

# EYEOPENER

19 June 2018

## Budget surplus to hold for yet two months

- Polish bonds gain together with euro zone peripheries
- EURUSD stable, zloty and its CEE peers pressured by falling stock prices
- Wages in Poland grow slower
- Today Poland industry data, abroad watch for Hungarian central bank decision

On Monday, losses on the stock markets and geopolitical pressure weighed on the zloty and other CEE currencies amid stable EURUSD. Domestic and euro zone peripheries' debt gained while core markets did not move much. Polish data on employment and wages surprised to the downside. Investors were eyeing information from Germany, witnessing a rising risk of break in the ruling coalition.

**MPC's Jerzy Osiatyński** said in an interview with Polish Press Agency that rates are likely to stay unchanged until end of 2019, but he does not fully support such a policy. According to the MPC member, rates in the euro zone are an important factor for Polish central bankers. Osiatyński stressed also that the fast wage growth can translate into weaker situation of Polish companies. In our view, Osiatyński is one of the central bankers who will support interest rate hike at the earliest. We expect the first hike in late 2019.

**Wages in May decelerated** from 7.8% y/y to just 7% while we expected the growth rate to ease only slightly from the previous reading. Market consensus was 7.1% y/y. The slowdown was due to calendar effects. The current state of the labour market, with wide labour shortages, continues to generate pressure on wage hikes, but the process is gradual. Employment growth stayed at 3.7% while we and the market though a rise to 3.8% was possible. In m/m terms this was the weakest May for employment growth since 2009.

**Finance Minister Teresa Czerwińska** said that the budget surplus will be registered in 1-2 further months (May, June). In our view, after a surplus of PLN9.3bn recorded in April, result in May can be similar, while June may see surplus go down below PLN6.0bn. Results between July and September are likely to be close to neutral. Only 4Q18 will see a more considerable rise in deficit. In our view, it is probable that the planned deficit of PLN41.5bn will be halved.

**Revision of GDP in 2013-2017** did not show any important changes and did not affect our forecasts. Economic growth was raised by 0.1pp in all quarters of 2013, mostly due to higher

growth of public consumption. On the supply side, real growth of value added in industry was revised upwards in 2013.

**On Monday EURUSD** oscillated in the narrow range (1.157-1.161) amid the lack of release of new important market data. Euro is staying weak owing to the outcome of the ECB meeting, news about tensions in German government coalition and falling stock indexes. Today we expect EURUSD to stabilize close to the local low, the global political tensions still generate the downward pressures on the exchange rate.

**EURPLN** climbed on Monday to 4.297 from 4.287 and the rate even broke 4.30 at the close of the domestic session. The zloty and other CEE currencies were hit by political tensions (in Europe and between China and USA). This was negative for the risky assets. Today, moods are still weak due to rising worries about impact of USA-China trade war on global growth, so EURPLN is likely to stay elevated.

**The other CEE currencies** also depreciated. EURHUF rebounded to 323.9 in the afternoon from 322.9 in the morning, with the biggest move seen at the end of session. Investors ignored information about the Hungarian central bank plan to tighten mortgage lending conditions. EURCZK rose slightly to 25.78 from 25.73. Russian ruble was losing as a reaction to the rising geopolitical risk and despite the slight rebound of oil prices.

**Yesterday yields of German and US Treasuries** remained relatively stable despite the falling DAX index.

**The domestic curve** slid by 3-4bp in the 5-10Y segment, like the the South Europe sovereign bonds. The downward move was driven by the poor global mood and slightly weaker than expected labour market data from Poland. Moreover, bonds were supported by remarks of minister of finance, who said that budget surplus will be maintained in the close future. Today the domestic industrial data will be released (lower than previous one), which will likely support Polish t-bonds.

**Today Poland industrial data are due.** In our view, the number of working days effect weighed on the industrial output figure pulling it down to 3.9% y/y May from 9.3% y/y in April.

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## FX market

## Today's opening

EURPLN	4.3082	CZKPLN	0.1669
USDPLN	3.7165	HUFPLN*	1.3280
EURUSD	1.1592	RUBPLN	0.0581
CHFPLN	3.7419	NOKPLN	0.4540
GBPPLN	4.9156	DKKPLN	0.5782
USDCNY	6.4657	SEKPLN	0.4181

\*for 100HUF

## Last session in the FX market

18/06/2018

	min	max	open	close	fixing
EURPLN	4.275	4.303	4.286	4.297	4.2887
USDPLN	3.686	3.707	3.687	3.703	3.7003
EURUSD	1.157	1.162	1.161	1.161	-

## Interest rate market

18/06/2018

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

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0720 (2L)	1.61	-3	15-Jun-18	OK0720	1.605
DS1023 (5L)	2.54	-1	15-Jun-18	PS0123	2.393
WS0428 (10L)	3.20	-3	15-Jun-18	WS0428	3.197

## IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.76	0	2.61	0	-0.25	0
2L	1.93	-1	2.82	0	-0.17	0
3L	2.12	-2	2.90	0	-0.03	-1
4L	2.30	-3	2.93	0	0.13	-2
5L	2.46	-4	2.94	0	0.28	-2
8L	2.80	-5	2.97	1	0.69	-2
10L	2.97	-5	2.99	1	0.91	-1

## WIBOR rates

Term	%	Change (bps)
O/N	1.61	1
T/N	1.61	1
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	1.71	0
3x6	1.74	0
6x9	1.75	0
9x12	1.80	-1
3x9	1.82	0
6x12	1.85	0

