

EYEOPENER

12 January 2018

Sejm passed the budget bill

- **Sejm passed the budget bill for 2018 with PLN41.5bn deficit**
- **ECB minutes boosted EUR and hit global bond market**
- **EURPLN stable, USDPLN down owing to EURUSD rise**
- **Today: important US data**

After the Wednesday rise of volatility, yesterday the fx and bond markets were still agitated. This time the market mover were the ECB minutes. The document included an information that the ECB Governing Council may review its forward guidance policy already at the beginning of this year. The market took this as a hawkish signal. The euro started to gain after the release and bond yields surged. Better-than-expected industrial output data for the euro zone fitted the prevailing trend.

On Thursday the Sejm, lower chamber of the Polish parliament, approved 2018 budget with fiscal deficit of PLN41.5bn. 240 voted for and 189 against the bill, with two MPs abstaining. According to the bill revenues are expected at PLN355.7bn and expenditures are set at PLN397.2bn. Economic growth was assumed at 3.8% and average inflation at 2.3%. General government deficit is to increase to 2.7% GDP this year. Nominal growth of private consumption was assumed at 5.9% y/y and the wage bill in the economy and the pensions and disability allowances are to rise by 6.3%. The budget of EU funds is to record a PLN15.5bn deficit this year. The approved budget is in line with the government project sent to the parliament in autumn when it comes to the main figures and macro assumptions.

New finance minister, Teresa Czerwińska, said that 2017 has likely ended with the budget deficit below PLN30bn. In her view, VAT revenues grew 20% on average in 2017. She did not comment if the VAT rate will be lowered back to 22%.

According to the Eurostat, in November Polish industrial output rose 6.7% y/y after seasonal adjustment.

Andrzej Szlachta, member of ruling PiS party, was nominated to head the Public Finance Commission. He will substitute Jacek Sasin.

EURUSD jumped yesterday to 1.205 from 1.194 after the ECB minutes were released. The exchange rate broke Wednesday's peak nearing this week's maximum at 1.205 reached on Monday. Today in the morning the euro extended gains and EURUSD reached 1.206 amid unofficial information on progress in German coalition talks. Important US data are on the agenda today in the afternoon – inflation and retail sales. Next US companies will also announce their quarterly earnings. Should these figures surprise to the upside, investors could decide to take profit from the yesterday's rise before the weekend. The S&P rating agency is forecasting the Poland's GDP to rise by more than 4% in 2018 thanks to a strong consumption. The agency assessed that the Polish economy is close to overheating. According to the S&P, demographic situation is the main factor limiting the economic growth.

Yesterday, EURPLN rate was oscillating around 4.175 while USDPLN fell below 3.47 from 3.50 in reaction to EURUSD hike. Regarding other CEE currencies, the forint and the koruna were also stable to the euro and the ruble appreciated against the dollar, which was also triggered by advancing oil price. The zloty did not benefit much versus the euro from EURUSD increase, which could have been due to the slightly hawkish tone of the ECB minutes. Additionally, the Wednesday's dovish rhetoric of the MPC may have limited the potential to strengthen the domestic currency.

On the domestic interest rate market, IRS and yields were falling since the beginning of the day under the influence of Wednesday's dovish rhetoric of the MPC. However, gains were not kept till the day end, which was due to the tone of the last ECB meeting minutes triggering the sale of debt on the core markets and the Eurozone periphery. Owing to morning gains, the domestic bonds ended the session close to the opening figures, while abroad yields were clearly up on those witnessed the day before. Today, the domestic market may remain under the influence of international trends, which may be sensitive to US data. The dovish rhetoric of the MPC and the January bond redemption (worth over PLN 8 billion) should stabilize the Polish debt going forward.

ECONOMIC ANALYSIS DEPARTMENT:

al. Jana Pawła II 17, 00-854 Warsaw fax +48 22 586 83 40

email: ekonomia@bzwbk.pl

Web site: skarb.bzwbk.pl

Piotr Bielski +48 22 534 18 87

Marcin Luziński +48 22 534 18 85

Grzegorz Ogonek +48 22 534 19 23

Konrad Soszyński +48 22 534 18 86

Marcin Sulewski +48 22 534 18 84

TREASURY SERVICES:

