

EYEOPENER

24 November 2017

Record demand at bond auction

- Polish auction saw bid-to-cover at 3.5
- Money supply accelerated a bit
- Zloty stronger but losing momentum
- Polish bond yields down
- Today Polish unemployment rate, lfo indicators

Money supply M3 rose in October by 5.7% y/y with consensus at 5.5% and our forecast of 5.6%. Deposit growth accelerated to 5.2% y/y from 4.9%, and it would be even higher if PLN did not appreciate in that month. The improvement was caused by increases of cash balances of enterprises, while household deposits showed stable growth. On the credit side there was a slowdown to 4.5% y/y from 5.0% but in our view it was entirely due to exchange rate revaluation effect (bringing down the value of foreign-denominated loans). Fx-adjusted results showed a rise to 4.6% from 4.4% registered in consumer loans and in mortgage loans. Corporate credit rose 6% y/y instead of 5.4% in September, mostly in categories like working capital and financing of real estate. Investment loans of enterprises softened a bit in terms of y/y growth.

According to minutes from November MPC meeting majority of members still admits that rates should remain stable in the coming quarters. This will allow inflation to keep close to the target. It was stressed in the document that the inflation target is symmetric. This is a new expression, introduced (by the dovish/neutral majority) most likely due to the fact that the November inflation projection, unlike the previous one, climbed above 2.5% y/y target in the time horizon covered by the NBP report.

The passage on the limited risk of a persistent breach of CPI target in medium term was removed from both the minutes and the statement released after the November decision. This means such expression is no longer accepted by the majority. Sizeable paragraphs covering the discussion on investments and labour market show the rising internal tensions. Still, the main parts of the minutes do not suggest that the MPC hawks are about to gain advantage. There could be a motion to raise rates in 1Q, but in our view it could only be passed later in 2018.

Thursday saw no big changes on the global market. The US market was closed due to Thanksgiving and changes in Europe

were mild despite surprisingly robust flash PMI readings. As a result, German bonds ended the day near Wednesday's closing levels and volatility was low.

In Poland yields were falling for the whole day amid dovish tone of the FOMC minutes released on Wednesday evening and despite strong flash PMIs released on Thursday morning. As a result, the bond curve moved 6-7bp down for 5Y and 10Y tenors and by 2bp on the front end. This trend was additionally fueled by results of bond auction. The IRS curve shifted 4-5bp down in the belly and long end and remained stable on the short end. This led to 5Y asset swap decline to its lowest since March 2015. Investors ignored somewhat more hawkish tone of Polish MPC minutes and solid data on money supply.

At the bond auction, the Ministry of Finance sold bonds for PLN4bn amid demand at PLN13.8bn (bid-to-cover at 3.5). Most of the cash was raised from WZ1122 (PLN980mn) and WZ0528 (PLN940mn). After the auction the Ministry said that this year's gross borrowing needs are now covered in 95.5%.

Today we expect to see a continuation of purchases in the first half of the day and a rebound in the afternoon. The overall effect should be neutral for bond prices. Next week the PMI index for Poland is due for release, which could be a good trigger for a correction of debt in the belly and long end of the curve.

EURUSD was rising all the Thursday session, discounting the Fed minutes released on Wednesday evening. The upward move was additionally fuelled in the morning by PMI data from the Euro zone. As a result, EURUSD climbed from 1.1790 to 1.1850.

EURPLN decreased from 4.2130 in the morning to 4.2060 in the afternoon. The strengthening of the currency was supported by good moods in the global financial markets, strong data from Europe and strong demand for Polish bonds. Other currencies in the region also gained, with EURCZK setting a new record low at 25.42. USDRUB remained quite stable.

Today we expect a correction of solid zloty strengthening, yet in a limited scale, due to the persisting good sentiment in the region.

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FX market

Today's opening			
EURPLN	4.2082	CZKPLN	0.1655
USDPLN	3.5531	HUFPLN*	1.3460
EURUSD	1.1844	RUBPLN	0.0607
CHFPLN	3.6177	NOKPLN	0.4361
GBPPLN	4.7243	DKKPLN	0.5653
USDCNY	6.6013	SEKPLN	0.4273

*for 100HUF

Last session in the FX market 23/11/2017					
	min	max	open	close	fixing
EURPLN	4.204	4.218	4.212	4.206	4.2108
USDPLN	3.548	3.572	3.571	3.550	3.5557
EURUSD	1.179	1.186	1.180	1.185	-

Interest rate market 23/11/2017

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
DS1019 (2L)	1.53	0	11/9/17	OK0720	1.899
WS0922 (5L)	2.53	0	11/9/17	PS0123	2.750
DS0727 (10L)	3.31	0	11/9/17	DS0727	3.380

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.81	-1	1.74	-1	-0.26	0
2L	2.03	0	1.91	-1	-0.19	0
3L	2.19	-2	2.01	-1	-0.06	0
4L	2.34	-3	2.09	1	0.07	0
5L	2.49	-4	2.12	-1	0.21	0
8L	2.79	-4	2.25	-1	0.58	0
10L	2.94	-4	2.32	-1	0.81	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.54	4
T/N	1.54	4
SW	1.59	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	1.80	-1
9x12	1.89	-1
3x9	1.83	0
6x12	1.87	-1

