

EYEOPENER

30 July 2018

Poland budget still with surplus after June

- Poland budget surplus at PLN9.5bn
- EURPLN continues to fall, EURUSD still stable
- Poland belly and long end yields up after successful auction
- Today Eurozone inflation and US real estate market data

End of the week saw gains of European stock markets, higher prices of some commodities, low EURUSD volatility, stabilisation of German bond yields and slight falls of the US yields. The latter was a consequence of the US advance 2Q18 GDP, which was in line with expectations, and lower-than-expected core PCE. At the same time, Michigan index showed an improvement in consumer sentiments. In Poland there was a bond auction and we got to see information on budget balance in June, showing surplus again. This information helped the zloty and was neutral for the debt market, which weakened somewhat after the successful bond auction.

After June, the central budget **showed a surplus of PLN9.5bn**, so only slightly smaller than after May (PLN9.6bn), while we were expecting the result closer to PLN5.0bn. The VAT revenues surprised by most, rising by 15% y/y in June alone, and CIT, which added as much as 50% y/y. Such a high CIT tax dynamics is probably an effect of one-off factors and it rather won't be maintained in the next months (traditionally, inflows from CIT are low in June, so big changes in dynamics are probable). In June, the budget revenues amounted to PLN28bn in total, as compared to plan at PLN24.5bn. Spending was equal to PLN28bn, in line with our expectations and below plan at PLN29bn. The good budget result in June supports our forecast that at the end of the year the deficit might be even by half lower than the limit assumed in the budget act (PLN41.5bn).

EURUSD was oscillating in a narrow 1.162-1.166 range, falling in the morning and then returning to the opening level at the end of the day. The data releases did not affect the exchange rate. Today's data on inflation in the euro zone should not surprise and will be neutral for EURUSD, in our view. In a broader context, the rate is still moving in a 1.15-1.18 range, waiting for a stronger impulse.

EURPLN fell on Thursday, for the fourth session in a row, taking advantage of improved sentiment towards the CEE currencies. As a result, at the end of the day the rate was close to 4.282. USDPLN followed a similar path, as after a jump in the morning the rate closed the day PLN0.07 below the opening. At the start of the week, the sentiment is slightly negative and there are no

important data releases on the schedule, so EURPLN is likely to stabilise after recent falls.

As regards the other CEE currencies, the forint gained versus the euro markedly, EURHUF fell to 322.1, the lowest level since mid-July. EURCZK was moving close to 25.70 after a couple days of downward momentum fueled by hawkish comments of central bankers. The ruble gained versus the dollar thanks to higher oil prices and suggestions from the central bank that rates will remain unchanged for a longer period.

On the domestic debt market yields fluctuated throughout the day driven by the information about auction results and the news about budget stance after June. At the end of the day, the belly and the long end of the curve landed slightly above the Thursday's closing, while the short end gained on daily basis. At the auction, the Ministry of Finance sold bonds for PLN7bn amid PLN10.2bn demand. After the auction, the Ministry informed that they financed 67% of this year's borrowing needs. The fall of the US yields did not affect Polish debt. Today we expect the Polish yields on the long end of the curve to rise.

MPC's Rafał Sura said in an interview for PAP that there is high probability NBP rates will remain unchanged until end of 2019. In his view, Polish labour market situation remains the key risk factor for this scenario. According to Sura, higher impact of wage growth on inflation would be an argument to change the MPC rhetoric. The first ECB hike (we expect it in 2H19) would not be an argument to raise rates in Poland, in Sura's view. As regards the expected gradual slowdown of the Polish economy, Sura ruled out the cyclical slowdown abroad as an argument to cut rates. Today's comment of Rafał Sura does not change our monetary policy outlook and we think that the first rate hike in Poland should be expected at the end of 2019 at the earliest

This week, we will get to see Poland flash July CPI. We are expecting inflation to inch down vs June owing to lower food prices. We assume the July PMI has not risen much. In our view, Polish data should be market-neutral. Numerous US data will be released, with manufacturing ISM and monthly non-farm payrolls being of particular importance. Any positive surprises in the US numbers might weigh on the zloty. However, note that the market is already pricing in, to a large extent, the scenario of two more 25bp Fed rate hikes this year, so the zloty negative response to solid data may be limited. Still, we think there is little room for a stronger zloty and lower yields. Elsewhere in the CEE region, the Czech central bank will decide on interest rates.

