

EYEOPENER

27 February 2018

Today testimony of new Fed head

- Another day of improving moods on the debt markets
- Strong fall in VAT revenues in January
- Zloty slightly stronger
- Russia regains investment grade
- Today: durable goods orders in USA, testimony of the Fed head before the Congress

On Monday the sentiment on debt markets improved as investors continued to digest the Friday Fed report and the Monday speech of Mario Draghi. The zloty strengthened somewhat, while the ruble gained more in a reaction to Russia's rating upgrade to BBB-. Today we will get to see the US durable goods orders and a testimony in the US Congress of the new Fed chair.

Fiscal policy

According to Dziennik Gazeta Prawna daily newspaper, in January VAT revenues declined by 17% y/y. We think the positive economic situation will support VAT revenues this year, and the disappointing January outcome is due to one-off factors – higher tax returns after the 4Q rise of investment outlays, the change of VAT reporting from quarterly to monthly in some companies a year ago and the government tactics of earlier-than-usual VAT returns in final months of the year. Official data on January budget performance should come tomorrow.

FX market

Till Monday noon we saw an increase in EURUSD in effect of growing US stock futures. Afternoon, however, brought a correction of this move and strengthening of the dollar, which was probably caused by a very cautious (not hawkish enough, according to investors) statement of ECB head Mario Draghi, about lower than generally believed utilisation of production capacity in the euro zone and in consequence, probably lower inflation pressure. This led to EURUSD ending the day close to the opening value (i.e. 1.2300), after the rate exceeded 1.2350 during the day.

As regards CEE currencies, EURHUF grew to 313.70 (the highest level since mid-December 2017) from 313.10. This was probably triggered by the opposition's victory in municipal elections. The forint movement was not interrupted by the record-high (since the very first survey in 1996) data on consumer and business sentiment for February.

On Monday, EURCZK rose to 25.38 from 25.34 in the morning. The koruna strengthened despite very good mood consumer and business confidence indicators.

The ruble has nearly broken its strongest level since January after it closed at 55.8 vs the dollar. Russian currency was supported by rising oil prices and information that S&P upgraded Russia rating to BBB- (the lowest investment grade) from BB+.

Today, we expect EURUSD to fall which might push EURPLN lower. The US data on durable goods orders (that may be strong) and speech of the new Fed governor in the Congress could support the zloty and the dollar. We expect EURPLN to break 4.165.

Debt market

Monday saw a decrease of US and German bond yields. It stemmed from discounting of Friday's Fed report for the Congress, where the central bank pointed out it saw no risk of sharp inflation surge. Additional fuel for decline in yields came from the Monday's speech of the ECB governor Mario Draghi, who said that the policymakers must remain patient in delivering stimulus, even if strong economic growth in the euro zone makes the ECB more certain about inflation outlook. The Draghi's comment also included a statement that the capacity utilisation could be lower than widely perceived, which may imply a lower inflationary pressure, and words about the need to monitor exchange rate. As a result, yields of European and US bonds decreased. In case of German Bunds the daily move reached 1bp in the long end and a fraction of basis point at the short end. Stronger moves took place in case of Euro zone peripheral bonds, where yields of 10Y Spanish and Italian bonds slid by 4-5bp. US market was additionally boosted by weak data about home sales, and as a result UST yields declined by 2-3bp along the curve. Euro and dollar IRS rates decreased in a similar scale as bonds.

On Monday, domestic bond yields were going down by 1-4bps, mostly on the longer end. A less significant move was observed on the IRS curve, so ASW spread compressed by 2 bp on the long end of the curve.

Today we expect a correction of the downward move of the yields and IRS rates, recorded over the last days. This will be triggered by durable goods orders in the US, which we expect to be strong. In our opinion, investors will try to bet on the hawkish tone of the testimony of new Fed chair Jerome Powell.

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FX market

Today's opening

EURPLN	4.1674	CZKPLN	0.1643
USDPLN	3.3775	HUFPLN*	1.3289
EURUSD	1.2339	RUBPLN	0.0607
CHFPLN	3.6072	NOKPLN	0.4318
GBPPLN	4.7222	DKKPLN	0.5597
USDCNY	6.3071	SEKPLN	0.4145

*for 100HUF

Last session in the FX market 26/02/2018

	min	max	open	close	fixing
EURPLN	4.164	4.180	4.172	4.169	4.1717
USDPLN	3.375	3.405	3.395	3.387	3.3799
EURUSD	1.228	1.236	1.230	1.231	-

Interest rate market

26/02/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.64	-1	2/22/18	OK0720	1.741
PS0123 (5L)	2.65	-2	2/22/18	PS0123	2.687
WS0428 (10L)	3.39	-2	2/22/18	WS0428	3.430

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.78	0	2.28	2	-0.25	0
2L	2.01	0	2.49	1	-0.11	0
3L	2.24	-1	2.61	0	0.08	1
4L	2.43	-1	2.67	0	0.29	1
5L	2.58	-1	2.72	-1	0.47	1
8L	2.88	-2	2.81	-2	0.89	0
10L	3.05	-2	2.86	-2	1.09	0

