EYEOPENER

9 May 2014

ECB heralding it will act in June

- **ECB kept interest rates unchanged, but suggested it may act in June**
- **ECB's rhetoric supporting the zloty, strong fluctuations of EURUSD**
- **Hopes for policy easing in the euro area and successful bond auction pushing yields sharply down**
- **Few data releases at the end of the week**

In line with expectations, the ECB press conference had the biggest impact on the FX and FI markets yesterday. The central bank did not change the interest rates; main reference rate is still at 0.25% and deposit rate at 0%. Also the tone of the statement did not differ much when compared to the April's one, it wasn't more dovish than last month. It was repeated that interest rates will remain at current or lower level for an extended period of time and that there is a consensus among the board members to take nonstandard measures in order to fight the low inflation. Some investors could have been disappointed by lack of monetary policy easing already yesterday, but Mario Draghi indicated very clearly that some action is possible in June. He said that the central bank is unsatisfied with the current inflation path but wants to wait for an update of ECB staff macroeconomic projections. Earlier this week, the European Commission and the OECD released their estimates of euro zone's HICP and their forecasts have been revised downwards, so one should expect that the same may be the case with ECB estimates. Draghi's comment during the press conference – also the one saying that strong exchange rate is worrying in the context of low inflation – fuelled expectations for more monetary policy easing already in four weeks.

Today at the opening, market sentiment is not very good. Data on below-consensus Chinese inflation and German exports fuelled doubts on the pace of global economic recovery.

EURUSD surged yesterday as the ECB statement showed no decision on nonstandard measures. The exchange rate reached nearly 1.40 and established a fresh 2014 peak. However, this move was more than reversed very soon, as Draghi hinted that the central bank may ease the monetary policy in June. The dollar started to appreciate rapidly after this suggestion – at the end of the day the exchange rate was close to 1.386 and today at the opening is close to 1.383. Today in the morning next disappointing German data was released (exports this time) and together with yesterday's comments of the ECB governor it may limit the potential for EURUSD rebound.

EURPLN broke 4.18 yesterday due to stronger expectations for more monetary policy easing by the ECB. Zloty's appreciation vs. the euro was not enough to neutralize sudden plunge of EURUSD and thus the domestic currency lost ca. PLN0.02 vs. the greenback (although earlier during the day USDPLN was falling temporarily below 3.0). Today at the opening EURPLN is hovering close to 4.18. The exchange rate retreated quite visibly from the upper band of the narrowing trading range, currently it is roughly in the middle of this range. 4.175 is a vital support for today. If it is broken, then EURPLN may decline further towards 4.15-4.16.

In the domestic interest rate market, just as we had expected, the ECB's dovish rhetoric proved to be more important that the fact that the bank has not changed the policy yet in May. Moreover, auction of Polish bonds has drawn a very high demand, which also contributed to a decline of yields and IRS rates. IRS curve moved down by 5-8bp for 5Y and 10Y, while short end did not move this time. Since the end of April, 2Y sector fell by 6bp, while 5Y and 10Y by 15-17bp. The longer rates are currently at the lowest levels since July 2013. In case of bond yields, a solid strengthening was recorded as well, the middle of the curve gained slightly less due to supply of 5Y bonds. WIBOR rates have not changed, while FRA move was only slight despite strong decline of IRS.

Ministry of Finance sold yesterday T-bonds worth PLN5.7bn in total, slightly above the maximum level of offer, with recorded demand above PLN11bn. The Ministry received nearly PLN4.1bn from launching PS0719 and PLN1.6bn from WZ0119. According to our estimation, after auction Poland has covered c86% of this year borrowing requirements. Commenting auction results the minister of finance said that the borrowing needs may be fully financed (in 100%) at the end of June.

Poland's labour minister Władysław Kosiniak-Kamysz said yesterday that in April registered unemployment rate fell to 13%, down from 13.5% in March. Our forecast and market consensus are in line with this prediction.

