

EYEOPENER

3 January 2018

FinMin contributed to PLN strength at the end of 2017?

- **FinMin and BGK influenced the PLN at the end of 2017?**
- **Falling equity prices did not affect CEE currencies, zloty stronger thanks to Polish manufacturing PMI**
- **Bond yields slightly higher at the start of the year**
- **Foreign investors trimmed their POLGBs holdings, local banks accumulated bonds in November**
- **Today December's flash CPI in Poland, US ISM and FOMC minutes abroad**

The equity markets corrected their optimism on Tuesday, but this did not affect the pricing of currencies and bonds – the euro gained even more vs the dollar, the zloty and other CEE currencies strengthened and bond yields went up. Final readings of PMI indices for German industry and the whole euro zone were in line with preliminary releases, confirming the solid pace of expansion in Europe. In turn, the Polish manufacturing PMI rose to the highest level since February 2015, indicating a continued growth of domestic industrial sector, owing to both a strong foreign demand and domestic orders.

Today at 14:00CET the Stats Office will release the flash estimate of December inflation. In our view the growth of CPI decelerated at the end of the year to 2% y/y from 2.5% in November. We think the change came from fuel prices, recalling their strong rise in December 2016 (which created a meaningful base effect) and observing their decline in December 2017. We assume that in 2018 CPI growth will fluctuate between 2-3% y/y, but with a rising contribution of core inflation.

EURUSD continued to rise yesterday, for the fifth day in a row, approaching the September peak at around 1.21. At the end of the day there was a correction from 1.208 to 1.204. This evening there is a publication of the FOMC minutes for December, when rates were raised by 25bp. In the last weeks market focus was more on European data, which were supporting the euro (but it is worth to remember about weaker than expected and weaker than before readings of US consumer confidence). If the today's document will sound hawkish, it could be an impulse for dollar appreciation.

EURPLN declined yesterday to 4.16 and USDPLN to 3.45 thanks to surprisingly strong Polish PMI print. Other CEE countries also saw positive surprises in their readings of the

industrial business sentiment indices, which allowed the forint, the koruna and the ruble to appreciate at the start of the year. EURPLN tested yesterday the May trough at about 4.16, but did not manage to break this support. In our view potential for the zloty's appreciation is running out and in the coming weeks we expect profit-taking from the recent declines of EURPLN.

Dziennik Gazeta Prawna, a local daily newspaper, wrote today that the Ministry of Finance and the state-owned BGK contributed to the strengthening of the zloty in late 2017 by exchanging euros to zlotys on the market, to increase budget liquidity in PLN, in preparation for large budget expenditures planned for December. If such activity is not continued in the coming weeks, it would be another argument to expect a correction of the PLN strengthening.

Euro zone PMIs confirmed solid economic growth and pushed German bond yield curve 1-2bp up. At the same time, the US yields rose 3-5bp, mainly on the long end.

On the domestic interest rate market IRS and bond yields rose with the latter moving slightly more. Still, the Polish debt was outperforming its core and euro zone peripheral peers.

We do not think that today's flash CPI could have a big impact on Polish bonds – inflation's drop driven by high base effect is widely anticipated. However, data due to be released later in the week (euro zone services PMIs should be strong) could weigh on bonds slightly. The short-term yields could rise as the Thursday's bond auction is looming.

The Ministry of Finance confirmed that at tomorrow's auction it will offer OK0720, PS0123, WS0428, WZ1122 and WZ0528 bonds for the total amount of PLN3-5bn. We think that the Ministry could sell more short-term debt than on the previous auctions (cPLN1bn) which might be negative for bonds with maturity up to two years.

In November the value of t-bonds denominated in PLN held by domestic investors rose by PLN9.7bn, and in particular held by the domestic banks rose by PLN6.2bn. Foreign investors cut their portfolio by PLN1.9bn, which was likely to large extent a consequence of November sell-off by Norwegian sovereign wealth funds of PLN3.5bn (which was c40% of Norwegian position in polish t-bonds). In the next months, we expect that the process of rising of the share of debt financing by domestic financial institutions (especially banks) to continue.

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FX market

Today's opening

EURPLN	4.1631	CZKPLN	0.1633
USDPLN	3.4580	HUFPLN*	1.3464
EURUSD	1.2039	RUBPLN	0.0601
CHFPLN	3.5549	NOKPLN	0.4247
GBPPLN	4.7011	DKKPLN	0.5592
USDCNY	6.5033	SEKPLN	0.4223

*for 100HUF

Last session in the FX market

02/01/2018

	min	max	open	close	fixing
EURPLN	4.161	4.189	4.178	4.163	4.1701
USDPLN	3.449	3.480	3.478	3.456	3.4546
EURUSD	1.200	1.208	1.200	1.205	-

Interest rate market

02/01/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
DS1019 (2L)	1.69	0	11/23/17	OK0720	1.846
PS0123 (5L)	2.66	0	11/23/17	PS0123	2.704
DS0727 (10L)	3.31	1	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	1.92	3	-0.26	0
2L	2.04	1	2.11	3	-0.14	0
3L	2.22	1	2.20	4	0.01	0
4L	2.39	2	2.25	4	0.17	0
5L	2.52	2	2.29	5	0.32	0
8L	2.81	2	2.40	6	0.70	2
10L	2.97	2	2.45	6	0.91	3

WIBOR rates

Term	%	Change (bps)
O/N	1.53	4
T/N	1.54	1
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	1.73	0
3x6	1.75	0
6x9	1.81	1
9x12	1.90	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			2.85	1
France	17	-1	0.36	0
Hungary	116	1	1.58	0
Spain	56	0	1.13	-1
Italy	121	3	1.63	0
Portugal	86	6	1.53	1
Ireland	25	-1	0.23	0
Germany	9	-1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

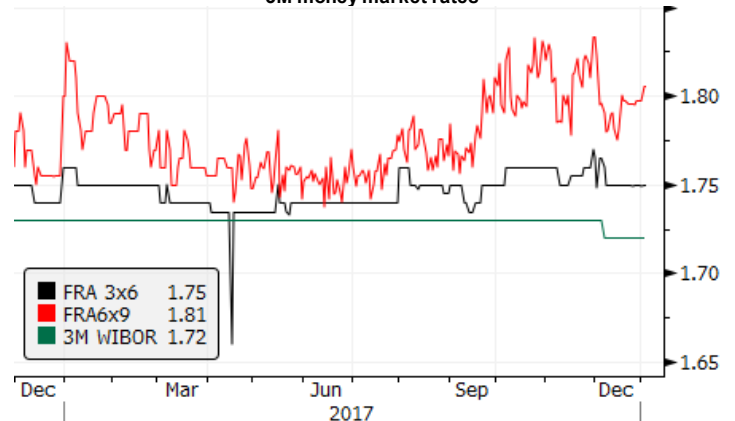
Zloty exchange rate



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	63.3	
10:00	EZ	Eurozone Manufacturing PMI	Dec	pts	60.6	-	60.3	60.6	
WEDNESDAY (3 January)									
14:00	PL	Flash CPI	Dec	% y/y	2.1	2.0		2.5	
16:00	US	ISM manufacturing	Dec	pts	58.2	-		58.2	
20:00	US	FOMC Meeting Minutes			-	-		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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