

Eyeopener – New data after long weekend

19 August 2013

- **Stable moods at the end of the week, weaker than expected data from USA**
- **Slight changes in EURUSD, weaker zloty**
- **Continuation of upward trend in yields and IRS**
- **Today, data from Polish labour market**

Global financial markets stabilized on Friday after quite considerable swings on Thursday. Some rise in volatility was observed after US data on housing market, which proved worse than expected. This supported the euro against the dollar. As regards domestic market, low liquidity due to long weekend was supportive for an elevated volatility, especially on the interest rate market.

On Friday the single currency continued gains versus the dollar. This was primarily due to weaker readings of the US housing data. After morning's stabilization of EURUSD at 1.334, the rate climbed slightly above 1.337 at the close of domestic session. During the Asian session the dollar gained, pushing the rate back to 1.332 at today's opening. This week investors will focus on macro data and on release of minutes of Fed's July meeting. Important support is at 1.327, resistance at 1.34.

On the domestic FX market the zloty remained weak after the strong depreciation on Thursday's illiquid market (market holiday in Poland). Long weekend was a reason for low investors' activity, but trading range was quite wide: 4.2185-4.232 in relation to the euro and 3.153-3.73 in relation to the dollar. At the end of the Friday's session the rates were close to upper borders of these ranges, this morning they are even higher, at ca. 4.237 per euro and 3.18 per dollar.

Interest rate market was more volatile than FX market. Prices of domestic debt, mainly on the middle and the longer end of the curve adjusted to Thursday's changes on the core markets. As a result and given low liquidity, yield curve moved up by 5 and 7bp on the middle and longer end, respectively. 10Y benchmark yield climbed to 4.35%, the highest level since end of June. Rises were posted also on the IRS market (by 6-11bp along the curve). In due course, IRS curve steepened – 2-10Y spread widened to 109bp, the highest level since 24 June. Adjustment after inflation data took place on the longer WIBOR rate (6-12M), which climbed by 1bp, while 1M and 3M rates remained on hold.

MPC's Jan Winiecki said on Friday in an interview with TVN CNBC that there are no reasons to consider changing the interest rates. The MPC member is expecting a gradual acceleration of economic growth (to 3% in 2H2014), which

for him is an argument to keep interest rates on hold. Winiecki is one of MPC's hawks, so his comment is a strong indication of stable interest rates. This is supporting our forecast (no changes at least until end of 2013).

All four measures of core inflation increased in July (last time such situation took place in February 2012). Core inflation excluding food and energy rose to 1.4%YoY from 0.9%YoY in June. In monthly terms prices rose by as much as 0.6%MoM, which was the highest gain since May 2004. However, one should bear in mind that all this increase was the result of hike in waste management costs by 47.6%MoM due to change in law, so this is not the signal of rising underlying inflationary pressure. Still, we predict core inflation excluding food and energy to keep rising until the end of 2013.

Preliminary data on state budget performance in July showed some improvement of fiscal situation. After seven months of the year, budget revenue reached PLN158.5bn, spending PLN184.4bn, and deficit was PLN25.9bn. In July alone, VAT tax revenues rose by ca. 9.5%YoY, while receipts from excise tax soared 7.7%YoY. If economic situation keeps improving in following months, then this year's tax revenues may prove to be better than government assumed when informing about the need to amend this year's budget. According to press information, tomorrow the government will discuss the amendment to 2013 budget.

This week a new set of macroeconomic data will be released. The labour market data to be released today at 14:00 CET should confirm a trend of slight monthly increase of employment in corporate sector, observed since May (the annual rate of change will improve to -0.6%YoY from -0.8%YoY in June). Predicted quite significant rise in wages (2.9%YoY) will be – in our view – mainly the result of shift in timing of bonus payments in mining, not a sign of building wage pressure. Together with production data to be released tomorrow, this data will confirm that at the start of third quarter the economic activity in Poland kept improving. There will be also release of data important for global markets, including flash PMIs for euro area and Germany, which are likely to show continuation of economic recovery in Europe. Moreover, data from US will be important, being a hint on future Fed's policy.

