

EYEOPENER

4 April 2018

Record-low fiscal deficit in 2017

- **Fiscal deficit fell in 2017 to record-low 1.5% of GDP**
- **EURPLN lower together with EURUSD**
- **Slight correction in the debt market**
- **Today: flash inflation in Poland and ADP labour market report in the USA**

On Tuesday the zloty gained somewhat vs the euro, and EURUSD declined. Domestic bonds were losing as were the core markets. Data on general government deficit in 2017 were a positive surprise. Today flash inflation data for March will be released (our forecast is 1.6% y/y, market consensus is 1.6-1.7% y/y) and ADP report on the US labour market (in our view it will be weaker than expected). Trade wars remain the main theme. Yesterday USA announced a list of Chinese products, which will fall under a 25% tariff (in about two months) and Chinese officials already said they are preparing a proportionate response covering US goods.

Record low fiscal deficit

The general government deficit for 2017 was estimated at 1.5% of GDP versus 2.3% of GDP in 2016, the lowest level since comparable data have been available (1995). This was driven by strong growth of tax revenues, stemming from strong growth of consumption and improvements in tax collection, as well as by low debt servicing and social security costs (resulting from low interest rates and the favourable labour market environment). In our view, in 2018 the GG deficit will be a bit higher (above 2.0% of GDP), but still not a cause of investors' concerns.

FX market

On Tuesday, EURUSD slid to 1.227 from 1.233 in the morning. The greenback was supported by positive start of the US stock market. However, worries about trade wars can undermine the dollar again. Today we are expecting the US currency to weaken versus the euro in reaction to ADP data, which we expect to surprise to the downside.

Yesterday EURPLN was going down thanks to a general improvement risk appetite. The positive picture of the zloty was also drawn by flash data on record-low fiscal deficit in 2017

and stable PMI. As a result, EURPLN fell to 4.1970 from 4.210. Today we are expecting some rebound of EURPLN, due to returning worries about trade wars.

As for the other currencies of the region, EURHUF declined from 312.70 to 312.00 and EURCZK from 25.36 to 25.34, supported by improved sentiment to CEE FX. The koruna saw higher-than-estimated final 4Q GDP. Negative surprises with Czech and Hungarian PMIs did not prevent the strengthening of the currencies. On the other hand USDRUB went higher, crossing 57.40 in the morning to 57.60 in the evening. In our view this was due to stronger dollar, declining oil prices and weak data on oil exports.

Debt market

On Tuesday the core debt markets were losing. Better car sales' data of US producers and US stocks market rebound (partly as a reaction to car markets data) negatively affected the US treasuries. As a result, US curve moved up by 3-5bp, after on Monday the US 10Y yield dropped to the lowest level since the early February. The German curve has increased by 1-2bp, as a correction to the last week yields decreases (window dressing effect). Today, we expect slight increases in debt prices on the core markets (in our opinion owing to weaker US ADP reading).

On the domestic debt market there was some profit taking after the end of the quarter. Domestic yield curve went up by 2-3bp in the 5-10Y segment. Shorter papers gained marginally, with their yield decreasing by 1bp, which in our view comes from expectations that PS0418 will be bought back at the end of the month. IRS rates changed in a similar way. The data on low general government deficit in 2017 encouraged profit taking rather than supporting the debt market. Today we expect stabilization of domestic bonds. Data on inflation most likely rising in March should not influence the market too much. Only in the afternoon there could be some minimal downward correction of yields in the USA, spreading also to Poland.

Switching tender

The Ministry of Finance is going to offer OK0720, WZ0524, WS0428 and WZ0528 and buy PS0418, PS0718 and OK1018 at the Thursday switching tender.

