

# EYEOPENER

25 April 2018

## Budget with no NBP gift this year

- **Stabilisation of trade ahead of ECB despite weaker data from Germany and stronger from USA**
- **MPC's Grażyna Ancyparowicz worried about fiscal situation**
- **Zloty weaker, EURUSD slightly up**
- **Polish and core yields up, 10Y UST above 3%**
- **Today registered unemployment rate and buyback of PS0418**

On Tuesday global markets stabilised, following the Monday rise of volatility. Main currency pairs stayed near the closing levels from the previous session, bond market changes were small. April reading of the German Ifo index disappointed, decreasing for a fifth month running, getting to the lowest point since January 2017. On the other hand, US data surprised positively – consumer sentiment rose unexpectedly and new home sales beat expectations. These readings did not cause a big reaction on the market, because investors are waiting for tomorrow's ECB decision. This morning sentiment is somewhat worse due to weak forecasts for the biggest US companies.

**S&P** analyst Frank Gill said in an interview with PAP that in the coming years there is a chance Polish rating would go up (currently BBB+ with positive outlook), unless GDP growth dips below the agency's forecasts and indebtedness does not decrease in nominal terms. The agency expects a 4.5% GDP growth in 2018 and 3.5% in 2019.

According to Ministry of Labour, the cost of a **hike of social disability benefit to the minimum disability benefit** for the employed is PLN315mn in 2018 and PLN540mn in 2019. Currently 280k are getting social allowance. A bill is to enter into force on September 1, 2018, affecting the payments since the start of June.

**M3 growth was 5.8% y/y in March** vs 4.9% previously, while the market expected 5.3% and we forecasted 5.7%. Cash in circulation accelerated from 5.7% y/y to 7.5% , the growth rate of households' current deposits increased slightly. There was a big rise of deposit growth among non-monetary financial institutions (from 11.3% to 19.2% y/y) and companies (from -5.9% y/y to 3.5%). On the money creation side, after fx adjustment we saw credit growth of individuals exceed 5% y/y for the first time in six years. Consumer credit accelerated further (to 9.1% y/y, the highest in almost eight years). Corporate loans slowed down to 7% y/y from 7.9% (fx adjusted). Investment loans and loans in the current account decelerated, while loans for real estate accelerated (to 14.2% y/y, vs c4% in 4Q17).

In 2017, **Polish central bank recorded a PLN2.5bn loss** owing to zloty appreciation. This means that this year the NBP will not inject

any cash into the state budget. In 2016, the central bank recorded a PLN9.2bn profit and this large transfer was one of the main factors allowing the deficit to end the year PLN30bn below the plan in 2017.

**MPC member Grażyna Ancyparowicz** said she is afraid that the fiscal deficit may reach 3% of GDP next year (which is quite far above the Convergence Programme's forecast at 1.5%). In her view the factors that used to help financing the higher social spending in the previous years may not be repeated (e.g. NBP profit, further rise in tax collection) and the risk of economic slowdown is underestimated. She added that the government spending will be increasing and it will be combined with the new promises. According to the MPC member there is a tangible risk of building excessive wage claims in the public sector. However, she did not say if it implies a risk for inflation and monetary policy outlook. The previous Ancyparowicz's comments suggest that she would like to see interest rates stable for as long as possible and believes there will be no need to change them neither this nor next year.

**EURUSD** was testing 1.22 support yesterday but the perspective of tomorrow's ECB decision prevented the exchange rate from staying below this level for longer. There was no big market reaction to the weak German and strong US data and the exchange rate ended the day near 1.222. No important data are due today to EURUSD should stay above 1.22 as investors await the ECB decision.

**EURPLN** was stable around 4.20 for the better part of the session, just like we expected the Monday's depreciation was not continued. Only at the end of the Polish trading hours the exchange rate started to rise again breaking 4.21 today in the morning. USDPLN remained near 3.44. We think today changes on the Polish FX will be smaller than in the previous days.

**In the case of the other CEE currencies**, the koruna and forint were under pressure vs the euro but yet before the session-end both currencies pared most of earlier losses. The ruble gained slightly vs the dollar. The Hungarian central bank kept interest rates unchanged and repeated it will continue its loose monetary policy and this did not have an impact on the forint.

**On the domestic interest rate market** IRS and bond yields rose but by no more than 2bp. Abroad, the German and US debt was under pressure again with the 10Y UST yield breaking 3% for the first time since 2014. No important data are on the agenda today so the session should be relatively calm. We see room for lower yields as investors await or in the reaction to the outcome of the ECB meeting.

