

EYEOPENER

23 October 2017

S&P warns about “overstimulation” risk

- End of the week shaped by the US Senate decision
- S&P leaved Polish rating and outlook unchanged
- The zloty remained strong, the dollar gained vs the euro
- Domestic and global bonds under pressure
- Today Polish data on money supply

Decision of the US Senate to approve the next year's budget was positively received by the market and stocks were gaining at the end of the week. Higher demand for risky assets weighed on bonds and yields jumped noticeably on Friday. In the case of the CEE currencies, only the zloty and the koruna benefited from the market optimism, the latter gained despite the outlook of weekend parliamentary elections.

The S&P agency did not change Poland's credit rating (BBB+) nor its stable outlook. The agency was positive on Poland's economy openness, flexibility and productivity. However, the S&P warned of 'overstimulation' risk due to negative real interest rates, procyclical fiscal policy, rising EU transfers and external demand as well as wage growth outpacing labour productivity growth. The report also stressed Poland's demographic problems and lack of policy response to that issue, potentially mitigating its fiscal effects. According to S&P, which holds Poland at the lowest rating among top three agencies, this is one of the main reasons not to upgrade the country. S&P also noted some triggers of downgrade: stronger quasi-fiscal activity of state-controlled companies, e.g. banks, which would weigh on central budget, as well as NBP's vulnerability to political pressure. The S&P expects average inflation at 2.5% in 2018 and 3.5% in 2019, 3.0% in 2020. The agency assumes a gradual slowdown of economic growth from 4.2% this year to 3.8% in 2018 and 3.5%, 3.0% in the following years. The general government deficit is expected to rise from 2.6% of GDP this year to 2.8% in 2018 and then to stabilize at 2.5% in 2019-2020.

EURUSD stabilized on Friday close to 1.18 after a night's fall from 1.185 triggered by the US developments. Janet Yellen's weekend speech did not hurt the dollar, though she emphasized that it was important to have a track record of inflation actually hitting the 2% target, while some surveys showed inflation weakened recently. Today no important data are to be released, so trading on the pair should be quiet. EURUSD stabilised between 1.166-1.188 and awaits a new impulse. The key events this week might be the US data readings, especially the first 3Q GDP estimate, and the ECB decision.

EURPLN fell to nearly 4.23 from 4.24 reached on Friday before the opening of the domestic session. USDPLN slid from 3.60 to 3.585. It seems that the negative impact of the hawkish market

interpretation of the US Senate's decision was only short-lived, and later in the day, the zloty was gaining on the back of risk appetite manifested by rising stock indices in Europe. After the parliamentary elections, the koruna stays stronger than at the end of last week. As expected, ANO won the elections, but at the same time as many as nine parties might have their way to the parliament which could hinder forming the government.

On the domestic interest rate market bond yields jumped at the end of the week driven by the Thursday's decision of the US Senate. As a result, Polish 10Y bond yield rose c9bp, German by 5bp and US by 6bp. Euro zone peripheries lost slightly less than core. Hawkish comments of the MPC members pushed Polish FRA rates up by 3-5bp.

MPC member Jerzy Kropiwnicki said that November NBP projection will be an important factor for his decision on interest rates in the months to come. In his view, interest rates could remain unchanged at least until mid-2018 and wage pressure is a key element to watch as the other public groups might claim for a wage hike after hospital residents' salaries were raised after their protest. Jerzy Osiatyński said he is "concerned" about the wage pressure and this might be a reason to deliver a rate hike earlier than in 4Q18. During the September MPC press conference, those two MPC members (who accompanied the NBP governor Adam Glapiński) sounded relaxed about labour market developments, generally aligning their views with the governor. Glapiński expected the interest rates to remain unchanged in both 2017 and 2018. However, last remarks of Jerzy Kropiwnicki and Jerzy Osiatyński show that both are hesitating and considering a change of stance if they have more evidence that wage pressure intensifies. It seems that the November central bank projections could be crucial. We do not argue however that a rate hike could be voted on in near future, but rather in 4Q18.

On Friday the Statistics Office released numbers on business sentiment, showing a further rise of optimism across the business sectors despite its current high level and strong barrier of high capacity utilisation.

Globally, this week the US data and ECB decision will be in the spotlight. Market awaits the details on the planned pace of scaling back the ECB asset purchase program. Investors expect that monthly bond purchases will be reduced to €40bn from €60bn but the QE will be prolonged into 2018. However, we think that the market is now ready to take profit from recent zloty appreciation and the decision to cut monthly bond purchases could weigh on the zloty. Additional pressure on Polish bonds could be generated by market uncertainty related to the new Fed governor.

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FX market

Today's opening

EURPLN	4.2354	CZKPLN	0.1649
USDPLN	3.6035	HUFPLN*	1.3753
EURUSD	1.1754	RUBPLN	0.0626
CHFPLN	3.6590	NOKPLN	0.4511
GBPPLN	4.7535	DKKPLN	0.5690
USDCNY	6.6348	SEKPLN	0.4402

*for 100HUF

Last session in the FX market

20/10/2017

	min	max	open	close	fixing
EURPLN	4.227	4.248	4.236	4.235	4.2452
USDPLN	3.570	3.601	3.579	3.594	3.5966
EURUSD	1.176	1.186	1.184	1.178	-

Interest rate market

20/10/2017

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.68	1	09.06.2017	OK0419	1.859
PS0422 (5Y)	2.68	0	09.06.2017	PS0422	2.587
DS0727 (10Y)	3.38	0	09.06.2017	DS0727	3.128

