

EYEOPENER

13 September 2017

S&P sees robust fundamentals and political risks

- S&P sees upward pressure for Polish GDP forecasts
- EC takes next step in the infringement procedure against Poland
- Polish bonds weaker pressured by core markets
- Zloty, koruna and forint hit by profit taking
- Polish core CPI down 0.1pp, today C/A data

Yesterday global capital markets calmed down after the Monday bout of optimism. The appreciation of the dollar to the euro stopped and emerging market currencies depreciated.

Polish core CPI excluding food and energy prices declined in August to 0.7% y/y after staying four months at 0.8% y/y. The reading was in line with our forecast and below consensus.

S&P agency assessed that when it comes to the Poland credit rating, sound macroeconomic fundamentals are offset by political/institutional risk. Agency said that lower external debt and fiscal deficit are conditions for rating upgrade. S&P is monitoring the conflict between the Polish government and the European Commission. Yesterday the EC formally moved to another step in the infringement procedure and if there is no satisfactory response from the Polish side in one month, it will refer this case to the European Court of Justice. S&P doubts the conflict could lead to suspension of some rights of Poland in the EU (a sanction that could be applied in extreme case under the rule of law procedure) or that Poland could witness a cut of EU funds before 2020. Apart from that, the agency kept its 3.6% forecast for 2017 GDP growth (our forecast is 3.9%), but it highlighted an upward pressure on the economic growth forecasts.

On Tuesday yields were rising on the both sides of the Atlantic, driven by stock markets rise. The yields upward move was not stopped by ECB vicepresident Vitor Constancio remarks (which were rather not signaling looming unwinding highly accommodative monetary policy) as well as a drop of some commodities prices. The US NFIB data (small business confidence index) surprised to the upside fitting the yields upward trend. As a consequence, US and Germany yield curve moved 5-6bp up on the long and belly of the curve and by 2bp on the front end, reaching levels last time seen in the final decade of August.

On the domestic bond market we observed upward trend on the long end and middle part of the curve at a scale similar to one seen abroad. The front end remained stable. Yields rose despite the S&P publication, where agency pointed up upward pressure on the Polish GDP forecast. In our opinion, information about the next step EC took against Poland as well as core inflation data were neutral for the bond market.

Later in the week, we expect stabilisation of the domestic yields and IRS rates. We think that even if there is a pressure to sell Polish bonds, which could be the case at the end of the week after the US data, the short end will remain stable. In the longer run, we anticipate some downward pressure on the short end of the domestic curve due to expected limited supply of the short-term bonds.

On the Thursdays switch auction Ministry of Finance will offer OK0419, WZ1122, PS0123, WZ0126 and DS0727 bonds.

EURUSD fell to 1.192 in the first part of the session but the next hours saw a correction of this move and at the end of the day the exchange rate was back near 1.198 seen at the opening. Better-than-expected US data had only temporary positive impact on the dollar. No important releases are on the agenda today so EURUSD could stabilize waiting for Friday's set of the US macro data.

EURPLN moved up on Tuesday on profit taking, similar to other emerging market currencies. Information that the EC gave Polish government one month to answer Commissions concerns about courts in Poland did not provide significant additional pressure on the zloty and did not make the currency to outperform its peers. EURPLN rose to 4.26 from 4.245 after a temporary jump to nearly 4.27. The communication from S&P on Poland did not boost the zloty. In the case of EURHUF we saw a move from 306.5 to 307.1 (caused by fears that another rate cut is coming), while EURCZK rose to 26.1 from 26.08.

We expect EURPLN to correct lower today. The external environment and domestic publication of current account balance (our forecast of C/A deficit it below consensus) should support the zloty in the days to come. Later in the week Polish FX market might be under impact of the US data that might hit the zloty if they surprise to the upside.

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FX market

Today's opening

EURPLN	4.2598	CZKPLN	0.1631
USDPLN	3.5552	HUFPLN*	1.3863
EURUSD	1.1982	RUBPLN	0.0617
CHFPLN	3.7030	NOKPLN	0.4536
GBPPLN	4.7313	DKKPLN	0.5725
USDCNY	6.5281	SEKPLN	0.4466

*for 100HUF

Last session in the FX market 12/09/2017

	min	max	open	close	fixing
EURPLN	4.243	4.268	4.243	4.260	4.2511
USDPLN	3.545	3.575	3.545	3.561	3.5552
EURUSD	1.193	1.198	1.197	1.196	-

Interest rate market 12/09/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.67	1	23.03.2017	OK0419	2.049
PS0422 (5Y)	2.55	4	23.03.2017	PS0422	2.945
DS0727 (10Y)	3.20	4	23.03.2017	DS0727	3.568

