

EYEOPENER

29 November 2017

Fiscal budget still in surplus

- Optimism returned to the markets, strong data from the US
- FX market was calm on Tuesday
- Domestic bond yields went down on budget performance
- Today preliminary estimate of US 3Q GDP and Fed's Beige Book

On Tuesday global market sentiment improved somewhat after a slight rise of risk aversion seen on Monday. Still, the market was rather calm. In the afternoon we learned next strong US data and positive decision of the US Senate budget committee on the tax reform which allows the bill to be discussed and voted in the coming days. Turning back to the US numbers, the consumer confidence index surprised to the upside, rising unexpectedly in November and reaching its highest level since September 2000. Back then, after reaching 142.5pts, the index plummeted to 60pts in March 2003 as the dot-com bubble burst. Overnight rocket test in North Korea did not impact the financial markets while the British pound gained after the unconfirmed information that there is an agreement on the bill the UK will pay after leaving the EU.

Jerome Powell, future Fed chair said in the Senate hearing that central bank showed a lot of patience, but it is time for interest rates normalisation because economic growth allows it. The rest of his remarks showed that he is a follower of Janet Yellen's moderate/dovish monetary policy conduct. He stressed the importance of actually reaching the inflation target for Fed creditability. Moreover, he drew attention to pockets of the economy where recovery is still not real yet.

Yesterday EURUSD continued the downward move initiated on Monday evening and fell to 1.186 from 1.195. The dollar gained for the second session in a row and this development was due to US data released this week. Today, new US data are due for release, including the preliminary GDP for Q3. Market is expecting some acceleration from 3.1% y/y posted in Q2, despite advance reading at 3.0% y/y. If statistics continue to be positive, the dollar may gain versus the euro.

Yesterday EURPLN was stable close to 4.205, while USDPLN was hovering around 3.535. As regards other CEE currencies, the forint and the ruble were quite stable, while the Czech koruna lost versus the euro slightly. Since mid-October we are witnessing a higher negative correlation between EURPLN and EURUSD. If further data from the USA are positive and support the dollar, then EURPLN may rise on the wave of market expectations for December Fed hike. So far, the zloty started the day with a quick march to 4.19 per euro with no visible triggers.

On the domestic market, the IRS rates, as well as sovereign yields, fell on the belly and the long end of the curve, slightly deeper than the European markets peers. The trigger for the curves' downward move was an information about budget surplus in Poland. Better than forecasted US data (Consumer Conference Board index) were ignored by the market players. Yesterday the yield curve flattened, the 2Y-5Y and 2Y-10Y spreads dropped to the lowest level since second half of October.

Yesterday OECD joined the organizations that have recently revised Poland GDP growth forecasts up (like the IMF or World Bank). Compared to June, OECD raised its 2017 forecast to 4.3% from 3.6% and for 2018 to 3.5% from 3.1%. As regards the current year, our forecast is close to OECD expectations but for the next year we expect the GDP growth to stay near 4%. OECD assumes that the MPC will start hiking rates in early 2018 amid tight labour market.

The Polish central budget was still in surplus after October. According to the MinFin schedule of revenues and expenditures, the YtD deficit was supposed to reach cPLN40bn after October, but the actual figure was a PLN2.7bn surplus. October was another month in a row with spending below the plan and incomes coming above the plan. The positive labor market situation with acceleration of wages leads to much lower subsidies from the central budget to the social security system (-19% y/y in YtD terms). Debt servicing costs are also down c10% y/y. Growth rate of VAT incomes slid to 22% y/y after three months of YtD growth at 25% y/y. However, in the upcoming months this figure is likely to improve as the Ministry most likely will not frontload VAT returns at the end of the year (such a move secured a very positive fiscal start of 2017). Instead of VAT returns, the Ministry is likely to use another tool for deficit smoothing: a new budget amendment. Payment of one-off equivalent for coal benefit has actually worked this way, as this year's budget was burdened to the benefit of the next year's budget. A representative of MinFin, Deputy Finance Minister Teresa Czerwińska, claims this means we could see a PLN30bn deficit as the full-year result. Her estimate includes the approved amendment that shuffled some spending limits within the budget, while keeping the nominal overall revenues and expenditures (and thus the PLN59.3bn fiscal balance) intact. The corrections to the budget should allow extra spending of cPLN11bn, though. It nevertheless seems that the Deputy Minister's claim may leave room for another budget amendment to allow larger expenditures in some areas thanks to the very comfortable budget position so far.