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FX market

Today's opening

EURPLN	4.1977	CZKPLN	0.1658
USDPLN	3.4208	HUFPLN*	1.3459
EURUSD	1.2271	RUBPLN	0.0593
CHFPLN	3.5686	NOKPLN	0.4364
GBPPLN	4.8127	DKKPLN	0.5635
USDCNY	6.2959	SEKPLN	0.4075

*for 100HUF

Last session in the FX market

03/04/2018

	min	max	open	close	fixing
EURPLN	4.194	4.212	4.210	4.200	4.2094
USDPLN	3.410	3.434	3.424	3.424	3.4177
EURUSD	1.225	1.234	1.229	1.227	-

Interest rate market

03/04/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.48	1	27-Mar-18	OK0720	1.494
PS0123 (5L)	2.37	3	27-Mar-18	PS0123	2.358
WS0428 (10L)	3.18	2	27-Mar-18	WS0428	3.196

IRS on the interbank market**

Term	PL %	PL Change (bps)	US %	US Change (bps)	EZ %	EZ Change (bps)
1L	1.72	0	2.43	1	-0.26	0
2L	1.88	0	2.59	2	-0.15	0
3L	2.06	0	2.67	2	0.02	0
4L	2.24	1	2.70	2	0.20	0
5L	2.39	1	2.72	2	0.36	-1
8L	2.72	2	2.77	2	0.76	0
10L	2.88	2	2.80	2	0.96	0

WIBOR rates

Term	%	Change (bps)
O/N	1.60	1
T/N	1.60	3
SW	1.56	-1
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	1.71	0
9x12	1.73	-2
3x9	1.79	0
6x12	1.80	0

Measures of fiscal risk

Country	CDS 5Y USD Level	Change (bps)	10Y spread* Level	Change (bps)
Poland			2.68	1
France	17	0	0.23	0
Hungary	116	1	1.92	-1
Spain	39	-2	0.69	1
Italy	101	-1	1.30	1
Portugal	64	0	1.13	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

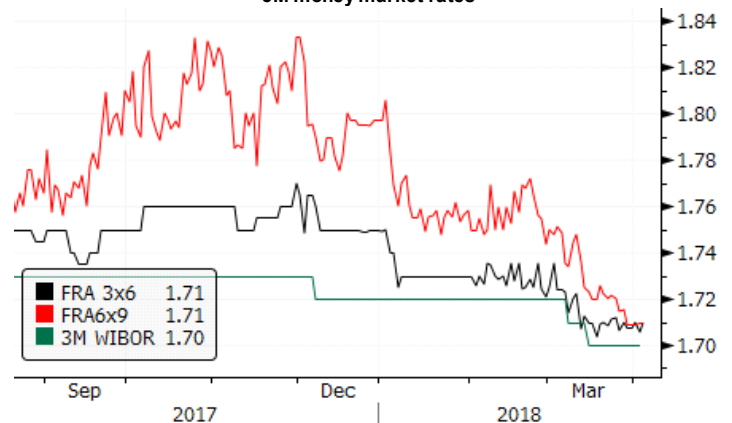
Zloty exchange rate



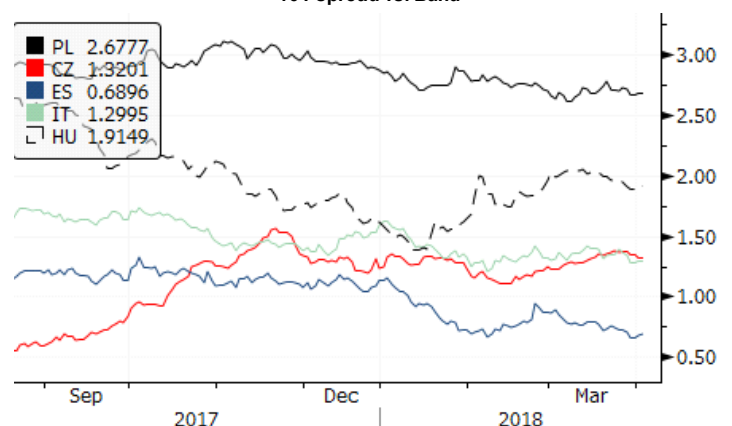
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar							
TIME		INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE
CET				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	59.6	59.3	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	58.2	60.6
10:00	EZ	Eurozone Manufacturing PMI	Mar	pts	56.6	56.6	58.6
10:00	PL	GG deficit	2017	% GDP	1.8	1.6	1.5
WEDNESDAY (4 April)							
03:45	CH	Caixin China PMI Services	Mar	pts	54.5	52.3	54.2
10:00	PL	CPI	Mar	% y/y	1.7	1.6	-
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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