

EYEOPENER

5 January 2018

Very successful bond auction

- **Successful bond auction at the start of the year**
- **Fitch expects potential growth rate to slow in Poland**
- **New car registrations slowed down in December**
- **Strong debt and strong zloty**
- **Today, US non-farm payrolls and flash euro zone inflation**

On Thursday the market saw high readings of leading indicators from Europe and strong data from the US labour market. Domestic report on new car registrations showed a slowdown in y/y growth, while a Fitch report stressed worsening outlook for potential economic growth in Poland. On the Polish debt market prices were growing before and after a successful bond auction while the zloty remained stable around this event.

Fitch rating agency released a report on emerging markets, in which it stressed the decreasing potential economic growth of Poland. The agency sees this phenomenon as a consequence of ageing and lower productivity of labour as well as lower total factor productivity. The report also describes the increase in social benefits for families and the decrease of the pension age as elements working against further rise of labour participation.

Data on new car registrations show a slowdown to 5% y/y in December, from 10.8% y/y in November and 25.6% y/y in October. The December m/m growth (11.4%) looks moderate comparing to Decembers of the last three years (monthly average growth for Decembers 2014-2016 was above 20%). However, the December'17 number of registrations was the second highest result in this decade. Forecasting retail sales in December we assumed a deceleration in auto sales, but still our forecast of total nominal retail sales was slightly above 10% y/y.

On Thursday, the EURUSD returned to the ascending channel, which was due to positive PMI data from the European service sector. The rally was not hampered by data from the US labour market (the ADP report showed that in December the number of jobs grew by 250,000, with forecasts at 190,000) and the US service sector (PMI services indicator was 53.7 points, with forecasts at 52.5 points). In effect, EURUSD at the end of the day was close to 1.2080 against 1.2010 at the opening. The weakening of the dollar is also somehow influenced by the information coming from the US about alleged contacts between President Trump and a group of Russian lawyers during the presidential campaign in July 2016.

EURPLN fell to 4.1500 on Thursday morning to return to 4.1540 during the day, but after the closing of domestic session the zloty strengthened again and this morning the rate was close to 4.146. Strengthening of the Euro against the dollar favoured the USDPLN decrease, which shifted from 3.4520 to 3.4380. Today, we do not exclude the rebound of the EURPLN, which may be caused by the higher than consensus (190,000) reading of the US non-farm employment.

As regards other currencies of the region, the EURCZK fluctuated around 25.50, while EURHUF fell from 308.50 to 308.20; it was supported by the publication of the unemployment rate, which dropped unexpectedly by 0.2pp. to 3.8%. The forint appreciation was not disturbed by the Hungarian 10Y bond yields falling below 2.0% (for the first time in history). USDRUB continued to decline, dropping from 57.30 to 56.90, which was also the effect of high oil prices paralleled with political turmoil in Iran.

On Thursday the German Bunds gained while the US Treasuries lost. German bond curve moved 1-2bp down for 5Y and 10Y and did not change on the front end despite high services PMIs. The UST curve shifted 2bp up in reaction to robust ADP release.

Polish bonds were gaining since the start of the session in anticipation and then in reaction to the results of the debt auction. Over the day, bond curve shifted down by 5-7bps, mostly on the longer end of the curve. Move of the IRS was by half less considerable, so ASW fell by 2-3bp.

On Friday, we are expecting some drop in prices of long-end bonds in reaction to the US non-farm payrolls. Strong demand at the yesterday's auction is suggesting there is not much space for a stronger sell-off, and there is virtually none in case of floaters.

Yesterday the Finance Ministry sold bonds worth PLN5bn on the regular auction and PLN1bn on a top-up tender. Bid-to-cover ratio (b2c) was at 2.3 (vs 3.4 at the previous auctions). WZ1122 and WZ0528 were bid stronger than other papers, with b2c at 3.0 and 2.5, respectively. In our view, the upcoming auctions will also meet high investors' interest, but we still see high demand for floaters, mostly from domestic banks.

