Bank Zachodni WBK

Eyeopener – Inflation data today

13 September 2013

- **Weak data from the euro zone, very good from US**
- **Zloty with no major changes, EURUSD volatile**
- **IRS and bond yields lower**
- **Today, Polish CPI data and Sejm's vote on budget amendment, important data from the USA**

The first data from the euro zone and from the USA, released this week, have considerably affected the FX market. Initially the euro trimmed some of its gains after information that in July the euro zone's industrial output shrunk more than expected (monthly growth rate was lowest since September 2012). However, US data were considerably better than expected – initial jobless claims fell to the lowest level since March 2006 and were below 300k for the first time since May 2007. This reading backed the dollar against the euro, but eventually the pair ended the day at Wednesday's close. Yesterday Italy sold bonds maturing in three years, worth €4bn. Yields amounted to 2.72% as compared to 2.3% in mid-July. Rising financing costs were partly due to investors' worries about ruling coalition in Italy. The ECB governor, Mario Draghi, said yesterday that current level of market interest rates is unjustified (since May euro IRS has been rising, among other factors due to positive data from Germany and the whole euro zone). In his view, the recovery in Europe is still fragile and not visible in "hard data". According to the Moody's agency, Germany economy will expand moderately in 3Q2013 and will accelerate in Q4, reaching total growth of 0.6% in 2013. However, the comment stresses the German dependency on foreign markets, mainly China, the third biggest trading partner. On the other hand, declining domestic investment was also pointed out.

EURUSD has been sliding lightly since the start of the session due to weaker data on euro zone's industrial output. The dollar's appreciation trend gained steam in reaction to the better-than-expected weekly US data. In due course, EURUSD slid temporarily to 1.326. At the end of the day the pair returned above 1.33. Overnight the dollar strengthened again and this morning the rate is close to 1.327. Dynamic oscillations are suggesting that market is uncertain about the Fed's decision on QE3. Today's data on retail sales in the USA can also fuel volatility.

EURPLN increased to 4.225 at the beginning of the session while following hours brought a decline to 4.205. Despite fast decline of EURUSD, the domestic currency did not lose on value vs. the euro, it pared only some gains versus the dollar (USDPLN increased from ca. 3.16 do 3.18). On the other hand, when EURUSD surged at the end of the day, the zloty did not gain versus the single currency. At today's opening EURPLN is close to 4.22. Data on Polish CPI shall not have much impact on the domestic currency. It is worth to notice that after yesterday's better than expected US data the zloty did not depreciate, developments on the Polish bond market proved more important. Today's publication of US retail sales data may influence domestic bonds through core market and thus trigger some changes on the Polish FX market. Support and resistance for EURPLN is at 4.205 and 4.25.

On the domestic interest rate market IRS fell again, once more bigger move took place in the middle and at the long end of the curve (8-9bp) than at the short end (3-5bp). Spread 2-10Y fell to 110bp, lowest level this month. Bond market strengthened as well, although in smaller scale (1-3bp in case of 2Y, 5Y and 10Y). Turnover was also lower than on Wednesday. WIBOR between 1M and 12M remained unchanged once again. Those rates, likewise FRA market, remain under influence of MPC's rhetoric. Comments of MPC members and communique from September's meeting suggest that the NBP main interest rates will remain unchanged at least until the end of 2013. Such message is favouring stabilisation of short-term rates. Bond market has in fact trimmed all losses incurred after announcement of government's plans of OFE overhaul and now market may be awaiting an impulse, which will set direction for days to come. In our view, more important than domestic CPI data (our forecast is consistent with market consensus) may be US retail sales figure.

MPC member Elżbieta Chojna-Duch said yesterday that NBP interest rates may remain stable until the middle of 2014. This is consistent with our expectations regarding monetary policy prospects. Meanwhile, yesterday the *Monetary policy guidelines for 2014* have been released. They remained very similar to those for current year. The MPC maintained unchanged the medium-term inflation targeting strategy with target at 2.5% +/- 1.5pp. The monetary policy will be aimed at keeping CPI close to 2.5%, not only within the range. It was underscored that important circumstances for conducting monetary policy will be situation in the financial sector, as well as fiscal policy.

Today at 14:00 the data on August's inflation will be released. Change in the CSO' methodology for seasonal prices generates some risk for another surprise this month (after significant upward surprise last month). Still, our forecast and market consensus are suggesting a stabilization of CPI growth at July's level, i.e. 1.1%YoY. Apart from seasonal decline of food and clothing/footwear prices, prices of other goods and services should remain rather unchanged, in our view.

