

EYEOPENER

1 February 2018

2017 budget deficit well below plan

- Poland 2017 budget deficit lower than planned, PMI slightly down
- EURPLN marginally lower, USDPLN driven by EURUSD
- Global yields up, Polish market rates stable
- Today manufacturing activity data

In 2017, the budget deficit was PLN25.4bn, in line with our forecast, and below the plan at PLN59.3bn. Revenues reached PLN350.5bn (107.7% of the plan). VAT revenues were higher by c24% than in 2016, CIT revenues by 13% and PIT by 9.2%. In December alone, VAT revenues rose by more than 100% due to a different timeline of additional VAT returns. In 2016, most of the advance returns had been paid in December and this year the process started earlier. Expenditures in the whole 2017 were PLN375.9bn (97.7% of the plan). In December they rose by PLN50.2bn vs PLN41.2bn planned for the month. It was the first month of 2017 when expenditures exceeded the plan and in our view it was an effect of the budget amendment which increased limits of expenditures in several categories by a total of cPLN10bn. We think that the GG deficit in 2017 was below 2% of GDP. According to the Ministry of Finance, at the end of January it had budget liquidity of PLN57bn.

In December, the LFS unemployment rate was 4.4%, unchanged vs this record low level reached in November, a year ago it was at 5.5%. Seasonally adjusted rate was at 4.4% vs 4.5% in November. Average unemployment rate in December was 7.3% for the EU and 8.7% for the Eurozone.

Fed remained interest rates on hold. According to the Fed, in further months the economic activity will justify the next rate increases (in the December most of the FOMC members expected three hikes in 2018). The FOMC is convinced that inflation will increase in this year and next will stabilize close to the 2.0% target. We expect the next 25bp rate hike will be in March. The tone of communique was slightly hawkish, weighing temporary on bonds and slightly supportive for the dollar.

PMI for Polish manufacturing fell in January to 54.6pts from 55.0pts in December, below the consensus and our expectations. Still, the index remained above long-term average. Downward correction was due to fall in output and delivery times subindices, while new orders rose at the fastest pace in three years. Employment subindex was at the highest level in nine months. Inflation pressure was building up. We are expecting the PMI to stay above 50 for the months to come, as we are positive about the economic climate in Poland. However, considerable rises are unlikely, given that the manufacturing is close to its max capacity and is facing rising problems with hiring new staff.

The Ministry informed that two T-bonds auctions are planned in February. The planned supply is PLN3-6bn per each auction. The

first auction was planned for 8 February (OK0720, PS0123, WS0428, WZ1122 and WZ0528), the second one on 22 February (OK0720, PS0123, WZ0524, WS0428, WZ0528 and maybe WS or IZ series).

In December, foreign investors increased their holdings of Polish PLN-denominated bonds by PLN2.7bn. The domestic banking sector cut its position by cPLN6bn, and all Polish investors by PLN4.3bn. Among foreign investors central banks, investment funds and pension funds increased their holdings while commercial banks reduced their exposure.

EURUSD was rising during the European trading hours, but fell after US session started. Such a development was supported by worse situation on the equity markets and expectations for the last Fed meeting chaired by Janet Yellen. In due course, EURUSD ended the day at 1.243, the opening level. Today the rate is close to 1.24 and in our view it may stay below the last peak ahead of the US data – today ISM and tomorrow's labour market data.

EURPLN was hovering in a narrow band around 4.15. USDPLN exchange rate dropped to ca. 3.325 but after closing of a domestic session, it reached 3.35. December's budgetary data had no impact on the zloty. Today, we will learn about business activity in the industrial sector and this may influence the Polish currency.

As for the other currencies of the region, we saw appreciation of the koruna vs the euro from 25.31 to 25.28 amid an upward revision of the Ministry of Finance GDP growth forecasts and expectations for a rate hike today (from 0.50% to 0.75%). In case of EURHUF there was a decline to 309.9 after a rise to 311 in the morning. USDRUB corrected its rise from Tuesday, reaching 56.25 at the end of the day, as the USA, against market expectations, did not announce any new investment restrictions or other sanctions. Apart from there was a small rise of oil price.

Core debt markets were weakening on Wednesday in anticipation of the result of the Fed meeting – the last one chaired by Janet Yellen – and reacting to better ADP data and information about progress in coalition talks in Germany. As a result, the US yield curve moved up by 2-4bp, stronger in the short end, while German curve increased by 1-2bp, stronger in the long end.

Yields of Polish bonds and IRS rates were declining in the morning and in the afternoon returned to opening levels in reaction to ADP data from the USA.

Today we expect to see further slight debt selloff, supported by European PMIs. In the next week's horizon we anticipate a downward correction of yields, stronger at the long end of the curve.

