

# EYEOPENER

8 January 2018

## PLN debt stronger, zloty falls

- **US labour market data disappointed**
- **Zloty slightly weaker, EURUSD down**
- **Polish bonds gain, the core markets also stronger**
- **Today: Industrial activity data from CEE region and Western Europe**

Positive sentiment predominated in global market from the very opening of Friday's session. Stock indices across Europe grew, so did bonds, while CEE currencies gave back part of the recent strengthening. The dollar strengthened against the Euro in anticipation of US labour market data. The December increase in the non-farm employment disappointed and the upward revision of the reading for November did not stop the yields from falling. Other US data released later in the day had a mixed overtone and did not trigger an unequivocal market response.

The Ministry of Finance announced that according to 2017 year end data, in 2018, debt of PLN 87.2bn was to be redeemed, of which PLN 61.7bn were PLN wholesale bonds.

As at today, this together with the planned national financing translates into the supply of gross debt of cPLN108bn by the end of the year (the estimate does not take into account earlier redemptions). At the same time, the Ministry announced that the balance of zloty and fx funds on the budget accounts at the end of December 2017 fell to PLN25.9bn from PLN57.4bn at the end of November.

President Andrzej Duda directed to the Constitutional Court the bill on lifting the upper limit on contributions to the state pension system. The bill was aimed to come into force in January 2019.

Standard & Poor's lowered estimates of Polish debt-to-GDP ratio in years up to 2020 and the general government deficit in 2018. According to the agency the deficit in 2018 will be 2% (vs. the previous estimate of 2.8%), rising to 2.5% in the following years. Debt to GDP in 2020 is expected by S&P at 48.6% (the previous forecast was 50.3%).

EURUSD rose to 1.208 from 1.205 in reaction to weaker-than-expected non-farm payrolls, but this move proved temporary. In the following hours, the dollar gained versus the euro so the pair was close to 1.202 at the end of the day. Today's data should have no major impact on the market, and FOMC

members' comments are planned for the evening. Until this time, trade should be calm and we expect the rate to stay below 2017 peak at 1.21.

EURPLN rebounded on Friday from 4.14 to 4.155 and USDPLN from 3.43 to 3.45. Other currencies in the region also partially pared some of the strengthening from previous days. Since the start of the session the demand for higher-risk assets remained solid (equity markets in Europe were on the rise), so the pressure on the zloty, forint and koruna could have resulted from expectations for strong US labour market data (after Thursday's solid ADP report). Disappointing reading of the non-farm payrolls did not weaken the CEE currencies, however. We assume that today (and in the next days of this week) EURPLN will remain above the last week's low of 4.14. The data calendar this week is quite light and is unlikely to bring positive impulses for the zloty. Moreover, the MPC rhetoric is likely to remain dovish.

On the domestic interest rate market IRS and bond yields fell following the trend observed on the euro zone peripheries. Polish debt was outperforming its German and US peers which might have been the result of below-consensus inflation released earlier in the week and expectations for a dovish rhetoric of Polish MPC. Friday's US nonfarm payrolls triggered an acceleration in yields down trend.

This week the macro calendar is rather light – today we will get to see European Commission's ESI indicators (likely to confirm sanguine moods). Moreover, the Sejm will work on draft budget for 2018. Another cabinet reshuffle was announced to be carried out soon after Three Kings' Day, but it seems not to happen until work on the budget is completed. There are some macro releases planned abroad, but of minor importance.

We do not expect much new from the Polish MPC. The rhetoric of the NBP governor will most likely stay very dovish, given that the recent macro readings have not induced him to change his view (drop of inflation in December, deceleration of wage growth in November). In general, we are expecting no new signals for the market, but at the same time we see that the current trends are running out of fuel. There is not much potential for the stronger zloty and long-term bonds. Shorter end, on the other hand, can be supported by dovish MPC and buybacks scheduled for the end of the month.

