

EYEOPENER

30 August 2018

Budget went into deficit in July

- Debt servicing costs pushed central budget into deficit
- Some losses of zloty and domestic bonds, TRY and ARS soured the mood for EM currencies
- Core market yields up, dollar stable after US 2Q GDP
- Today ESI indicators, German inflation, US consumer income and spending data

On Wednesday, July domestic budget performance data were published, showing the first deficit this year. Second reading of US GDP growth in 2Q surprised positively (4.2% vs. expected 4.0% q/q annualized) while private consumption deflator reached only 1.9% q/q vs. 2.5% in previous quarter. Pending home sales in USA declined again. Moody's downgraded 20 Turkish financial institutions due to funding deterioration risk. Wednesday was another day of weakening of the lira which disturbed CEE currencies. Moreover there was a rapid depreciation of the Argentinian peso (c7% in one day) after Argentinian president asked IMF to accelerate a reimbursement of financial aid. Information about Italian government's pressure on ECB to extend bond purchases had a negative influence in Europe. US GDP data proved neutral for EURUSD and bonds, but the high start on equities negatively affected Treasuries. Domestic bonds lost following core markets, as did the zloty and other CEE currencies. Statements of both negotiators of Brexit treaty supported the pound, after several days of its losses due to uncertainty around the progress of negotiations.

After July, **the central budget** recorded deficit for the first time this year in year-to-date terms: PLN0.9bn vs PLN 9.5bn surplus after June. The growth of tax income fell from 13.3% y/y in June to 0.8% in July mainly due to lower inflows from indirect taxes (-1.7% y/y while in June it was +11.7% y/y). What caught our attention was a steep rise of expenditures: only in July the budget expenses amounted to PLN40.5bn, i.e. PLN12.5bn more than in June). Higher expenses resulted from debt servicing costs, which grew by PLN11.7bn in a month (mainly due to maturing bonds, although the large amount suggests that swap operations may have also been made to shift the costs in time; this was a one-off jump of these costs). The deputy minister of finance, Leszek Skiba, signalled that July saw acceleration of spending under programmes subsidized by the EU, however the yesterday preliminary budget statement

does not allow to verify it. We can only guess that additional PLN 2bn spent, not included in any of the categories listed in the report, concerned the above category. To sum up, it is likely that full-year budget deficit could settle at PLN23.8bn mentioned in the 2019 budget draft. However, we have to closely follow the indirect taxes growth in the months to come.

EURUSD was moving in a downward trend between 1.169 and 1.166 for the better part of Wednesday's session. In line with our expectations, after almost two weeks of euro gains, the dollar managed to recover. It was caused by returning fears about USA-China trade conflict. Mixed data about US GDP (higher GDP, lower consumption deflator) were neutral for the dollar. In the afternoon the dollar weakened again. Today we expect EURUSD to decrease in reaction to the data about US consumer revenue and spending (which should be solid). Dollar may be also supported by volatility in some emerging markets' currencies.

On Wednesday **zloty** trimmed its gains from the previous days, reacting to slight correction of EURUSD and weakening of Turkish lira. EURPLN climbed from 4.27 to 4.288. The data about budget realisation in July did not affect the currency. Today we anticipate further slight weakening of the zloty in reaction to expected dollar strengthening, further lira depreciation and worsening of investors' moods, reflected in negative sentiment during the Asian session.

Other currencies in the region were weakening against euro and dollar. EURCZK rose from 25.7 to 25.76, while EURHUF climbed from 324.0 to 325.8 (highest level in almost two weeks), which was the effect of dollar strengthening and lira drop. Information that the Czech government plans to raise wages in the public sector by 8% next year did not affect the market. The worsening of sentiment was also felt by ruble – USDRUB rose from 67.9 to 68.3, despite higher oil prices.

On the **domestic debt market**, yields of 5-10Y bonds were rising following the behaviour of core markets. The scale of changes was small (significantly smaller than on the core markets), the domestic yield curve rose by 1bp in the 5-10Y segment. On the front end of the curve, yields decreased by 2bp, following a slide of Polonia rate (O/N), which fell to 0.82% - the lowest level since February. This change was accompanied by IRS rates increases by 1-2bp, which was translated into narrowing of the ASW spread. The budget data did not cause a marked market reaction. Today we expect the yields to increase slightly further in the 5-10Y part of the curve.

