Bank Zachodni WBK
Grupa Santander

EYEOPENER

19 February 2014

Output data in Poland, Fed minutes in the USA

- **Mixed data from Germany and weak from the USA**
- **Data on employment in Poland disappointed**
- **Considerable volatility of zloty, EURUSD went strongly up**
- **Domestic interest rate market remained stable**
- **Today domestic data on industrial output, in the USA housing market data and minutes of the last FOMC meeting in the evening**

After stabilization seen on Monday, Tuesday brought a significant increase of volatility on the FX market. Visible impact was provided by information from major economies as well as from the CEE region. Mixed data were released in Germany. ZEW-expectations index plunged in February to 55.7pts from 61.7pts while current situation gauge surged more than anticipated (to 50pts vs. forecasts at 44pts) and reached the highest level since August 2011. Impact of these data was limited, only the afternoon's reading of Empire index triggered a more visible reaction. According to the survey, economic activity in New York State decelerated more than forecasted (index declined from 12.51pts to 4.48pts vs. forecasts at 8.5pts) and this clearly weighed on the dollar. While changes of EURUSD showed strengthening of expectations for slower QE3 tapering after another data disappointment, the US stock prices showed a negative reaction to this publication. Nevertheless, US indexes ended the session close to opening levels as the market awaits today's release of January's FOMC minutes.

In the CEE region, investors' attention focused on the decision of the Hungarian central bank. Investors were surprised again with the scale of a rate cut (15bp vs. expectations at 10bp). After yesterday's decision, main interest rate is at 2.70%, the lowest level in history. Statement read that decision on the continuation of the monetary policy easing cycle will be taken in March after fresh economic forecasts for Hungary will be available for the central bank.

EURUSD surged yesterday quite visibly. German data proved neutral for the market, an impulse for stronger upward move came from the US. Disappointing Empire index triggered dollar's depreciation and EURUSD broke the resistance at 1.373 easily and reached 1.377 during the session. Today in the morning the exchange rate is close to 1.376. During the domestic trading hours the US real estate data may prove vital for the market. In the evening the from last FOMC meeting are due for release. Investors will seek for any clues how much attention the Committee paid to recent disappointing US data and whether a slower pace of QE3 tapering is possible in the nearest future.

EURPLN and USDPLN rebounded yesterday to ca. 4.16 and slightly above 3.06, respectively, following the weakening of the forint. Hungarian currency was under pressure of worries about further monetary policy easing by the central bank. The deeper-than-expected rate cut undermined the forint – EURHUF surged from 308 to 310 (today in the morning it is already above 311) – but the impact of this move was limited for the zloty. When the forint was under pressure during the final hours of trading, the domestic currency was benefiting from rising EURUSD. At the end of the day EURPLN was close to 4.15 and USDPLN below 3.02 and after closing of the domestic session no major changes occurred. The forint, ruble and Turkish lira are under pressure at the beginning of the day and this may hit the zloty. Additionally, in our opinion pace of growth of industrial output in January may disappoint the market and this also may have a negative impact on the Polish currency. Resistance for EURPLN for today is at 4.17, support at 4.14.

On the domestic interest rate market Tuesday did not bring any considerable changes, despite disappointing data from the Polish labour market. IRS rates and bond yields were stable yesterday, trade volumes were thin. After slight rises at the turn of January and February, WIBOR1-12M rates stabilized. Data on industrial output are due for release today. Our forecast is below market expectations, so the afternoon's reading can follow the dovish message of data released at the end of last week (lower-than-expected CPI in January and flash GDP for Q4) and resume the downward march of IRS and bond yields.

Data on employment in corporate sector clearly disappointed showing an annual pace of growth at 0.0% in January, below even the lowest forecast on the market. Only 15.1k of workplaces were added in January, and this was the lowest increase in January in 10 years. However, in our opinion this deceleration of pace of employment growth was mainly due to the annual change of sample examined by the CSO and is an echo of weak situation on the labour market in the first half of 2013. That is why we perceive this disappointment as a one-off and expect better data in coming months. Pace of wage growth reached 3.4%YoY, roughly in line with market consensus. In our opinion, these data are neutral from the MPC point of view.

Today at 14:00 we will see new domestic data. We are expecting some deceleration of growth rates of industrial and construction-assembly output in January. A negative impact on output was exerted by negative working day effect. However, the impact of low temperatures in January is not straightforward, as they could have negatively affected the construction output, but at the same time supported the energy output. Still, in our view the message behind the data will be positive and will suggest further improvement of economic activity.

