

EYEOPENER

7 August 2018

Budget surplus shrinkage ahead

- Emerging market currencies under pressure of lira's and leu's depreciation and stronger dollar
- Risk assets under pressure of trade wars, bonds gained
- Central budget balance to worsen from now on

The beginning of the week has not been good for the emerging markets currencies, most of which lost versus the euro and the dollar. The downward pressure came from the Turkish market, where the lira hit the new low against the dollar, and in Romania, where the leu depreciated after the Romanian central bank refused to raise interest rates despite inflation well above the target (5.4% in June vs. the target is 1.5%-3.5%; the base rate of the central bank is 2.50%). Additional pressure on the emerging markets currencies was exerted by worse moods globally (given returning fears of how trade wars would affect the global growth) and stronger dollar. Among the CEE currencies, koruna stood the strongest as its depreciation potential was limited by the data on June manufacturing output and exports, much better than expected. The data on German industrial production and exports in June, published this morning, did not show clear accumulation of activity before imposition of US tariffs as it was the case in China.

According to the Polish Press Agency and Reuters, **Finance Minister Teresa Czerwinska commented that budget results after July** will not be as optimistic as in June, when the budget surplus hit PLN9.5 billion. In our opinion, the budget surplus fell to cPLN6 billion in July. Recent comments from the Ministry of Finance suggested that after July, the budget surplus could have even vanished, but in our view, that would be a surprise given previous budget results: in recent years (2010-2017), in July alone the budget deficit was at a mere cPLN0.3 billion. Regarding the full-year budget performance, the Finance Minister said she wished the deficit would come in at 50% of the budget act limit (PLN41.5 billion), like in 2017. Our forecasts are similar to Czerwinska's view, but we cannot rule out that the budget act will be amended at the year-end in order to allow higher spending. According to the Finance Minister's estimate, 2018 will be the peak of economic cycle, so annual GDP growth will be higher than the 4.6% recorded in 2017, and 2019 will witness a slowdown. This is more or less in line with our forecasts (4.6% in 2018, 3.7% in 2019).

According to the Ministry of Labor, **in July the number of unemployed persons fell by 6.4k and the registered unemployment rate stayed flat at 5.9%**, in the line with our expectations. This year, unemployment fell significantly less than in the previous year (declining by 120k unemployed persons between

December and July, vs. 195k unemployed persons in the corresponding period of 2017) and over the last few months we may have seen that the downward tendencies were losing steam. In our view, the registered unemployment rate is likely to fall a bit further in the months to come, but will generally remain close to the current level.

According to the NBP Senior Loan Officers' Survey for 2Q18 sectoral risks and risk linked to the situation of major clients decreased (in both cases for the first time since 2H14). Banks showed rising concerns about the housing market (its situation encouraged them to tighten policy) there was a significant increase of mortgage loan demand for the second quarter running. Assessments of the general business environment and households' economic situation remained very good, which suggests that banks will not be rapidly tightening their credit policies. The indicator that tracks credit demand linked to enterprises' investment plans remained positive, but was the lowest in the last five quarters marked by its rebound.

Yesterday **EURUSD** went down for the fifth session in a row and temporarily approached 1.153. The last five-session streak of its declines took place in May but it was not a harbinger of trend reversal. The US currency benefits from worse mood on markets and perspective of two more FOMC's interest hikes this year. In our opinion in next few days, the exchange rate can move closer to 1.15 but we do not assume this support will be broken.

EURPLN reached 4.275 intraday vs 4.252 at the opening while **USDPLN** rose to 3.705 from 3.685 amid weaker sentiment on the emerging markets. By the end of the Polish session, the domestic currency managed to recover and both exchange rates ended the day near 4.26 and 3.69, respectively. Today in the morning, the zloty is even a touch stronger. We think that in the short term, it could be difficult for the zloty to continue its appreciation impulse as the dollar could remain strong and investors could take profit from the recent **EURPLN** drop.

The **other CEE currencies** were also under pressure for the better part of the day – **EURHUF** rose to 320.5 from 319.5 and **USDRUB** to 63.7 from 63.3. **EURCZK** remained fairly stable near 25.64 even when its CEE peers were depreciating.

On the **domestic interest rate market** IRS and bond yields fell by no more than 2bp, following core markets. Polish bonds gained at a similar scale to Bund and less than euro zone peripheries.