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.96	-1
France	17	0	0.33	0
Hungary	116	1	1.70	-1
Spain	59	0	1.11	0
Italy	118	0	1.42	0
Portugal	106	1	1.56	0
Ireland	26	0	0.22	0
Germany	10	1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

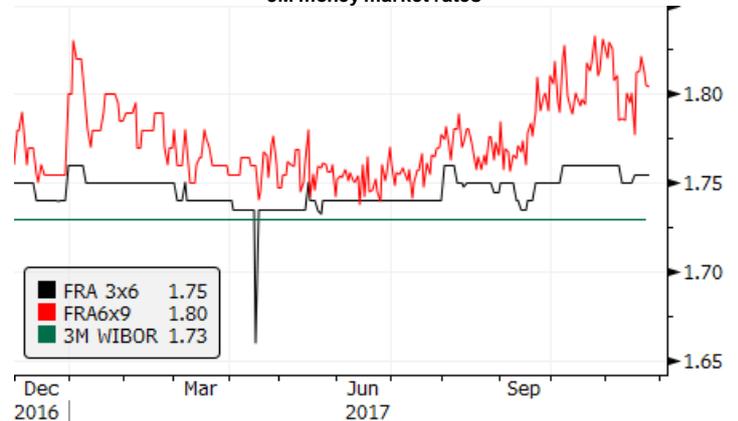
Zloty exchange rate



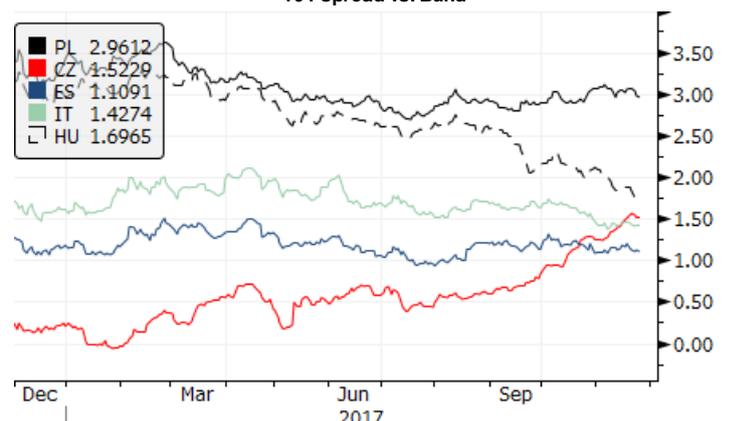
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	BZWBK			
FRIDAY (17 November)								
14:00	PL	Wages in corporate sector	Oct	% y/y	6.5	6.4	7.4	6.0
14:00	PL	Employment in corporate sector	Oct	% y/y	4.5	4.5	4.4	4.5
14:30	US	Housing starts	Nov	% m/m	5.6	-	13.7	-4.7
14:30	US	Building permits	Nov	% m/m	2.0	-	5.9	-3.7
MONDAY (20 November)								
14:00	PL	Industrial output	Oct	% y/y	9.9	11.3	12.3	4.3
14:00	PL	Construction and assembly output	Oct	% y/y	23.6	25.7	20.3	15.5
14:00	PL	PPI	Oct	% y/y	2.8	2.7	3.0	3.1
14:00	PL	Real retail sales	Oct	% y/y	7.2	7.2	7.1	7.5
TUESDAY (21 November)								
14:00	HU	Central bank decision		%	0.90	-	0.90	0.90
14:00	PL	Corporate sector financial results	3Q					
16:00	US	Home sales	Oct	% m/m	0.2	-	2.0	0.4
WEDNESDAY (22 November)								
14:30	US	Durable goods orders	Oct	% m/m	0.3	-	-1.2	2.0
14:30	US	Initial jobless claims	week	k	240	-	239	249
16:00	US	Michigan index	Nov	pts	98.0	-	98.5	97.8
20:00	US	FOMC minutes						
THURSDAY (23 November)								
8:00	DE	GDP SA	3Q	% q/q	0.8	-	0.8	0.8
9:30	DE	Flash PMI – services	Nov	pts	55.0	-	54.9	54.7
10:00	DE	Flash PMI – manufacturing	Nov	pts	60.4	-	62.5	60.6
10:00	EZ	Flash PMI – services	Nov	pts	55.2	-	56.2	55
10:00	EZ	Flash PMI – manufacturing	Nov	pts	58.2	-	60.0	58.5
11:00	PL	Bond auction						
14:00	PL	MPC minutes						
14:00	PL	Money supply M3	Oct	% y/y	5.5	5.6	5.7	5.4
FRIDAY (24 November)								
10:00	DE	Ifo	Nov	pts	116.5	-		116.7
10:00	PL	Unemployment rate	Oct	%	6.7	6.6		6.8

Source: BZ WBK, Reuters, Bloomberg

* in case of the revision the data is updated

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