

# EYEOPENER

23 June 2014

## Domestic financial market under pressure of political events

- **“Tape scandal” still undermining the zloty and Polish bonds; global moods supported by better-than-expected flash PMI for China**
- **June’s MPC minutes – projection and data crucial for a possible rates adjustment**
- **MPC’s Glapiński sees no reasons to change MPC bias in July**
- **Today flash PMI for manufacturing in Germany and the euro zone**

Global market moods were moderately positive during the last session of the week. No important data were released on Friday, so the domestic market was mostly driven by the “tape scandal”. PM Tusk and president Komorowski suggested that snap election is one of the solutions to this crisis and this considerably undermined the zloty and Polish bonds during Friday’s session. The domestic currency lost quite visibly versus the euro and the dollar. Between last two Fridays (i.e. between one day before release of tapes by “Wprost” weekly and the end of last week) the zloty proved to be the third weakest currency versus the euro, the US dollar, the Swiss franc and the pound among EM currencies (behind the Turkish lira and the Indonesian rupiah). Polish debt was also underperforming other European bonds. A series of political consultations is planned for today: president and representatives of the coalition and the opposition will attend and discuss ways to solve the political crisis triggered by releases of recordings (today “Wprost” weekly published another set). Taking into account the current balance of power in the Sejm, it seems that the government is likely to file in a motion for vote of confidence (a simple majority is necessary).

According to flash estimates of the HSBC Holdings and Markit Economics, PMI index for manufacturing in China showed 50.8pts in June versus 49.4pts in May. These data proved better than market expectations (49.7pts); the index climbed above 50pts for the first time in five months. The better-than-expected data from China supported moods in Europe at the start of the day.

On Friday EURUSD offset almost the whole rebound posted after dovish signals from the FOMC. At the end of the day the rate was close to 1.357 versus slightly above 1.36 at the start of the day. Today we will see flash PMI indices for German and euro zone manufacturing. Last data were weak, today the market is expecting a stabilization or even an improvement for some countries. Short-term resistance for the rate is at 1.364, while support is at 1.358.

EURPLN and USDPLN exchange rates increased considerably on Friday. The zloty was under pressure of uncertainty due to further development of situation on the Polish political scene (it was undermined by the possibility of snap parliament election). Depreciation versus the dollar was additionally deepened by declines of EURUSD. As a result, as we suggested, EURPLN tested resistance at 4.15 and this was a successful attempt. Only 4.17 managed to halt the upward impulse, but this level was tested on Friday as well. USDPLN approached 3.07 again, i.e. the level which is limiting potential for more significant gains since March. Overnight no important changes took place and at the start of the day EURPLN is close to 4.16, while USDPLN is at 3.0575. Today the domestic currency will stay under influence of news from the domestic political scene and data from the European economy. Important resistance is at 4.17 and then at 4.20.

Domestic IRS and bond yields increased considerably. Upward movement was generated by uncertainty due to political crisis in Poland. As a result, 2-10Y IRS increased by 3-5bps, while yields of medium and long-term bonds increased by c10bps. This triggered a considerable steepening of the curve – 2-10Y spread was the highest since mid-May. As for the long weekend, trade volumes were high. FRA market slightly scaled back the scale of priced-in cuts, but it is still expecting the WIBOR3M to decline by c25bps in 6-9 month horizon.

Minutes of the last MPC meeting suggested that MPC members underlined the uncertainty about economic growth outlook and worried about inflation path lower than in March’s projection. Eventually, taking into account the possible actions of other central banks, the MPC decided that “a more comprehensive assessment of the monetary policy perspectives and potential adjustment of interest rates would be possible after the Council got acquainted with incoming information, including the July NBP projection”. Meanwhile, on Friday the MPC’s Adam Glapiński said he sees no reason to change the Council’s bias in July.

