

EYEOPENER

2 January 2018

PMI at the 34-month high

- Final week of 2017 with weakening USD and equities
- Polish PMI the strongest in almost three years
- C/A surplus in Poland in 3Q
- The zloty gained, bonds stable after the release of bond supply plan
- Today euro zone PMIs

The final week of 2017 brought weakness of the US dollar (EURUSD reached 1.20 at the end of the year), weakening of stock markets and rise of oil prices. Simultaneously the 10Y US-treasuries yields retreated to 2.40% from 2.48%, while the German yields went up slightly. Over the week we got to know mixed US data. The Consumer Board consumer confidence index disappointed, due to a plunge of consumer expectations (the worst result of the component in 2017). Michigan confidence index also slid below expectations. Pending home sales, as well as regional surveys, showed better results. The December China PMIs were no worse than market forecasts, however the market mood could be affected more by new North Korea threats and information about China's army activity close to the North Korean border.

On Friday we saw better Polish current account data released and net international investment position data. The zloty gained vs. USD and was stable against EUR, while the bond market did not react to news about debt supply.

In 3Q the current account surplus reached €112mn vs deficit at €799mn in 2Q. The improvement is a result of better than previously reported performance of exports in 3Q (+12% y/y vs 11% y/y before the revision) and imports keeping its pace of growth. The scale of growth of revenues from services was revised up more than for expenditures (+5pp vs +3pp). The income balance was also revised higher. This data fit the scenario of further gradual improvement in C/A amid strong external demand and moderate imports growth.

Poland net international investment position amounted to -€280.7bn in 3Q vs -€283.3bn in 2Q, after revision. Improvement stems from lower gross external debt (to €313.1bn from €320bn). Central government debt fell to €121.4bn from €125.5bn. Debt of remaining sectors rose to €53.9bn from €52.4bn.

The Ministry of Finance (MF) announced its bond supply plan for 1Q18. In the first quarter of 2018, the Ministry plans five or six auctions with total supply of PLN20-35bn. First switch auction may take place in March and securities offered for repurchase would be T-bonds maturing in 2018. We think that bonds worth PLN6-8bn could be switched at this auction. In sum, we think that the bond supply will not exceed PLN43bn in 1Q (vs PLN45bn initially

estimated and nearly PLN40bn for 1Q17). In our view, supportive market conditions could encourage MF to do buybacks in 1Q.

In January, the Ministry scheduled two regular auctions, on January 4 and January 26. At the first one, zero coupon OK0720 fixed coupon PS0123, WZ0528 and floating coupon WZ1122, WS0428 bonds for PLN3-5bn will be offered. Later in the month, MF could offer zero-coupon bonds OK0720, fixed coupon PS0123, WS0428 and floating-coupon WZ1122, WZ0528 (possibly also fixed-coupon WS or IZ inflation-linked bonds) for PLN5-9bn. This means that in January the maximum net issuance should not exceed PLN5.5bn in January (due to PLN8.6bn redemption of WZ0118). No T-bill tenders are planned for January.

The Ministry also informed that bond auctions on the foreign markets are also possible in 1Q18 but added that the target of lowering the foreign-currency-debt share in total debt to below 30% will be respected. According to deputy minister of finance, Piotr Nowak, in this ratio has probably declined below 31% from 34.4%.

The Ministry of Development said the value of EU-funded contracts increased in December by PLN14.1bn, which means that until December 24 the value of contracts signed reached PLN162.1bn.

US bond yields were falling in the last week of 2017 and in the German market we saw slight rise of long-term yields.

Last week the domestic yield curve was shifting downwards at the long end and rising in the belly and short end. Investors did not react to information about debt supply in 1Q18 and auctions planned for January. This week we expect the low volatility to persist, with possible slight debt weakening at the long end of the curve.

EURUSD has been on the rise at the end of 2017, closing the year at 1.2010, which was last seen in September. The dollar weakening resulted from weak leading indicators from the USA and higher than predicted flash inflation reading from Germany.

In the last week of 2017 the EURPLN fell from 4.2050 to 4.1750. USDPLN came from 3.5300 to 3.4750, its lowest since December 2014. The latter resulted from global dollar weakening.

Polish manufacturing PMI rose in December to 55.0, its highest since February 2015. The companies reported solid rise in output and in new orders (with domestic orders outpacing external ones), as well as acceleration of employment growth. The survey suggests that Polish industry remains in very good shape, benefiting from economic revival in the euro zone and strong local consumer market. We think that December's industrial production growth will slow down considerably as compared to previous months due to calendar effect (two working days less than in 2016), however surprisingly high PMI implies an upward risk for our forecast at 2.2% y/y (market consensus 3.1% y/y).