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.77	0	1.45	2	-0.26	0
2L	1.90	1	1.57	3	-0.19	1
3L	2.00	2	1.66	3	-0.09	2
4L	2.12	2	1.74	4	0.04	2
5L	2.24	3	1.82	4	0.18	3
8L	2.54	4	2.02	5	0.60	4
10L	2.70	5	2.12	5	0.84	5

WIBOR rates

Term	%	Change (bps)
O/N	1.60	1
T/N	1.60	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	1.73	0
3x6	1.74	0
6x9	1.77	1
9x12	1.79	0
3x9	1.82	0
6x12	1.83	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.81	5
France	21	0	0.30	0
Hungary	116	1	2.50	0
Spain	62	-3	1.20	1
Italy	140	-2	1.62	1
Portugal	152	-1	2.44	1
Ireland	32	-1	0.33	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

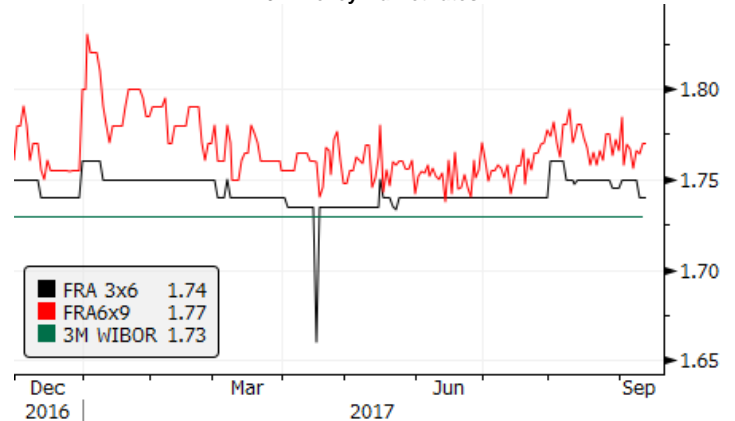
Zloty exchange rate



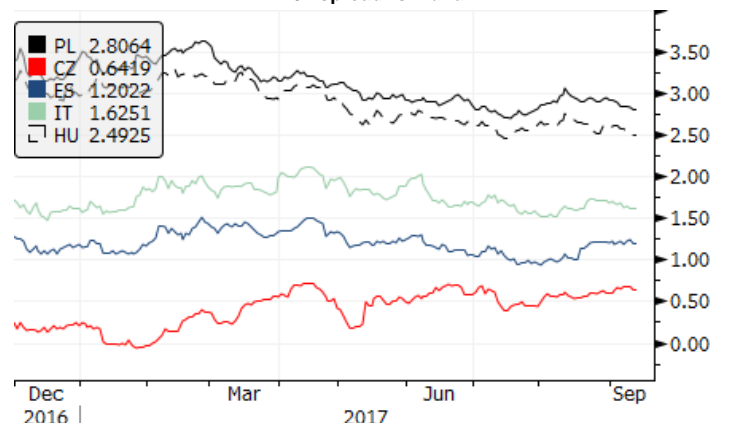
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	BZWBK		
FRIDAY (8 September)								
8:00	GE	Exports	Jul	% m/m	1.3	-	0.2	-2.7
9:00	HU	CPI	Aug	% y/y	2.5	-	2.6	2.1
MONDAY (11 September)								
9:00	CZ	CPI	Aug	% y/y	2.6	-	2.5	2.5
14:00	PL	CPI	Aug	% y/y	1.8	1.8	1.8	1.7
TUESDAY (12 September)								
14:00	PL	Core inflation	Aug	% y/y	0.8	0.7	0.7	0.8
WEDNESDAY (13 September)								
11:00	EZ	Industrial output	Jul	% m/m	0.2	-		-0.6
14:00	PL	Current account	Jul	€m	-853	-532		-932
14:00	PL	Exports	Jul	€m	15 222	14 900		16 627
14:00	PL	Imports	Jul	€m	15 788	15 300		16 854
THURSDAY (14 September)								
11:00	PL	Bond switch auction						
14:30	US	CPI	Aug	% m/m	0.3	-		0.1
14:30	US	Initial jobless claims	week	k	-	-		298
FRIDAY (15 September)								
14:30	US	Retail sales	Aug	% m/m	0.1	-		0.6
15:15	US	Industrial output	Aug	% m/m	0.1	-		0.2
16:00	US	Flash Michigan	Sep	pts	96.5	-		96.8

Source: BZ WBK. Reuters. Bloomberg

* in case of the revision the data is updated

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