EYEOPENER

16 April 2014

Inflation still low, what about labour market?

- **Mixed data from Germany, worrying news from Ukraine**
- **March inflation did not surprise**
- **Zloty and other currencies in the region weaker, no big changes in EURUSD**
- **Bonds slightly weaker due to concerns about Ukraine**
Today, Polish data about wages and employment, euro zone's inflation, important data in the USA

After a rapid deterioration of moods at the start of the week, market sentiments stabilized somewhat at yesterday's opening. However, uncertainty about Ukraine was still visible so CEE currencies were depreciating. This tendency was strongly visible at the end of the session, after rumours that Russian army invaded Ukraine. As a result, market sentiment deteriorated visible at the end of the day. Meanwhile, data from Germany were mixed. ZEW index of current sentiment showed a considerable increase, to the highest level since July 2011. Such a strong improvement may have been due to good data, suggesting a gradual economic recovery. On the other hand, expectations index fell slightly more than expected, which may have been due to uncertainty about future developments in Ukraine.

EURUSD was oscillating around 1.38 throughout the session, breaking this level temporarily. Neither the mixed data from Germany nor higher-than-expected US inflation did not cause any stronger move of the rate. At the end of the day the rate was close to 1.38 and situation is similar today at the start of the day. Today we will see final HICP inflation for the euro zone in March, but it seems that only reading different than 0.5%YoY can cause a more considerable market reaction. A row of data will be released in the USA and they can determine EURUSD at the end of the day.

EURPLN and USDPLN exchange rates were rising yesterday since the beginning of the day; the domestic currency was undermined by the weakening ruble due to tension beyond our eastern border. In reaction to actions of the Russian army in Ukraine, EURPLN broke 4.19, the forint and the ruble were also losing more considerably. Overnight rates rebounded and at the start of the day EURPLN is slightly below 4.19. Worries about situation in Ukraine strengthened recently, and this will probably weigh on the domestic currency. Potential for the zloty weakening was recently limited by hopes for further easing of the ECB monetary policy, so if today's HICP data prove lower than expected, it may support the Polish currency.

On the domestic interest rate market no significant changes of IRS were recorded (2Y rate is hovering close to 3%, 5Y is close to 3.50% and 10Y close to 3.90%), but bond yields increased somewhat. News from Ukraine contributed to this weakening (and it was continued even after close of the session). Trade volumes were slightly higher than on Monday, but remained low. WIBOR1-12M did not change.

CPI inflation increased in March by 0.1%MoM and by 0.7%YoY, in line with our and market expectations. Inflation remains subdued and we expect this to be continued in the following months. Only in late 2014 CPI may rebound more visibly to nearly 2%YoY due to the low base effect, and thanks to the strengthening of consumption demand. Today's data do not influence our outlook for the monetary policy. We still expect NBP rates to remain stable on the course of the year and anticipate first rate hike in early 2015.

MPC's member Jerzy Hausner wrote in the newest „Fast Reaction Instrument" report that interest rates may remain flat at least until 2015. In his view, the event of non-inflationary economic growth we are currently dealing with is giving more room for an economic expansion. According to the MPC member, exports will not likely support the economy as dynamically as they did in the past years, mainly due to Russian-Ukrainian crisis, possible recession in Russia and lower demand for components for final goods sold by the EU in the Eastern Europe.

The Ministry of Finance announced yesterday that the budget deficit amounted to PLN17.5bn (36.8% of the annual plan) after March. Revenues reached PLN67bn (24.1% of the 2014 plan) while expenditures amounted to PLN84.5bn (26% of the plan). VAT revenues were higher than in previous months and a year ago, but this may be due to this year's changes in tax settlement rules. It is worth to notice very strong performance of CIT revenues (32% of the plan vs. ca. 26% in recent three years), which reflects rising corporate profits in Q1.

Finance minister, Mateusz Szczurek, presented on the press conference economic assumptions to the convergence program update. According to the ESA95, the public finance sector surplus will reach 5.8% of GDP this year, while in terms of the new ESA2010 methodology it will be a deficit of 3.5% of GDP. Thanks to an economic revival, deficit will decline further to 2.7% of GDP in 2015 (according to ESA2010). The Ministry said it forecasts GDP growth at 3.3% in 2014, 3.8% in 2015 and above 4% in 2016-2017.

Today at 14:00CET next Polish macro data is due to be release, this time on the situation in the labour market. This release should confirm continuation of positive tendencies. We expect continuation in growth of employment numbers in enterprise sector and quite solid increase (but in lower pace in February) in wages. It should support further revival in private consumptions.

We are pleased to inform, that according to Bloomberg currency forecasts ranking for the Q2-13/Q1-14 period, our USDPLN forecasts were most accurate among global institutions surveyed. We took second place in EURPLN forecasts. Additionally, we performed best in USDHUF competition and took leading positions in EURCZK and EURHUF rankings.

