

EYEOPENER

20 October 2017

USA a step closer to tax reform

- Global mood deteriorated yesterday, but the US Senate vote gives hopes of a rebound
- The zloty weakened to the euro, slightly stronger vs. the dollar on higher EURUSD
- Yields dropped during the day but rebounded overnight
- Today more data from the USA, S&P may release report on Poland

On Thursday the mood deteriorated on the global markets. The optimism prevailing since the start of the week gave way to some risk aversion. Stock indices and bond yields dropped during the day despite more strong data releases in the USA. The weekly data on new jobless claims was lower than before the hurricanes and the increase of people without work was the lowest in many years. The Philly Fed index was also a positive surprise, growing in October instead of moving down as the market expected. There was more news from Spain about a rise of tensions between the government and representatives of Catalonia, but we do not think this was the reason for the worse global mood. On Wednesday the global markets remained in positive mood – the euro performed well intraday and Spanish bond auction saw solid demand. At night the US Senate approved 2018 budget which is an important step on the road to the promised tax reforms. The voting result sent a negative signal for Treasuries (long end up by 4bp) and other bonds (Bunds up by 3bp) and was a boon for the dollar which came down below 1.1820 on EURUSD.

EURUSD rose yesterday for the second day running despite further positive releases from the USA and the rising tension in Spain. At the end of the European session the pair was around 1.1840 which could have been caused by market preparations for an announcement by ECB next week of QE tapering. However, the overnight vote by the US Senate on 2018 budget triggered appreciation of the dollar. We do not think today's data from the US could make a change for the USD.

EURPLN increased yesterday vs the Wednesday close and during the day pushed above 4.24. At the same time, USDPLN declined below 3.58 thanks to the rise of EURUSD. The forint regained the Wednesday loss vs. the euro while the koruna and the ruble were stable. EURPLN did not make an attempt to break below 4.23 yesterday and in our view there is little chance of an impulse any time soon that could make it move further south.

On the domestic debt market IRS rates as well as yields decreased slightly, the scale of change did not exceed 2bp. On the core markets the bonds gained, 10Y UST yields slid by 4bp. This move was reversed when the US market was affected by information that US Senat approved budget plan for 2018. In our opinion, this is

going to be a risk factor for Polish t-bonds today. As in the case of PLN, we see that the pace of strengthening of Polish bonds seen last week eased and the market needs a new impulse to move on. We think that now market players are waiting for new signals. This evening we expect S&P communicate about Polish rating, however we do not expect any important influence on the domestic market as it seems unlikely the agency changes the outlook or the grade at this stage.

Recently S&P agency increased forecasts for GDP growth for Poland for 2017 to 4.2% from 3.6% and for 2018 to 3.8% from 3.1% as well as lifted the figures describing Polish fiscal outlook. We think the tone of the report will be neutral or slightly positive. In our opinion only a rating or outlook upgrade could affect the market, but we find such outcome as highly unlikely.

MPC's Grażyna Ancyparowicz said yesterday that investments are going to rebound in 2018 in her view and that GDP growth next year might be higher than the 4% she sees for 2017. She stressed that further growth of wage bill is very important for this scenario. We also had Jerzy Kropiwnicki on the news wires this morning stating that acceleration of wages put pressure on CPI, but on the other hand labour shortages will not weigh on real growth. He mentioned the same date as Ancyparowicz, mid-2018, when it comes to how long rates could remain unchanged.

Yesterday PwC released its estimate that VAT gap for 2017 is likely to shrink by PLN13bn, in line with our own estimates. Deputy prime minister commented that this year the figure could exceed PLN20bn, while in the next the improvement in tax compliance could bring more than the cPLN10bn assumed in the budget draft.

The World Bank (WB) increased the Polish GDP growth forecast to 4.0% in 2017. According to the WB the Polish GDP growth will reach 3.6% in 2018 and 3.4% in 2019. In line with the WB assumes faster pace of GDP growth this year would be a consequence of investment recovery and strong consumption growth. WB sees demographics and the lowering of retirement age as a growth limit in the coming years.

