

EYEOPENER

1 March 2018

Strong start to the year for the central budget

- Polish GDP at 5.1% y/y in 4Q17, very strong results of central budget
- EURUSD down, zloty a bit weaker
- Core and POLGB yields down
- PMI for Poland down to 53.7
- Today: PMI and Europe, US numbers on consumer income and spending

On Wednesday the zloty was losing slightly vs. the euro and EURUSD was falling. Domestic bonds gained on the back of strong January budget performance and announcement of low supply. GDP data for 4Q confirmed high economic activity. Today we expect a bit worse PMIs from Europe and positive data on incomes and expenditures of US households.

PMI

PMI for Poland's manufacturing fell to 53.7pts in February from 54.6pts in January. This was the second slide in a row, bringing the PMI to level recorded in October 2017. The index was dragged lower by a weaker growth of all main components: new orders, output and employment. The data are in line with our view that the GDP growth peaked in 2H17 and suggest some deceleration in 2018.

GDP went above 5% y/y in 4Q

GDP growth in 4Q17 was confirmed at 5.1% y/y, up from 4.9% in 3Q. We finally saw a strong rebound of fixed investments, which recorded 11.3% y/y in 4Q vs. 3.3% in the previous quarter. Net exports were much weaker than we expected due to a rebound of imports, but at the same time inventory changes had a much smaller negative contribution than we had estimated. Private consumption grew by 4.9% y/y, similar to the previous quarters of 2017 - but unlike in the previous quarters – it was topped by investments as the main pillar of economic growth. We expect the GDP growth to stay close to 5% y/y also in 1Q, given the maintained very high business and consumer optimism.

Budget performance in January

The central budget showed a surplus of PLN8.6bn in January, which is the best start to a year since comparable data have been available (1995). Budget revenues amounted to PLN35.2bn, down 5% y/y. Tax revenues showed quite decent growth rates, with PIT adding 13.7% y/y and CIT adding 11.4% y/y. VAT revenues surprised to the downside (-17.1% y/y), but in our view this was caused by one-off effects, such as delays in payments due to the recovery in investment in 4Q17, the government's strategy of shifting the timing of VAT returns, introduction of reversed charges in construction and a change in the VAT framework to monthly payments from quarterly payments for some companies. The high budget surplus in January was mostly due to low spending, which amounted to PLN26.6bn (-12% y/y). In our view, this level of spending growth is not sustainable. January's spending was the lowest start to a year since 2009 and, in our view, was caused by a

pull-forward of some spending to December (e.g. subsidies to the Social Security Fund).

FX market

EURUSD continued the down move on Wednesday. The trigger for dollar appreciation was the Tuesday's testimony of Fed's Powell in the US Congress and the weaker US real estate data did not stop the trend. As a result, EURUSD fell to 1.219 from 1.224.

EURPLN was hovering near 4.179 with the moderate upside bias. Polish GDP data provided only temporary support for the zloty and the global factors proved more important. USDPLN jumped above 3.425 vs 3.412 at the opening.

In the case of the other CEE currencies, EURCZK fell slightly (to 25.4) despite dollar appreciation vs the euro. EURHUF also eased (to 313.7 from 314.3) with the forint recovering after decline in the political uncertainty and support from sound information from the banking sector. USDRUB fell slightly (to 56.2) after Tuesday's profit taking related to earlier rating upgrade.

We expect EURPLN to move down following expected dollar depreciation. Later in the day, the zloty may be under pressure again as we expect decent US data that could push EURUSD down.

Auctions

The Ministry of Finance announced that in March it will hold only one regular auction (27 March) with a supply of PLN3-5bn. The offer will include OK0720, PS0123, WZ0524, WS0428, WZ0528 (possibly also WS and IZ bonds). A switch auction has also been planned for 15 March with the same set of bonds to buy.

Debt market

In the absence of important news, core debt markets stabilised on Wednesday. The exception was the publication of US GDP data, however as this was not the first one, their impact was minor. In effect, the US curve, similarly to the German curve, dropped by 1-2bp, slightly stronger in the long ends. In the Euro zone peripheries, only the yields on Italian securities fell with the Spanish debt remaining flat at levels recorded on Tuesday.

Domestic yields continued to fall due to information about low debt supply in March, positive sentiment in global debt markets, decent GDP growth in Poland and solid budget surplus. This led to the domestic yield curve dropping by 2, 5 and 3bp for 2, 5 and 10Y segments, respectively. The IRS curve move was slightly smaller, which translated into yet another reduction of ASW margins to 35bp for 10Y segment, 6bp for 5Y and -35bp for 2Y segments, respectively.

Today, we expect a slight rebound of recent declines in the domestic debt yields, which should be driven by announcement of solid US data (on consumption and household income).

