



# EYEOPENER

22 December 2017

## Polish bonds and zloty gain

- Zloty recovers, Polish bond yields down despite decision of EC
- Budget deficit after November
- MPC minutes: rates stable in coming quarters
- Business sentiment improves in construction and trade, manufacturing loses momentum
- Today in Poland unemployment rate and money supply, abroad: many data from the US

After November, the Polish central budget recorded a deficit of PLN2.4bn. In the course of November the balance deteriorated by PLN5bn, which is less than assumed in the MinFin schedule, but more than in the previous years. VAT revenues grew by 7% y/y, which was the lowest rate recorded this year. We cannot exclude that the MinFin started to accelerate VAT returns already in November, bringing the net revenue down. It is also likely that expenditures went up due to the budget amendment approved in November. On a year-to-date basis budget revenues reached PLN323.2bn (108.8% of the plan for Jan-Nov) and expenditures were at PLN325.7bn (94.8% of the plan). We think that at the end of the year the deficit will be around PLN20-25bn.

According to Fitch, launching Article 7 procedure by EC will not affect Polish public finance or GDP growth in the short-term. However, any cuts of the EU funds in 2021-2027 perspective would weight Polish state budget.

Minutes from the last MPC meeting did not surprise. Majority of Council members still believes that next quarters should see stabilisation of interest rates, which would be supportive for reaching the inflation target and maintaining well-balanced economic growth. Some members did not rule out consideration of interest rate hikes if the new data show strengthening of inflationary and wage pressure. Overall, it does not suggest that the balance of power in the rate-setting panel has changed, despite better than expected economic data. We still believe the first interest rate hike will take place at the end of 2018, even though the first motion to hike rates could be filled in already at the start of the year. MPC member, Eryk Łon, said yesterday that he does not expect any circumstances supporting a rate hike in 2018.

Surveyed data for sentiment in corporate sector for December showed a slight deceleration of pace of growth in manufacturing sector. In December, seasonally adjusted current domestic and foreign order-book index rose by c0.5pct, while current

production index fell c1.5pct. These changes were accompanied by deterioration of employment index (by 0.4 pct.). This data shows that activity is still growing but losing the momentum compared to 1Q17-3Q17. The picture of construction sector painted in the survey was much brighter. New orders, as well as current production indices, were rising faster (by 1.2 and 1.3 pct month on month basis) supported by rising employment index. Similarly, we observed the next month of improvement of demand assessment in the retail sales sector.

The data still supports our scenario of solid GDP growth in the next quarters (by c4% y/y), based on consumption and rising construction sector investment.

Global debt market remained relatively stable on Thursday, only the front end saw yields rising by 1-2bp.

Yields of domestic debt decreased slightly after increases noted at the beginning of this week, initiated by the core markets trends and EC decision to trigger Article 7 against Poland. As a consequence, domestic yield curve slumped by 2bp in 5Y-10Y segment and remained unchanged in 2Y segment. These changes were accompanied by stable IRS rates.

Today, we expect debt prices to stay flat amid low activity in the market due to approaching Christmas holidays.

On Thursday, EURUSD was relatively stable but after closing of the domestic session, it started to fall and soon reached 1.182 at night.

EURPLN was falling this Thursday after a temporary rise day earlier following the EC's decision. Stable situation on the markets supported strengthening of the zloty, whereas data on consumer and business sentiment had no impact on the market. Consequently, EURPLN went down from 4.205 to 4.195. As regards other CEE currencies, EURCZK went up from 25.60 to 25.75 after the Czech central bankers said that next rate hikes could be postponed due to recent appreciation of koruna. EURHUF fell from 313.0 to 312.40 amid calm trading day. USDRUB eased from 58.70 to 58.50, which was supported by increasing oil prices. Today, we expect EURPLN to stabilize.

