

EYEOPENER

21 August 2018

Budget deficit 2019 to drop to PLN28.5bn

- Good mood on the market at the beginning of the week
- Polish economy in a good shape at the start of 3Q18, budget deficit 2019 - PLN28.5bn
- Trump disagrees with interest rate hikes
- Yields of Polish T-bonds go down, core markets gain less
- Today: Hungary central bank decision

At the start of the new week, the sentiment on global markets was quite good. Risk assets gained on hopes that the USA-China talks will ease the tensions in trade relations. As a result prices of equities and commodities rose. Emerging market currencies did not benefit much from improved risk appetite as the Turkish lira continued to depreciate (albeit at a slower pace than in the previous days). Donald Trump said that the euro and the yuan are being manipulated and that he disagrees with rate hikes in the USA.

According to Finance Minister Teresa Czerwińska, **budget deficit in 2019** is planned at PLN28.5bn vs PLN41.5bn plan for this year. Expenditures are to reach PLN415.4bn and revenues PLN387bn. She also said PLN2.4bn are earmarked for wage hikes in budgetary sector and cPLN7bn for a rise of pensions and disability allowances..

In July, Polish **industrial output** pace of growth reached 10.3% y/y vs. 6.8% y/y in June. We expected +9.9% y/y and consensus was at 10% y/y. After adjustment for seasonal and calendar effects, the headline industrial output recorded 7.8% y/y growth in July, its highest since October 2017. Construction and assembly output rose by 18.7% y/y in July versus 24.7% y/y in June. We and other market analysts were expecting the growth rate to stay above 20%, but at the same time we were underlining the negative impact of labour force scarcity on output. While a slowdown of economic growth in 2H is widely expected, July output data suggest the descent from 5.1% y/y in 2Q (according to flash estimate) will be gradual.

PPI inflation decreased in July to 3.4% y/y from 3.7% y/y in June. Prices in industry grew 0.1% m/m, in our view mainly due to weaker zloty. Commodity prices went down which had negative impact on PPI. In our opinion, in the coming months PPI inflation will drop towards 2% y/y. However the growth of construction prices increased in July to 3.1% from 2.8% and it was the highest result since 2008. We think that inflation in this category illustrates growing cost pressure in construction and we might see the measure coming closer to 4% y/y soon.

On Monday, EURUSD grew up slightly from 1.141 to 1.143 after temporary drop to 1.139. At the start of the session, the euro was under pressure of profit taking after strengthening at the end of the previous week but good atmosphere on market limited potential of EURUSD' decline. After another decline phase, the currency stabilized to the levels which occurred last time in the half of 2017. In the night and in the morning trade, EURUSD increased to 1.152 as a reaction to Donald Trump's announcement that FOMC should not raise interest rates. In our opinion, today we won't see significant changes because we wait for Wednesday's minutes from the last FOMC's meeting, flash PMI indices for the Eurozone on Thursday and central bank symposium in Jackson Hole at the end of this week.

At the start of the week, **EURPLN and USDPLN** didn't change significantly and they stayed stable close to the levels – 4.30 and 3.77. The mood on global markets was positive, data from Poland surprised positively but the zloty didn't benefited from growth demand on risk assets which could be caused by temporary appreciation of the dollar vs. the euro and slightly weakening of the lira. In our opinion, today EURPLN has opportunity to drop after night increasing of EURUSD.

The other CEE currencies remained stable as well, only the forint depreciated at the beginning of the session and did not manage to make up for the loss by the end of the day. Today we expect the Hungarian central bank's decision on interest rates but in our view Hungary will continue their current monetary policy.

On the domestic debt market, IRS and bond yields fell by no more than 3bp on the long end of the curves. The bonds on foreign markets were growing as well yet at a smaller scale than the Polish debt. The yields of 10Y benchmark have been oscillating in a very narrow range of c3.10%-3.20%. However, the positive effect of the low supply of bonds at the auctions seems to be counterbalanced by the continuing uncertainty about the situation in Turkey. We think the yields will remain low in the short term, yet they may start growing again by the end of the year.

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FX market

Today's opening

EURPLN	4.3020	CZKPLN	0.1673
USDPLN	3.7358	HUFPLN*	1.3308
EURUSD	1.1515	RUBPLN	0.0558
CHFPLN	3.7791	NOKPLN	0.4435
GBPPLN	4.7934	DKKPLN	0.5768
USDCNY	6.8450	SEKPLN	0.4086

*for 100HUF

Last session in the FX market 20/08/2018

	min	max	open	close	fixing
EURPLN	4.293	4.315	4.293	4.313	4.2997
USDPLN	3.754	3.775	3.754	3.764	3.7695
EURUSD	1.139	1.146	1.144	1.146	-

Interest rate market 20/08/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0720 (2L)	1.57	-3	27-Jul-18	OK0720	1.592
DS1023 (5L)	2.45	0	27-Jul-18	PS0123	2.335
WS0428 (10L)	3.12	-2	27-Jul-18	WS0428	3.144

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.74	1	2.62	-1	-0.25	0
2L	1.90	-1	2.79	-1	-0.16	0
3L	2.07	-2	2.84	-1	-0.03	0
4L	2.23	-2	2.85	-2	0.12	0
5L	2.37	-3	2.85	-2	0.26	0
8L	2.67	-4	2.88	-2	0.65	0
10L	2.84	-4	2.90	-2	0.86	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.41	-15
T/N	1.49	-7
SW	1.54	-1
2W	1.60	0
1M	1.64	0
3M	1.71	1
6M	1.79	1
9M	1.80	1
1Y	1.84	2

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.71	1
3x6	1.72	1
6x9	1.74	0
9x12	1.78	0
3x9	1.80	1
6x12	1.83	1