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FX market

Today's opening

EURPLN	4.1718	CZKPLN	0.1635
USDPLN	3.4671	HUFPLN*	1.3454
EURUSD	1.2033	RUBPLN	0.0604
CHFPLN	3.5620	NOKPLN	0.4260
GBPPLN	4.6938	DKKPLN	0.5605
USDCNY	6.4991	SEKPLN	0.4246

*for 100HUF

Last session in the FX market

01/01/2018

	min	max	open	close	fixing
EURPLN	4.165	4.193	4.179	4.178	4.1709
USDPLN	3.471	3.501	3.493	3.484	3.4813
EURUSD	1.200	1.200	1.200	1.200	-

Interest rate market

01/01/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
DS1019 (2L)	1.68	0	11/23/17	OK0720	1.846
PS0123 (5L)	2.66	0	11/23/17	PS0123	2.704
DS0727 (10L)	3.29	0	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	0	-0.26	0
2L	2.03	0	2.08	-1	-0.14	1
3L	2.22	1	2.17	-1	0.01	0
4L	2.37	0	2.21	0	0.17	0
5L	2.50	0	2.25	0	0.32	1
8L	2.79	-1	2.34	0	0.68	0
10L	2.94	0	2.47	7	0.89	0

WIBOR rates

Term	%	Change (bps)
O/N	1.49	12
T/N	1.53	5
SW	1.57	0
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	1.72	0
3x6	1.75	0
6x9	1.80	0
9x12	1.89	0
3x9	1.83	0
6x12	1.87	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.84	-2
France	18	0	0.35	-1
Hungary	116	1	1.57	-4
Spain	56	0	1.11	-3
Italy	117	0	1.55	-3
Portugal	81	0	1.46	-3
Ireland	25	-1	0.24	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

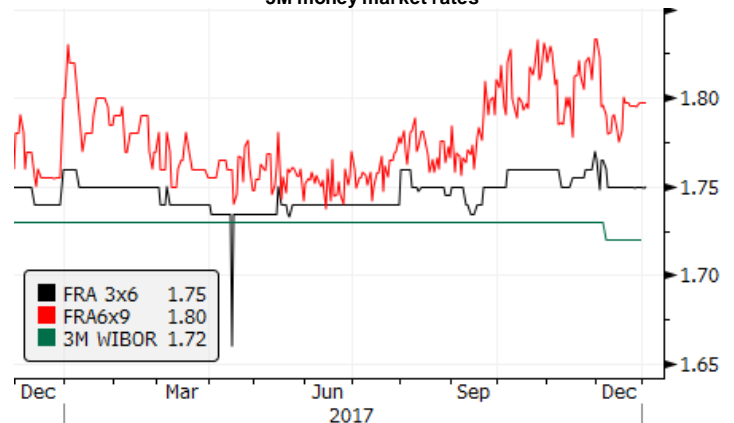
Zloty exchange rate



T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar									
TIME		INDICATOR		PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE
CET						MARKET	BZWBK		
WEDNESDAY (27 December)									
16:00	US	Conference Board index	Dec	pts	128	-	122.1	128.6	
16:00	US	Pending Home Sales	Nov	% m/m	-0.8	-	0.2	3.5	
FRIDAY (29 December)									
14:00	DE	CPI	Dec	%y/y	1.5	-	1.7	1.8	
TUESDAY (2 January)									
09:00	PL	Poland Manufacturing PMI	Dec	pts	54.6	54.0	55.0	54.2	
09:55	DE	Germany Manufacturing PMI	Dec	pts	63.3	-		63.3	
10:00	EZ	Eurozone Manufacturing PMI	Dec	pts	60.6	-		60.6	
WEDNESDAY (3 January)									
	PL	CPI		% y/y	2.15	2.0		2.5	
16:00	US	ISM manufacturing	Dec	pts	58.2	-		58.2	
20:00	US	FOMC Meeting Minutes	Dec-17		-	-		0.0	
THURSDAY (4 January)									
02:45	CH	Caixin China PMI Services	Dec	pts	51.8	-		51.9	
09:55	DE	Markit Germany Services PMI	Dec	pts	55.8	-		55.8	
10:00	EZ	Eurozone Services PMI	Dec	pts	56.5	-		56.5	
11:30	PL	Bond Auction							
14:15	US	ADP report	Dec	k	190.0	-		190.3	
14:30	US	Initial Jobless Claims		k	247.5	-		245.0	
FRIDAY (5 January)									
11:00	EZ	Flash HICP	Dec	% y/y	1.4	-		1.5	
14:30	US	Change in Nonfarm Payrolls	Dec	k	188	-		228	
14:30	US	Unemployment Rate	Dec	%	4.1	-		4.1	
16:00	US	Durable Goods Orders	Nov	% m/m	0.0	-		1.3	
16:00	US	ISM services	Dec	pts	57.55	-		57.4	
16:00	US	Factory Orders	Nov	% m/m	1.4	-		-0.1	

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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