Bank Zachodni WBK

Eyeopener – Stronger signals of recovery

2 August 2013

- **ECB maintains its declaration of low interest rates, much better-than-expected PMI indices for domestic manufacturing, euro zone and the USA**
- **Considerable volatility of PLN and falling EURUSD**
- **Strong rises of IRS and yields due to weakening of core debt**
- **Today monthly data from the US labour market**

Message of the FOMC statement was in line with investors' expectations, so Thursday's session was passing in optimistic atmosphere, supported also by hopes that the ECB will maintain dovish tone. Better readings of macro data (final PMI for German and euro zone manufacturing better than flash data, ISM for the US manufacturing clearly above expectations, better weekly labour market data) together with dovish rhetoric of the central banks underpinned the sentiments, mostly on equity markets. More visible signs of economic recovery fuelled a sell-off on the core debt markets. Today at the opening yields of 10Y German bond are close to 1.70%.

Yesterday court in Rome confirmed the prison sentence for the former prime minister of Italy, Silvio Berlusconi, convicted with tax-fraud. This can be a blow for the current ruling coalition in Italy. Destabilization of political situation in this country would be putting a negative pressure on investors' moods.

In line with expectations, the ECB left interest rates unchanged, with refinancing rate at 0.50%. The statement reads that recent data confirmed the ECB's forecasts. It was reiterated that rates (including deposit rate) will remain at current or lower level as long as it is necessary, provided that expected inflation and economic growth are low. It was noted that risk for GDP forecasts is asymmetric to the downside. The ECB governor commented that forward guidance on interest rates will be changed if situation proves markedly better than the ECB expected. However, this is not dependent on any particular level of some macro figure. Mario Draghi added also that this announcement does not necessarily have to appear every month, so lack of words on forward guidance in statement would not mean that it became invalid. After question if interest rate cut was discussed, the ECB governor said that the Council was discussing if words on forward guidance should be kept in the statement. At the same time, he stressed that 0.50% level is not the lowest acceptable level for the refinancing rate. This suggestion was in line with dovish message of yesterday's conference and statement.

The Czech National Bank also kept interest rates unchanged, but suggested that risk of FX intervention is increasing. The CNB governor said during press conference that the Council voted on such actions. Yesterday this motion failed to gather majority, but Miroslav Singer said that some opponents of the intervention are changing their minds. These words did not affect the koruna as negatively as it could have been expected (EURCZK went up from 25.88 to 25.99).

PMI for Polish manufacturing surged in July to 51.1pts, above even most optimistic expectations (range of forecasts 49.5-50.9pts). Monthly increase and the level reached last month were both the highest since January 2012. In line with our expectations, further improvement was recorded in new orders and new export orders. This resulted in breaking the series of 15 month-long of contraction in output. According to the survey, in July output expanded at the fastest pace since January 2012 and the pace was above the long-term average. On the other hand, employment continued to decline, but at a moderate pace. This series is lagging versus the business cycle, thus stronger impulse from, for example, manufacturing is required to trigger visible improvement on the labour market.

EURUSD continued the decline initiated during the night. The exchange rate broke slightly and only temporarily the support level indicated yesterday at 1.32, but did not manage to decline any further. Much better-than-expected US data did not have much impact on the market, at the end of the day EURUSD was close to 1.323. The exchange rate may stay close to opening level at ca. 1.32 until the US data release. Next support is at 1.312.

EURPLN and USDPLN trimmed their morning declines triggered by better-than-expected data on Polish PMI. Due to, among others, US data, EURPLN rebounded from 4.23 to 4.255 and USDPLN from 3.19 to 3.215. Today in the morning EURPLN tested the resistance at 4.26. The zloty shows rather negative reaction to US data. Today investors' attention will focus on US nonfarm payrolls. However, it seems that even if these data prove better than expected, the reaction may be less significant than during a few last sessions, as the market has already priced-in much of the risk of QE3 tapering. Still, this does not mean the resistance at 4.26 will not be tested again. Next vital level is at 4.30.

On the domestic interest rate market IRS climbed but at a clearly smaller scale than bond yields. After a strong opening – just like on the Bund market – a clear weakening was recorded in the following hours. This trend was driven by much better-than-expected US data which put a visible pressure on the core debt market. 2-10 spread for Polish bond curve surged by 7bps, to 136bps. FRA and 1-12M WIBOR rates remained stable. Today US nonfarm payrolls are due to be released. If they also surprise to the upside, then IRS and bond yields may continue to rise.