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## FX market

## Today's opening

EURPLN	4.1541	CZKPLN	0.1627
USDPLN	3.4615	HUFPLN*	1.3475
EURUSD	1.2001	RUBPLN	0.0606
CHFPLN	3.5445	NOKPLN	0.4287
GBPPLN	4.6875	DKKPLN	0.5579
USDCNY	6.4927	SEKPLN	0.4234

\*for 100HUF

## Last session in the FX market

05/01/2018

	min	max	open	close	fixing
EURPLN	4.142	4.157	4.151	4.153	4.1544
USDPLN	3.430	3.456	3.438	3.452	3.4488
EURUSD	1.202	1.208	1.207	1.203	-

## Interest rate market

05/01/2018

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

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
DS1019 (2L)	1.58	1	11/23/17	OK0720	1.846
PS0123 (5L)	2.51	-5	11/23/17	PS0123	2.704
DS0727 (10L)	3.22	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	1.96	1	-0.26	0
2L	1.96	-2	2.15	1	-0.15	0
3L	2.12	-4	2.24	2	0.00	0
4L	2.28	-4	2.30	2	0.16	0
5L	2.40	-4	2.33	2	0.30	0
8L	2.69	-4	2.42	2	0.68	0
10L	2.84	-4	2.47	2	0.89	1

## WIBOR rates

Term	%	Change (bps)
O/N	1.55	7
T/N	1.55	0
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	1.73	-1
6x9	1.76	-1
9x12	1.86	-2
3x9	1.81	-2
6x12	1.84	-2

## Measures of fiscal risk

Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.77 0
France	17 -1	0.36 0
Hungary	116 1	1.49 0
Spain	51 -1	1.06 -1
Italy	116 0	1.55 -1
Portugal	80 -1	1.47 -1
Ireland	25 -1	0.20 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

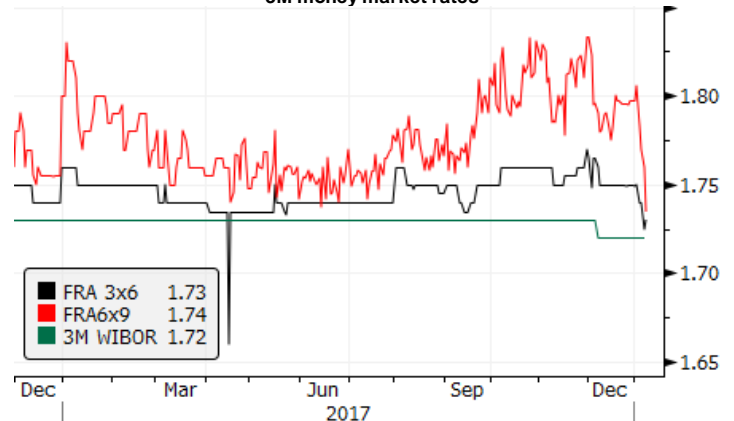
## Zloty exchange rate



## 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 (5 January)								
11:00	EZ	Flash HICP	Dec	% y/y	1.4	-	1.4	1.5
14:30	US	Change in Nonfarm Payrolls	Dec	k	190	-	148	252
14:30	US	Unemployment Rate	Dec	%	4.1	-	4.1	4.1
16:00	US	Durable Goods Orders	Nov	% m/m	-	-	1.3	1.3
16:00	US	ISM services	Dec	pts	57.5	-	55.9	57.4
16:00	US	Factory Orders	Nov	% m/m	1.1	-	1.3	0.4
MONDAY (8 January)								
08:00	DE	Factory Orders	Nov	% m/m	-	-		0.5
09:00	CZ	Industrial Production	Nov	% y/y	5.5	-		10.5
09:00	HU	Industrial Production SA	Nov	% y/y	0.0	-		7.6
11:00	EZ	Retail Sales	Nov	% m/m	-	-		-1.1
TUESDAY (9 January)								
08:00	DE	Exports SA	Nov	% m/m	-	-		-0.3
08:00	DE	Industrial Production SA	Nov	% m/m	-	-		-1.4
11:00	EZ	Unemployment Rate	Nov	%	-	-		8.8
WEDNESDAY (10 January)								
	PL	Poland Base Rate Announcement		%	1.50	-		1.50
09:00	CZ	GDP SA	3Q	% y/y	5.0	-		5.0
09:00	CZ	CPI	Dec	% y/y	2.4	-		2.6
THURSDAY (11 January)								
11:00	EZ	Industrial Production SA	Nov	% m/m	-	-		0.2
14:30	US	Initial Jobless Claims		k	241	-		245
FRIDAY (12 January)								
09:00	HU	CPI	Dec	% y/y	0.0	-		2.5
14:30	US	CPI	Dec	% m/m	0.2	-		0.4
14:30	US	Retail Sales Advance	Dec	% m/m	0.3	-		0.8

Source: BZ WBK, Bloomberg, Parkiet

\* in case of the revision the data is updated

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