Bank Zachodni WBK

Eyeopener – Stocks, bonds, zloty weaker

5 September 2013

- **OFE's bond portfolio to be transferred to public sector, future contributions to OFE will be voluntary – stock market and bonds clearly weaker**
- **No surprise from MPC, central bank pledged to keep rates stable at least until year-end**
- **Zloty weaker, EURUSD awaiting ECB and US data**
- **Today, bond auction in Poland, ECB meeting and ADP report in the USA**

Atmosphere on the FX market was pretty calm since the beginning of the Wednesday's session. Currencies of our region remained resilient to falling prices on the European stock exchanges, single currency was stable versus the dollar. Data from the euro zone were mixed and had no visible impact on the market.

The key event for the Polish market was PM Tusk's presentation regarding the changes in functioning of private pension funds (OFE). The final proposition is the mix of two scenarios presented earlier – the first one (transfer of government bonds and bonds guaranteed by the government from OFE to ZUS, state-run social security fund) and the second one (future contributions to OFE will be voluntary). Regarding the first part, bonds will be redeemed and this will lead to decline of public debt to GDP ratio by ca. 8pp according to ESA95. The value of bonds transferred to ZUS will amount to 51.5% of OFE assets (which is implied by the share of government bonds and Treasury-guaranteed bonds in total OFE assets at the end of 2012). Furthermore, this value will not be lower than the value calculated on September 3, 2013. At the end of July the share of relevant bonds in OFE's assets was 49.1% while yields were lower than on September 3. This means that probably on average OFE will have to transfer additional cash to the ZUS. Regarding the second element, future contributions to OFE (people will have 3 months to decide about opt-in) will amount to 2.92% (above current 2.8% but below earlier established target at 3.5%). OFE will not be able to invest in government bonds which means they will actually be left with the stock part, though some deeper diversification to international markets should be expected (we have not seen any information whether OFE will be allowed to buy bonds of foreign governments). There will be also another element of the change, presented already earlier, namely the "safety buffer". Ten years before reaching a retirement age, funds collected in OFE will be gradually transferred to ZUS in order to diminish the risk related to the exposure to equity market volatility. The new proposal assumes that assets of those with less than ten years to retirement age will be transferred to ZUS in two tranches, first one in 2014. We do not now any details of this element so far. Despite the fact that most negative scenario (total nationalization of OFE) has not materialized, stock prices plunged in response to government propositions. This was due to worries that in coming years OFE will become net sellers of stocks, though the scale of this activity will depend on number of people that would stay in the old system. Sudden weakening of bonds was probably due to that fact that second biggest (after foreign investors) holder of domestic government debt (21% of debt outstanding at the end of July) would disappear from the bond market. Moody's rating agency said yesterday that changes presented by the government should not have negative impact on Polish rating.

On the domestic interest rate market IRS rates climbed by 6bp for 2Y, 11bp for 5Y and 13bp for 10Y. As regards bonds with these maturities, yields increased by 5, 19 and 15bp, respectively. After yesterday's session 10Y IRS reached the highest level since July 2012 (and 170bp above all-time low in May), 5Y since October 2012 (almost 150bp above all-time low), 2Y since March 2013 (almost 89bp above all-time low). WIBORs in 1-12M did not change. Today the auction of 2Y and 5Y bonds will be held. Given stable sentiments globally, auction results will serve as a test of investors' interpretation of OFE overhaul.

As regards the zloty, both EURPLN and USDPLN fell in the first part of the session. However, sharp sell-off in bond and stock markets triggered equally sharp weakening of the zloty. As a result, EURPLN approached 4.28 (with daily minimum at 4.25), while USDPLN went towards 3.25 (after falling to 3.225 in the morning). Today the EURPLN is close to yesterday's high. It seems that the US data will have the biggest impact on the market. ADP report is treated as a proxy for government's non-farm payrolls data and it may influence expectations regarding tomorrow's key release. Important levels are still at 4.25 and 4.30.

EURUSD was oscillating throughout the day around 1.317, the market is awaiting today's ECB meeting and Friday's data from the US labour market. After close of domestic session the rate climbed temporarily to 1.322, but this morning it is close to 1.317. Important events for today are ECB decision and the US figures. Crucial levels for today are 1.314 and 1.322.

The Fed Beige Book, released in the afternoon, confirmed a moderate recovery of the US economy. Optimistic message was delivered also by the Bank of Japan statement from the meeting ended today, which confirmed an economic recovery.

MPC kept the interest rates unchanged. The decision was a non-event given many earlier comments of Council's members suggesting NBP rates should remain at current levels until the end of the year. Our base-case scenario assumes stable interests rates until mid-2014, which is roughly in line with scenario priced-in by the money market.

