

EYEOPENER

3 April 2018

March PMI stable at solid level

- Budget in surplus after February, public debt fell in 2017
- Current account surplus and lower foreign debt in 2017
- Polish PMI stable at 53.7 in March despite slowing orders
- EURUSD and EURPLN quite stable, yields lower before Easter

EURUSD and EURPLN remained fairly stable late last week. Bonds gained globally, as fears eased about high supply in the USA and - in case of domestic papers – due to information about low supply in April. The new quarter started with quite negative sentiment: a tech stocks sell-off in the USA and new fears about Economic policy of Donald Trump (relations with China and NAFTA).

A budget surplus after February

After first two months of 2018 the central budget recorded a surplus of PLN4.5bn as compared to a planned deficit of PLN0.6bn. Year-to-date revenues amounted to PLN62.0bn (102.2% of the plan for February) and spending was PLN57.6bn (93.9% of the plan). February alone showed strong growth of tax revenues, with VAT adding c13% y/y, PIT 13% y/y and CIT 25.4% y/y. The spending side saw a reduction in Social Security Fund subsidies (19.6% y/y) thanks to a positive labor market situation. In our view, the relatively strong economic growth, favorable labor market situation and rising corporate profits should continue to support robust revenue growth in the coming months. If these positives hold throughout 2018, it is very likely that the year could end with a deficit markedly lower than the plan of PLN41.5bn.

Public debt fell to 50.6% of GDP in 2017

According to Finance Ministry data, the general government debt fell to 50.6% of GDP in 2017 from 54.1% in 2016. A considerable debt reduction was possible thanks to low fiscal deficit, high nominal growth of GDP (6.7% - the most since 2011) and strengthening of the Polish zloty in relation to the euro and the dollar. In 2018, we are expecting a further drop of debt-to-GDP ratio, to about 50.0% of GDP. Lower public sector indebtedness would be an important argument for a rating upgrade (recently Moody's put forward such an argument), as long as this tendency is viewed as permanent and not due to cyclical factors.

Local governments started to invest

Investment in local governments amounted to PLN19.5bn in 4Q17, up 42.9% y/y in nominal terms, in line with our expectations and similar to growth in 3Q17 (44.5% y/y). 4Q17 investment was higher than in the same period of the previous years, while 1Q-3Q17 saw investment below previous years, indicating that investment in local governments has finally recovered after almost two years of underperformance. In general, local governments contributed 4 percentage points to total investment growth (11.3% y/y). We do not know yet what happened in the two other sectors (central government and private companies), but anecdotal evidence suggests that private investment remained sluggish at the end of 2017. Local governments increased their use of EU funds. EU-financed investment amounted to PLN5.4bn in 4Q17, up 247.8% y/y. We expect local governments to continue reporting strong growth of investment in 1H18, contributing about 3-4 percentage points to total investment growth.

Better data on balance of payments and foreign debt

Quarterly balance of payments data showed an upward revision of current account balance in 2017 – by €1.1bn, to 0.3% of GDP. At the same time, gross external debt fell to 67.8% - the lowest since 2011.

PMI unchanged in March

Polish PMI stayed at 53.7 pts in March, beating consensus view that there will be a third decline in a row. The report mentions the decrease of new orders component to the lowest level since July 2017 and no growth of foreign orders vs February (showing that domestic demand is now more important). The purchasing activity sub-index also decreased in March (to the lowest level in 16 months). At the same time current output and expected output remained strong and employment rose at the fastest pace in almost a year. The March PMI signals it will be hard for the economy to maintain 5% GDP growth in the coming quarters.

FX market

No important publications and pre-Easter period (holiday in the UK on Friday) helped to stabilize the fx market. EURUSD moved between 1.2280 and 1.2320. Volatility went up slightly after the weekend, but this morning the rate was again near 1.2316. EURPLN was also relatively stable ahead of Easter and stayed within 4.2040-4.2150 range, not reacting to positive budget data.