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FX market

Today's opening

EURUSD	13828	CADPLN	2.7576
USDPLN	3.0268	DKKPLN	0.5606
EURPLN	4.1859	NOKPLN	0.5088
CHFPLN	3.4402	SEKPLN	0.4609
JPYPLN*	2.9599	CZKPLN	0.1524
GBPPLN	5.0663	HUFPLN*	13588

*for 100JPY/100HUF

Last session 15.04.2014

	min	max	open	close	fixing
EURPLN	4.1755	4.1952	4.1755	4.1810	4.1840
USDPLN	3.0068	3.0352	3.0068	3.0110	3.0325
EURUSD	13788	13890	13890	13888	-

Interest rate market 15.04.2014

T-bonds (on the interbank market)**

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
PS0416 (2Y)	2.93	0	7.11.13	2.983
DS1019 (5Y)	3.58	4	20.03.14	3.622
DS1023 (10Y)	4.07	2	03.04.14	4.261

IRS rates (on the interbank market)**

TERM	PL %	PL Change (bp)	US %	US Change (bp)	EA %	EA Change (bp)
1L	2.77	0	0.26	0	0.41	0
2L	2.98	0	0.51	2	0.45	0
3L	3.18	-1	0.94	4	0.57	-1
4L	3.37	-1	1.36	5	0.74	-1
5L	3.52	-1	1.73	5	0.92	-1
8L	3.81	0	2.46	3	1.44	-1
10L	3.92	-1	2.75	3	1.73	-1

WIBOR rates

TERM	%	Daily change (bp)
O/N	2.59	0
T/N	2.59	0
SW	2.60	0
2W	2.60	0
1M	2.62	0
3M	2.72	0
6M	2.74	0
9M	2.76	0
1Y	2.79	0

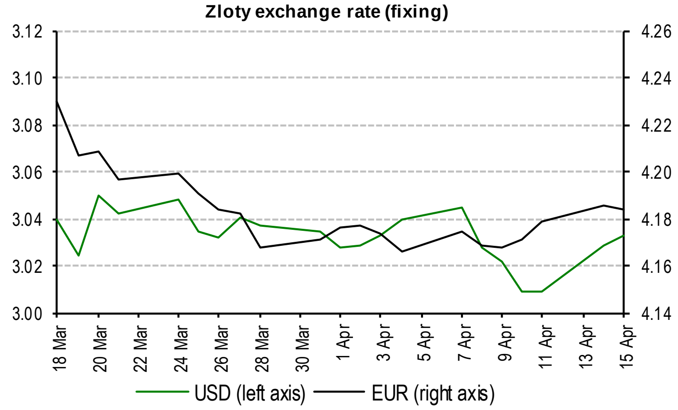
FRA rates (on the interbank market)**

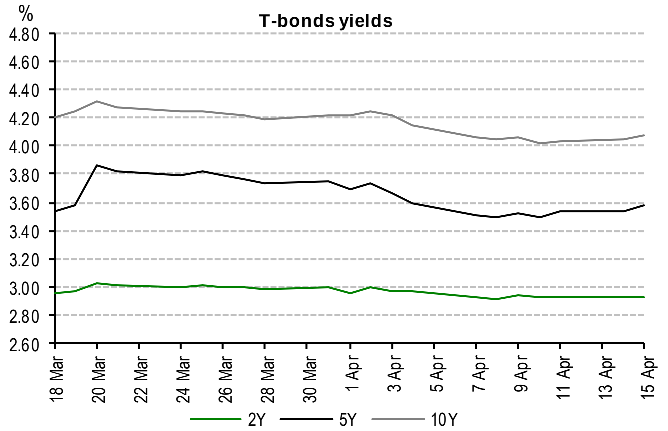
TERM	%	Daily change (bp)
1x2	2.62	0
1x4	2.71	-1
3x6	2.71	-1
6x9	2.73	1
9x12	2.83	2
3x9	2.74	0
6X12	2.78	1

