

EYEOPENER

23 April 2018

Poland might get less EU funds

- Stronger dollar weighed on CEE currencies
- The European Commission plans to change criteria for funds distribution among countries
- Poland's and euro zone peripheries' bonds lose
- Today Polish retail sales, flash PMI abroad

On Friday the dollar gained to main currencies, which had a negative impact on the Polish zloty, the forint and the koruna, and even more negative on the ruble. The CEE FX did not take advantage of the increasing equity indices, which in turn supported the rise of euro zone bond yields (mostly in the peripheries). During the last session of the week there were no important publications, so changes on the markets were relatively small.

According to the *Financial Times*, the European Commission plans a radical change of criteria for distribution of EU cohesion funds in the next budget framework 2021-2027. Until now, the most important factor was GDP per capita; currently the proposal is to include criteria covering youth unemployment, level of education, migration and innovation issues. This may lead to greater weight of Spain and Italy at the expense of CEE countries. The idea of conditionality – ie linking access to EU funds to compliance with rule of law – is still being considered. Details will be released only next month, but the article suggests the risk Poland will get less in the next EU budget is high.

On Friday the Stats Office issued April business confidence indicators for manufacturing, services, construction and retail. The indices showed a notable downside correction of optimism across sectors, to the lowest level in four months (reversing the extraordinary improvement seen since the beginning of the year). The retail index fell to the lowest level in more than a year, in contrast with outstanding consumer confidence indicators for April. The manufacturing index went down due to a large buildup of inventories of finished products (possibly due to a combination of high current output and production expectations, and decreased economic activity in the Euro zone in recent months). For retail, the components covering current and projected sales were responsible for the decline (this could just be a reflection of the Sunday trade ban, introduced in March). The construction sector is experiencing tension between the still rising inflow of new orders and the capacity-constraining lack of new workforce.

According to the Stats Office the labour market situation remained the main barrier to expansion of businesses in 1Q. In manufacturing, there was a spike in the share of companies that view high labor costs as a limiting factor for activity (while there were fewer indications that there is shortage of skilled labor) – this could mean that employers have accepted the necessity of raising wages due to the labor market tensions.

EURUSD fell on Friday for the second day in a row reaching 1.227. The euro was pressured by expectations that the ECB might sound dovish on Thursday after the recent weaker European data and risk for higher trade protectionism. Taking a broader look, the situation on the market has not changed noticeably and it seems that only the outcome of the Thursday's ECB meeting might trigger bigger move.

EURPLN took a second attempt to break 4.17 on Friday as the Polish currency was under the impact of strong dollar. USDPLN jumped to 3.40 from 3.375. The zloty is moving pretty closely with stocks and Polish bonds. Although 10Y yields broke their local lows, EURPLN remains above its 2018 bottom. Bonds gains are driven by both low inflation numbers and weaker outlook for the global economy and the latter may be curbing zloty gains. The most recent global data have shown some moderation in pace of economic growth and the trade wars are rather unlikely to improve the market sentiment. Today, we will see flash April PMI's that might give some clue if the sentiment cooling seen in the previous months continues.

In the case of the other CEE currencies, the koruna and forint were under slight pressure but the ruble was performing the worst in the region – USDRUB rose to 61.161 from just below 61.

On the domestic debt market yields were rising following the weaker Euro periphery debt. The long end of the domestic curve rose by c2bp, while the short end remained stable. The IRS rates increased in the smaller scale. Today the domestic retail sales data will be released. Our forecast is below the market estimates. However, we think that the core markets behaviour will be the key to the domestic market. The expectations for the dovish ECB rhetoric will likely hold the yields on the low levels.

This week, we will see April economic activity indicators (flash PMIs due out today). Should they continue to decline, doubts over the pace of the economic growth in 2H18 would become more serious. Today's Polish retail sales data should also be watched closely. Our forecast assumes strong growth that could neutralize the disappointing industrial output figure, at last partly. The Stats Office will release also revised quarterly GDP data for 2016-2017. General trends are rather unlikely to change but the updated numbers may influence forecasts for 2018. As regards the debt market, the Friday's bond auction will be an important event as it will be preceded by maturity of large amount of bonds and coupon payments (PLN15bn in total). Thus, the demand should be decent. After a series of weaker European data, market will watch any changes in the ECB tone. Should there be any hints for delaying QE program and postponing rate hikes, this could fuel yields down trend.

