

# EYEOPENER

10 November 2017

## Better EC forecasts for Poland

- EC more optimistic about Polish economy and public finance
- MPC's budget opinion also optimistic
- Polish debt weaker following the German peer
- Zloty temporarily weaker after positive EC forecast
- Low supply of short end papers on the switch tender
- Today foreign trade data for September

Autumn forecasting round of the European Commission brought a big improvement in assessment of general government sector (GG) outlook in Poland. EC analysts revised the expected GG deficit for 2017 and 2018 from 2.9% GDP to just 1.7% and the forecast for 2019 is at 1.9% GDP. It is the largest positive change recorded among all the 33 countries for which the Commission formulated its forecasts, in case of both 2017 and 2018 fiscal balance. The structural deficit as also strongly revised downwards. The current EC forecast is at 2.1% GDP this year, 2.3% in 2018 and 2.5% in 2019 (the previous round showed 2017 deficit at 3.2% and 2018 at 3.1%). The structural balance does worsen gradually over the three years, but on average it remains at a similar level to the three previous years. This seems a really positive result, given the scale of additional expenditures introduced by the current government (eg 500+ child benefit program, lower retirement age). We think the lack of visible increase of structural deficit estimates might be explained by assumption that the EC became convinced that government efforts to improve tax compliance were successful. Despite the large positive correction in GG forecasts, Poland still looks poor compared to the rest of EU (seventh highest deficit in the EU, in the spring round Poland was the fifth worst). The EC sees Polish GDP growth at 4.2% in 2017 and 3.8% and 3.4% in the following years. Previous forecasts were 3.5% for 2017 and 3.2% in 2018. The growth estimates for the Euro zone were also upgraded – to 2.2%, 2.1% and 1.9% in 2017-2019.

The MPC is similarly optimistic about the public finance – its opinion on 2018 budget, released yesterday, assumed GG deficit below 2% of GDP in 2017 and at a similar level in 2018, with structural deficit close to 2% of GDP in 2018. The MPC assessed that the VAT gap was reduced considerably in 2016-2017, so space for a further improvement in this field is limited. Having said that, government's forecast of VAT revenues in 2018 was assessed as cautious and realistic. Let us remind that the 'budget discipline' was mentioned by NBP president Adam Glapiński on Wednesday as an important factor limiting the need to tighten monetary policy.

Sejm has amended the 2017 budget. The level of total revenue, spending and deficit remained unchanged, only the structure of spending has been changed as savings in some areas (for example, on lower costs of debt servicing) were used to lift expenditure limits on other items (total sum of shifts in spending amounts to PLN9.4bn).

On Thursday, core debt markets observed a rebound of yields, with Bunds weakening more than UST. It was a consequence of profit-taking after the small rally at the beginning of the week and new European Commission forecasts, which showed that GDP growth in the EU will be maintained at c2.0% in two years' horizon, while the inflation will remain at 1.5% over the next two years. As a consequence, the Bund yield curve was pulled up by 2-6bp. This move was partly offset (1-2 bp) at the end of the day owing to information from US and stocks falls. Over the day the US curve increased by only 2-3 bp. This move was fully neutralized at the end of the day. The main reason for US treasuries rebound was an information from US Senat that introduction of fiscal tax reform will reduce corporate taxes in 2019. Moreover, the longer-term bonds were positively affected by information that from 2018 on the US Treasury stops its policy bond duration extension.

Polish FI market was driven by results of the bond switch auction and to some extent by trends observed on the global market. At the switch auction bonds worth PLN8.1bn were sold PLN3.26bn raised from WZ0528 floater and PLN2.42bn WZ1122. PLN1.1bn was raised from the sale of PS0123 and DS0727 each. Just like on the previous auctions, the lowest amount was collected from the short term bond OK0720 (PLN378mn). Results clearly suggest that the Ministry of Finance prefers to extend the duration of its PLN liabilities. During the day, the yield and IRS curves moved c2bp up.

Today Polish yields may rise amid noticeable weakening seen on the global market since the beginning of the day. Still, the room for debt weakening may be curbed by optimistic fiscal assessment presented in MPC's and EC documents.

EURUSD was on the rise for the better part of the session amid better economic forecasts for the European economy and concerns about delayed positive impact of US tax reform. As a result, EURUSD ended the day near 1.165 vs 1.16 at the opening.