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## FX market

## Today's opening

|        |        |         |        |
|--------|--------|---------|--------|
| EURPLN | 4.2119 | CZKPLN  | 0.1656 |
| USDPLN | 3.4493 | HUFPLN* | 1.3461 |
| EURUSD | 1.2211 | RUBPLN  | 0.0559 |
| CHFPLN | 3.5117 | NOKPLN  | 0.4354 |
| GBPPLN | 4.8158 | DKKPLN  | 0.5656 |
| USDCNY | 6.3111 | SEKPLN  | 0.4045 |

\*for 100HUF

## Last session in the FX market

24/04/2018

|        | min   | max   | open  | close | fixing |
|--------|-------|-------|-------|-------|--------|
| EURPLN | 4.198 | 4.210 | 4.204 | 4.209 | 4.198  |
| USDPLN | 3.436 | 3.448 | 3.441 | 3.439 | 3.4401 |
| EURUSD | 1.218 | 1.224 | 1.222 | 1.224 | -      |

## Interest rate market

24/04/2018

## T-bonds on the interbank market\*\*

| Benchmark (term) | %    | Change (bps) | Last auction | Paper offered | Average yield |
|------------------|------|--------------|--------------|---------------|---------------|
| PS0420 (2L)      | 1.51 | 0            | 05-Apr-18    | OK0720        | 1.495         |
| PS0123 (5L)      | 2.40 | 1            | 05-Apr-18    | PS0123        | 2.335         |
| WS0428 (10L)     | 3.09 | 0            | 05-Apr-18    | WS0428        | 3.123         |

## IRS on the interbank market\*\*

| Term | PL   |              | US   |              | EZ    |              |
|------|------|--------------|------|--------------|-------|--------------|
|      | %    | Change (bps) | %    | Change (bps) | %     | Change (bps) |
| 1L   | 1.72 | 0            | 2.54 | 0            | -0.26 | 0            |
| 2L   | 1.82 | -6           | 2.74 | 0            | -0.13 | 0            |
| 3L   | 2.02 | -2           | 2.84 | -1           | 0.06  | 0            |
| 4L   | 2.22 | -1           | 2.89 | -1           | 0.25  | 0            |
| 5L   | 2.38 | -1           | 2.92 | -1           | 0.42  | -1           |
| 8L   | 2.69 | -1           | 2.98 | -1           | 0.83  | -1           |
| 10L  | 2.86 | -1           | 3.01 | -1           | 1.03  | -1           |

## WIBOR rates

| Term | %    | Change (bps) |
|------|------|--------------|
| O/N  | 1.55 | -2           |
| T/N  | 1.56 | -1           |
| 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  | 1.70 | 0            |
| 6x9  | 1.71 | -1           |
| 9x12 | 1.74 | 0            |
| 3x9  | 1.79 | 1            |
| 6x12 | 1.79 | -1           |

## Measures of fiscal risk

| Country  | CDS 5Y USD |              | 10Y spread* |              |
|----------|------------|--------------|-------------|--------------|
|          | Level      | Change (bps) | Level       | Change (bps) |
| Poland   |            |              | 2.45        | 0            |
| France   | 16         | 0            | 0.21        | 0            |
| Hungary  | 116        | 1            | 1.89        | -1           |
| Spain    | 36         | 0            | 0.66        | -1           |
| Italy    | 86         | 1            | 1.13        | 0            |
| Portugal | 64         | 0            | 1.03        | 0            |
| Ireland  | 25         | 0            | 0.38        | 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<br>VALUE | LAST<br>VALUE |       |
|----------------------|----|-----------------------------|--------|----------|-------|-----------------|---------------|-------|
| CET                  |    |                             |        | MARKET   | BZWBK |                 |               |       |
| FRIDAY (20 April)    |    |                             |        |          |       |                 |               |       |
| No important events  |    |                             |        |          |       |                 |               |       |
| MONDAY (23 April)    |    |                             |        |          |       |                 |               |       |
| 09:30                | DE | Germany Manufacturing PMI   | Apr    | pts      | 57.5  | -               | 58.1          | 58.2  |
| 09:30                | DE | Markit Germany Services PMI | Apr    | pts      | 53.7  | -               | 54.1          | 53.9  |
| 10:00                | EZ | Eurozone Manufacturing PMI  | Apr    | pts      | 56.0  | -               | 56.0          | 56.6  |
| 10:00                | EZ | Eurozone Services PMI       | Apr    | pts      | 54.6  | -               | 55.0          | 54.9  |
| 10:00                | PL | Real Retail Sales           | Mar    | % y/y    | 7.9   | 8.8             | 8.6           | 7.7   |
| 16:00                | US | Existing Home Sales         | Mar    | % m/m    | 0.2   | -               | 1.1           | 3.0   |
| TUESDAY (24 April)   |    |                             |        |          |       |                 |               |       |
| 10:00                | DE | IFO Business Climate        | Apr    | pts      | 102.8 | -               | 102.1         | 103.3 |
| 14:00                | HU | Central Bank Rate Decision  |        | %        | 0.90  | -               | 0.90          | 0.9   |
| 14:00                | PL | Money Supply M3             | Mar    | % y/y    | 5.2   | 5.7             | 5.8           | 4.9   |
| 16:00                | US | Consumer Conference Board   | Apr    | pts      | 126.0 | -               | 128.7         | 127.0 |
| 16:00                | US | New Home Sales              | Mar    | % m/m    | 1.9   | -               | 4.0           | 3.6   |
| 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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