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.81	-3
France	27	1	0.35	0
Hungary	116	1	3.15	0
Spain	74	3	1.09	0
Italy	256	13	2.72	2
Portugal	64	0	1.48	0
Ireland	25	0	0.52	0
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

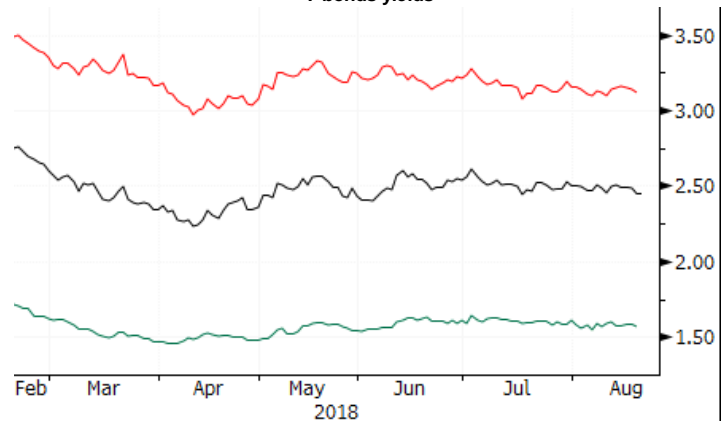
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

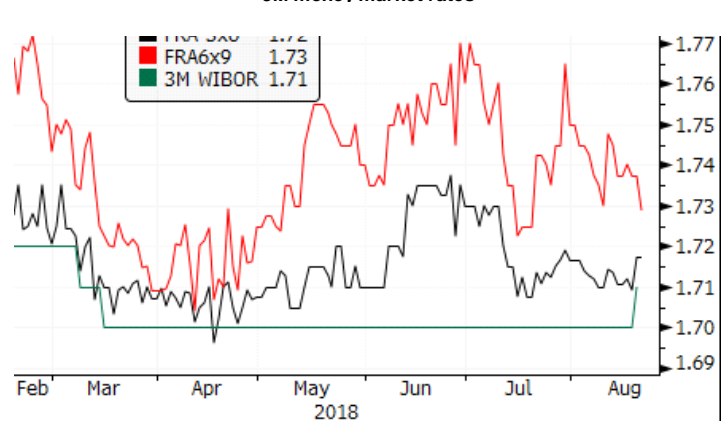
Zloty exchange rate



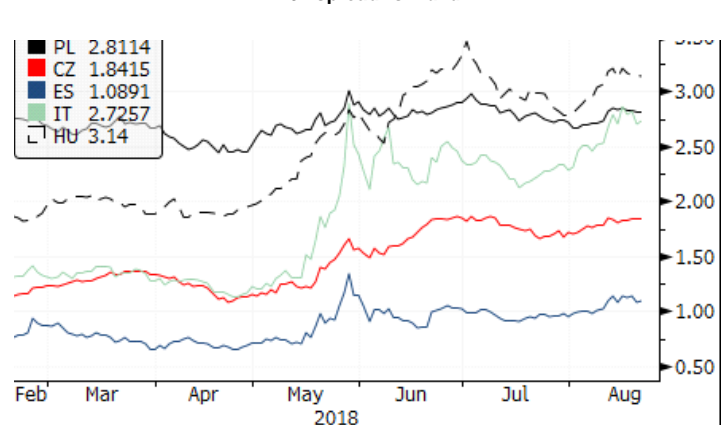
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic Calendar								
TIME	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST
CET					MARKET	BZWBK		VALUE
FRIDAY (17 August)								
10:00	PL	Wages in corporate sector	Jul	% y/y	7.7	7.3	7.2	7.5
10:00	PL	Employment in corporate sector	Jul	% y/y	3.6	3.5	3.5	3.7
11:00	EZ	CPI	Jul	% y/y	2.0	-	2.1	2.0
16:00	US	Flash Michigan	Jul	pts	98.0	-	95.3	97.9
MONDAY (20 August)								
10:00	PL	Sold Industrial Output	Jul	% y/y	9.8	9.9	10.3	6.8
10:00	PL	Construction Output	Jul	% y/y	22.4	21.9	18.7	24.7
10:00	PL	PPI	Jul	% y/y	3.5	3.4	3.4	3.7
TUESDAY (21 August)								
14:00	HU	Central Bank Rate Decision	Aug/18	%	0.90	-		0.90
WEDNESDAY (22 August)								
10:00	PL	Retail Sales Real	Jul	% y/y	7.4	7.6		8.2
16:00	US	Existing Home Sales	Jul	% m/m	1.3	-		-0.55
20:00	US	FOMC Meeting Minutes			-	-		0.0
THURSDAY (23 August)								
09:30	DE	Flash Germany Manufacturing PMI	Aug	pts	56.6	-		56.9
09:30	DE	Flash Markit Germany Services PMI	Aug	pts	54.3	-		54.1
10:00	EZ	Flash Eurozone Manufacturing PMI	Aug	pts	55.3	-		55.1
10:00	EZ	Flash Eurozone Services PMI	Aug	pts	54.4	-		54.2
11:30	PL	Bond Switch Auction						
14:00	PL	Money Supply M3	Jul	% y/y	7.3	7.3		7.3
14:00	PL	MPC minutes						
14:30	US	Initial Jobless Claims	week	k	215	-		212
16:00	US	New Home Sales	Jul	% m/m	3.0	-		-5.3
FRIDAY (24 August)								
08:00	DE	GDP WDA	2Q	% y/y	2.0	-		2.0
10:00	PL	Unemployment Rate	Jul	%	5.9	5.9		5.9
14:30	US	Durable Goods Orders	Jul	% m/m	0.95	-		0.8

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

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