ECONOMIC ANALYSIS DEPARTMENT

ul. Marszałkowska 142. 00-061 Warszawa
email: ekonomia@bzwbk.pl

Maciej Reluga (Chief Economist)
Piotr Bielski
Agnieszka Decewicz
Marcin Sulewski
Marcin Luziński

fax +48 22 586 83 40

Web site: <http://www.bzwbk.pl>

+48 22 586 83 63
+48 22 586 83 33
+48 22 586 83 41
+48 22 586 83 42
+48 22 586 83 62

TREASURY SERVICES

Poznań
Warszawa
Wrocław

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

F/X rates (today's opening)

EURUSD	1.3324	CADPLN	3.0778
USDPLN	3.1813	DKKPLN	0.5684
EURPLN	4.2388	NOKPLN	0.5378
CHFPLN	3.4297	SEKPLN	0.4880
JPYPLN*	3.2570	CZKPLN	0.1643
GBPPLN	4.9693	HUFPLN*	14112

*for 100JPY/100HUF

Financial market review - 16.08.2013

The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.2185	4.2321	4.2234	4.2246	4.2230
USDPLN	3.1534	3.1732	3.1672	3.1682	3.1665
EURUSD	1.3320	1.3379	1.3336	1.3332	-

T-bonds

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0114 (2Y)	3.04	0	23.04.13	2.748
PS1016 (5Y)	3.73	5	23.04.13	2.889
DS1021 (10Y)	4.34	7	11.04.13	3.515

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	2.82	5	0.34	1	0.44	1
2L	3.23	13	0.53	2	0.62	2
3L	3.54	17	0.88	5	0.83	3
4L	3.76	18	1.30	6	1.08	4
5L	3.93	21	1.70	6	1.33	4
8L	4.21	23	2.58	6	1.90	5
10L	4.32	23	2.93	6	2.18	6

WIBOR rates

TERM	%	Daily change (bp)
O/N	2.59	1
T/N	2.60	1
SW	2.60	0
2W	2.60	0
1M	2.62	0
3M	2.70	1
6M	2.72	1
9M	2.74	1
1Y	2.75	1

FRA rates (Mid)

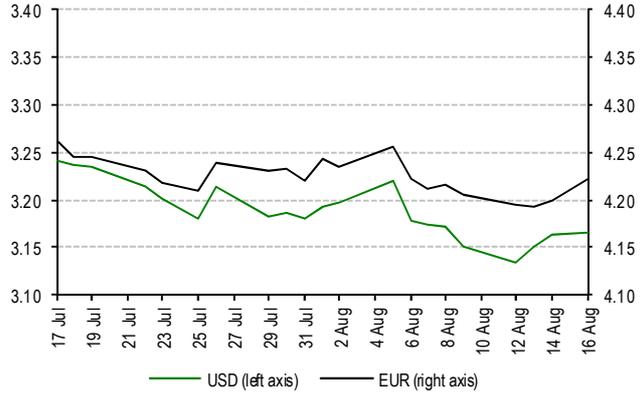
TERM	%	Daily change (bp)
1x2	2.65	-1
1x4	2.69	-1
3x6	2.72	0
6x9	2.81	1
9x12	2.95	1
3x9	2.80	3
6X12	2.91	0

Measures of fiscal risk

Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	85.1	1	2.47	7
Czech Republic	64.8	0	0.47	-8
Hungary	320.9	0	4.70	24
Greece	37030.5	0	7.84	-6
Spain	228.7	-1	2.48	-18
Italy	240.7	-1	2.31	-7
Portugal	407.5	-2	4.51	-27
Ireland	145.4	0	2.05	-4
Germany	26.7	0	-	-

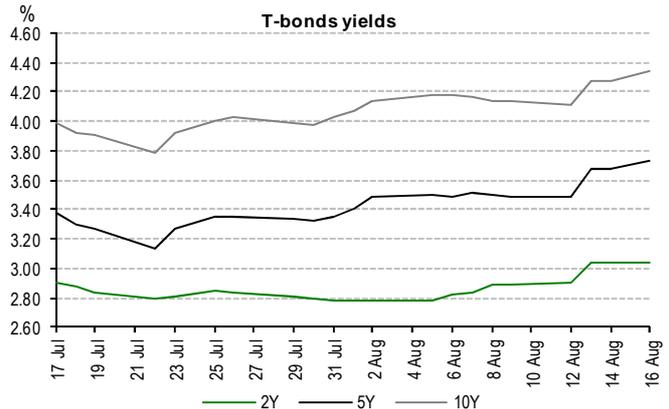
*10Y treasury bonds over 10Y Bunds

Zloty exchange rate (fixing)