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FX market

Today's opening

EURPLN	4.1760	CZKPLN	0.1647
USDPLN	3.4027	HUFPLN*	1.3436
EURUSD	1.2273	RUBPLN	0.0554
CHFPLN	3.4881	NOKPLN	0.4342
GBPPLN	4.7717	DKKPLN	0.5607
USDCNY	6.2896	SEKPLN	0.4022

*for 100HUF

Last session in the FX market

20/04/2018

	min	max	open	close	fixing
EURPLN	4.164	4.176	4.167	4.173	4.1724
USDPLN	3.373	3.405	3.376	3.395	3.3881
EURUSD	1.225	1.236	1.235	1.229	-

Interest rate market

20/04/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0420 (2L)	1.52	1	05-Apr-18	OK0720	1.495
PS0123 (5L)	2.38	5	05-Apr-18	PS0123	2.335
WS0428 (10L)	3.10	6	05-Apr-18	WS0428	3.123

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.72	1	2.54	0	-0.26	0
2L	1.86	0	2.73	1	-0.14	0
3L	2.03	2	2.83	2	0.05	0
4L	2.20	2	2.88	2	0.24	0
5L	2.36	2	2.90	2	0.42	0
8L	2.67	3	2.95	3	0.82	1
10L	2.83	2	2.98	3	1.02	1

WIBOR rates

Term	%	Change (bps)
O/N	1.64	-2
T/N	1.64	-2
SW	1.58	-2
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	1.73	2
9x12	1.75	1
3x9	1.79	0
6x12	1.78	-1

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.49	3
France	17	0	0.22	0
Hungary	116	1	1.84	-3
Spain	38	0	0.67	-1
Italy	96	-1	1.17	-1
Portugal	64	0	1.04	-1
Ireland	25	0	0.39	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

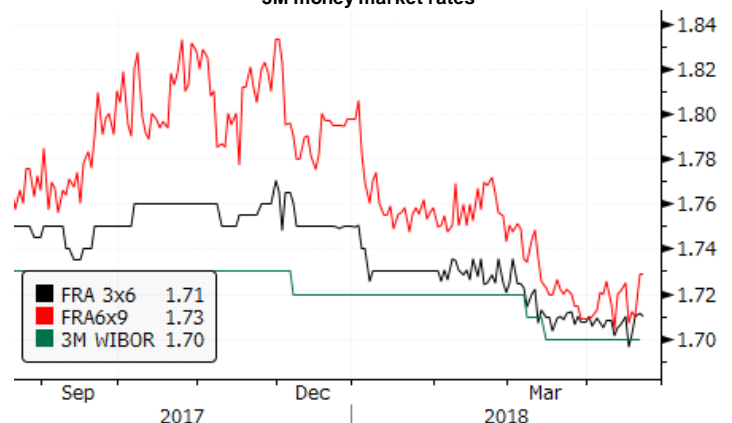
Zloty exchange rate



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 (20 April)								
No important events								
MONDAY (23 April)								
09:30	DE	Germany Manufacturing PMI	Apr	pts	57.5	-		58.2
09:30	DE	Markit Germany Services PMI	Apr	pts	53.7	-		53.9
10:00	EZ	Eurozone Manufacturing PMI	Apr	pts	56.0	-		56.6
10:00	EZ	Eurozone Services PMI	Apr	pts	54.6	-		54.9
10:00	PL	Real Retail Sales	Mar	% y/y	7.9	8.8		7.7
16:00	US	Existing Home Sales	Mar	% m/m	0.18	-		2.97
TUESDAY (24 April)								
10:00	DE	IFO Business Climate	Apr	pts	102.8	-		103.2
14:00	HU	Central Bank Rate Decision		%	0.9	-		0.9
14:00	PL	Money Supply M3	Mar	% y/y	5.2	5.6		4.9
16:00	US	Consumer Conference Board	Apr	pts	126.0	-		127.7
16:00	US	New Home Sales	Mar	% m/m	1.13	-		-0.6
WEDNESDAY (25 April)								
	PL	Buyback PS0418 (PLN11.5bn)	Apr					
10:00	PL	Unemployment Rate	Mar	%	6.5	6.6		6.8
THURSDAY (26 April)								
13:45	EZ	ECB Main Refinancing Rate	Apr-18	%	0.0	-		0.0
14:30	US	Durable Goods Orders	Mar	% m/m	1.05	-		3.0
14:30	US	Initial Jobless Claims	week	k	230	-		232
FRIDAY (27 April)								
11:00	EZ	ESI	Apr	pct.	112.0	-		112.6
11:30	PL	Bond Auction			-			
14:30	US	GDP Annualized	1Q	% Q/Q	2.1	-		2.9
16:00	US	Michigan index	Apr	pts	98.0	-		97.8

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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