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FX market

Today's opening

EURPLN	4.1512	CZKPLN	0.1625
USDPLN	3.4426	HUFPLN*	1.3456
EURUSD	1.2058	RUBPLN	0.0603
CHFPLN	3.5261	NOKPLN	0.4259
GBPPLN	4.6655	DKKPLN	0.5575
USDCNY	6.4839	SEKPLN	0.4225

*for 100HUF

Last session in the FX market

04/01/2018

	min	max	open	close	fixing
EURPLN	4.147	4.157	4.152	4.151	4.1515
USDPLN	3.437	3.459	3.452	3.438	3.4472
EURUSD	1.200	1.209	1.203	1.207	-

Interest rate market

04/01/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
DS1019 (2L)	1.60	0	11/23/17	OK0720	1.846
PS0123 (5L)	2.56	-5	11/23/17	PS0123	2.704
DS0727 (10L)	3.25	0	11/23/17	DS0727	3.338

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.78	-1	1.95	3	-0.25	0
2L	1.98	-2	2.13	4	-0.15	0
3L	2.16	-2	2.23	4	0.00	0
4L	2.31	-2	2.28	4	0.16	0
5L	2.44	-2	2.31	4	0.30	0
8L	2.72	-2	2.40	3	0.67	0
10L	2.88	-2	2.45	2	0.88	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.48	-4
T/N	1.55	3
SW	1.58	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	1.74	0
6x9	1.77	-1
9x12	1.87	-1
3x9	1.82	0
6x12	1.85	-1

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.81	-1
France	17	0	0.35	0
Hungary	116	1	1.50	-1
Spain	52	-3	1.10	0
Italy	116	-4	1.58	1
Portugal	81	-3	1.48	1
Ireland	25	-1	0.21	0
Germany	10	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

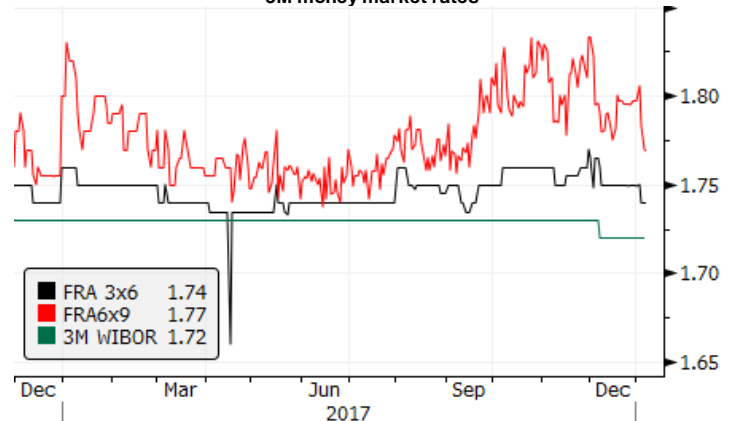
Zloty exchange rate



T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME		INDICATOR		PERIOD		FORECAST		ACTUAL	LAST
CET						MARKET	BZWBK	VALUE	VALUE
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	-	60.6	60.6
WEDNESDAY (3 January)									
	PL	CPI		% y/y		2.15	2.0	2.0	2.5
16:00	US	ISM manufacturing	Dec	pts		58.2	-	59.7	58.2
20:00	US	FOMC Meeting Minutes	Dec-17			-	-		
THURSDAY (4 January)									
02:45	CH	Caixin China PMI Services	Dec	pts		51.8	-	53.9	51.9
09:55	DE	Markit Germany Services PMI	Dec	pts		55.8	-	55.8	55.8
10:00	EZ	Eurozone Services PMI	Dec	pts		56.5	-	56.6	56.5
11:30	PL	Bond Auction							
14:15	US	ADP report	Dec	k		190.0	-	250	190.3
14:30	US	Initial Jobless Claims		k		247.5	-	250	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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