The zloty was gaining for the whole day despite weak performance of equities. The trend on the Polish FX market was supported by information that EC revised economic forecasts for Poland up. As a result, EURPLN reached 4.229 in the afternoon but at the end of the day it rebounded to 4.239. Other CEE currencies also gained. EURCZK has again tried to break multi-year low at 25.5 after the higher-than-expected inflation reading (2.9% y/y, highest for five years). EURHUF ended the day just below the opening level at 312.09 as the forint did not manage to hold gains recorded earlier in the day. Temporary appreciation was fueled by CPI data. USDRUB did not change much.

Today we see risk for weaker zloty amid selling on the equity and bond markets.

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## FX market

## Today's opening

|        |        |         |        |
|--------|--------|---------|--------|
| EURPLN | 4.2351 | CZKPLN  | 0.1658 |
| USDPLN | 3.6417 | HUFPLN* | 1.3558 |
| EURUSD | 1.1629 | RUBPLN  | 0.0614 |
| CHFPLN | 3.6608 | NOKPLN  | 0.4472 |
| GBPPLN | 4.7826 | DKKPLN  | 0.5690 |
| USDCNY | 6.6454 | SEKPLN  | 0.4343 |

\*for 100HUF

## Last session in the FX market

09/11/2017

|        | min   | max   | open  | close | fixing |
|--------|-------|-------|-------|-------|--------|
| EURPLN | 4.229 | 4.240 | 4.236 | 4.239 | 4.2308 |
| USDPLN | 3.632 | 3.657 | 3.654 | 3.641 | 3.6466 |
| EURUSD | 1.159 | 1.166 | 1.159 | 1.164 | -      |

## Interest rate market

09/11/2017

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

| Bond (term)  | %    | Change (bps) | Last auction | Paper offered | Average yield |
|--------------|------|--------------|--------------|---------------|---------------|
| OK0419 (2Y)  | 1.59 | -1           | 10/25/17     | OK0720        | 2.000         |
| PS0422 (5Y)  | 2.62 | 0            | 10/25/17     | PS0123        | 2.813         |
| DS0727 (10Y) | 3.41 | 2            | 10/25/17     | DS0727        | 3.375         |

## IRS on the interbank market\*\*

| Term | PL   |              | US   |              | EZ    |              |
|------|------|--------------|------|--------------|-------|--------------|
|      | %    | Change (bps) | %    | Change (bps) | %     | Change (bps) |
| 1L   | 1.80 | 0            | 1.67 | 0            | -0.27 | 0            |
| 2L   | 2.02 | 1            | 1.83 | 0            | -0.20 | 0            |
| 3L   | 2.19 | 2            | 1.93 | 0            | -0.09 | 0            |
| 4L   | 2.35 | 3            | 2.01 | 0            | 0.05  | 1            |
| 5L   | 2.50 | 3            | 2.07 | 0            | 0.19  | 1            |
| 8L   | 2.81 | 4            | 2.22 | 0            | 0.60  | 2            |
| 10L  | 2.97 | 4            | 2.31 | 1            | 0.84  | 3            |

## WIBOR rates

| Term | %    | Change (bps) |
|------|------|--------------|
| O/N  | 1.58 | 0            |
| T/N  | 1.58 | 0            |
| 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  | 1.75 | -1           |
| 6x9  | 1.79 | 0            |
| 9x12 | 1.88 | -2           |
| 3x9  | 1.82 | -1           |
| 6x12 | 1.87 | -2           |

## Measures of fiscal risk

| Country  | CDS 5Y USD |              | 10Y spread* |              |
|----------|------------|--------------|-------------|--------------|
|          | Level      | Change (bps) | Level       | Change (bps) |
| Poland   | 71         | -1           | 3.01        | 0            |
| France   | 18         | 0            | 0.37        | 0            |
| Hungary  | 116        | 1            | 1.86        | -2           |
| Spain    | 64         | 2            | 1.16        | 0            |
| Italy    | 117        | 1            | 1.44        | 0            |
| Portugal | 115        | 2            | 1.65        | 0            |
| Ireland  | 32         | -1           | 0.22        | 0            |
| Germany  | 10         | 0            | -           | -            |

\* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

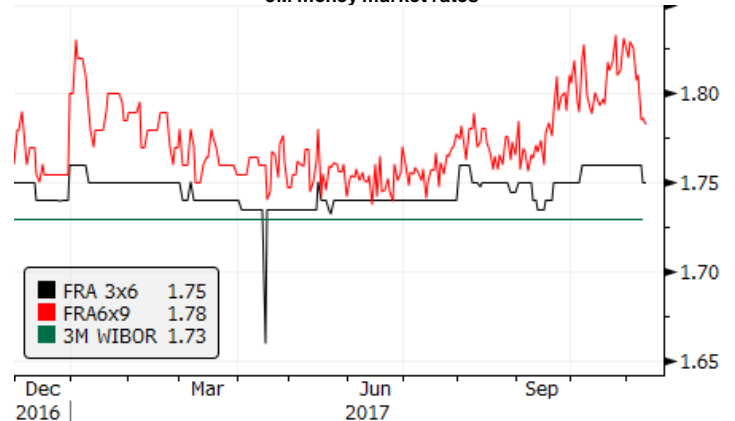
## Zloty exchange rate



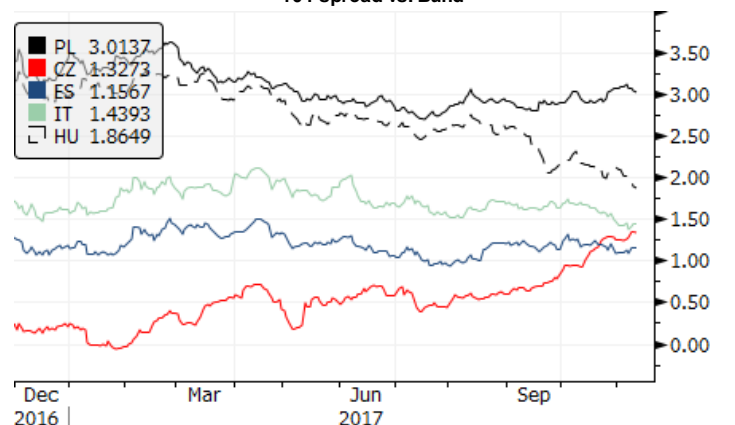
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic calendar

| Economic calendar      |         |                        |        |       |          |       |                 |                |
|------------------------|---------|------------------------|--------|-------|----------|-------|-----------------|----------------|
| TIME<br>CET            | COUNTRY | INDICATOR              | PERIOD |       | FORECAST |       | ACTUAL<br>VALUE | LAST<br>VALUE* |
|                        |         |                        |        |       | MARKET   | BZWBK |                 |                |
| FRIDAY (3 November)    |         |                        |        |       |          |       |                 |                |
| 13:30                  | US      | Non-farm payrolls      | Oct    | k     | 313      | -     | 261             | -33            |
| 13:30                  | US      | Unemployment rate      | Oct    | %     | 4.2      | -     | 4.1             | 4.2            |
| 15:00                  | US      | ISM – services         | Oct    | pts   | 58.5     | -     | 60.1            | 59.8           |
| 15:00                  | US      | Durable goods orders   | Sep    | % m/m | 2.0      | -     | 2.0             | 2.2            |
| MONDAY (6 November)    |         |                        |        |       |          |       |                 |                |
| 8:00                   | DE      | Industrial orders      | Sep    | % m/m | -1.4     | -     | 1.0             | 3.6            |
| 9:00                   | CZ      | Industrial output      | Sep    | % m/m | 3.5      | -     | 4.4             | 5.8            |
| 9:55                   | DE      | PMI – services         | Oct    | pts   | 55.2     | -     | 54.7            | 55.6           |
| 10:00                  | EZ      | PMI – services         | Oct    | pts   | 54.9     | -     | 55.0            | 55.8           |
| TUESDAY (7 November)   |         |                        |        |       |          |       |                 |                |
| 8:00                   | DE      | Industrial output      | Sep    | % m/m | -1.0     | -     | -1,6            | 2.6            |
| 11:00                  | EZ      | Retail sales           | Sep    | % m/m | 0.6      | -     | 0.7             | -0.1           |
| WEDNESDAY (8 November) |         |                        |        |       |          |       |                 |                |
|                        | PL      | MPC decision           |        | %     | 1.50     | 1.50  | 1.50            | 1.50           |
| THURSDAY (9 November)  |         |                        |        |       |          |       |                 |                |
| 8:00                   | DE      | Exports                | Sep    | % m/m | -1.3     | -     | -0.4            | 2.9            |
| 9:00                   | CZ      | CPI                    | Oct    | % y/y | 2.7      | -     | 2.9             | 2.7            |
| 9:00                   | HU      | CPI                    | Oct    | % y/y | 2.3      | -     | 2.2             | 2.5            |
| 11:00                  | PL      | Bond switch auction    |        |       |          |       |                 |                |
| 14:30                  | US      | Initial jobless claims | week   | k     | -        | -     | 239             | 229            |
| FRIDAY (10 November)   |         |                        |        |       |          |       |                 |                |
| 16:00                  | US      | Flash Michigan         | Nov    | pts   | 100.0    | -     |                 | 100.7          |

Source: BZ WBK. Reuters. Bloomberg

\* in case of the revision the data is updated

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