

# EYEOPENER

24 August 2018

## Net borrowing needs 2019 - PLN46bn

- Polish Business Climate Index less optimistic
- MF shows budget bill
- Zloty profits partly erased, USD little stronger against EUR
- Polish bonds under the pressures
- Today: Polish unemployment rate

On Thursday, market volatility was limited as the investors were waiting for statements of central bankers expressed at Jackson Hole conference and signals received during the day about progress in US-China trade talks (at the end of the day, the message was not so positive, though). The data in Europe were inconclusive. Flash manufacturing PMI in August for Germany and the entire eurozone was a bit disappointing, yet the Services PMI data were not so bad. The ministry of finance announced the draft budget for 2019.

**The draft budget** presented yesterday estimates the net budget requirements at PLN 46bn (vs. almost PLN 40bn in 2018). The domestic funding will be ca. PLN 57bn vs. PLN 35.3bn in 2018 (due to the plans of reducing the foreign funding). According to the draft, in 2019 the general government debt will reach 48.9% and the public debt will be 46.7% of the GDP, which means that 2019 will see the debt rising by PLN 54.2bn in nominal terms. This year, planned realisation of the deficit is PLN 23.8bn, which is in line with our projection and below the statutory limit of PLN 41.5bn. The deficit in 2019 is to be PLN 28.5bn. Let us say that only two weeks ago, the deputy minister of finance, Leszek Skiba, said that one should not expect that the non-realised deficit would reach PLN 20bn, as speculated by some..

**General Synthetic Business Climate Indicator** declined in August to 109.0 pts from 109.4 pts in July. Sentiment in manufacturing improved slightly despite weaker orders and lower expected production. The confidence index for construction fell slightly on lower orders (although orders are at very high levels historically). Indices for retail trade and services decreased significantly. Firms in all sectors reported increasing difficulty finding skilled labor. The GUS indices support our forecast of a gradual slowdown in GDP growth in 2H18.

According to GUS, **the consumer confidence** index (BWUK) amounted to 6.2 pts in August 2018 (+ 0.1 pts m/m), 0.5 pts higher compared to the previous year, while the leading consumer confidence index (WWUK) did not change versus July. Indicators for important purchases and the current financial situation of households rose by 3.9 pts and 1.9 pts m/m, respectively. The assessment of current economic conditions worsened, while the assessment of future economic performance improved. In our opinion, consumer confidence indicators suggest that private consumption growth should remain solid in 2H18.

In July, **Poland M3 money supply** growth reached 7.3% y/y, in line with expectations and unchanged vs June. Households deposits

accelerated to 7.0% y/y from 6.3% y/y in June which neutralized the effect of slower deposits growth of nonmonetary financial institutions. (7.1% y/y vs 14.7% y/y in June). Loans for individuals accelerated to 5.2% y/y from 4.8% in June with all main categories recording a slight improvement. Corporate loans growth picked up to 6% y/y from 5.2% y/y mainly thanks to faster growth in current loans while the other segments slowed.

Yesterday after five growth sessions, **EURUSD** declined and at the end of the day and at the evening it fluctuated below 1.16. At the morning USD benefitted from weaker PMI-manufacturing data. At the night trading USD was supported by information about risk of delayed of US-China trade negotiation (after the some news about progress during the day).

Yesterday **EURPLN** and **USDPLN** rebounded from Wednesday's minimum due to slight strengthening of USD. It caused that other currencies of emerging markets lost. EURPLN gained temporarily 4.29 and USDPLN was closer to 3.72 in a moment.

Among **other CEE currencies** we observed large fluctuations. EURHUF rebounded above 324 from 322.5, while USDRUB at the beginning increased above 69 and later it went down quickly to 67.5, after Russia Central Bank's decided to suspend its daily foreign currency purchases.

**On the domestic interest rate market** yields rose stronger than on core markets. The 10Y yield is now closer to the upper end of consolidation in which it has been moving since mid- July (c3.20%). In our opinion in coming days there is a risk of further yields increases. Yesterday after the switch auction (where bonds for PLN4.76bn were sold) vice finance minister Piotr Nowak told that in 4Q bonds' supply will be close to 2Q levels (PLN21.5bn). This could generate upward pressure on yields.

**Minutes from the July's MPC meeting** showed that the tone of discussion was not very different from the previous months, despite the release of new NBP projections. MPC members were divided in their assessment of the projection – some of them pointed to threats for economic growth, resulting from external factors, others thought that the pace of growth may be even higher than in the projection. Their opinions about inflation outlook were also divided, although majority agreed that inflation will remain close to the target in the projection's horizon. Majority of Council members still believed that stabilisation of interest rates in the coming quarters should be supportive for realisation of inflation target and for maintaining balanced economic growth. As before, some MPC members declared readiness to mull interest rate hikes in case of signals of strengthening of wage and inflation pressure, but at the same time there was one opinion that if economic activity starts deteriorating, interest rate cuts may be needed. Overall, the document did not show new hints that would change our expectations regarding monetary policy outlook.