Polish Senate approved law on one-time compensation for retired miners replacing a benefit paid out on a periodic basis. This means an injection of cPLN2.35bn to household budgets still in 4Q, lowering the burden of future fiscal budgets at the expense of this year's budget, performing very well so far. Additionally, the minister of health said that the government will allot an extra PLN3bn this year on healthcare.

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FX market

Today's opening

EURPLN	4.2385	CZKPLN	0.1647
USDPLN	3.5857	HUFPLN*	1.3766
EURUSD	1.1820	RUBPLN	0.0625
CHFPLN	3.6583	NOKPLN	0.4505
GBPPLN	4.7099	DKKPLN	0.5694
USDCNY	6.6184	SEKPLN	0.4406

*for 100HUF

Last session in the FX market

19/10/2017

	min	max	open	close	fixing
EURPLN	4.230	4.244	4.233	4.236	4.2381
USDPLN	3.571	3.602	3.591	3.579	3.5896
EURUSD	1.177	1.186	1.179	1.184	-

Interest rate market

19/10/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.68	2	09.06.2017	OK0419	1.859
PS0422 (5Y)	2.68	3	09.06.2017	PS0422	2.587
DS0727 (10Y)	3.32	3	09.06.2017	DS0727	3.128

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.80	1	1.61	-1	-0.26	0
2L	1.98	0	1.79	-2	-0.19	0
3L	2.13	0	1.91	-2	-0.07	0
4L	2.29	0	1.99	-2	0.07	0
5L	2.44	0	2.05	-2	0.21	-1
8L	2.76	0	2.21	-1	0.62	-1
10L	2.91	0	2.30	-2	0.85	0

WIBOR rates

Term	%	Change (bps)
O/N	1.64	-5
T/N	1.64	-5
SW	1.61	-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	1.73	0
3x6	1.76	0
6x9	1.79	0
9x12	1.87	0
3x9	1.83	0
6x12	1.89	0

Measures of fiscal risk

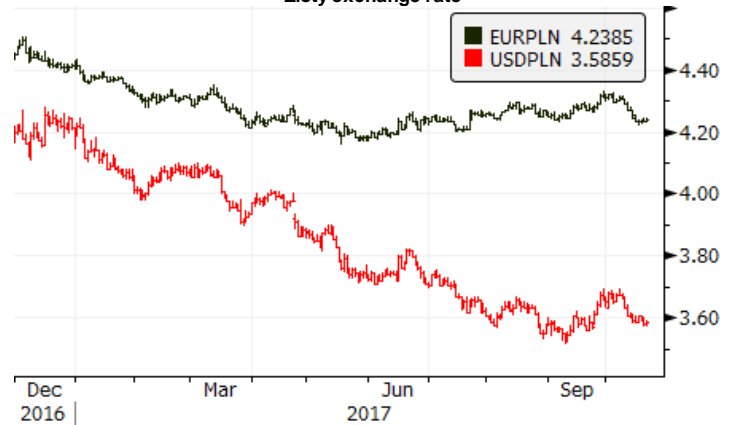
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.90	0
France	21	0	0.42	0
Hungary	116	1	2.10	-1
Spain	72	0	1.23	-1
Italy	138	0	1.62	-2
Portugal	127	0	1.89	-1
Ireland	32	-1	0.22	0
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

