

EYEOPENER

22 August 2018

Budget deficit 2019 not affect domestic bonds

- Moderate positive mood on stock markets
- Polish government approves 2019 budget draft
- Zloty slightly stronger owing to high EURUSD
- Polish bonds and IRS rates stable, Wibor 3M-1Y up
- Today: Polish retail sales, FOMC minutes and US data

Tuesday session passed in sanguine moods, but this did not affect the CEE currencies. Core yields went up and so did stock markets, underpinned by speculation on Sino-US trade negotiations. In the evening the stock market sentiment was undermined on information that former legal advisor to Donald Trump, Michael Cohen, pleaded guilty to breaking campaign election laws. This has also dragged bond yields lower. However, the market volatility was not particularly high, given no major macro releases.

The Polish government has approved **the draft budget for 2019**. The draft confirmed previous information about the 2019 deficit at PLN 28.5bn - the lowest projection since 2008-2009. We think the figure will be close to the performance for 2018. The government estimates the public finance deficit at 1.8% of the GDP but we find the projection considerably low. The budget expenses (PLN 415.4bn, c4.6% up vs. 2018) have been planned at a moderate level, given the circumstances: elections calendar (parliamentary elections in 2019), additional costs, i.e. salary rises for teachers (PLN 1.8bn), relatively high revaluation of pensions and disability pensions (c PLN 7bn), minimum pensions for women who gave birth and raised at least four children (c PLN 0.35bn according to our estimates), introduction of reduced contributions for ZUS (PLN 0.5bn-0.6bn). The nominal growth of the GDP is expected to be similar as in 2018 (the ministry of finance projects 6.1% for 2019). Expenses are to grow slower than the economy, therefore their share in the GDP should decrease for the third year in a row. Planned income (PLN 386.9bn, i.e. 5% up as compared to our estimate of 2018 delivery) neither seems excessive. To sum up, the main assumptions of the budget seem feasible and should meet with a positive reactions of the investors.

EURUSD was hovering yesterday in horizontal trend, slightly above the local peak 1.154 reached overnight in reaction to US President's comment. The stabilisation was supported by lack of important data releases in the US or euro zone. During the night, the dollar was hurt by information about illegal Donald Trump's campaign financing, which temporarily pushed the dollar above 1.16. Today in the evening the FOMC minutes will be released. The market is not pricing-in fully the rate hike in December, so if the tone of the document would suggest such possibility, then the streak of four sessions with rising EURUSD could be interrupted.

EURPLN and USDPLN went down slightly to a bit lower levels than 4.30 and 3.73 which was caused by good atmosphere on global markets and by staying EURUSD on higher level. EURPLN fluctuated between (previous week) peak and low, waiting for an impulse. Today we will know domestic data but in our opinion retail sales data won't influence significantly on the Polish currency. We assume that today EURPLN will fluctuate between 4.28-4.315..

In case of the other CEE currencies, the koruna and ruble performed weaker than the forint – EURCZK and USDRUB broke the peak from the beginning of the week while EURHUF remained below the Monday's maximum. In line with expectations, the Hungarian central bank did not change the interest rates, maintained its relatively dovish bias and so the outcome of the meeting did not have much impact on the forint. USDRUB rose temporarily responding to information that the US and UK want European countries to impose tighter sanctions against Russia.

On the domestic interest rate market there were no big changes (despite rise of 3-12M WIBOR rates) with IRS and yields holding near Monday's close. Polish bonds were outperforming Bunds and Treasuries (that were under pressure) but underperformed euro zone peripheral debt (that gained noticeably). The Ministry of Finance informed it will offer OK0720, PS0123, WZ0524, WS0428, WZ0528 bonds at tomorrow's switch auction.

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FX market

Today's opening

EURPLN	4.2920	CZKPLN	0.1667
USDPLN	3.7108	HUFPLN*	1.3282
EURUSD	1.1566	RUBPLN	0.0551
CHFPLN	3.7682	NOKPLN	0.4413
GBPPLN	4.7871	DKKPLN	0.5755
USDCNY	6.8446	SEKPLN	0.4073

*for 100HUF

Last session in the FX market 21/08/2018

	min	max	open	close	fixing
EURPLN	4.286	4.317	4.313	4.286	4.3101
USDPLN	3.704	3.767	3.764	3.708	3.7375
EURUSD	1.146	1.157	1.146	1.156	-