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FX market

Today's opening

EURPLN	4.2491	CZKPLN	0.1658
USDPLN	3.6703	HUFPLN*	1.3305
EURUSD	1.1577	RUBPLN	0.0578
CHFPLN	3.6870	NOKPLN	0.4463
GBPPLN	4.7582	DKKPLN	0.5701
USDCNY	6.8345	SEKPLN	0.4113

*for 100HUF

Last session in the FX market

06/08/2018

	min	max	open	close	fixing
EURPLN	4.249	4.277	4.259	4.256	4.2672
USDPLN	3.676	3.709	3.680	3.681	3.692
EURUSD	1.153	1.157	1.157	1.156	-

Interest rate market

06/08/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0720 (2L)	1.54	-3	27-Jul-18	OK0720	1.592
DS1023 (5L)	2.47	0	27-Jul-18	PS0123	2.335
WS0428 (10L)	3.09	-2	27-Jul-18	WS0428	3.144

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.75	0	2.67	0	-0.25	0
2L	1.94	0	2.86	-1	-0.14	0
3L	2.13	0	2.92	-1	0.01	0
4L	2.31	0	2.94	-1	0.16	-1
5L	2.47	-1	2.95	-2	0.31	-1
8L	2.77	-1	2.98	-2	0.70	-1
10L	2.94	-1	3.01	-2	0.92	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.54	-1
T/N	1.54	-1
SW	1.55	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	1.74	0
9x12	1.79	0
3x9	1.79	0
6x12	1.82	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.70	-2
France	26	0	0.32	0
Hungary	116	1	2.96	2
Spain	67	0	1.00	-1
Italy	213	0	2.51	0
Portugal	64	0	1.36	0
Ireland	25	0	0.47	0
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

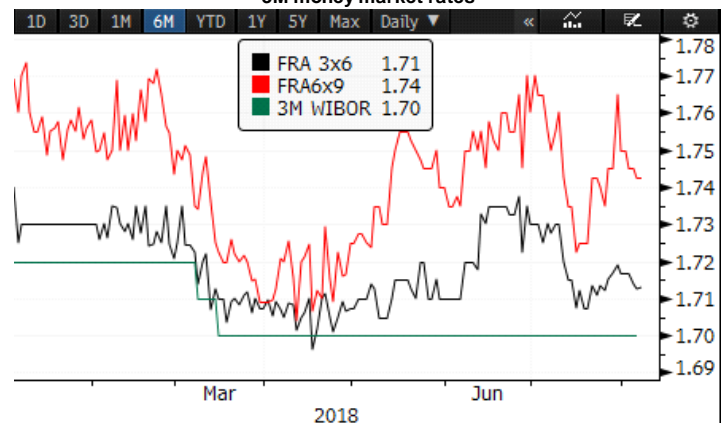
Zloty exchange rate



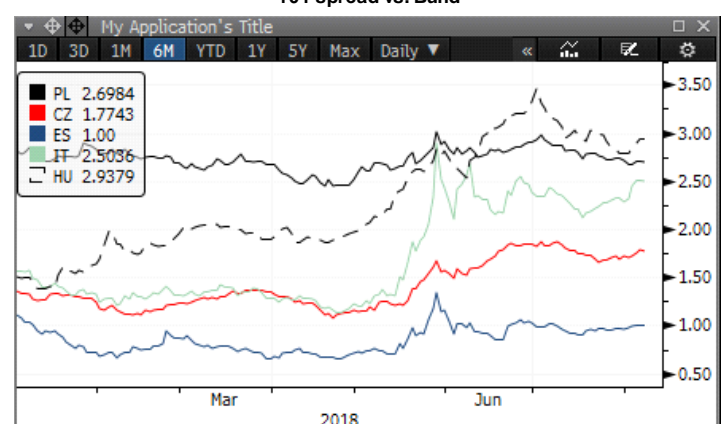
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar								
TIME		INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST
CET					MARKET	BZWBK		VALUE
FRIDAY (3 August)								
03:45	CH	Caixin China PMI Services	Jul	pts	53.5	-	52.8	53.9
09:55	DE	Markit Germany Services PMI	Jul	pts	54.4	-	54.1	54.4
10:00	EZ	Eurozone Services PMI	Jul	pts	54.4	-	54.2	54.4
11:00	EZ	Retail Sales	Jun	% m/m	0.4	-	0.3	0.3
14:30	US	Change in Nonfarm Payrolls	Jul	k	192	-	157	248
14:30	US	Unemployment Rate	Jul	%	3.9	-	3.9	4.0
16:00	US	ISM services	Jul	pts	58.6	-	55.7	59.1
MONDAY (6 August)								
08:00	DE	Factory Orders	Jun	% m/m	-0.4	-	-4.0	2.6
09:00	CZ	Industrial Production	Jun	% y/y	1.9	-	3.4	1.4
TUESDAY (7 August)								
08:00	DE	Exports SA	Jun	% m/m	-0.4	-	0.0	1.7
08:00	DE	Industrial Production SA	Jun	% m/m	-0.5	-	-0.9	2.6
WEDNESDAY (8 August)								
03:00	HU	MNB minutes			-			
09:00	HU	CPI	Jul	% y/y	3.3	-		3.1
THURSDAY (9 August)								
09:00	CZ	CPI	Jul	% y/y	2.3	-		2.6
14:30	US	Initial Jobless Claims	week	k	220	-		217
FRIDAY (10 August)								
14:30	US	CPI	Jul	% m/m	0.2	-		0.1

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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