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FX market

Today's opening

EURUSD	1.3759	CADPLN	2.7643
USDPLN	3.0220	DKKPLN	0.5571
EURPLN	4.1563	NOKPLN	0.4999
CHFPLN	3.4029	SEKPLN	0.4660
JPYPLN*	2.9566	CZKPLN	0.1521
GBPPLN	5.0444	HUFPLN*	1.3330

*for 100JPY/100HUF

Last session 18.02.2014

	min	max	open	close	fixing
EURPLN	0.0000	4.1495	4.1465	4.1495	4.1584
USDPLN	3.0157	3.0275	3.0245	3.0189	3.0300
EURUSD	0.0000	1.3750	1.3710	1.3750	-

Interest rate market 18.02.2014

T-bonds (on the interbank market)**

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0116 (2Y)	3.03	2	7.1113	2.983
PS0718 (5Y)	3.76	-1	13.02.14	3.882
DS1023 (10Y)	4.47	0	13.02.14	4.541

IRS rates (on the interbank market)**

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	2.81	-1	0.27	0	0.39	0
2L	3.09	0	0.44	-1	0.45	0
3L	3.34	-3	0.79	-3	0.59	0
4L	3.55	-4	1.21	-4	0.80	0
5L	3.72	-3	1.60	-4	1.01	-1
8L	4.05	-2	2.46	-5	1.60	-1
10L	4.18	-1	2.81	-2	1.90	0

WIBOR rates

TERM	%	Daily change (bp)
O/N	2.55	0
T/N	2.56	0
SW	2.59	0
2W	2.59	0
1M	2.61	0
3M	2.71	0
6M	2.74	0
9M	2.76	0
1Y	2.78	0

FRA rates (on the interbank market)**

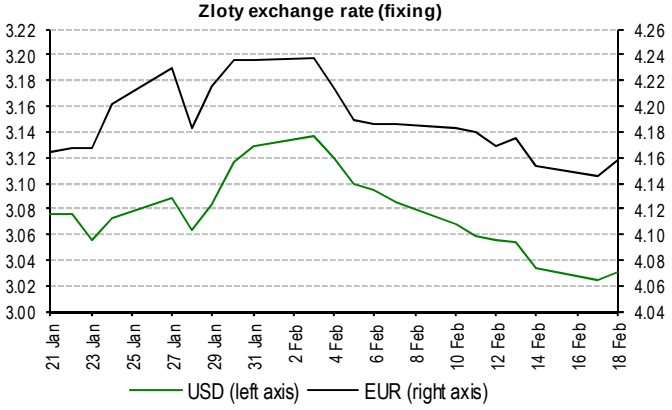
TERM	%	Daily change (bp)
1x2	2.62	1
1x4	2.72	0
3x6	2.73	0
6x9	2.77	1
9x12	2.93	-2
3x9	2.78	5
6X12	2.81	0

Measures of fiscal risk

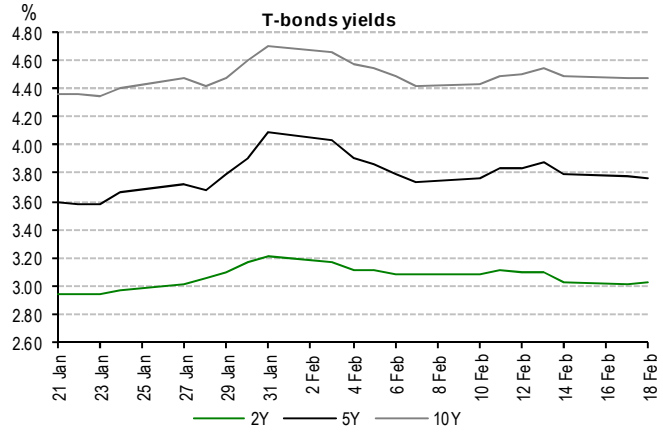
Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	80.1	0	2.79	0
Czech Republic	58.8	0	0.59	0
Hungary	255.6	-1	4.50	7
Greece	37030.5	0	5.86	5
Spain	129.0	-1	1.85	0
Italy	149.6	-3	1.90	-4
Portugal	248.1	1	3.14	0
Ireland	99.5	0	1.57	-2
Germany	25.0	0	--	--

* 10Y treasury bonds over 10Y Bunds

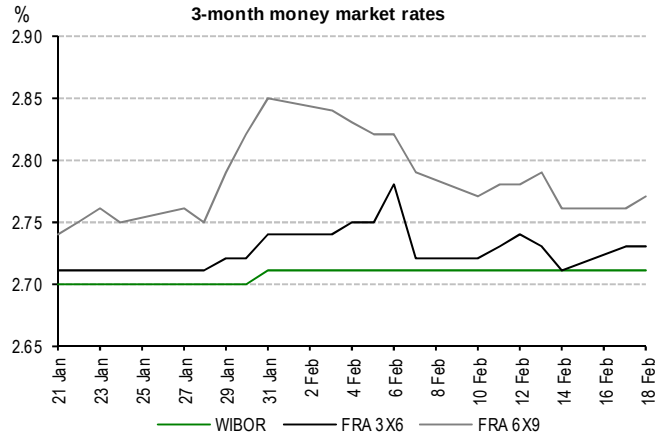
Zloty exchange rate (fixing)