Flash PMI indices for Germany and the euro zone are important this week. They were moving in a downward trend during the last months, which caused rising worries about recovery in the European economy. Moreover, we will see a row of US data (final GDP for Q1, consumer income and spending), which may affect the assessment of Fed monetary policy outlook. In Poland we will see the last pieces of data for May (retail sales and unemployment rate), but they may be overshadowed by domestic politics, while in the region meetings of Hungarian and Czech central banks are on the schedule.

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## FX market

## Today's opening

EURUSD	1.3609	CADPLN	2.8497
USDPLN	3.0580	DKKPLN	0.5581
EURPLN	4.1612	NOKPLN	0.4999
CHFPLN	3.4179	SEKPLN	0.4558
JPYPLN*	2.9997	CZKPLN	0.1517
GBPPLN	5.2092	HUFPLN*	1.3600

\*for 100JPY/100HUF

## Last session

20.06.2014

	min	max	open	close	fixing
EURPLN	4.1415	4.1700	4.1499	4.1700	4.1506
USDPLN	3.0384	3.0722	3.0455	3.0722	3.0495
EURUSD	1.3576	1.3633	1.3626	1.3576	-

## Interest rate market 20.06.2014

## T-bonds (on the interbank market)\*\*

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
PS0416 (2Y)	2.57	1	7.11.13	2.983
PS0719 (5Y)	3.20	7	08.05.14	3.406
DS1023 (10Y)	3.65	10	03.04.14	4.261

## IRS rates (on the interbank market)\*\*

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	2.55	1	0.29	-1	0.30	0
2L	2.63	4	0.62	1	0.33	1
3L	2.77	3	1.06	1	0.41	0
4L	2.94	3	1.46	1	0.54	0
5L	3.10	3	1.78	1	0.70	0
8L	3.42	5	2.44	0	1.23	-2
10L	3.55	4	2.71	0	1.53	-2

## WIBOR rates

TERM	%	Daily change (bp)
O/N	2.62	-11
T/N	2.61	-8
SW	2.60	0
2W	2.60	0
1M	2.60	0
3M	2.68	0
6M	2.70	0
9M	2.72	0
1Y	2.74	0

## FRA rates (on the interbank market)\*\*

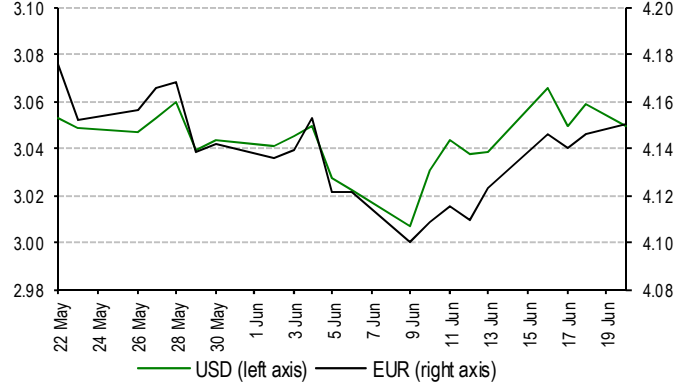
TERM	%	Daily change (bp)
1x2	2.51	0
1x4	2.62	5
3x6	2.51	-1
6x9	2.43	1
9x12	2.43	2
3x9	2.54	0
6x12	2.44	1

## Measures of fiscal risk

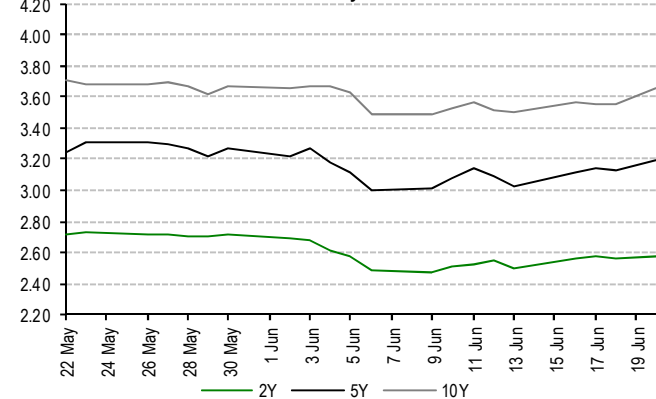
Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	57.5	1	2.29	12
Czech Republic	45.6	-3	0.16	-2
Hungary	172.8	2	3.30	1
Greece	37030.5	0	4.66	11
Spain	68.3	1	140	0
Italy	90.1	4	149	0
Portugal	142.8	2	2.21	6
Ireland	46.5	1	1.11	1
Germany	215	1	--	--