Debt market

On Thursday (the Friday was a market holiday) on the core debt markets, we observed further yields declines. The US curve has decreased by 3-4 bp as a reaction to the decreased risk of looming trade war and decline of fears of US debt huge increase. In the case of the German curve the yields decreased by 1-2 bp. The domestic curve slid by 3-5bp, fueled by the good moods on the core debt markets and waiting for information about the low level of debt supply in April (announced on Friday). Today we expect a slight correction on the debt market.

What's hot this week

There are three important publications right after the Easter: March PMI (see above), general government debt and deficit for 2017 and flash CPI. In our view, inflation will rise to 1.6% y/y. Still, as long as we are below 2% (and in our view this will happen for the better part of the year), interest rate hikes in Poland will remain a matter of distant future.

The zloty gained recently despite stronger dollar, possibly owing to information about rising chances for a compromise between Poland and the EU on rule of law. However, room for a further PLN appreciation seems limited. German and US bond yields were considerably down. Polish 10Y bond yields were trying to break 3.20%, an important technical support. A successful attempt can open the way to a further move down. Such a development could be backed by surprising low inflation in Poland or in the Euro zone. In the upcoming month, Polish bonds will be additionally underpinned by favourable supply/demand relation: the Ministry's offer will be limited, while banks and other financial institutions are likely to show high demand, as they are moving from floaters to fixed-coupon papers, and PLN15bn is flowing on the market from buybacks and interest payments.

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FX market

Today's opening

EURPLN	4.2080	CZKPLN	0.1660
USDPLN	3.4147	HUFPLN*	1.3465
EURUSD	1.2323	RUBPLN	0.0594
CHFPLN	3.5803	NOKPLN	0.4342
GBPPLN	4.8056	DKKPLN	0.5650
USDCNY	6.2852	SEKPLN	0.4075

*for 100HUF

Last session in the FX market 28/03/2018

	min	max	open	close	fixing
EURPLN	4.201	4.217	4.211	4.205	4.2085
USDPLN	3.390	3.410	3.392	3.406	3.4139
EURUSD	1.234	1.242	1.241	1.235	-

Interest rate market 28/03/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.49	0	15-Mar-18	OK0720	1.547
PS0123 (5L)	2.38	0	15-Mar-18	PS0123	2.381
WS0428 (10L)	3.21	0	15-Mar-18	WS0428	3.235

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.73	0	2.40	0	-0.26	0
2L	1.88	0	2.56	-1	-0.16	0
3L	2.06	0	2.64	-2	0.02	0
4L	2.23	0	2.68	-3	0.21	0
5L	2.38	0	2.70	-4	0.38	0
8L	2.70	-1	2.75	-5	0.77	0
10L	2.88	0	2.78	-5	0.97	0

WIBOR rates

Term	%	Change (bps)
O/N	2.29	28
T/N	2.26	27
SW	1.59	0
2W	1.60	0
1M	1.64	0
3M	1.70	0
6M	1.78	0
9M	1.79	0
1Y	1.82	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.70	0
3x6	1.71	0
6x9	1.72	0
9x12	1.75	2
3x9	1.79	1
6x12	1.80	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.71	-1
France	18	0	0.23	0
Hungary	116	1	1.90	0
Spain	41	0	0.69	-1
Italy	102	0	1.33	-1
Portugal	64	0	1.12	-1
Ireland	25	0	0.41	0
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