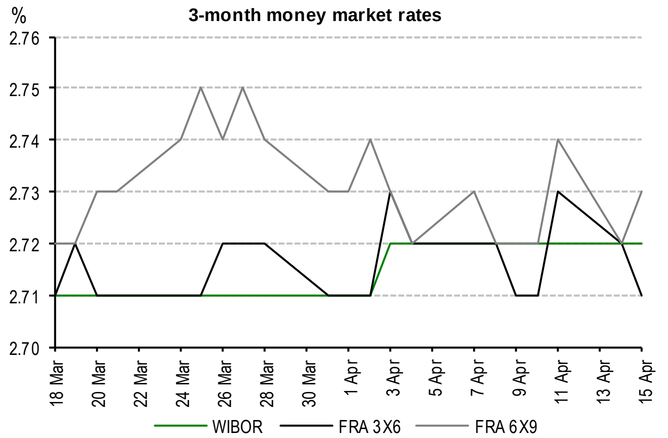
Measures of fiscal risk

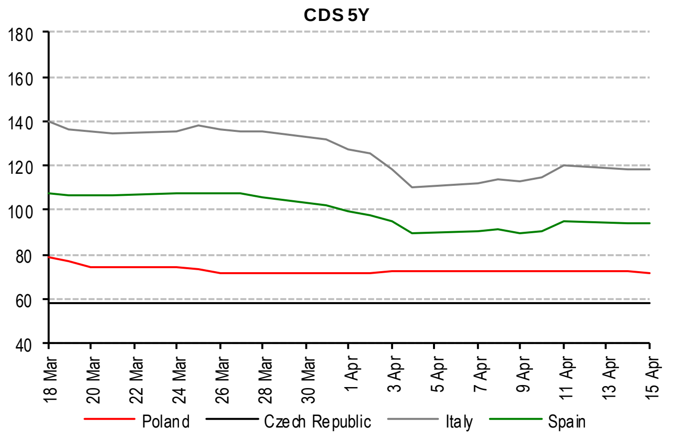
Country	CDS 5Y Value	CDS 5Y Change (bp)	Spread 10Y* Value	Spread 10Y* Change (bp)
Poland	716	-1	2.54	1
Czech Republic	57.9	0	0.48	0
Hungary	228.4	1	4.23	1
Greece	37030.5	0	4.69	-25
Spain	94.0	0	158	-4
Italy	118.2	0	160	-5
Portugal	179.0	5	2.34	-6
Ireland	68.5	-3	136	-4
Germany	218	1	--	--

* 10Y treasury bonds over 10Y Bunds









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

Source: Reuters

Bank Zachodni WBK
Grupa Santander

Economic calendar

CET TIME	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE*
		FRIDAY (11 April)						
9:00	HU	CPI	Mar	%YoY	0.2	-	0.1	0.1
14:00	**PL**	**Current account**	**Feb**	**€m**	**-533**	**-398**	**-572**	**-825**
14:00	**PL**	**Exports**	**Feb**	**€m**	**13 462**	**13 352**	**12 773**	**13 517**
14:00	**PL**	**Imports**	**Feb**	**€m**	**13 025**	**12 942**	**12 594**	**13 091**
15:55	US	Flash Michigan	Apr	pts	81.0	-	82.6	80.0
		MONDAY (14 April)						
11:00	EZ	Industrial output	Feb	%MoM	0.2	-	0.2	0.0
14:00	**PL**	**Money supply**	**Mar**	**%YoY**	**4.8**	**4.5**	**5.1**	**5.3**
14:30	US	Retail sales	Mar	%YoY	0.8	-	1.1	0.7
		TUESDAY (15 April)						
11:00	DE	ZEW index	Apr	pts	51.5	-	59.5	51.3
14:00	**PL**	**CPI**	**Mar**	**%YoY**	**0.7**	**0.7**	**0.7**	**0.7**
14:30	US	CPI	Mar	%MoM	0.1	-	0.2	0.1
		WEDNESDAY (16 April)						
11:00	EZ	HICP	Mar	%YoY	0.5	-		0.5
14:00	**PL**	**Core inflation**	**Mar**	**%YoY**	**0.9**	**1.0**		**0.4**
14:00	**PL**	**Wages in corporate sector**	**Mar**	**%YoY**	**0.4**	**3.6**		**4.0**
14:00	**PL**	**Employment in corporate sector**	**Mar**	**%YoY**	**0.4**	**0.4**		0.2
14:30	US	House starts	Mar	k	970	-		907
14:30	US	Building permits	Mar	k	1010	-		1014
15:15	US	Industrial output	Mar	%MoM	0.5	-		0.6
20:00	US	Fed Beige Book						
		THURSDAY (17 April)						
14:00	**PL**	**Industrial output**	**Mar**	**%YoY**	**6.3**	**5.9**		**5.3**
14:00	**PL**	**Construction and assembly output**	**Mar**	**%YoY**	**13.9**	**10.6**		**14.4**
14:00	**PL**	**PPI**	**Mar**	**%YoY**	**-1.2**	**-0.9**		**-1.4**
14:00	**PL**	**MPC minutes**						
14:30	US	Initial jobless claims	week	k	315	-		300
16:00	US	Philly Fed index			9.5	-		9.0
		FRIDAY (18 April)						
		No important data releases						

Source: BZ WBK, Reuters, Bloomberg

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

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