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FX market

Today's opening

EURPLN	4.2875	CZKPLN	0.1672
USDPLN	3.6784	HUFPLN*	1.3285
EURUSD	1.1656	RUBPLN	0.0585
CHFPLN	3.6961	NOKPLN	0.4490
GBPPLN	4.8214	DKKPLN	0.5756
USDCNY	6.8300	SEKPLN	0.4161

*for 100HUF

Last session in the FX market 27/07/2018

	min	max	open	close	fixing
EURPLN	4.270	4.297	4.283	4.286	4.2945
USDPLN	3.669	3.697	3.672	3.676	3.6937
EURUSD	1.162	1.166	1.166	1.166	-

Interest rate market 27/07/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0720 (2L)	1.59	0	12-Jul-18	OK0720	1.627
DS1023 (5L)	2.49	1	12-Jul-18	PS0123	2.356
WS0428 (10L)	3.15	3	12-Jul-18	WS0428	3.167

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.75	0	2.67	0	-0.26	0
2L	1.95	1	2.87	0	-0.16	0
3L	2.13	1	2.93	0	-0.01	0
4L	2.30	1	2.95	0	0.15	-1
5L	2.45	1	2.96	0	0.31	0
8L	2.76	0	2.99	0	0.70	1
10L	2.92	1	3.01	0	0.91	0

WIBOR rates

Term	%	Change (bps)
O/N	1.49	0
T/N	1.50	0
SW	1.55	0
2W	1.59	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	1.72	0
6x9	1.75	0
9x12	1.80	0
3x9	1.80	0
6x12	1.84	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.76	3
France	26	0	0.30	0
Hungary	116	1	2.82	-1
Spain	67	0	0.98	1
Italy	213	0	2.36	2
Portugal	64	0	1.32	1
Ireland	25	0	0.47	1
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

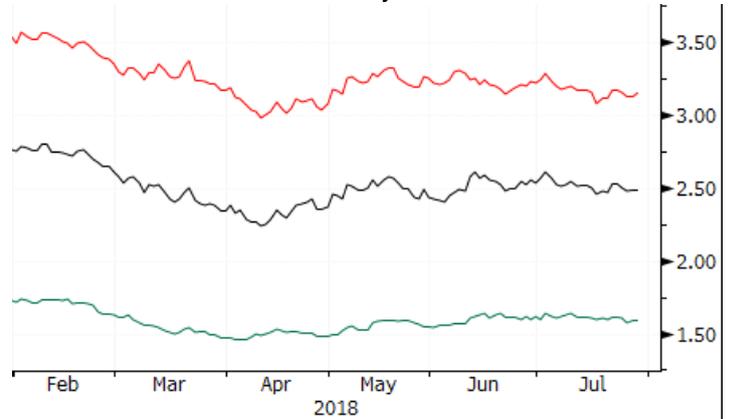
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