\* 10Y treasury bonds over 10Y Bunds

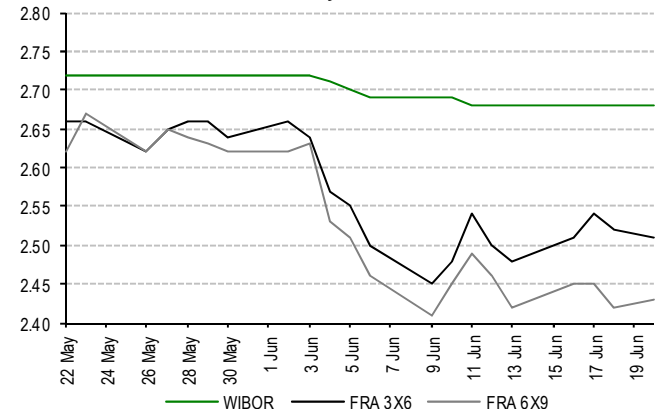
## Zloty exchange rate (fixing)



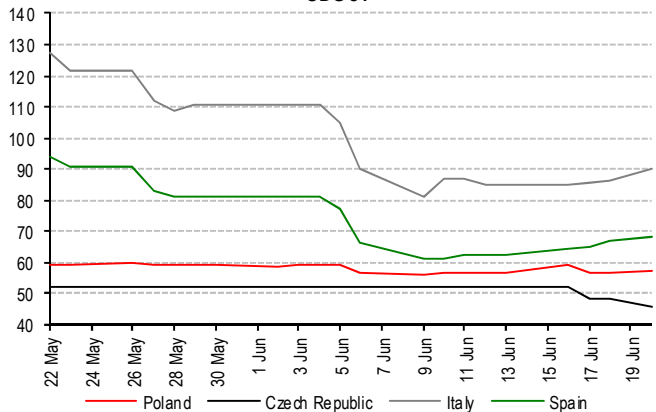
## T-bonds yields



## 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		
14:00	PL	FRIDAY (20 June) MPC minutes	Jun					
MONDAY (23 June)								
3:45	CN	Flash PMI – manufacturing	Jun	pts	50.0	-	50.8	49.4
9:30	GE	Flash PMI – manufacturing	Jun	pts	52.5	-		52.3
10:00	EZ	Flash PMI – manufacturing	Jun	pts	52.1	-		52.2
16:00	US	Home sales	May	m	4.74	-		4.65
TUESDAY (24 June)								
10:00	DE	Ifo index	Jun	pts	-	-		110.4
14:00	HU	Central bank decision		%	2.30	-		2.40
16:00	US	Indeks nastroju konsumentów	Jun	pts	83.5	-		83.0
16:00	US	New home sales	May	k	442	-		433
WEDNESDAY (25 June)								
14:30	US	Final GDP	Q1	%QoQ	-1.8	-		2.6
14:30	US	Durable goods orders	May	%MoM	-0.2	-		0.6
THURSDAY (26 June)								
10:00	PL	Retail sales	May	%YoY	6.2	5.4		8.4
10:00	PL	Unemployment rate	May	%YoY	12.5	12.5		13.0
13:00	CZ	Central bank decision		%	0.05	-		0.05
14:30	US	Personal income	May	%MoM	0.4	-		0.3
14:30	US	Consumer spending	May	%MoM	0.4	-		-0.1
FRIDAY (27 June)								
15:55	US	Michigan index	Jun	pts	82.0	-		81.9

Source: BZ WBK, Reuters, Bloomberg

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

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