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.81	1	1.62	1	-0.26	0
2L	2.01	3	1.81	2	-0.18	1
3L	2.18	5	1.93	2	-0.05	2
4L	2.35	6	2.02	3	0.09	2
5L	2.51	6	2.09	4	0.24	4
8L	2.83	7	2.26	5	0.66	4
10L	2.98	7	2.35	6	0.90	5

WIBOR rates

Term	%	Change (bps)
O/N	1.63	-1
T/N	1.63	-1
SW	1.61	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	1.76	0
6x9	1.82	2
9x12	1.88	1
3x9	1.84	1
6x12	1.90	1

Measures of fiscal risk

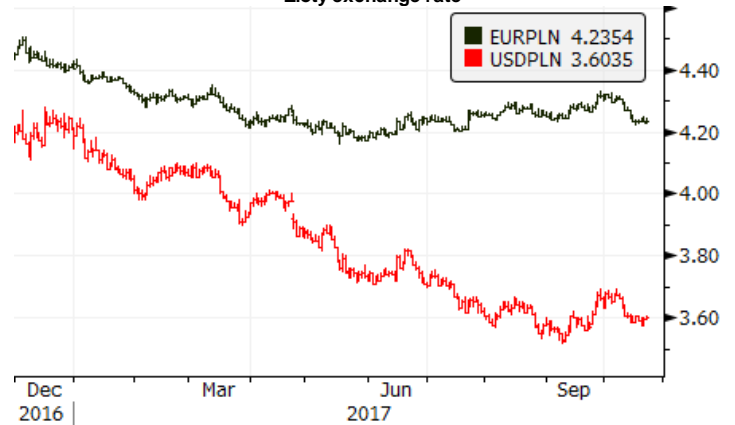
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.94	2
France	21	0	0.41	0
Hungary	116	1	2.06	0
Spain	71	-1	1.22	1
Italy	136	-2	1.60	1
Portugal	124	-2	1.85	1
Ireland	32	-1	0.21	0
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

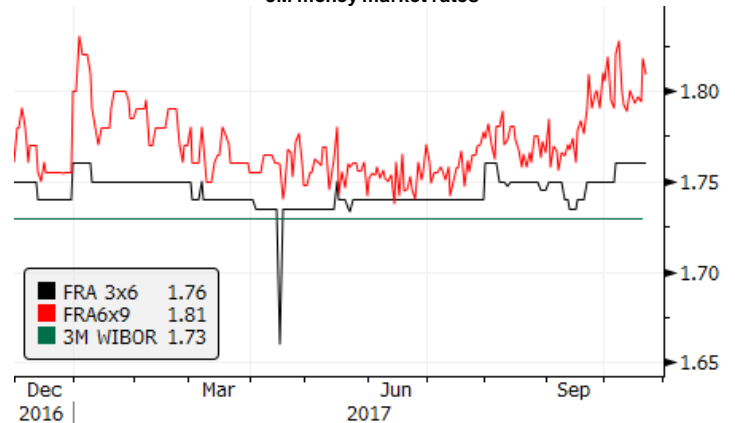
Zloty exchange rate



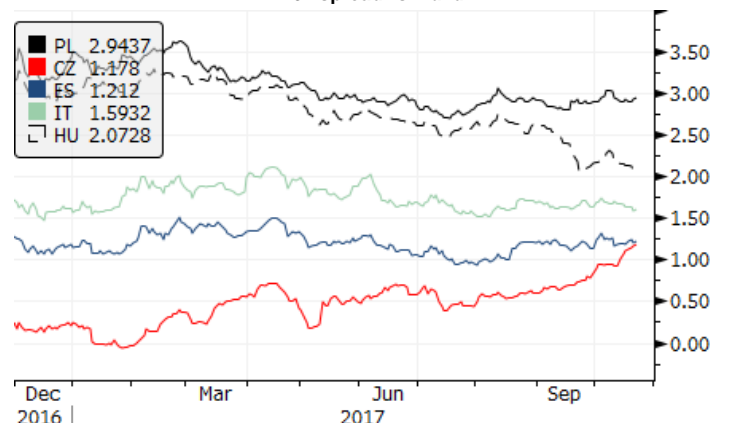
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	BZWBK			
FRIDAY (20 October)								
Polish rating review by S&P								
14:30	US	Home sales	Sep	% m/m	-0.9	-	0.7	-1.7
MONDAY (23 October)								
14:00	PL	Money supply	Sep	% y/y	5.6	5.6		5.5
TUESDAY (24 October)								
9:30	DE	Flash PMI – manufacturing	Oct	pts	60.0	-		60.6
9:30	DE	Flash PMI – services	Oct	pts	55.6	-		55.6
10:00	DE	Flash PMI – manufacturing	Oct	pts	57.7	-		58.1
10:00	DE	Flash PMI – services	Oct	pts	55.8	-		55.8
10:00	PL	Unemployment rate	Oct	%	6.9	6.9		7.0
14:00	HU	Central bank decision		%	0.90	-		0.90
WEDNESDAY (25 October)								
10:00	DE	Ifo index	Oct	pts	115.0	-		115.2
11:00	PL	Bond auction						
14:30	US	Durable goods orders	Sep	% m/m	1.3	-		2.0
16:00	US	New home sales	Sep	% m/m	-1.8	-		-3.4
THURSDAY (26 October)								
13:45	EZ	ECB decision		%	0.0	-		0.0
14:00	PL	MPC minutes						
14:30	US	Initial jobless claims	week	k	-	-		222
16:00	US	Pending home sales	Sep	% m/m	0.3	-		-2.6
FRIDAY (27 October)								
14:30	US	Advance GDP	Q3	q/q	2.5	-		3.1
16:00	US	Michigan index	Oct	pts	101.0	-		95.1

Source: BZ WBK. Reuters. Bloomberg

* in case of the revision the data is updated

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