MPC member, Jan Winiecki, said yesterday that currently he does not see a need to tighten the monetary policy. In his opinion, NBP rates should remain stable for 2-3 quarters. Such a scenario is priced-in by the market – FRA rates show a risk of an interest rate hike in 12 months' time.

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FX market

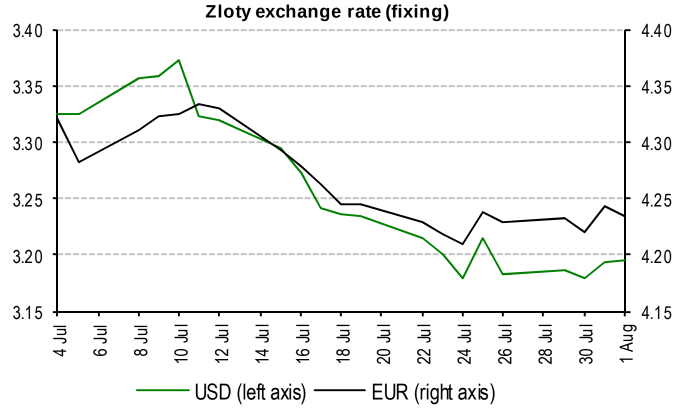
Today's opening

EURUSD	1.3216	CADPLN	3.1116
USDPLN	3.2224	DKKPLN	0.5713
EURPLN	4.2585	NOKPLN	0.5419
CHFPLN	3.4389	SEKPLN	0.4885
JPYPLN*	3.2344	CZKPLN	0.1636
GBPPLN	4.8723	HUFPLN*	1.4173

*for 100JPY/100HUF

Last session 01.08.2013

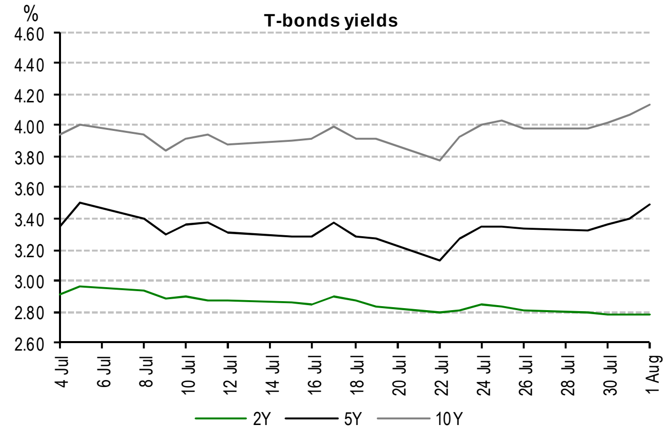
	min	max	open	close	fixing
EURPLN	4.2280	4.2579	4.2442	4.2579	4.2339
USDPLN	3.1912	3.2210	3.1971	3.2184	3.1961
EURUSD	1.3196	1.3276	1.3275	1.3234	-



Interest rate market 01.08.2013

T-bonds**

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0715 (2Y)	2.78	-1	23.04.13	2.748
PS0418 (5Y)	3.49	9	23.04.13	2.889
DS1023 (10Y)	4.13	6	11.04.13	3.515

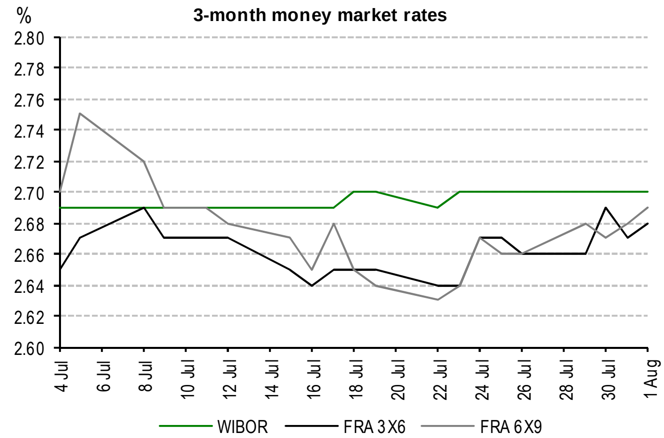


IRS rates**

TERM	PL %	PL Change (bp)	US %	US Change (bp)	EA %	EA Change (bp)
1L	2.73	0	0.33	-1	0.42	0
2L	3.02	0	0.49	0	0.57	0
3L	3.27	2	0.79	-1	0.75	0
4L	3.44	3	1.19	-1	0.97	0
5L	3.57	3	1.60	-1	1.20	-1
8L	3.83	0	2.46	-3	1.72	-2
10L	3.96	1	2.82	-3	1.99	-2

