

EYEOPENER

16 April 2018

S&P surprises with rating outlook upgrade

- **S&P raises Polish rating outlook**
- **Polish government announces new actions**
- **Concerns about financial companies and poor Michigan stopped yield march up, Polish debt under pressure of profit taking**
- **CEE currencies stronger on better market mood**
- **Today, Poland core CPI and US retail sales**

The zloty firmed on Friday and bonds weakened. Inflation data were in line with the flash estimate and current account deficit was surprisingly wide. The US Michigan index of consumer confidence fell, mainly due to assessment of current situation.

Over the weekend, USA, UK and France launched a missile strike on Syria. Russian president Putin said that next such actions may cause chaos in international relations. Today at the opening the market sentiment is quite positive, though, possibly thanks to Donald Trump's comment that the mission objective has been accomplished. Worries about escalation of geopolitical conflict have weakened at least for a while and since the start of the week the stock market futures have been rising.

In March, Poland CPI fell to 1.3% y/y from 1.4% in February, in line with the flash reading. The CPI fall was mainly a consequence of weaker tendencies in core categories. We estimate core inflation ex food and energy prices at 0.7%y/y. Behaviour of core categories suggests that in the upcoming months the price growth will be weaker than we had expected, which will be a support for the dovish rhetoric of the MPC. We expect that in mid-2018 CPI y/y will temporarily surpass 2.0% y/y and at the end of the year will return to c1.5%, with the core inflation will climbing towards 2.0% y/y.

On Friday evening S&P informed about no change to Polish credit rating (BBB+) and an improved outlook – to positive from stable. In the agency's view the revision of outlook was based on an assumption that economic growth in Poland will stay strong in 2018 thanks to solid external demand, large inflow of EU funds and strong fundamentals of the economy. A rating upgrade will be possible if debt-to-GDP ratio continues to fall. Factors that could lead to a downgrade include a deterioration of economic and fiscal situation, a freeze of EU funds. The agency forecasts this year's GDP growth at 4.5% (vs its 3.8% forecast from December).

During the weekend, the Prime Minister Mateusz Morawiecki announced further government actions. Starting from 2019, CIT for SME is to be cut to 9% from 15%. Social security contributions are to be proportional to revenues. Additionally, the government

plans to envisage more financial means to road construction and support for older people and families.

On Friday EURUSD oscillated in a 1.231-1.233 range after the decline seen in the earlier days amid easing of geopolitical tension (that has risen at the beginning of the previous week). Market ignored weaker Michigan index. The US retail sales data is due today in the afternoon. However, in our view, the more important for EURUSD could be a decline of geopolitical risk, which could strengthen the US dollar.

EURPLN was sliding for the fifth session in a row and reached 4.168. The zloty was supported by rising appetite for EM currencies and by expectations for an upgrade of S&P credit outlook. Today in the morning EURPLN is close to 4.165, the S&P decision did not affect the currency noticeably. The rate is approaching an important support at 4.163 and last signals from Poland and from global markets may trigger tests of this level.

In the case of other CEE currencies, the Czech koruna gained slightly versus the euro, while the forint appreciated considerably, taking advantage of positive mood towards EM. USDRUB did not benefit from lower geopolitical risk and remained in a 61.4-62.2 range.

Yields on the core markets have risen early in the morning amid lower geopolitical risk tension. Weak opening of the US equity market, the information about poor financial institution quarterly earnings, anemic results of retail chains as well as a disappointing Michigan reading pushed the yields down. At the end of the day, the US curve marginally flattened while the German one steepened slightly.

On the domestic bond market yields was rising in the second day in a row and the curve was pushed 2-3bp up, mostly on the long end. IRS rates followed the yield. In our view, in the short term the domestic debt could be positively affected by the S&P decision, however, in the longer period, we expect the yields rising to continue (as a profit-taking).

This week we will learn new data from the Polish economy. Wage growth accelerated to 7% y/y in March, according to our forecast, despite unfavorable working days effect. It would be a result of building imbalance between demand for labour and its supply, which is likely to grow even bigger in the coming months. It is hard to expect acceleration in employment growth, as the available labour force is depleting. Negative calendar effect will weaken industrial and construction production growth in March. But next months are likely to see higher growth rates again. While the peak cycle is already behind us, we still do not see a significant economic slowdown on the horizon.

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FX market

Today's opening

EURPLN	4.1645	CZKPLN	0.1646
USDPLN	3.3754	HUFPLN*	1.3410
EURUSD	1.2338	RUBPLN	0.0541
CHFPLN	3.5058	NOKPLN	0.4341
GBPPLN	4.8111	DKKPLN	0.5592
USDCNY	6.2836	SEKPLN	0.3992

*for 100HUF

Last session in the FX market

13/04/2018

	min	max	open	close	fixing
EURPLN	4.166	4.180	4.177	4.168	4.1769
USDPLN	3.376	3.395	3.387	3.380	3.3862
EURUSD	1.231	1.235	1.233	1.233	-

