only to a small extent when interest rates are low. This was a reference to a sentence that appeared in the minutes from the July MPC meeting that said majority of the Council's members favour keeping rates unchanged in order not to hit investments. According to Zubelewicz, current monetary policy leads to "unnatural weakening of the zloty". Nevertheless, Zubelewicz sees hardly any chances for rate hikes even until end of 2019 (probably because he realizes the majority of the MPC members shares views presented by the NBP governor Głapiński).

Yesterday the Ministry of Finance presented a draft of the 2018 budget, confirming the main budget parameters cited recently by press. The document says that the government expects this year's budget revenues to be PLN18.4bn higher than initially planned and budget deficit at PLN33bn at the year-end (that is PLN26bn below the plan). In this context, the yesterday's comment of deputy PM Morawiecki seems to be quite surprising, as he said that this year's public finance deficit may reach 2.5% of GDP, that is 0.8pp higher than central budget gap. According to 2018 draft, net borrowing needs are assumed to amount to PLN63.3bn vs PLN53.8bn expected performance for this year (PLN79bn planned initially). Bonds net issuance on the domestic market is planned to reach PLN57.9bn vs PLN44.5bn expected this year.

On Tuesday global financial and commodities markets slid after North Korea fired missile over Japan. As a result yields of German sovereign bonds and UST slip by 3-4 bp in the 5Y-10Y segment and stabilized (US 2Y) or rose (DE 2Y). Rising geopolitical tension anchored US 10Y yields to 2.12% and DE 10Y yields to 0.34%. Investors ignored better than expected

released of Conference Board consumer confidence from US and GfK consumer confidence from Germany. Domestic yield curve temporarily dropped by c2bp and landed 1bp. lower at the end of the day. The IRS curve was falling faster than sovereign curve. The long end and the middle part of the curve slid by 6bp, which was reflected in asset swap spread decompression by 5bp. 2Y IRS contracts slumped by 2bp. Simultaneously spread of 10Y Polish sovereign bond over the US 10Y and DE 10Y rose by 2bp.

Today we expect domestic yield curve stabilisation. Geopolitical tension connected with North Korean crisis are decreasing, what is reflected in Asian markets rebound. In the second part of the week we will likely see some correction of Polish yield curve downshift. In our opinion the domestic yield curve will rebound fueled by domestic August PMI and inflation data. We anticipate that domestic yield curve will return to the level last time seen at the end of the last week, driven by core markets yield recovery and solid domestic data release.

On Tuesday we observed continuation of the EURUSD upside trend after the North Korea launched a missile in direction of Japan. As a result, the exchange rate rose to 1.206 from 1.198 and closed the session near 1.201. The upside trend continued despite the better-than-expected US consumer confidence data.

After the slide recorded at the turn of this and previous week, EURPLN was rising on Tuesday. The trigger for change of Polish currency versus euro was higher geopolitical tension and higher EURUSD. As a result EURPLN moved up to 4.2677. However, the joint move versus EUR and USD did not suggest a weakening of Polish currency. Other currencies in the region, also weakened versus euro yesterday. EURHUF moved from 304.5 to 305.8, EURCZK from 26.1 to 26.15 and then retraced to 26.11. USDRUB was rising from 58.5 to 58.8, despite weakening of the US dollar, which could have been related to declining prices of crude oil.

Today we expect to see stabilization of EURPLN due to lowering tension after North Korea's missile launch at the start of the week. In the following days we think that a correction of EURPLN rise is possible. It should be supported by good data from Poland (PMI) and publications scheduled in Europe and USA, confirming good business climate.

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FX market			
Today's opening			
EURPLN	4.2559	CZKPLN	0.1631
USDPLN	3.5613	HUFPLN*	1.3912
EURUSD	1.1951	RUBPLN	0.0606
CHFPLN	3.7218	NOKPLN	0.4589
GBPPLN	4.5968	DKKPLN	0.5721
USDCNY	6.5896	SEKPLN	0.4482

*for 100HUF

Last session in the FX market 29/08/2017					
	min	max	open	close	fixing
EURPLN	4.245	4.272	4.249	4.268	4.2661
USDPLN	3.530	3.558	3.548	3.552	3.5372
EURUSD	1.196	1.207	1.198	1.202	-

Interest rate market 29/08/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.66	-4	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.58	-2	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.26	-1	23.03.2017	DS0727	3.568

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.77	-1	1.43	-2	-0.26	0
2L	1.91	-2	1.52	-3	-0.19	-1
3L	2.03	-4	1.61	-4	-0.09	-1
4L	2.15	-5	1.69	-4	0.03	-2
5L	2.27	-5	1.76	-4	0.15	-2
8L	2.55	-5	1.96	-4	0.55	-3
10L	2.71	-5	2.07	-4	0.78	-4

WIBOR rates

Term	%	Change (bps)
O/N	1.15	-17
T/N	1.49	14
SW	1.56	-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	1.76	-1
9x12	1.80	-2
3x9	1.82	-1
6x12	1.83	-2

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.90	-3
France	21	1	0.31	0
Hungary	116	1	2.57	-2
Spain	70	1	1.20	-1
Italy	147	1	1.71	-1
Portugal	167	4	2.47	-1
Ireland	32	-1	0.34	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

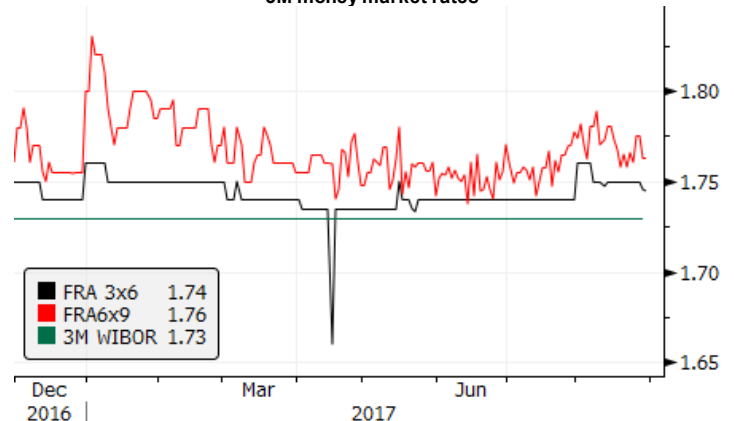
Zloty exchange rate



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	122.7		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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