WIBOR rates

TERM	%	Daily change (bp)
O/N	2.57	3
T/N	2.57	2
SW	2.60	0
2W	2.60	0
1M	2.63	0
3M	2.70	0
6M	2.71	0
9M	2.72	0
1Y	2.74	0



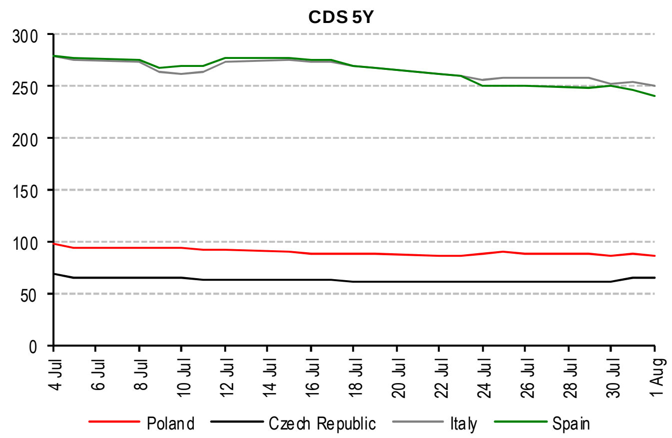
FRA rates**

TERM	%	Daily change (bp)
1x2	2.63	1
1x4	2.66	1
3x6	2.68	1
6x9	2.69	1
9x12	2.79	1
3x9	2.72	1
6X12	2.77	0

Measures of fiscal risk

Country	CDS 5Y Value	CDS 5Y Change (bp)	Spread 10Y* Value	Spread 10Y* Change (bp)
Poland	86.4	-2	2.36	0
Czech Republic	65.2	0	0.59	5
Hungary	314.0	-2	4.61	-23
Greece	37030.5	0	8.30	-11
Spain	242.0	-5	2.98	1
Italy	251.2	-3	2.71	-1
Portugal	403.3	-8	4.77	5
Ireland	147.1	2	2.23	2
Germany	26.5	0	--	--

* 10Y treasury bonds over 10Y Bunds



*Information shows mid levels on the interbank market

Source: Reuters

Economic calendar

CZAS W-WA	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE*
		FRIDAY (26 July)						
15:55	US	Flash Michigan	Jul	pts	84.0	-	85.1	83.9
		MONDAY (29 July)						
16:00	US	Pending home sales	Jun	%MoM	-1.2	-	-0.4	5.8
		TUESDAY (30 July)						
15:00	US	S&P/Case-Shiller home price index	May	%MoM	1.5	-	1.1	1.7
16:00	US	Consumer confidence index	Jul	pts	81.0	-	80.3	82.1
		WEDNESDAY (31 July)						
11:00	EZ	Flash HICP	Jul	%YoY	1.6	-	1.6	1.6
14:00	**PL**	**Inflation expectations**	**Jul**	**%YoY**	**-**	**-**	**0.4**	**0.4**
14:15	US	ADP report	Jul	k	180	-	200	198
14:30	US	Advance GDP	Q2	%QoQ	1.0	-	1.7	1.1
20:00	US	Fed decision		%	0.0-0.25	-	0.0-0.25	0.0-0.25
		THURSDAY (1 August)						
3:45	CN	PMI – manufacturing	Jul	pts	47.7	-	47.7	48.2
9:00	**PL**	**PMI – manufacturing**	**Jul**	**pts**	**50.1**	**49.7**	**51.1**	**49.3**
9:53	DE	PMI – manufacturing	Jul	pts	50.3	-	50.7	48.6
9:55	EZ	PMI – manufacturing	Jul	pts	50.1	-	50.3	48.8
13:00	GB	BoE decision		%	0.50	-	0.50	0.50
13:45	EZ	ECB decision		%	0.50	-	0.50	0.50
14:00	CZ	CNB decision		%	0.05	-	326	345
14:30	US	Initial jobless claims	week	k	345	-	0.05	0.05
16:00	US	ISM – manufacturing	Jul	pts	52.0	-	55.4	50.9
		FRIDAY (2 August)						
14:30	US	Non-farm payrolls	Jul	k	185	-		195
14:30	US	Unemployment rate	Jul	%	7.5	-		7.6
14:30	US	Personal income	Jun	%MoM	0.4	-		0.5
14:30	US	Consumer spending	Jun	%MoM	0.5	-		0.3

Source: BZ WBK, Reuters, Bloomberg

** in case of the revision, the data is updated*

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