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FX market

Today's opening

EURPLN	4.1783	CZKPLN	0.1643
USDPLN	3.4228	HUFPLN*	1.3310
EURUSD	1.2207	RUBPLN	0.0606
CHFPLN	3.6231	NOKPLN	0.4333
GBPPLN	4.7097	DKKPLN	0.5611
USDCNY	6.3398	SEKPLN	0.4135

*for 100HUF

Last session in the FX market

28/02/2018

	min	max	open	close	fixing
EURPLN	4.167	4.183	4.167	4.175	4.1779
USDPLN	3.401	3.430	3.402	3.419	3.4188
EURUSD	1.219	1.226	1.225	1.221	-

Interest rate market

28/02/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.63	1	2/22/18	OK0720	1.741
PS0123 (5L)	2.61	1	2/22/18	PS0123	2.687
WS0428 (10L)	3.35	-3	2/22/18	WS0428	3.430

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.76	0	2.32	0	-0.25	0
2L	1.99	-2	2.55	-1	-0.12	0
3L	2.21	-2	2.66	-2	0.08	-1
4L	2.40	-2	2.73	-2	0.28	-1
5L	2.55	-2	2.77	-2	0.46	-1
8L	2.84	-4	2.86	-3	0.88	-2
10L	3.01	-3	2.90	-3	1.09	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.50	0
T/N	1.54	6
SW	1.56	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	1.72	0
3x6	1.72	0
6x9	1.74	-1
9x12	1.83	0
3x9	1.82	0
6x12	1.83	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.69	-3
France	17	0	0.27	0
Hungary	116	1	1.97	1
Spain	45	-2	0.88	1
Italy	99	-4	1.33	1
Portugal	66	-1	1.33	1
Ireland	25	-1	0.42	-4
Germany	10	0	-	-

* 10Y treasury bonds over 10Y Bunds

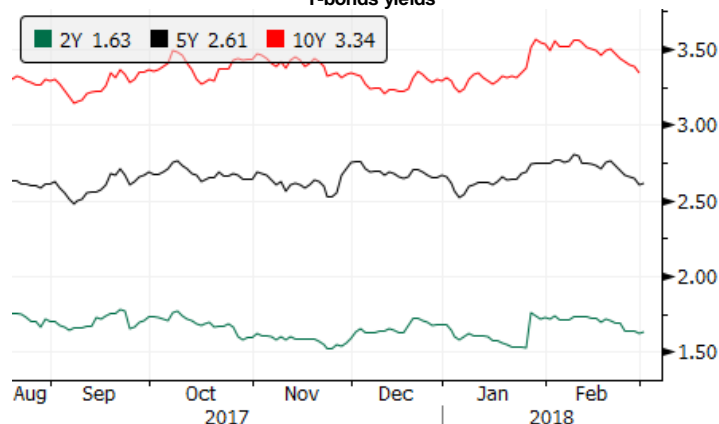
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

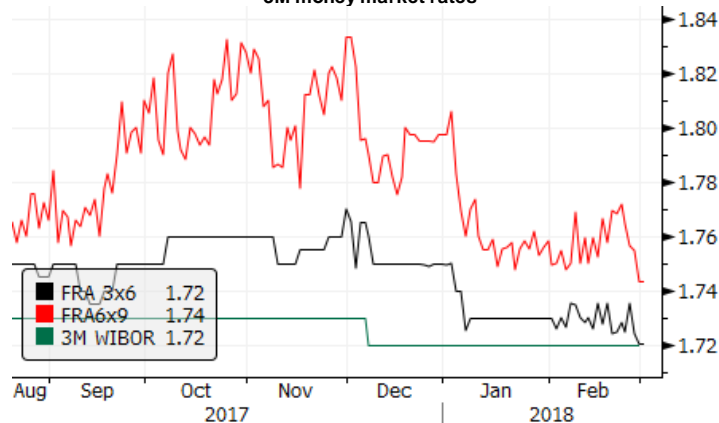
Zloty exchange rate



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	2.9
10:00	PL	Unemployment Rate	Jan	%	6.9	6.9	6.9	6.6
11:00	EZ	HICP	Jan	% y/y	1.3		1.3	1.4
MONDAY (26 February)								
16:00	US	New Home Sales	Jan	% m/m	3.5	-	-7.8	-9.3
TUESDAY (27 February)								
14:00	HU	Central Bank Rate Decision	Feb-18	%	0.9	-	0.9	0.9
14:30	US	Durable Goods Orders	Jan	% m/m	-2.3	-	-3.7	2.8
16:00	US	Conference Board index	Feb	pts	126.0	-	130.8	125.4
WEDNESDAY (28 February)								
10:00	PL	Private Consumption	4Q	% y/y	-	5.0	4.9	4.8
10:00	PL	Investments	4Q	% y/y	-	11.8	11.3	3.3
10:00	PL	GDP	4Q	% y/y	5.1	5.1	5.1	4.9
11:00	EZ	Flash HICP	Feb	% y/y	1.2	-	1.2	1.3
14:30	US	GDP Annualized	4Q	% Q/Q	2.5	-	2.5	2.6
16:00	US	Pending Home Sales	Jan	% m/m	0.4	-	-4.7	0.5
THURSDAY (1 March)								
09:00	PL	Poland Manufacturing PMI	Feb	pts	54.2	54.1	53.7	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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