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FX market

Today's opening

EURPLN	4.1938	CZKPLN	0.1647
USDPLN	3.5322	HUFPLN*	1.3484
EURUSD	1.1873	RUBPLN	0.0606
CHFPLN	3.5905	NOKPLN	0.4300
GBPPLN	4.7437	DKKPLN	0.5635
USDCNY	6.5961	SEKPLN	0.4248

*for 100HUF

Last session in the FX market

28/11/2017

	min	max	open	close	fixing
EURPLN	4.201	4.212	4.208	4.201	4.2074
USDPLN	3.529	3.544	3.536	3.539	3.5382
EURUSD	1.186	1.192	1.190	1.187	-

Interest rate market

28/11/2017

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
DS1019 (2L)	1.51	-3	11/23/17	OK0720	1.846
PS0123 (5L)	2.67	12	11/23/17	PS0123	2.704
DS0727 (10L)	3.31	-3	11/23/17	DS0727	3.338

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.81	0	1.75	-1	-0.26	0
2L	2.05	0	1.91	-1	-0.19	0
3L	2.22	-1	2.00	-2	-0.06	0
4L	2.36	-1	2.06	-2	0.07	1
5L	2.50	-1	2.11	-1	0.21	1
8L	2.80	-2	2.24	-2	0.59	1
10L	2.95	-1	2.31	-2	0.81	0

WIBOR rates

Term	%	Change (bps)
O/N	1.25	-24
T/N	1.48	-1
SW	1.58	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	0
9x12	1.91	0
3x9	1.84	0
6x12	1.89	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.96	-4
France	17	0	0.33	0
Hungary	116	1	1.74	-1
Spain	58	-1	1.11	-1
Italy	118	0	1.42	-1
Portugal	102	-2	1.56	-1
Ireland	25	-1	0.22	0
Germany	9	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

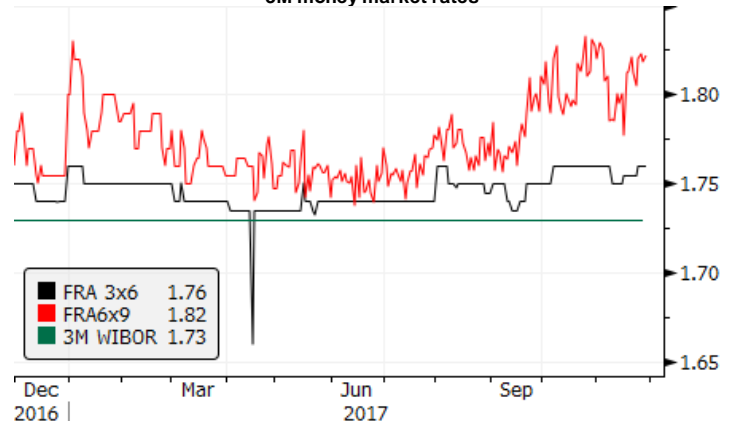
Zloty exchange rate



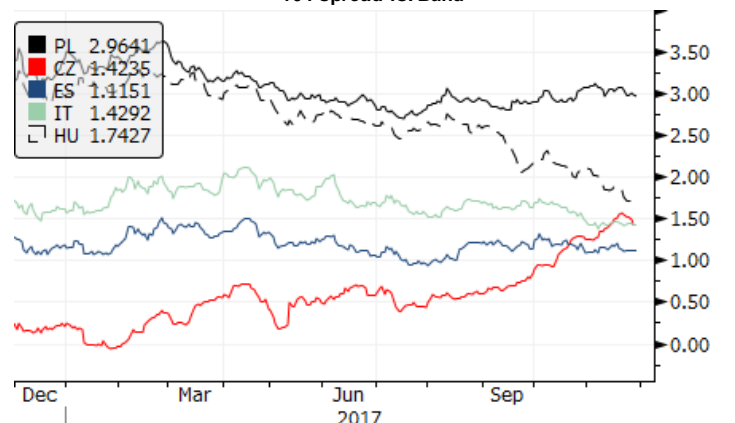
T-bonds yields



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 (24 November)								
10:00	DE	Ifo	Nov	pts	116.5	-	117.5	116.8
10:00	PL	Unemployment rate	Oct	%	6.7	6.6	6.6	6.8
MONDAY (27 November)								
16:00	US	New home sales	Oct	% m/m	-6.53	-	6.2	14.2
TUESDAY (28 November)								
16:00	US	Conference Board index	Nov	pts	124.0	-	129.5	126.2
WEDNESDAY (29 November)								
14:30	US	Preliminary GDP	Q3	% q/q	3.2	-		3.0
16:00	US	Pending home sales	Oct	% m/m	1.1	-		0.0
20:00	US	Fed Beige Book						
THURSDAY (30 November)								
10:00	PL	GDP	Q3	% y/y	4.7	4.7		4.0
10:00	PL	Investments	Q3	% y/y	-	4.4		0.8
10:00	PL	Private consumption	Q3	% y/y	-	5.1		4.9
11:00	EC	Flash CPI	Nov	% y/y	-	-		1.4
11:00	EC	Unemployment rate	Oct	%	-	-		8.9
14:00	PL	Flash CPI	Nov	% y/y	-	2.4		2.1
14:30	US	Initial jobless claims	week	k	240	-		239
14:30	US	Personal spending	Oct	% m/m	0.2	-		1.0
14:30	US	Personal income	Oct	% m/m	0.3	-		0.4
FRIDAY (1 December)								
09:00	PL	PMI manufacturing	Nov	pts	-	54.6		53.4
09:00	CZ	GDP	Q3	% y/y	-	-		5.0
9:55	DE	PMI – manufacturing	Nov	pts	60.6	-		60.6
10:00	EZ	PMI – manufacturing	Nov	pts	58.5	-		58.5
16:00	US	ISM manufacturing	Nov	pts	58.3	-		58.7

Source: BZ WBK. Reuters. Bloomberg

* in case of the revision the data is updated

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