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FX market

Today's opening

EURPLN	4.1532	CZKPLN	0.1643
USDPLN	3.3502	HUFPLN*	1.3397
EURUSD	1.2397	RUBPLN	0.0595
CHFPLN	3.5889	NOKPLN	0.4341
GBPPLN	4.7491	DKKPLN	0.5580
USDCNY	6.3053	SEKPLN	0.4241

*for 100HUF

Last session in the FX market

31/01/2018

	min	max	open	close	fixing
EURPLN	4.147	4.161	4.156	4.153	4.1488
USDPLN	3.326	3.357	3.350	3.345	3.3318
EURUSD	1.238	1.248	1.241	1.242	-

Interest rate market

31/01/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.72	0	1/26/18	OK0720	1.823
PS0123 (5L)	2.75	0	1/26/18	PS0123	2.665
WS0428 (10L)	3.53	-2	1/26/18	WS0428	3.446

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.78	1	2.10	2	-0.26	0
2L	2.05	0	2.34	2	-0.12	0
3L	2.29	0	2.47	3	0.08	0
4L	2.51	-1	2.55	4	0.29	0
5L	2.69	-1	2.60	4	0.48	1
8L	3.00	-1	2.71	3	0.88	1
10L	3.14	-2	2.76	3	1.07	0

WIBOR rates

Term	%	Change (bps)
O/N	1.44	8
T/N	1.48	7
SW	1.55	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	0
9x12	1.86	0
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			2.82	-3
France	15	-1	0.27	0
Hungary	116	1	1.62	-2
Spain	42	0	0.71	-2
Italy	97	-2	1.31	-2
Portugal	66	0	1.24	-2
Ireland	25	-1	0.42	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

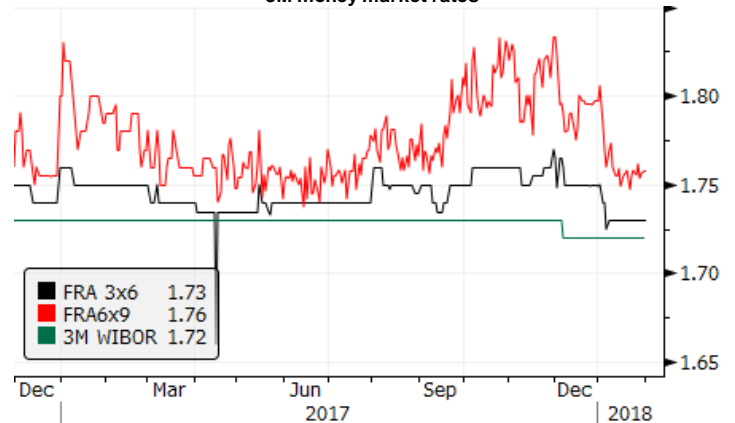
Zloty exchange rate



T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar								
TIME		INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST
CET	MARKET				BZWBK	VALUE		
FRIDAY (26 January)								
11:30	PL	Bond Auction			-			
14:30	US	Durable Goods Orders	Dec	% m/m	0.8		2.9	1.3
14:30	US	GDP Annualized	4Q	% Q/Q	3.0		2.6	3.2
MONDAY (29 January)								
14:30	US	Personal Spending	Dec	% m/m	0.45		0.4	0.6
14:30	US	Personal Income	Dec	% m/m	0.3		0.4	0.3
TUESDAY (30 January)								
10:00	PL	GDP	2017	% y/y	4.5	4.5	4.6	2.9
11:00	EZ	GDP SA	4Q	% y/y	2.7		2.7	2.8
14:00	HU	Central Bank Rate Decision	Jan-18	%	0.9		0.9	0.9
16:00	US	Conference Board index	Jan	pts	123.0		125.4	123.1
WEDNESDAY (31 January)								
11:00	EZ	Flash HICP	Jan	% y/y	1.2		1.3	1.4
11:00	EZ	Unemployment Rate	Dec	%	8.7		8.7	8.7
14:15	US	ADP report	Jan	k	183		234	250
16:00	US	Pending Home Sales	Dec	% m/m	0.5		0.5	0.2
20:00	US	FOMC decision	Jan-18		1.5		1.5	1.5
THURSDAY (1 February)								
09:00	PL	Poland Manufacturing PMI	Jan	pts	55.2	55.4	54.6	55.0
09:55	DE	Germany Manufacturing PMI	Jan	pts	61.2		-	61.2
10:00	EZ	Eurozone Manufacturing PMI	Jan	pts	59.6		-	59.6
13:00	CZ	Central Bank Rate Decision	Feb-18		0.75		-	0.5
14:30	US	Initial Jobless Claims	Jan-18	k	235.0		-	233.0
16:00	US	ISM manufacturing	Jan	pts	58.95		-	59.7
FRIDAY (2 February)								
14:30	US	Change in Nonfarm Payrolls	Jan	k	187.5		-	148.0
14:30	US	Unemployment Rate	Jan	%	4.1		-	4.1
16:00	US	Michigan index	Jan	pts	95.0		-	94.4
16:00	US	Factory Orders	Dec	% m/m	0.5		-	1.3

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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