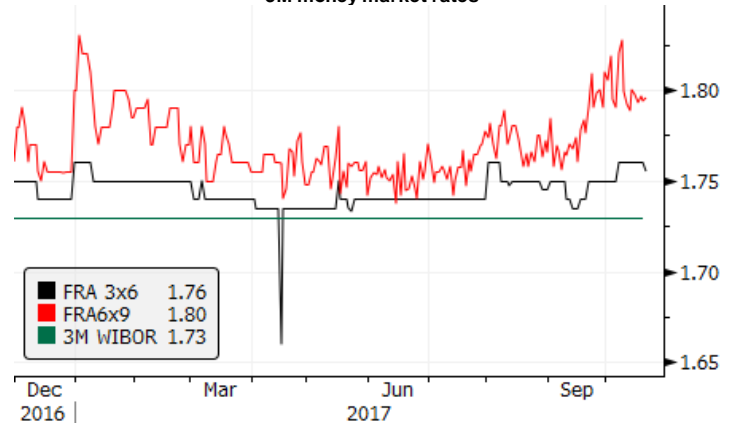
Zloty exchange rate



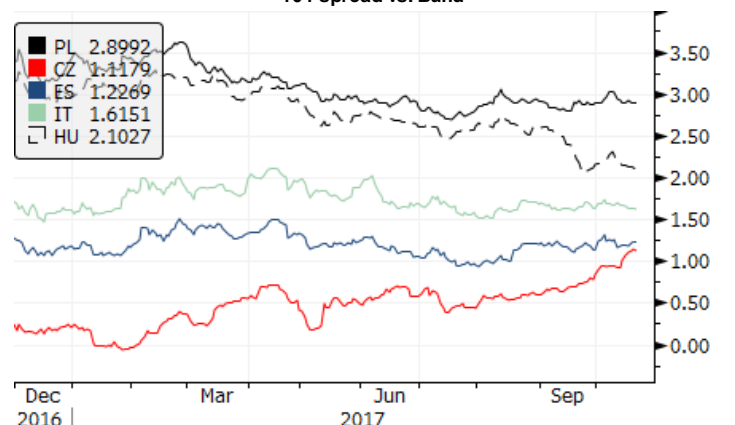
T-bonds yields



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 (13 October)							
14:00	PL	Core inflation	Sep	% y/y	0.9	0.9**	0.7
14:30	US	CPI	Sep	% m/m	0.6	-	0.4
14:30	US	Retail sales	Sep	% m/m	1.7	-	-0.2
16:00	US	Flash Michigan	Oct	pts	95.0	-	95.1
MONDAY (16 October)							
14:00	PL	Current account	Aug	€m	-651	-602	-100
14:00	PL	Exports	Aug	€m	15 512	15 891	15 682
14:00	PL	Imports	Aug	€m	15 920	16 325	15 384
TUESDAY (17 October)							
11:00	EZ	CPI	Aug	% y/y	1.5	-	1.5
11:00	DE	ZEW index	Sep	pts	88.5	-	87.0
14:00	PL	Wages in corporate sector	Aug	% y/y	5.7	5.9	6.0
14:00	PL	Employment in corporate sector	Aug	% y/y	4.6	4.6	4.5
15:15	US	Industrial output	Aug	% m/m	0.3	-	0.3
WEDNESDAY (18 October)							
14:00	PL	Industrial output	Aug	% y/y	5.1	6.1	4,3
14:00	PL	Construction and assembly output	Aug	% y/y	18.1	16.6	15,5
14:00	PL	Real Retail sales	Aug	% y/y	6.8	7.6	7,5
14:00	PL	PPI	Aug	% y/y	3.1	3.1	3,1
14:30	US	Housing starts	Aug	% m/m	0.0	-	-4,7
14:30	US	Building permits	Aug	% m/m	5.7	-	-4,5
20:00	US	Beige Book					
THURSDAY (19 October)							
14:30	US	Index Philly Fed	Sep	pts	22.0	-	27.9
14:30	US	Initial jobless claims	week	k	240	-	222
FRIDAY (20 October)							
Polish rating review by S&P							
14:30	US	Home sales	Sep	% m/m	-0.9	-	-1.7

Source: BZ WBK. Reuters. Bloomberg

* in case of the revision the data is updated

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