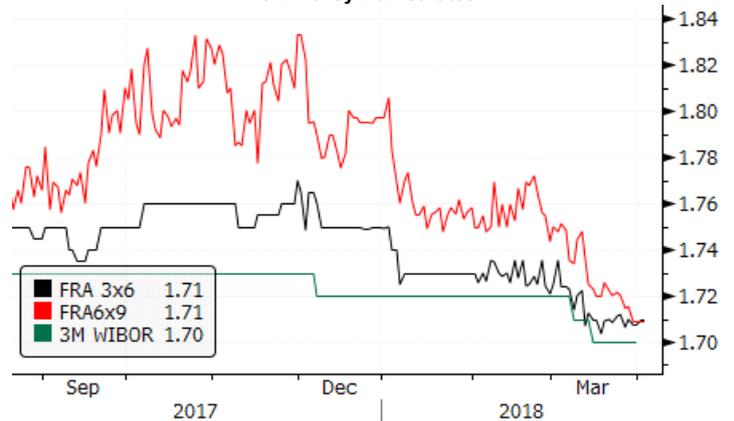
Zloty exchange rate



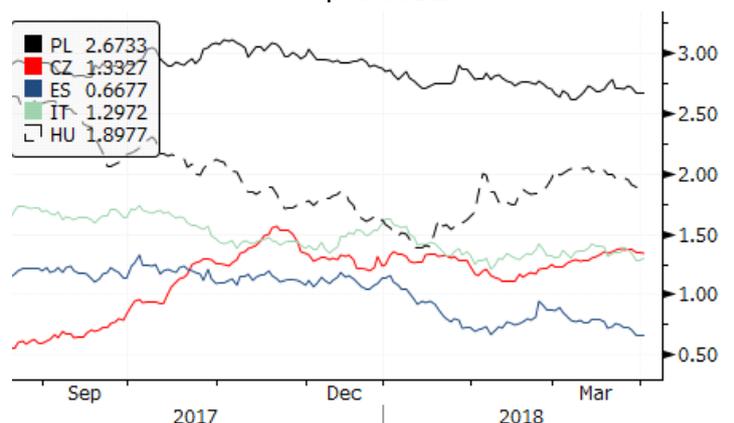
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME CET	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE	
			MARKET	BZWBK			
FRIDAY (30 March)							
09:34	PL	Central Budget Cumul.	Feb	bn PLN	-	4.461	8.562
MONDAY (2 April)							
16:00	US	ISM manufacturing	Mar	pts	60.0	-	60.8
TUESDAY (3 April)							
08:00	DE	Retail Sales	Feb	% m/m	0.65	-0.7	-0.3
09:00	CZ	GDP SA	4Q	% y/y	5.2	5.5	5.2
09:00	PL	Poland Manufacturing PMI	Mar	pts	53.0	53.5	53.7
09:55	DE	Germany Manufacturing PMI	Mar	pts	58.4	-	60.6
10:00	EZ	Eurozone Manufacturing PMI	Mar	pts	56.6	-	58.6
10:00	PL	GG deficit	2017	% GDP	1.8	1.6	2.5
WEDNESDAY (4 April)							
03:45	CH	Caixin China PMI Services	Mar	pts	54.5	-	54.2
10:00	PL	CPI	Mar	% y/y	1.65	1.6	1.4
11:00	EZ	Flash HICP	Mar	% y/y	1.4	-	1.2
11:00	EZ	Unemployment Rate	Feb	%	8.5	-	8.6
14:15	US	ADP report	Mar	k	205.0	-	234.7
16:00	US	Durable Goods Orders	Feb	% m/m	-	-	3.1
16:00	US	ISM services	Mar	pts	59.0	-	59.5
16:00	US	Factory Orders	Feb	% m/m	1.7	-	-1.4
THURSDAY (5 April)							
08:00	DE	Factory Orders	Feb	% m/m	1.5	-	-3.9
09:55	DE	Markit Germany Services PMI	Mar	pts	54.2	-	55.3
10:00	EZ	Eurozone Services PMI	Mar	pts	55.0	-	56.2
11:00	EZ	Retail Sales	Feb	% m/m	0.55	-	-0.1
14:30	US	Initial Jobless Claims	Mar-18	k	230.0	-	215.0
FRIDAY (6 April)							
08:00	DE	Industrial Production SA	Feb	% m/m	0.2	-	-0.1
09:00	CZ	Industrial Production	Feb	% y/y	5.75	-	5.5
09:00	HU	Industrial Production SA	Feb	% y/y	4.3	-	6.7
14:30	US	Change in Nonfarm Payrolls	Mar	k	189.0	-	313.0
14:30	US	Unemployment Rate	Mar	%	4.0	-	4.1

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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