ECONOMIC ANALYSIS DEPARTMENT:

al. Jana Pawła II 17, 00-854 Warsaw fax +48 22 586 83 40
 email: ekonomia@bzwbk.pl Web site: skarb.bzwbk.pl
 Piotr Bielski +48 22 534 18 87
 Marcin Luźniński +48 22 534 18 85
 Grzegorz Ogonek +48 22 534 19 23
 Konrad Soszyński +48 22 534 18 86
 Marcin Sulewski +48 22 534 18 84

TREASURY SERVICES:

Poznań +48 61 856 5814/30
 Warszawa +48 22 586 8320/38
 Wrocław +48 71 369 9400

FX market

Today's opening

EURPLN	4.2903	CZKPLN	0.1667
USDPLN	3.6657	HUFPLN*	1.3157
EURUSD	1.1704	RUBPLN	0.0538
CHFPLN	3.7752	NOKPLN	0.4393
GBPPLN	4.7773	DKKPLN	0.5753
USDCNY	6.8322	SEKPLN	0.4012

*for 100HUF

Last session in the FX market

29/08/2018

	min	max	open	close	fixing
EURPLN	4.267	4.291	4.268	4.287	4.2871
USDPLN	3.641	3.678	3.642	3.663	3.6747
EURUSD	1.165	1.172	1.172	1.171	-

Interest rate market

29/08/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0720 (2L)	1.57	2	23-Aug-18	OK0720	1.578
DS1023 (5L)	2.50	0	23-Aug-18	PS0123	2.335
WS0428 (10L)	3.17	2	23-Aug-18	WS0428	3.156

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.77	0	2.67	1	-0.25	0
2L	1.92	0	2.85	2	-0.15	0
3L	2.12	1	2.90	2	0.00	1
4L	2.30	2	2.91	2	0.16	1
5L	2.45	2	2.91	1	0.31	2
8L	2.74	2	2.94	1	0.69	1
10L	2.91	2	2.96	1	0.91	2

WIBOR rates

Term	%	Change (bps)
O/N	0.99	-17
T/N	1.37	10
SW	1.54	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	1.72	0
3x6	1.74	0
6x9	1.77	0
9x12	1.81	0
3x9	1.81	-1
6x12	1.85	-1

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.77	2
France	26	-1	0.33	0
Hungary	116	1	2.95	0
Spain	70	0	1.06	0
Italy	253	1	2.71	0
Portugal	64	0	1.49	0
Ireland	25	0	0.51	0
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

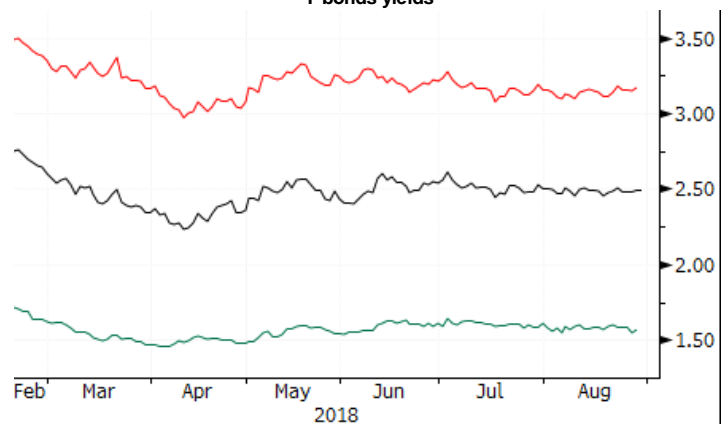
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