Interest rate market

21/08/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0720 (2L)	1.58	2	27-Jul-18	OK0720	1.592
DS1023 (5L)	2.47	0	27-Jul-18	PS0123	2.335
WS0428 (10L)	3.12	0	27-Jul-18	WS0428	3.144

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.76	2	2.63	0	-0.25	0
2L	1.92	1	2.80	1	-0.15	0
3L	2.09	2	2.85	1	-0.02	1
4L	2.26	3	2.86	1	0.13	1
5L	2.40	3	2.87	1	0.27	1
8L	2.70	2	2.89	1	0.66	2
10L	2.87	3	2.91	1	0.88	2

WIBOR rates

Term	%	Change (bps)
O/N	1.50	9
T/N	1.51	2
SW	1.55	1
2W	1.60	0
1M	1.64	0
3M	1.71	0
6M	1.79	0
9M	1.81	1
1Y	1.86	2

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.72	1
3x6	1.73	1
6x9	1.75	1
9x12	1.79	1
3x9	1.81	1
6x12	1.83	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.79	1
France	26	0	0.34	0
Hungary	116	1	3.06	-1
Spain	71	-3	1.03	0
Italy	249	-7	2.64	-1
Portugal	64	0	1.44	0
Ireland	25	0	0.51	0
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

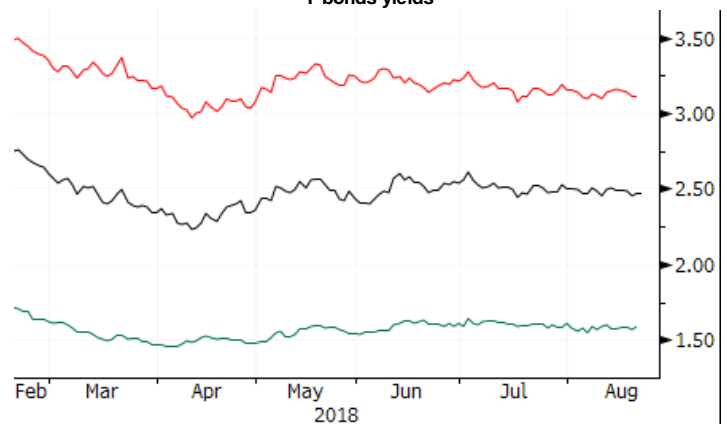
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

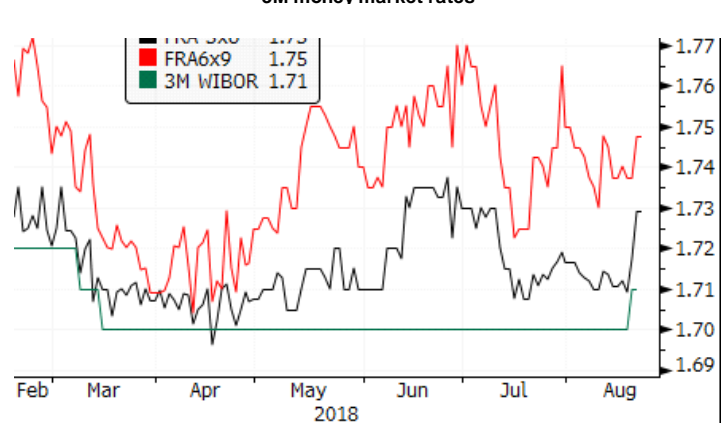
Zloty exchange rate



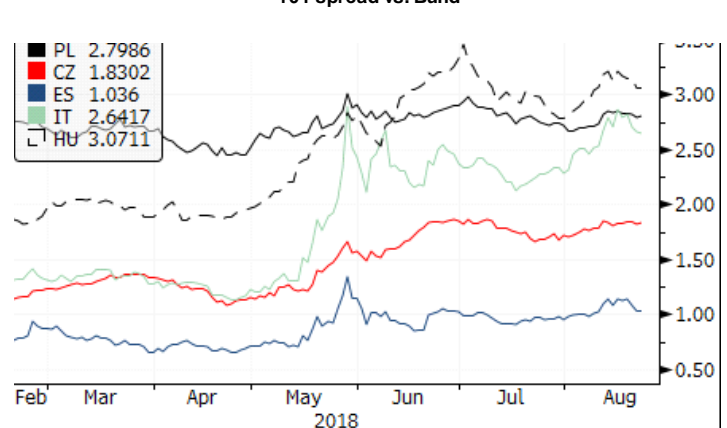
T-bonds yields



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	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	0.4	-		-0.6
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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