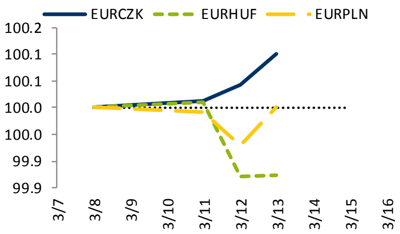
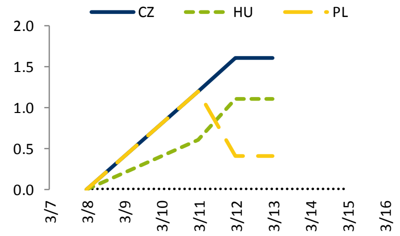
Wednesday, 13 March 2019

Forex markets (index)



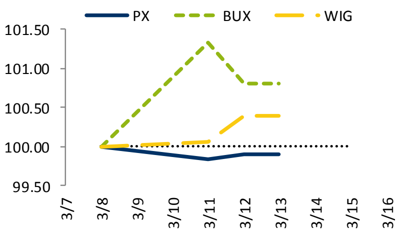
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.68	25.66	0.06
EURHUF	315.2	315.2	0.00
EURPLN	4.302	4.299	0.07

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.870	1.870	0.0
HUGB 10Y	3.21	3.21	0.0
PLGB 10Y	2.86	2.86	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1060.4	1060.4	0.00
BUX	40613	40613	0.00
WIG	59669	59669	0.00

Our regional insights:

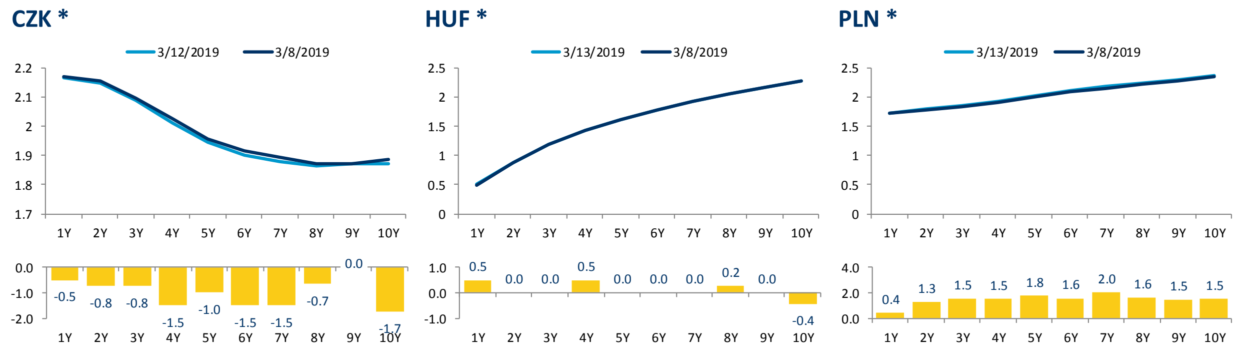
The new Polish fiscal package might see first sovereign rating tests relatively soon

The Polish government is going to implement a new pre-election fiscal package, which in its full version could cost the public budget up to 2% of GDP in 2020. While the fiscal boost will generate some extra GDP growth, we see two negative side-effects coming from the planned fiscal package, which could bring some headwinds for the zloty in the medium-term horizon.

First, the planned fiscal expansion will be scrutinized by rating agencies. We do not expect a repeat of the rating tsunami, which came in January 2016 when the S&P agency unexpectedly downgraded the Polish sovereign rating. Recall the downgrade came because of a victory the current ruling party Law and Justice and its promise to trigger higher social public spending and to cut the age for retirement. The zloty's reaction to S&P's downgrade was sharply negative, while the Polish currency was then very nervous every time when any rating agency began to talk about re-assessment of Poland's ratings. This time the situation is a bit similar, but we believe that major rating agencies will be more cautious. We expect strong verbal warnings, but no change in sovereign ratings or even of their outlooks (which should remain STABLE in all cases). Nevertheless, we do believe that both the Polish bonds and the zloty will be on alert ahead of upcoming rating reviews. In this respect it is worth noting that the Fitch will review Polish sovereign rating already next week (March 19th), while it will be followed soon by S&P (on April 11th) and Moody's (April 19th) respectively.

Secondly, if approved - the planned fiscal expansion could have a meaningful negative impact on the current account balance. The Polish current account finished the year 2018 with an insignificant deficit worth of 0.7% of GDP. Further deterioration implied by strong domestic demand (and that is why by stronger imports) looks inevitable. We estimate that if implemented in a full version the government expansionary package could result in worsening of the current account balance in a scale of 1% of GDP. This could theoretically bring the current account deficit to 2% of GDP. Nevertheless, given the NBP long-term hands-off policy we still see some zloty's depreciation in the medium-term (driven by a tightening of the interest rate differential), which should slow the process of trade-balance and current-account deterioration.

Interest-rate Swap Curves



* upper plot in each panel shows interest swap curve (%), lower plot shows change in interest rates in basis points (against previous Friday).

Calendar

Country	Date	Time	Indicator		Period	Forecast		Actual		Consensus		Previous	
						m/m	y/y	m/m	y/y	m/m	y/y	m/m	y/y
CZ	03/14	9:00	Retail sales	%	01/01/2019		1.8				0.9		0.1
CZ	03/15	9:00	Construction output	%	01/01/2019		-12						3.9
CZ	03/15	9:00	Industrial output	%	01/01/2019		1.0				1.6		-1.4
PL	03/15	10:00	CPI	%	02/01/2019					0.1	1.2	0.1	0.9

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