Interest rate market

13/04/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.51	1	05-Apr-18	OK0720	1.495
PS0123 (5L)	2.28	4	05-Apr-18	PS0123	2.335
WS0428 (10L)	3.02	2	05-Apr-18	WS0428	3.123

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.73	1	2.51	1	-0.26	0
2L	1.87	2	2.68	2	-0.15	0
3L	2.02	3	2.75	2	0.03	0
4L	2.17	4	2.79	1	0.21	0
5L	2.31	2	2.81	0	0.37	-1
8L	2.61	2	2.84	0	0.76	0
10L	2.77	3	2.86	-1	0.95	0

WIBOR rates

Term	%	Change (bps)
O/N	1.59	0
T/N	1.59	0
SW	1.56	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	1.78	0
6x12	1.80	0

Measures of fiscal risk

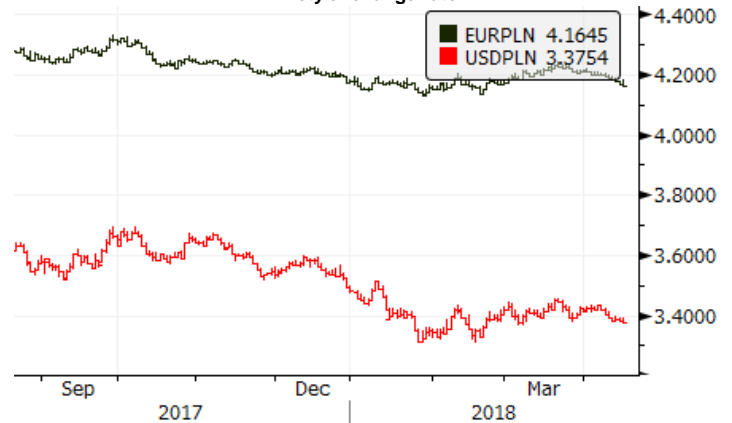
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.49	0
France	17	0	0.23	0
Hungary	116	1	1.89	-2
Spain	40	0	0.71	-1
Italy	102	2	1.27	-1
Portugal	64	0	1.12	-1
Ireland	25	0	0.41	0
Germany	10	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

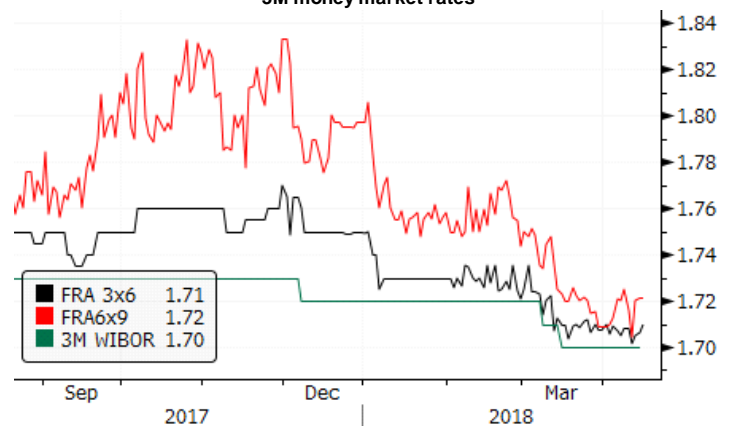
Zloty exchange rate



T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME		INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE
CET				MARKET	BZWBK		
FRIDAY (13 April)							
08:00	DE	HICP	Mar	% y/y	1.5	1.5	1.5
10:00	PL	CPI	Mar	% y/y	1.3	1.3	1.4
14:00	PL	Current Account Balance	Feb	€mn	-355.0	-544	2005
14:00	PL	Trade Balance	Feb	€mn	-515.0	-310	-204
14:00	PL	Exports	Feb	€mn	16700.0	16792.0	16271
14:00	PL	Imports	Feb	€mn	17241.0	17102.0	16844
16:00	US	Michigan index	Apr	pts	100.5	97.8	101.4
MONDAY (16 April)							
14:00	PL	CPI Core	Mar	% y/y	0.9	0.7	-
14:30	US	Retail Sales Advance	Mar	% m/m	0.4	-	-0.1
TUESDAY (17 April)							
11:00	DE	ZEW Survey Current Situation	Apr	pts	86.0	-	90.7
14:30	US	Housing Starts	Mar	% m/m	2.7	-	-7.0
15:15	US	Industrial Production	Mar	% m/m	0.3	-	0.95
WEDNESDAY (18 April)							
10:00	PL	Employment in corporate sector	Mar	% y/y	3.7	3.7	-
10:00	PL	Average Gross Wages	Mar	% y/y	6.5	7.0	-
11:00	EZ	HICP	Mar	% y/y	1.4	-	1.4
20:00	US	Beige Book					
THURSDAY (19 April)							
10:00	PL	Sold Industrial Output	Mar	% y/y	2.9	4.5	-
10:00	PL	Construction Output	Mar	% y/y	17.8	16.1	-
10:00	PL	PPI	Mar	% y/y	0.0	0.1	-
14:30	US	Initial Jobless Claims	Apr-18	k	230.0	-	233.0
FRIDAY (20 April)							
No important events							

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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