

EYEOPENER

15 December 2017

Good results on the current account

- **Weak mood on the markets after dovish Fed hike, ECB rhetoric neutral for the market**
- **Next solid surplus on the trade balance in Poland**
- **Zloty losses to EUR, the rest CEE currencies slightly stronger**
- **Domestic yields and IRS rates down, abroad mixed changes**
- **Today in Poland: switch auction. On the core markets: US industrial production**

The market mood on the day after the Fed's dovish rate hike was bad, but it did not distract CEE currencies from securing some gains. The euro zone peripheral debt markets behaved in a mixed way, while on the core markets yields rose. The US data surprised positively yesterday – November retail sales was higher than market forecasts and initial jobless claims was the smallest since mid-October.

Yesterday, the ECB left monetary policy parameters unchanged, as expected. The new forecasts of GDP growth in the euro zone have been explicitly revised upwards versus September estimates: in 2018 to 2.3% from 1.8%, in 2019 to 1.9% from 1.7%. The inflation forecast for 2018 remained unchanged at 1.5%, while that for 2019 was raised to 1.4% from 1.2%. The tone of the message and the course of the press conference did not differ from what we have seen in previous months. Despite the improvement of the economic outlook, the ECB still believes that it is necessary to maintain high support from monetary policy.

Current account balance in October (€575mn) was better than expected by the market (€210mn) but weaker than we forecasted (€702mn). Such high surplus was achieved thanks to much lower deficit on the primary incomes account and yet another trade balance surplus (€597mn), just like we expected. Exports growth accelerated to 15.4% y/y from 10.2% y/y and imports to 12.9% y/y from 5.7% y/y which was driven by the favorable working days effect and low statistical base. From the

perspective of correlation with industrial output and domestic demand growth, however, the data on exports and imports pace of growth look somewhat disappointing. Economic revival in the euro zone should continue to support Polish exports while revival of investments and strong consumption make us expect strong imports. As a result, we expect close-to-zero contribution of net exports to the GDP growth in this and the coming quarters.

Prime Minister Mateusz Morawiecki said yesterday that next week the European Commission may launch the procedure under Article 7 of the EU Treaty. The Article refers to suspected violation of EU values. Potentially, the procedure enables imposing sanctions, but they must be supported by all EU states. We believe that this scenario is rather unlikely and therefore a probable EC decision to initiate the procedure should not have a lasting adverse impact on domestic assets.

EURUSD was stable near the local peak reached in the evening after the FOMC decision. The euro gained after the ECB's Draghi presented the upwardly revised euro zone GDP growth forecasts but the rise to 1.186 was only temporary which might have been due to strong US data. As a result, at the end of the day the exchange rate was near 1.178. We think some profit taking is likely today after the recent rise of EURUSD. This could be particularly the case if the US industrial output (due in the afternoon) surprises to the upside.

EURPLN was testing 4.22 yesterday amid poor global market sentiment and despite higher-than-expected Polish C/A surplus. Koruna lost slightly while the forint and ruble gained. We expect EURPLN to stay near its local peak at the end of the week.

On the domestic interest rate market IRS and bond yields fell slightly despite noticeable weakening seen on the core markets. Today the bond switch auction is held. Just like we wrote yesterday, we expect that sale of 2Y bonds could be higher than on the previous auctions which might generate upside pressure on the front end yield.

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FX market

Today's opening

EURPLN	4.2220	CZKPLN	0.1643
USDPLN	3.5796	HUFPLN*	1.3441
EURUSD	1.1794	RUBPLN	0.0608
CHFPLN	3.6228	NOKPLN	0.4325
GBPPLN	4.8091	DKKPLN	0.5671
USDCNY	6.6068	SEKPLN	0.4249

*for 100HUF

Last session in the FX market

14/12/2017

	min	max	open	close	fixing
EURPLN	4.216	4.225	4.217	4.224	4.2216
USDPLN	3.559	3.589	3.585	3.583	3.5716
EURUSD	1.176	1.186	1.176	1.179	-

Interest rate market

14/12/2017

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
DS1019 (2L)	1.63	-1	11/23/17	OK0720	1.846
PS0123 (5L)	2.66	-2	11/23/17	PS0123	2.704
DS0727 (10L)	3.23	-1	11/23/17	DS0727	3.338

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.79	-1	1.84	0	-0.27	0
2L	2.01	-2	2.01	-1	-0.19	0
3L	2.17	-2	2.10	-1	-0.06	0
4L	2.32	-2	2.15	-2	0.07	0
5L	2.44	-2	2.19	-3	0.21	0
8L	2.73	-2	2.29	-4	0.57	-1
10L	2.88	-2	2.35	-4	0.79	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.62	-4
T/N	1.62	-4
SW	1.60	0
2W	1.61	-1
1M	1.65	0
3M	1.72	0
6M	1.81	0
9M	1.82	0
1Y	1.85	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.73	0
3x6	1.75	0
6x9	1.78	-1
9x12	1.88	-1
3x9	1.82	0
6x12	1.87	-1

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.93	0
France	15	0	0.34	0
Hungary	116	1	1.85	1
Spain	55	-1	1.14	1
Italy	115	0	1.49	1
Portugal	97	-1	1.51	2
Ireland	25	-1	0.20	1
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			INDICATOR		PERIOD		FORECAST		ACTUAL	LAST
TIME							MARKET	BZWBK		VALUE
CET										
FRIDAY (8 December)										
	PL	Rating Review								
08:00	DE	Exports SA	Oct	% m/m	1.0				-0.4	-0.4
14:30	US	Change in Nonfarm Payrolls	Nov	k	195.0	-			228	244
14:30	US	Unemployment Rate	Nov	%	4.1	-			4.1	4.1
16:00	US	Michigan index	Dec	pts	99.0	-			96.8	98.5
MONDAY (11 December)										
14:00	PL	CPI YoY	Nov	% y/y	2.5	2.5			2.5	2.5
TUESDAY (12 December)										
11:00	DE	ZEW Survey Current Situation	Dec	pts	88.7	-			89.3	88.8
14:00	PL	CPI Core	Nov	% y/y	0.9	0.9			0.9	0.8
WEDNESDAY (13 December)										
11:00	EZ	Industrial Production	Oct	% m/m	0.0	-			0.2	-0.5
14:30	US	CPI	Nov	% m/m	0.4	-			0.4	0.1
20:00	US	FOMC decision		%	1.25-1.5	-			1.25-1.50	1-1.25
THURSDAY (14 December)										
09:30	DE	Germany Manufacturing PMI	Dec	pts	62.0	-			63.3	62.5
09:30	DE	Markit Germany Services PMI	Dec	pts	54.6	-			55.8	54.3
10:00	EZ	Eurozone Manufacturing PMI	Dec	pts	59.7	-			60.6	60.1
10:00	EZ	Eurozone Services PMI	Dec	pts	56.0	-			56.5	56.2
13:45	EZ	ECB Main Refinancing Rate		%	0.0	-			0.0	0.0
14:00	PL	Current Account Balance	Oct	€mn	210	702			575	-100
14:00	PL	Trade Balance	Oct	€mn	480	748			597	764
14:00	PL	Exports	Oct	€mn	18100	18478			17914	17207
14:00	PL	Imports	Oct	€mn	17400	17730			17317	16443
14:30	US	Initial Jobless Claims	week	k	236	-			225	236
14:30	US	Retail Sales Advance	Nov	% m/m	0.3	-			0.8	0.5
FRIDAY (15 December)										
11:30	PL	Bond Switch Auction								
15:15	US	Industrial Production	Nov	% m/m	0.3	-				0.94

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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