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FX market

Today's opening

EURUSD	1.3836	CADPLN	2.7914
USDPLN	3.0206	DKKPLN	0.5599
EURPLN	4.1790	NOKPLN	0.5125
CHFPLN	3.4295	SEKPLN	0.4630
JPYPLN*	2.9701	CZKPLN	0.1525
GBPPLN	5.1130	HUFPLN*	1.3758

*for 100JPY/100HUF

Last session 08.05.2014

	min	max	open	close	fixing
EURPLN	4.1766	4.1937	4.1904	4.1844	4.1865
USDPLN	2.9940	3.0191	3.0112	3.0184	3.0042
EURUSD	1.3848	1.3992	1.3916	1.3864	-

Interest rate market 08.05.2014

T-bonds (on the interbank market)**

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
PS0416 (2Y)	2.84	-1	7.11.13	2.983
DS1019 (5Y)	3.44	-4	20.03.14	3.622
DS1023 (10Y)	3.85	-9	03.04.14	4.261

IRS rates (on the interbank market)**

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	2.76	-1	0.26	-1	0.41	-1
2L	2.92	-1	0.53	-2	0.44	-2
3L	3.10	-2	0.96	-3	0.55	-3
4L	3.25	-5	1.37	-2	0.72	-4
5L	3.39	-5	1.71	-2	0.90	-4
8L	3.67	-6	2.39	-2	1.42	-2
10L	3.78	-8	2.67	-2	1.70	-2

WIBOR rates

TERM	%	Daily change (bp)
O/N	2.60	0
T/N	2.60	0
SW	2.60	0
2W	2.60	0
1M	2.62	0
3M	2.72	0
6M	2.75	0
9M	2.77	0
1Y	2.80	0

FRA rates (on the interbank market)**

TERM	%	Daily change (bp)
1x2	2.62	0
1x4	2.73	1
3x6	2.72	-1
6x9	2.73	0
9x12	2.78	-2
3x9	2.75	0
6X12	2.75	0

Measures of fiscal risk

Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	68.5	-3	2.41	-5
Czech Republic	60.0	1	0.34	1
Hungary	200.0	-5	3.83	-9
Greece	37030.5	0	4.69	0
Spain	85.2	-1	1.45	-5
Italy	104.9	-5	1.49	-4
Portugal	158.9	0	2.04	-5
Ireland	64.4	-5	1.25	-2
Germany	21.0	0	--	--

* 10Y treasury bonds over 10Y Bunds

**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 MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE*
		FRIDAY (2 May)						
9:00	**PL**	**PMI – manufacturing**	Apr	**pts**	**54.1**	**53.8**	**52.0**	**54.0**
9:55	DE	PMI – manufacturing	Apr	pts	54.2	-	54.1	53.7
10:00	EZ	PMI – manufacturing	Apr	pts	53.3	-	53.4	53.0
14:30	US	Non-farm payrolls	Apr	k	210	-	288	203
		MONDAY (5 May)						
11:00	EZ	Spring edition of European Commission's forecasts						
16:00	US	ISM – services	Apr	pts	54.1	-	55.2	53.1
		TUESDAY (6 May)						
9:55	DE	PMI – services	Apr	pts	55.0	-	54.7	53.0
10:00	EZ	PMI – services	Apr	pts	53.1	-	53.1	52.2
		WEDNESDAY (7 May)						
	PL	**MPC decision**		**%**	**2.50**	**2.50**	**2.50**	**2.50**
13:00	CZ	Central bank decision		%	0.05	-	0.05	0.05
		THURSDAY (8 May)						
11:00	**PL**	**Bond auction**						
13:45	EZ	ECB decision		%	0.25	-	0.25	0.25
14:30	US	Initial jobless claims	week	k	325	-	319	345
		FRIDAY (9 May)						
8:00	DE	Exports	Mar	%MoM	1.0	-	-1.8	-1.3
16:00	US	Wholesale inventories	Mar	%MoM	0.5	-		0.5

Source: BZ WBK, Reuters, Bloomberg

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

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