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## FX market

## Today's opening

EURPLN	4.2835	CZKPLN	0.1664
USDPLN	3.7038	HUFPLN*	1.3219
EURUSD	1.1565	RUBPLN	0.0546
CHFPLN	3.7603	NOKPLN	0.4425
GBPPLN	4.7538	DKKPLN	0.5743
USDCNY	6.8843	SEKPLN	0.4056

\*for 100HUF

## Last session in the FX market

23/08/2018

	min	max	open	close	fixing
EURPLN	4.269	4.292	4.286	4.282	4.2868
USDPLN	3.681	3.714	3.698	3.706	3.7069
EURUSD	1.154	1.162	1.159	1.156	-

## Interest rate market

23/08/2018

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

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0720 (2L)	1.58	-1	23-Aug-18	OK0720	1.578
DS1023 (5L)	2.51	1	23-Aug-18	PS0123	2.335
WS0428 (10L)	3.18	0	23-Aug-18	WS0428	3.156

## IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.77	1	2.63	1	-0.25	0
2L	1.92	0	2.79	0	-0.15	0
3L	2.10	1	2.83	0	-0.02	0
4L	2.27	2	2.84	0	0.14	1
5L	2.42	2	2.85	0	0.28	1
8L	2.72	2	2.87	0	0.67	1
10L	2.88	2	2.90	0	0.88	1

## WIBOR rates

Term	%	Change (bps)
O/N	1.41	-3
T/N	1.51	6
SW	1.55	0
2W	1.60	0
1M	1.64	0
3M	1.71	0
6M	1.79	0
9M	1.82	0
1Y	1.87	0

## FRA rates on the interbank market\*\*

Term	%	Change (bps)
1x4	1.73	0
3x6	1.73	0
6x9	1.77	0
9x12	1.80	0
3x9	1.81	0
6x12	1.85	1

## Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.83	-1
France	26	-1	0.33	0
Hungary	116	1	3.00	-1
Spain	71	0	1.02	-1
Italy	253	1	2.74	-1
Portugal	64	0	1.45	-1
Ireland	25	0	0.51	-1
Germany	11	0	-	-

\* 10Y treasury bonds over 10Y Bunds

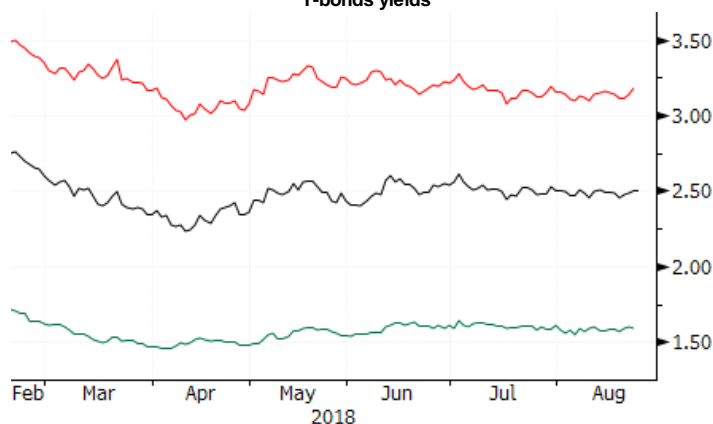
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

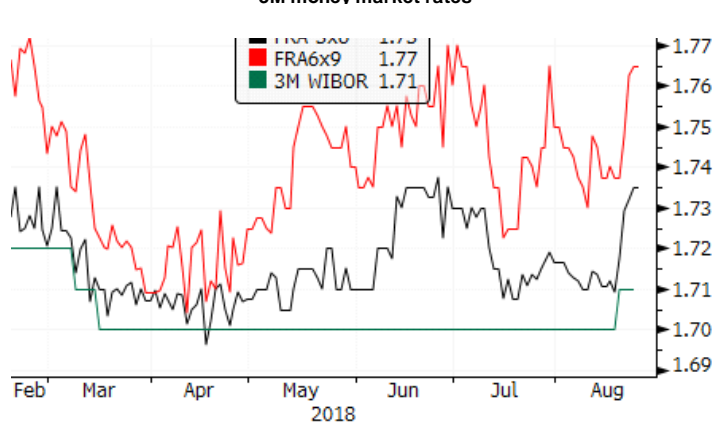
## Zloty exchange rate



## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic calendar

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	7.1	8.2
16:00	US	Existing Home Sales	Jul	% m/m	0.4	-	-0.7	-0.6
20:00	US	FOMC Meeting Minutes			-	-		0.0
THURSDAY (23 August)								
09:30	DE	Flash Germany Manufacturing PMI	Aug	pts	56.5	-	56.1	56.9
09:30	DE	Flash Markit Germany Services PMI	Aug	pts	54.3	-	55.2	54.1
10:00	EZ	Flash Eurozone Manufacturing PMI	Aug	pts	55.2	-	54.6	55.1
10:00	EZ	Flash Eurozone Services PMI	Aug	pts	54.4	-	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	7.3
14:00	PL	MPC minutes			-			
14:30	US	Initial Jobless Claims	week	k	215	-	210	212
16:00	US	New Home Sales	Jul	% m/m	2.2	-	-1.7	-2.4
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	-1.0	-		0.8

Source: BZ WBK, Bloomberg, Parkiet

\* in case of the revision the data is updated

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