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FX market

Today's opening

EURUSD	1.3175	CADPLN	3.0918
USDPLN	3.2436	DKKPLN	0.5730
EURPLN	4.2738	NOKPLN	0.5333
CHFPLN	3.4523	SEKPLN	0.4905
JPYPLN*	3.2490	CZKPLN	0.1660
GBPPLN	5.0639	HUFPLN*	1.4173

*for 100JPY/100HUF

Last session 04.09.2013

	min	max	open	close	fixing
EURPLN	4.2490	4.2817	4.2670	4.2748	4.2673
USDPLN	3.2222	3.2514	3.2412	3.2399	3.2387
EURUSD	1.3155	1.3198	1.3167	1.3198	-

Interest rate market 04.09.2013

T-bonds**

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0715 (2Y)	3.19	5	23.04.13	2.748
PS0718 (5Y)	4.13	19	23.04.13	2.889
DS1023 (10Y)	4.77	15	11.04.13	3.515

IRS rates**

TERM	PL %	PL Change (bp)	US %	US Change (bp)	EA %	EA Change (bp)
1L	2.89	2	0.34	-1	0.45	0
2L	3.37	6	0.59	1	0.65	1
3L	3.74	9	0.98	1	0.90	2
4L	4.00	9	1.42	1	1.17	3
5L	4.18	11	1.82	1	1.42	4
8L	4.48	14	2.67	1	1.97	4
10L	4.57	13	3.01	1	2.24	4

WIBOR rates

TERM	%	Daily change (bp)
O/N	2.52	-1
T/N	2.54	-2
SW	2.60	0
2W	2.60	0
1M	2.61	0
3M	2.70	0
6M	2.73	0
9M	2.75	0
1Y	2.76	0

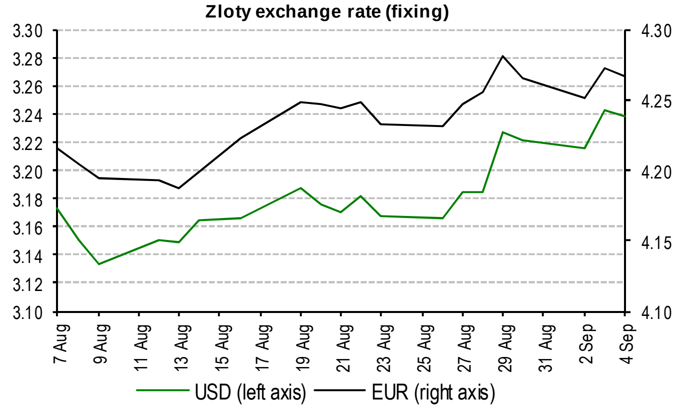
FRA rates**

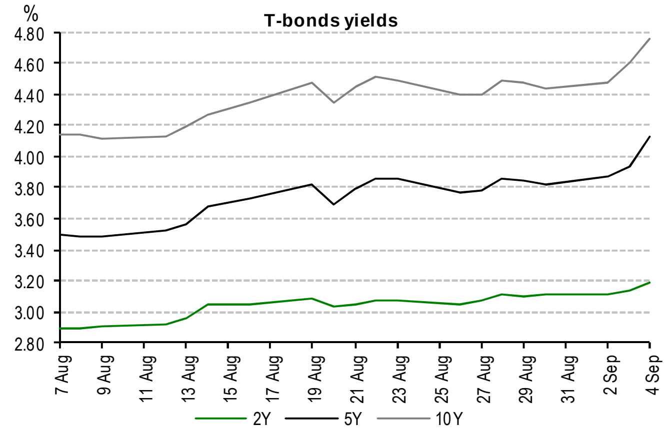
TERM	%	Daily change (bp)
1x2	2.66	0
1x4	2.72	-1
3x6	2.77	2
6x9	2.88	2
9x12	3.09	3
3x9	2.85	2
6X12	3.08	8