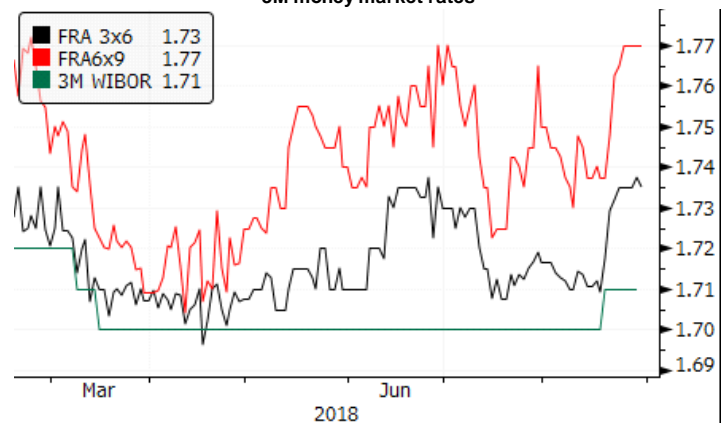
Zloty exchange rate



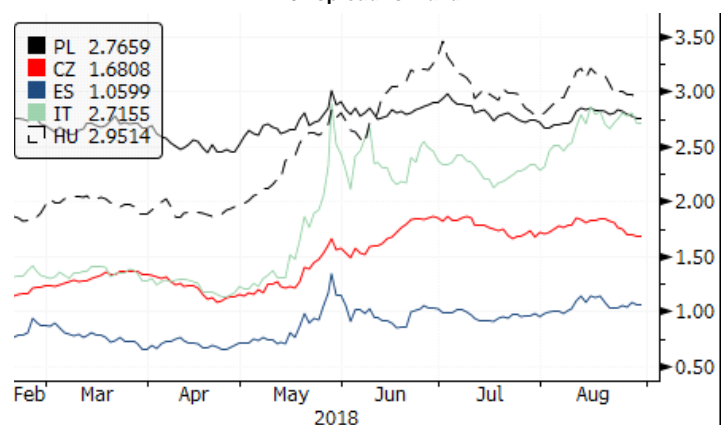
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME		INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST
CET	MARKET				BZWBK	VALUE		
FRIDAY (24 August)								
08:00	DE	GDP WDA	% y/y	2.0		2.0	2.0	
10:00	PL	Unemployment Rate	%	5.9		5.9	5.9	
16:00	US	Durable Goods Orders	% m/m	-1.0		-1.7	0.8	
MONDAY (27 August)								
10:00	DE	IFO Business Climate	Aug pts	101.8		103.8	101.7	
TUESDAY (28 August)								
16:00	US	Consumer Conference Board	Aug pts	126.6		-	127.4	
WEDNESDAY (29 August)								
	PL	Central Budget Cumul.	Jul mIn PLN	-		-858.7	9535.5	
14:30	US	GDP Annualized	2Q % Q/Q	4.0		4.2	4.1	
16:00	US	Pending Home Sales	Jul % m/m	0.25		-0.7	0.9	
THURSDAY (30 August)								
11:00	EZ	ESI	Aug pct.	111.88		-	112.1	
14:00	DE	HICP	Aug % m/m	0.2		-	0.4	
14:30	US	Initial Jobless Claims	Aug-18 k	213.0		-	210.0	
14:30	US	Personal Spending	Jul % m/m	0.4		-	0.4	
14:30	US	Personal Income	Jul % m/m	0.4		-	0.4	
14:30	US	PCE Deflator SA	Jul % m/m	0.12		-	0.1	
FRIDAY (31 August)								
08:00	DE	Retail Sales	Jul % m/m	-0.15		-	0.9	
09:00	CZ	GDP SA	2Q % y/y	2.3		-	2.3	
10:00	PL	CPI	Aug % y/y	2.0	1.8	-	2.0	
10:00	PL	GDP	2Q % y/y	-	5.1	-	5.1	
11:00	EZ	Flash HICP	Aug % y/y	2.1		-	2.1	
11:00	EZ	Unemployment Rate	Jul %	8.2		-	8.3	
16:00	US	Michigan index	Aug pts	95.5		-	95.3	

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

This publication has been prepared by Bank Zachodni WBK S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Bank Zachodni WBK S.A., its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Bank Zachodni WBK S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Bank Zachodni WBK S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

Additional information is available on request. Please contact Bank Zachodni WBK S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@bzwbk.pl, http://www.bzwbk.pl.