WIBOR rates

Term	%	Change (bps)
O/N	1.46	9
T/N	1.48	4
SW	1.55	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	1.72	0
3x6	1.74	1
6x9	1.76	-1
9x12	1.82	-1
3x9	1.81	-1
6x12	1.84	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.73	-4
France	17	0	0.28	-1
Hungary	116	1	1.86	-1
Spain	47	-3	0.88	-2
Italy	106	-2	1.34	-2
Portugal	68	-1	1.32	-2
Ireland	25	-1	0.45	-1
Germany	10	0	-	-

* 10Y treasury bonds over 10Y Bunds

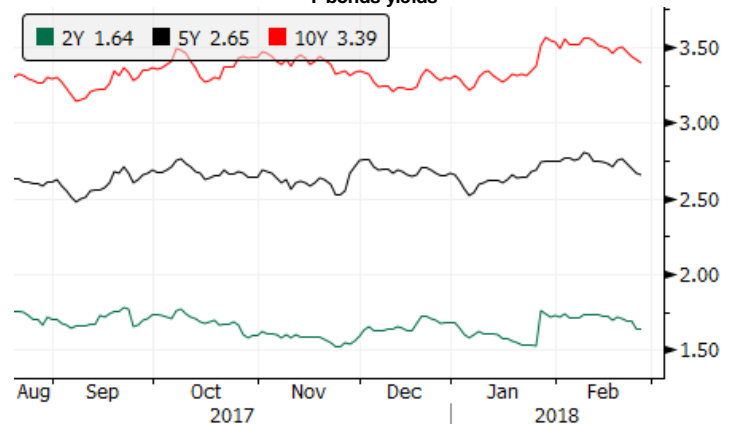
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

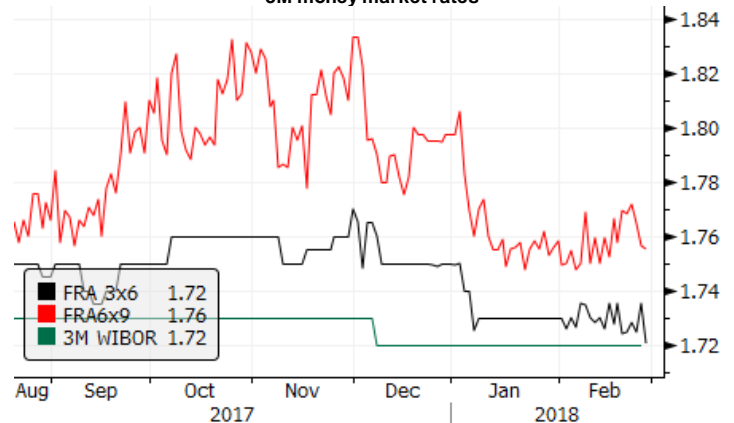
Zloty exchange rate



T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar

TIME		INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE
CET				MARKET	BZWBK		
FRIDAY (23 February)							
08:00	DE	GDP WDA	4Q	% y/y	2.9		2.9
10:00	PL	Unemployment Rate	Jan	%	6.9	6.9	6.6
11:00	EZ	HICP	Jan	% y/y	1.3		1.4
MONDAY (26 February)							
16:00	US	New Home Sales	Jan	% m/m	3.5	-	-7.8
TUESDAY (27 February)							
14:00	HU	Central Bank Rate Decision	Feb-18	%	0.9	-	0.9
14:30	US	Durable Goods Orders	Jan	% m/m	-2.25	-	2.8
16:00	US	Conference Board index	Feb	pts	126.0	-	125.4
WEDNESDAY (28 February)							
10:00	PL	Private Consumption	4Q	% y/y	-	5.0	4.8
10:00	PL	Investments	4Q	% y/y	-	11.8	3.3
10:00	PL	GDP	4Q	% y/y	5.1	5.1	4.9
11:00	EZ	Flash HICP	Feb	% y/y	1.2	-	1.3
14:30	US	GDP Annualized	4Q	% Q/Q	2.5	-	2.6
16:00	US	Pending Home Sales	Jan	% m/m	0.4	-	0.5
THURSDAY (1 March)							
09:00	PL	Poland Manufacturing PMI	Feb	pts	54.2	55.2	54.6
09:55	DE	Germany Manufacturing PMI	Feb	pts	60.3	-	60.3
10:00	EZ	Eurozone Manufacturing PMI	Feb	pts	58.5	-	58.5
11:00	EZ	Unemployment Rate	Jan	%	8.6	-	8.7
14:30	US	Initial Jobless Claims	Feb-18	k	225.5	-	222.0
14:30	US	Personal Spending	Jan	% m/m	0.2	-	0.4
14:30	US	Personal Income	Jan	% m/m	0.3	-	0.4
16:00	US	ISM manufacturing	Feb	pts	58.8	-	59.1
FRIDAY (2 March)							
09:00	CZ	GDP SA	4Q	% y/y	5.1	-	5.1
16:00	US	Michigan index	Feb	pts	99.0	-	99.9

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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