Poznań +48 61 856 5814/30

Warszawa +48 22 586 8320/38

Wrocław +48 71 369 9400

FX market

Today's opening

EURPLN	4.1681	CZKPLN	0.1634
USDPLN	3.4571	HUFPLN*	1.3494
EURUSD	1.2056	RUBPLN	0.0610
CHFPLN	3.5409	NOKPLN	0.4314
GBPPLN	4.6810	DKKPLN	0.5596
USDCNY	6.4748	SEKPLN	0.4255

*for 100HUF

Last session in the FX market

11/01/2018

	min	max	open	close	fixing
EURPLN	4.169	4.180	4.175	4.170	4.1758
USDPLN	3.461	3.499	3.490	3.464	3.495
EURUSD	1.193	1.206	1.196	1.204	-

Interest rate market

11/01/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
DS1019 (2L)	1.61	0	1/4/18	OK0720	1.863
PS0123 (5L)	2.63	3	1/4/18	PS0123	2.561
DS0727 (10L)	3.34	1	12/15/17	DS0727	3.209

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.77	-1	1.98	0	-0.25	0
2L	1.99	-1	2.17	-1	-0.12	3
3L	2.16	-1	2.27	-1	0.05	4
4L	2.33	0	2.33	-1	0.22	5
5L	2.46	0	2.37	-2	0.37	5
8L	2.75	0	2.48	-2	0.75	5
10L	2.90	0	2.54	-2	0.96	4

WIBOR rates

Term	%	Change (bps)
O/N	1.49	0
T/N	1.54	4
SW	1.56	0
2W	1.59	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	0
6x9	1.76	-1
9x12	1.85	-1
3x9	1.82	0
6x12	1.84	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.75	0
France	17	0	0.28	-1
Hungary	116	1	1.37	-1
Spain	48	-4	0.94	-1
Italy	110	-4	1.45	-1
Portugal	76	-2	1.22	-1
Ireland	25	-1	0.41	-1
Germany	8	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

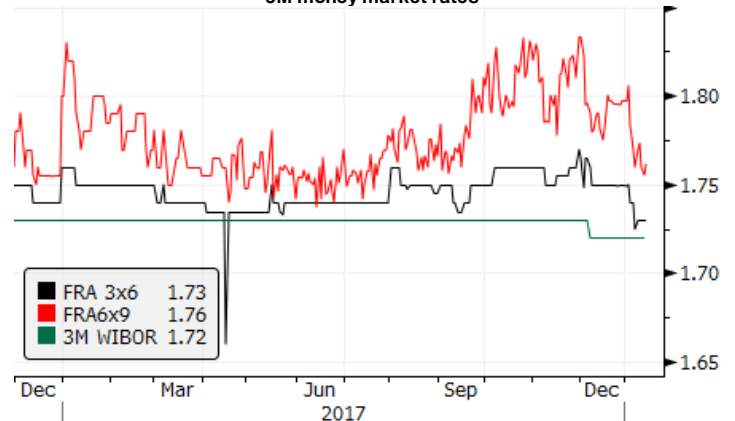
Zloty exchange rate



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	0.0	-	-0.4	0.7
09:00	CZ	Industrial Production	Nov	% y/y	5.5	-	8.5	10.5
09:00	HU	Industrial Production SA	Nov	% y/y	7.2	-	3.4	7.6
11:00	EZ	Retail Sales	Nov	% m/m	1.3	-	1.5	-1.1
TUESDAY (9 January)								
08:00	DE	Exports SA	Nov	% m/m	1.2	-	4.1	-0.4
08:00	DE	Industrial Production SA	Nov	% m/m	1.8	-	3.4	-1.2
11:00	EZ	Unemployment Rate	Nov	%	8.7	-		8.8
WEDNESDAY (10 January)								
	PL	Poland Base Rate Announcement		%	1.50	-	1.50	1.50
09:00	CZ	GDP SA	3Q	% y/y	5.0	-	5.0	5.0
09:00	CZ	CPI	Dec	% y/y	2.4	-	2.4	2.6
THURSDAY (11 January)								
11:00	EZ	Industrial Production SA	Nov	% m/m	0.8	-	1.0	0.4
14:30	US	Initial Jobless Claims		k	245	-	261	245
FRIDAY (12 January)								
09:00	HU	CPI	Dec	% y/y	2.2	-	2.1	2.5
14:30	US	CPI	Dec	% m/m	0.1	-		0.4
14:30	US	Retail Sales Advance	Dec	% m/m	0.5	-		0.8

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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Additional information is available on request. Please contact Bank Zachodni WBK S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@bzwbk.pl, http://www.bzwbk.pl.