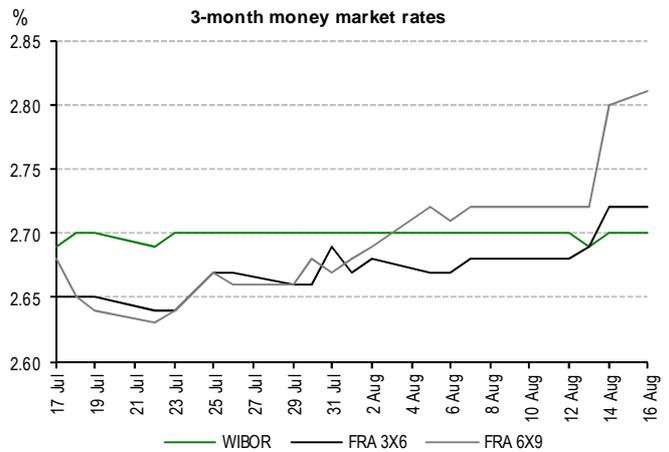
— USD (left axis) — EUR (right axis)

T-bonds yields



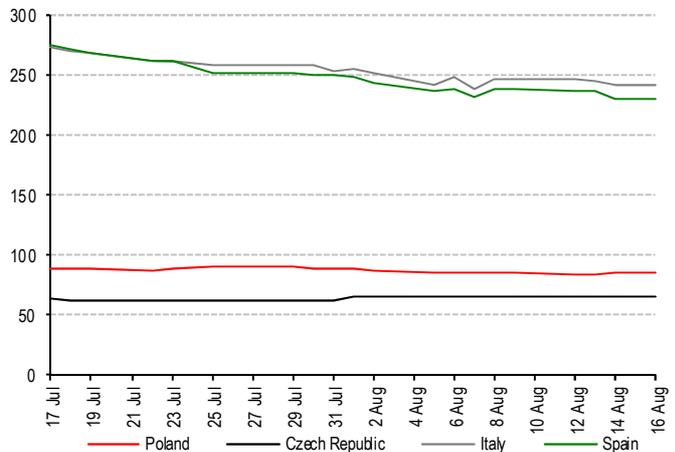
— 2Y — 5Y — 10Y

3-month money market rates



— WIBOR — FRA 3X6 — FRA 6X9

CDS 5Y



— Poland — Czech Republic — Italy — Spain

Source: Reuters

Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	BZWBK		
FRIDAY (16 August)								
11:00	EZ	HICP	Jul	%YoY	1.6	-	1.6	1.6
14:00	PL	Core inflation	Jul	%YoY	0.9	1.4	1.4	0.9
14:30	US	House starts	Jul	k	905	-	896	846
14:30	US	Building permits	Jul	k	945	-	943	918
15:55	US	Flash Michigan	Aug	pts	85.5	-	80.0	85.1
MONDAY (19 August)								
14:00	PL	Employment in corporate sector	Jul	%YoY	-0.7	-0.6		-0.8
14:00	PL	Wages in corporate sector	Jul	%YoY	2.8	2.9		1.4
TUESDAY (20 August)								
14:00	PL	Industrial output	Jul	%YoY	5.1	7.0		3.0
14:00	PL	Construction and assembly output	Jul	%YoY	-12.2	-7.7		-18.3
14:00	PL	PPI	Jul	%YoY	-0.9	-0.9		-1.5
WEDNESDAY (21 August)								
16:00	US	Home sales	Jul	m	5.13	-		5.08
20:00	US	FOMC minutes						
THURSDAY (22 August)								
3:45	CN	Flash PMI – manufacturing	Aug	pts	-	-		47.7
9:28	DE	Flash PMI – manufacturing	Aug	pts	-	-		50.7
9:58	EZ	Flash PMI – manufacturing	Aug	pts	-	-		50.3
14:30	US	Initial jobless claims	week	k	330	-		320
16:00	US	Leading indicators	Jul	%	0.5	-		0.0
FRIDAY (23 August)								
8:00	DE	GDP	Q2	%YoY	0.9	-		-1.6
16:00	US	Consumer confidence	Aug	pts	-16.5	-		-17.4
16:00	US	New home sales	Jul	k	490	-		497

Source: BZ WBK, Reuters, Bloomberg

* 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. Rates Area, Economic Analysis Department, ul. Marszałkowska 142, 00-061 Warsaw, Poland, phone +48 22 586 83 63, email ekonomia@bzwbk.pl, <http://www.bzwbk.pl>