**Please be advised that today's Eyeopener will be the last for 2017.**

**We will resume publication on January 2, 2018.**

**We wish our readers a happy Christmas and a prosperous New Year!**

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## FX market

## Today's opening

EURPLN	4.1942	CZKPLN	0.1631
USDPLN	3.5375	HUFPLN*	1.3443
EURUSD	1.1856	RUBPLN	0.0606
CHFPLN	3.5760	NOKPLN	0.4225
GBPPLN	4.7333	DKKPLN	0.5634
USDCNY	6.5784	SEKPLN	0.4216

\*for 100HUF

## Last session in the FX market

21/12/2017

	min	max	open	close	fixing
EURPLN	4.193	4.206	4.206	4.195	4.2018
USDPLN	3.533	3.545	3.541	3.535	3.5369
EURUSD	1.185	1.189	1.188	1.187	-

## Interest rate market

21/12/2017

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

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
DS1019 (2L)	1.71	-1	11/23/17	OK0720	1.846
PS0123 (5L)	2.68	-3	11/23/17	PS0123	2.704
DS0727 (10L)	3.33	-2	11/23/17	DS0727	3.338

## IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.80	0	1.90	1	-0.26	0
2L	2.03	1	2.08	2	-0.15	2
3L	2.22	0	2.19	3	0.00	1
4L	2.37	0	2.25	3	0.15	1
5L	2.51	0	2.29	2	0.30	1
8L	2.79	-1	2.41	2	0.67	0
10L	2.95	-1	2.47	1	0.88	1

## WIBOR rates

Term	%	Change (bps)
O/N	1.40	3
T/N	1.54	12
SW	1.57	-1
2W	1.60	0
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	1.80	0
9x12	1.90	0
3x9	1.82	0
6x12	1.88	0

## Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.92	-2
France	18	1	0.32	0
Hungary	116	1	1.60	0
Spain	53	0	1.09	5
Italy	117	0	1.51	3
Portugal	89	-3	1.36	3
Ireland	25	-1	0.18	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		INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE
CET					MARKET	BZWBK		
FRIDAY (15 December)								
11:30	PL	Bond Switch Auction			-			
15:15	US	Industrial Production	Nov	% m/m	0.3	-	0.2	1.2
MONDAY (18 December)								
11:00	EZ	HICP	Nov	% y/y	1.5	-	1.5	1.5
14:00	PL	Employment in corporate sector	Nov	% y/y	4.4	4.3	4.5	4.4
14:00	PL	Average Gross Wages	Nov	% y/y	6.9	7.0	6.5	7.4
TUESDAY (19 December)								
10:00	DE	IFO Business Climate	Dec	pts	-	-	117.2	117.5
14:00	HU	Central Bank Rate Decision	Dec-17	%	0.9	-	0.9	0.9
14:00	PL	Sold Industrial Output	Nov	% y/y	9.6	10.1	9.1	12.3
14:00	PL	Construction Output	Nov	% y/y	14.1	11.2	19.8	20.3
14:00	PL	PPI	Nov	% y/y	2.1	1.9	1.8	3.0
14:00	PL	Retail Sales Real	Nov	% y/y	6.4	7.2	8.8	7.1
14:30	US	Housing Starts	Nov	% m/m	-3.1	-	3.3	13.7
WEDNESDAY (20 December)								
16:00	US	Existing Home Sales	Nov	% m/m	0.91	-	5.6	2.05
THURSDAY (21 December)								
14:00	PL	MPC minutes	Dec-17					
14:30	US	GDP Annualized	3Q	% Q/Q	3.3	-	3.2	3.3
14:30	US	Initial Jobless Claims	week	k	233	-	245	225
FRIDAY (22 December)								
10:00	PL	Unemployment Rate	Nov	%	6.5	6.6		6.6
14:00	PL	Money Supply M3	Nov	% y/y	-	4.6		5.7
14:30	US	Durable Goods Orders	Nov	% m/m	1.8	-		-0.8
14:30	US	Personal Spending	Nov	% m/m	0.4	-		0.3
14:30	US	Personal Income	Nov	% m/m	0.4	-		0.4
16:00	US	Michigan index	Dec	pts	97.2	-		96.8
16:00	US	New Home Sales	Nov	% m/m	-4.96	-		6.2

Source: BZ WBK, Bloomberg, Parkiet

\* in case of the revision the data is updated

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