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FX market

Today's opening

EURUSD	1.3274	CADPLN	3.0745
USDPLN	3.1783	DKKPLN	0.5657
EURPLN	4.2193	NOKPLN	0.5385
CHFPLN	3.4060	SEKPLN	0.4866
JPYPLN*	3.1836	CZKPLN	0.1634
GBPPLN	5.0182	HUFPLN*	1.3996

*for 100JPY/100HUF

Last session 12.09.2013

	min	max	open	close	fixing
EURPLN	4.2030	4.2670	4.2670	4.2124	4.2238
USDPLN	3.1572	3.2412	3.2412	3.1661	3.1782
EURUSD	1.3167	1.3324	1.3167	1.3309	-

Interest rate market 12.09.2013

T-bonds**

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0715 (2Y)	3.06	-1	23.04.13	2.748
PS0718 (5Y)	3.84	-3	23.04.13	2.889
DS1023 (10Y)	4.51	-2	11.04.13	3.515

IRS rates**

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	2.86	0	0.34	0	0.43	-1
2L	3.19	-3	0.58	-2	0.62	-3
3L	3.50	-5	0.98	-3	0.87	-5
4L	3.73	-7	1.42	-3	1.15	-5
5L	3.90	-8	1.82	-4	1.41	-6
8L	4.19	-9	2.67	-4	1.97	-6
10L	4.29	-9	3.02	-4	2.25	-6

WIBOR rates

TERM	%	Daily change (bp)
O/N	2.57	0
T/N	2.58	0
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	2.77	0

FRA rates**

TERM	%	Daily change (bp)
1x2	2.65	-1
1x4	2.74	0
3x6	2.77	1
6x9	2.85	2
9x12	3.02	0
3x9	2.84	1
6X12	2.97	0

Measures of fiscal risk

Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	92.4	-1	2.55	0
Czech Republic	60.3	-2	0.62	0
Hungary	287.0	-8	4.50	4
Greece	37030.5	0	8.39	8
Spain	237.0	1	2.55	6
Italy	250.0	1	2.60	7
Portugal	515.3	-1	5.31	13
Ireland	148.2	0	2.10	8
Germany	26.7	-1	--	--

* 10Y treasury bonds over 10Y Bunds

**Information shows mid levels on the interbank market

Source: Reuters

Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	BZWBK		
		FRIDAY (6 September)						
8:00	DE	Exports	Jul	%MoM	0.7	-	-1.1	0.6
9:00	CZ	Industrial output	Jul	%YoY	2.0	-	2.1	-4.9
12:00	DE	Industrial output	Jul	%MoM	-0.5	-	-1.7	2.0
14:30	US	Non-farm payrolls	Aug	k	180	-	169	104
14:30	US	Unemployment rate	Aug	%	7.4	-	7.3	7.4
		MONDAY (9 September)						
9:00	CZ	CPI	Aug	%YoY	1.4	-	1.3	1.4
		TUESDAY (10 September)						
7:30	CN	Industrial output	Aug	%YoY	9.9	-	10.4	9.7
		WEDNESDAY (11 September)						
9:00	HU	CPI	Aug	%YoY	1.6	-	1.3	1.8
14:00	**PL**	**Exports**	**Jul**	**€m**	**13 000**	**13 240**	**12 952**	**12 735**
14:00	**PL**	**Imports**	**Jul**	**€m**	**12 678**	**12 696**	**12 659**	**12 174**
14:00	**PL**	**Current account**	**Jul**	**€m**	**58.0**	**58.0**	**-178**	**574**
		THURSDAY (12 September)						
11:00	EZ	Industrial output	Jul	%MoM	-0.3	-	-1.5	0.6
14:30	US	Initial jobless claims	week	k	330	-	292	332
		FRIDAY (13 September)						
14:00	**PL**	**CPI**	**Aug**	**%YoY**	**1.1**	**1.1**		**1.1**
14:00	**PL**	**Money supply**	**Aug**	**%YoY**	**6.3**	**5.9**		**6.5**
14:30	US	Retail sales ex autos	Aug	%MoM	0.3	-		0.5
15:55	US	Flash Michigan	Sep	pts	82.0	-		82.1

Source: BZ WBK, Reuters, Bloomberg

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

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