## Measures of fiscal risk

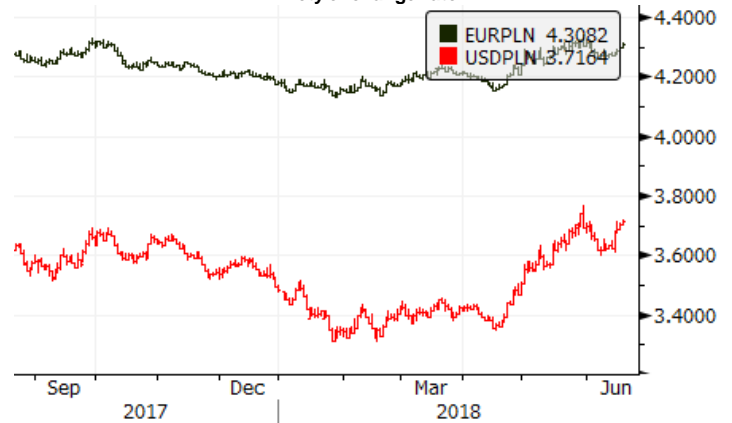
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.83	-1
France	27	-1	0.33	1
Hungary	116	1	3.07	2
Spain	67	0	0.88	3
Italy	229	-3	2.20	4
Portugal	64	0	1.37	3
Ireland	25	0	0.50	1
Germany	12	-1	-	-

\* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

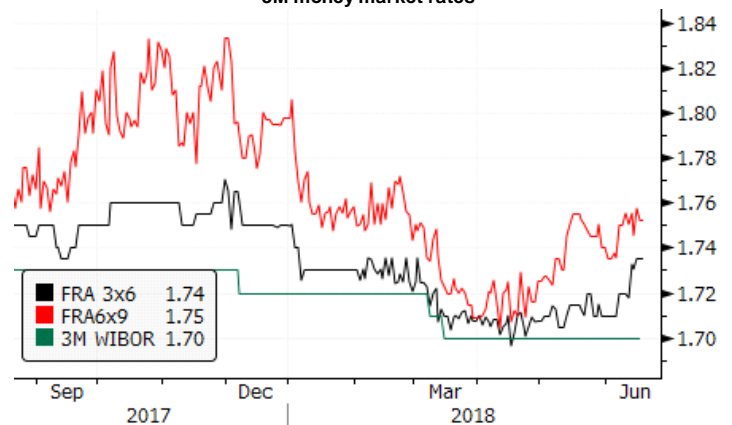
## Zloty exchange rate



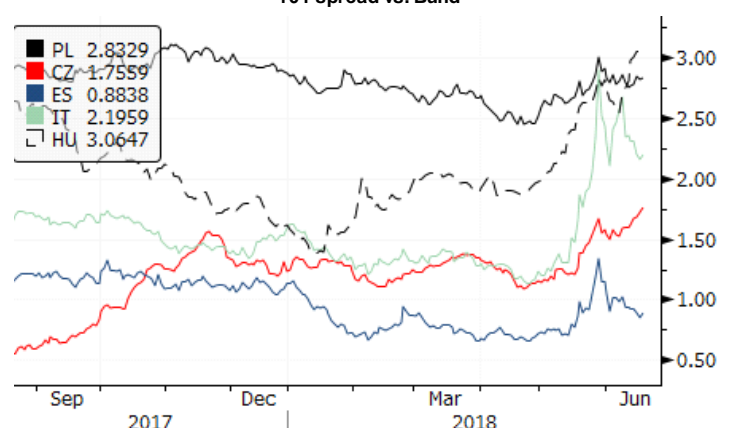
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic calendar

Economic calendar								
TIME		INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE	
CET				MARKET	BZWBK			
FRIDAY (15 June)								
11:00	EZ	HICP	May	% y/y	1.9	-	1.9	1.9
11:30	PL	Bond Switch Auction						
14:00	PL	CPI Core	May	% y/y	0.6	0.6	0.5	0.6
15:15	US	Industrial Production	May	% m/m	0.2	-	-0.1	0.72
16:00	US	Michigan index	Jun	pts	98.5	-	99.3	98.0
MONDAY (18 June)								
10:00	PL	Employment in corporate sector	May	% y/y	3.8	3.8	3.7	3.7
10:00	PL	Average Gross Wages	May	% y/y	7.1	7.6	7.0	7.8
TUESDAY (19 June)								
10:00	PL	Sold Industrial Output	May	% y/y	3.6	3.9		9.3
10:00	PL	Construction Output	May	% y/y	17.8	20.8		19.7
10:00	PL	PPI	May	% y/y	2.7	2.7		1.1
14:00	HU	Central Bank Rate Decision		%	0.9	-		0.9
14:30	US	Housing Starts	May	% m/m	2.1	-		-3.7
WEDNESDAY (20 June)								
10:00	PL	Consumer Confidence	May					
16:00	US	Existing Home Sales	May	% m/m	1.28	-		-2.5
THURSDAY (21 June)								
10:00	PL	Retail Sales Real	May	% y/y	6.4	7.3		4.0
14:30	US	Initial Jobless Claims	week	k	220	-		218
14:30	US	Index Philly Fed	Jun	pts	28.7	-		34.4
FRIDAY (22 June)								
09:30	DE	Germany Manufacturing PMI	Jun	pts	56.2	-		56.9
09:30	DE	Markit Germany Services PMI	Jun	pts	52.1	-		52.1
10:00	EZ	Eurozone Manufacturing PMI	Jun	pts	55.0	-		55.5
10:00	EZ	Eurozone Services PMI	Jun	pts	53.7	-		53.8
10:00	PL	Stats Office business sentiment	May	pts				
14:00	PL	Money Supply M3	May	% y/y	5.9	5.88		5.7

Source: BZ WBK, Bloomberg, Parkiet

\* in case of the revision the data is updated

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