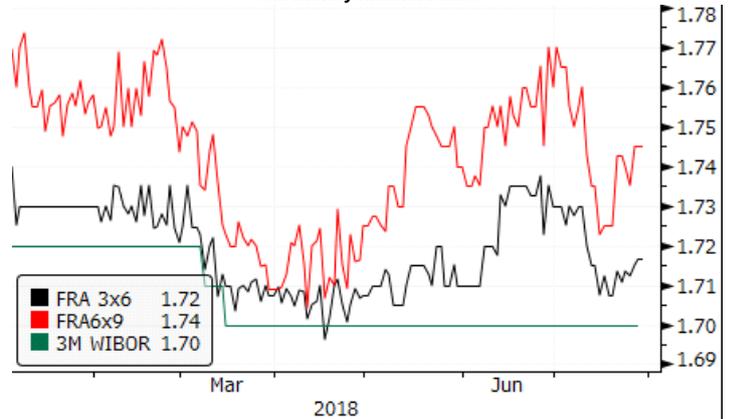
Zloty exchange rate



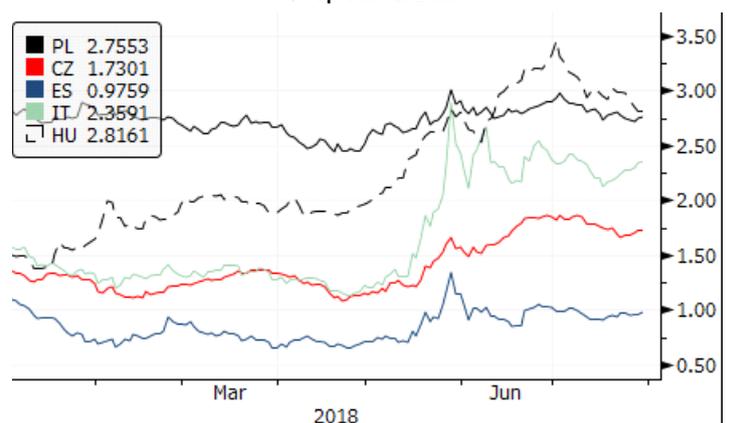
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME CET	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE		
			MARKET	BZWBK				
FRIDAY (27 July)								
	PL	Central Budget Cumul.	Jun	bn PLN	9.5	9.5	9.6	
11:30	PL	Bond Auction			-			
14:30	US	GDP Annualized	2Q	% Q/Q	4.2	-	4.1	2.0
16:00	US	Michigan index	Jul	pts	97.1	-	97.7	97.1
MONDAY (30 July)								
11:00	EZ	ESI	Jul	pct.	112.0	-	112.3	
14:00	DE	HICP	Jul	% m/m	0.4	-	0.1	
16:00	US	Pending Home Sales	Jun	% m/m	0.35	-	-0.5	
TUESDAY (31 July)								
08:00	DE	Retail Sales	Jun	% m/m	1.0	-	-1.6	
10:00	PL	CPI	Jul	% y/y	2.1	1.9	2.0	
11:00	EZ	Flash HICP	Jul	% y/y	2.0	-	2.0	
11:00	EZ	GDP SA	2Q	% y/y	2.2	-	2.5	
11:00	EZ	Unemployment Rate	Jun	%	8.3	-	8.4	
14:30	US	Personal Spending	Jun	% m/m	0.4	-	0.2	
14:30	US	Personal Income	Jun	% m/m	0.4	-	0.4	
14:30	US	PCE Deflator SA	Jun	% m/m	0.1	-	0.2	
16:00	US	Consumer Conference Board	Jul	pts	126.0	-	126.4	
WEDNESDAY (1 August)								
09:00	PL	Poland Manufacturing PMI	Jul	pts	54.5	54.0	54.2	
09:55	DE	Germany Manufacturing PMI	Jul	pts	57.3	-	57.3	
10:00	EZ	Eurozone Manufacturing PMI	Jul	pts	55.1	-	55.1	
14:15	US	ADP report	Jul	k	180.0	-	177.2	
16:00	US	ISM manufacturing	Jul	pts	59.2	-	60.2	
20:00	US	FOMC decision		%	2.0	-	2.0	
THURSDAY (2 August)								
13:00	CZ	Central Bank Rate Decision		%	1.25	-	1.0	
14:30	US	Initial Jobless Claims	week	k	215	-	217	
16:00	US	Durable Goods Orders	Jun	% m/m	3.0	-	1.0	
16:00	US	Factory Orders	Jun	% m/m	1.7	-	0.4	
FRIDAY (3 August)								
03:45	CH	Caixin China PMI Services	Jul	pts	0.0	-	53.9	
09:55	DE	Markit Germany Services PMI	Jul	pts	54.4	-	54.4	
10:00	EZ	Eurozone Services PMI	Jul	pts	54.4	-	54.4	
11:00	EZ	Retail Sales	Jun	% m/m	0.35	-	0.0	
14:30	US	Change in Nonfarm Payrolls	Jul	k	190	-	213	
14:30	US	Unemployment Rate	Jul	%	3.9	-	4.0	
16:00	US	ISM services	Jul	pts	58.6	-	59.1	

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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