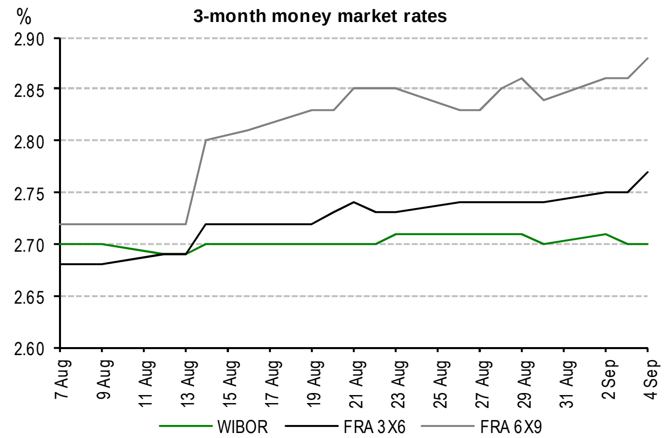
Measures of fiscal risk

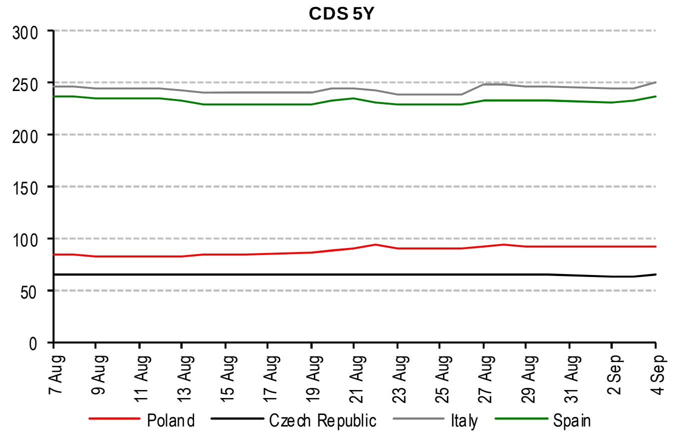
Country	CDS 5Y Value	CDS 5Y Change (bp)	Spread 10Y* Value	Spread 10Y* Change (bp)
Poland	93.4	1	2.83	18
Czech Republic	64.7	0	0.64	-2
Hungary	323.5	0	4.75	-5
Greece	37030.5	0	8.60	9
Spain	237.8	4	2.57	0
Italy	250.5	5	2.48	4
Portugal	503.8	5	4.84	3
Ireland	148.5	0	2.07	-12
Germany	29.0	0	--	--

* 10Y treasury bonds over 10Y Bunds









**Information shows mid levels on the interbank market

Source: Reuters

Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE*
		FRIDAY (30 August)						
10:00	**PL**	**GDP**	**Q2**	**%YoY**	**0.8**	**0.8**	**0.8**	**0.5**
10:00	**PL**	**Fixed investments**	**Q2**	**%YoY**	**-3.2**	**-5.0**	**-3.8**	**-2.0**
10:00	**PL**	**Private consumption**	**Q2**	**%YoY**	**0.4**	**0.5**	**0.2**	**0.0**
14:30	US	Personal spending	Jul	%MoM	0.3	-	0.1	0.6
14:30	US	Personal income	Jul	%MoM	0.2	-	0.1	0.3
15:45	US	Chicago PMI index	Aug	pts	53.0	-	53.0	52.3
15:55	US	Michigan index	Aug	%YoY	80.5	-	82.1	85.1
		MONDAY (2 September)						
	US	Market holiday						
3:45	CN	PMI – manufacturing	Aug	pts	50.2	-	50.1	47.7
9:00	**PL**	**PMI – manufacturing**	**Aug**	**pts**	**51.7**	**51.6**	**52.6**	**51.1**
9:53	DE	PMI – manufacturing	Aug	pts	52.0	-	51.8	50.7
9:58	EZ	PMI – manufacturing	Aug	pts	51.3	-	51.4	50.3
		TUESDAY (3 September)						
9:00	CZ	Flash GDP	2Q	%YoY	-1.2	-	-1.3	-2.4
16:00	US	ISM – manufacturing	Aug	pts	54.0		55.7	55.4
		WEDNESDAY (4 September)						
	PL	**MPC decision**		**%**	**2.50**	**2.50**	**2.50**	**2.50**
9:00	HU	Flash GDP	2Q	%YoY	0.5	0.5	0.5	-0.9
9:53	DE	PMI – services	Aug	pts	52.4	-	52.8	51.3
9:58	EZ	PMI – services	Aug	pts	51.0	-	50.7	49.8
11:00	EZ	Preliminary GDP	Q2	%YoY	-0.7	-	-0.5	-1.1
20:00	US	Fed Beige Book						
		THURSDAY (5 September)						
11:00	**PL**	**Auction of OK0116/PS0718 bonds worth PLN4-8bn**						
12:00	DE	Industrial orders	Jul	%MoM	-1.0	-		3.8
13:45	EZ	ECB decision		%	0.50	-		0.50
13:00	GB	BoE decision		%	0.50	-		0.50
14:15	US	ADP report	Aug	k	180	-		200
14:30	US	Initial jobless claims	week	k	330	-		331
16:00	US	Industrial orders	Jul	%MoM	-3.5	-		1.5
		FRIDAY (6 September)						
8:00	DE	Exports	Jul	%MoM	1.0	-		0.6
9:00	CZ	Industrial output	Jul	%YoY	-	-		-5.3
12:00	DE	Industrial output	Jul	%MoM	-0.5	-		2.4
14:30	US	Non-farm payrolls	Aug	k	180	-		162
14:30	US	Unemployment rate	Aug	%	7.4	-		7.4

Source: BZ WBK, Reuters, Bloomberg

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

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