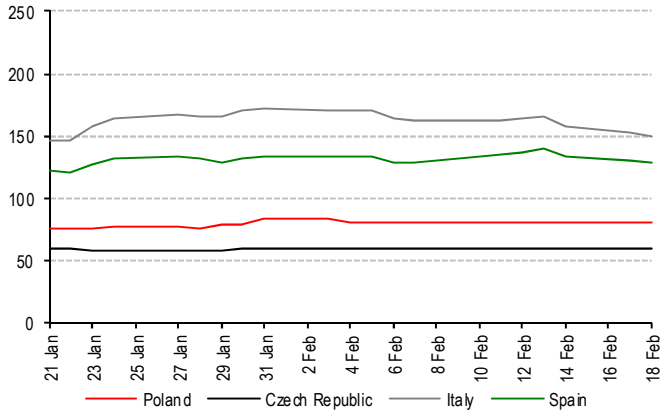
T-bonds yields



3-month money market rates



CDS 5Y



**Information shows mid levels on the interbank market at the end of the trading day

Source: Reuters

Economic calendar

CET TIME	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	BZWBK		
		FRIDAY (14 February)						
8:00	DE	Flash GDP	Q4	%YoY	1.3	-	1.3	1.1
9:00	HU	Flash GDP	Q4	%YoY	2.5	-	2.7	1.8
9:00	HU	CPI	Jan	%YoY	0.2	-	0.0	0.4
9:00	CZ	Flash GDP	Q4	%YoY	-0.2	-	0.8	-1.2
10:00	**PL**	**Flash GDP**	**Q4**	**%YoY**	**2.8**	**2.8**	**2.7**	**1.9**
11:00	EZ	Flash GDP	Q4	%YoY	0.4	-	0.5	-0.3
14:00	**PL**	**CPI**	**Jan**	**%YoY**	**0.9**	**0.7**	**0.7**	**0.7**
14:00	**PL**	**Money supply**	**Jan**	**%YoY**	**6.2**	**6.4**	**5.5**	**6.1**
15:15	US	Industrial output	Jan	%MoM	0.2	-	-0.3	0.3
15:55	US	Flash Michigan	Feb	pts	80.2	-	81.2	81.2
		MONDAY (17 February)						
		No important data releases						
		TUESDAY (18 February)						
11:00	DE	ZEW index – current situation	Feb	pts	44.0	-	50.0	41.2
11:00	DE	ZEW index – expectations	Feb	pts	61.5	-	55.7	61.7
14:00	**PL**	**Wages in corporate sector**	**Jan**	**%YoY**	**3.2**	**3.1**	**3.4**	**2.7**
14:00	**PL**	**Employment in corporate sector**	**Jan**	**%YoY**	**0.6**	**1.2**	**0.0**	**0.3**
14:00	HU	Central bank decision		%	2.75	-	2.70	2.85
14:30	US	Empire manufacturing index	Feb	pts	9.0	-	4.48	12.51
		WEDNESDAY (19 February)						
14:00	**PL**	**Industrial output**	**Jan**	**%YoY**	**3.6**	**3.1**		**6.6**
14:00	**PL**	**Construction and assembly output**	**Jan**	**%YoY**	**1.3**	**0.0**		**5.8**
14:00	**PL**	**PPI**	**Jan**	**%YoY**	**-0.8**	**-0.9**		**-0.9**
14:30	US	House starts	Jan	k	950	-		999
14:30	US	Building permits	Jan	k	975	-		968
20:00	US	FOMC minutes						
		THURSDAY (20 February)						
2:45	CN	Flash PMI – manufacturing	Feb	pts	49.4	-		49.5
9:28	DE	Flash PMI – manufacturing	Feb	pts	56.3	-		56.5
9:58	EZ	Flash PMI – manufacturing	Feb	pts	54.0	-		54.0
14:00	**PL**	**MPC minutes**						
14:30	US	CPI	Jan	%MoM	0.1	-		0.3
14:30	US	Initial jobless claims	week	k	330	-		339
16:00	US	Philly Fed index	Feb	pts	10.0	-		9.4
		FRIDAY (21 February)						
16:00	US	Home sales	Jan	m	4.70	-		4.87

Source: BZ WBK, Reuters, Bloomberg

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

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