Bank Zachodni WBK
Grupa Santander

EYEOPENER

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Next disappointing data from Poland

- **Retail sales growth in June well below expectations**
- **MPC's Kaźmierczak sees no need to cut interest rates, Belka believes that high real interest rates were dictated by concern about balanced economic growth**
- **Small changes in Polish FX market, IRS and bond yields much lower after retail sales data**
- **Today, flash PMIs for Germany and euro zone**

After two days with quite rapid changes of moods, markets kept calm on Wednesday. Lack of publications of important data in the world and waiting for today's Eurozone PMI releases made global stock indices, currencies and bond yields stable near levels reached this week. In Poland, however, we experienced a plunge in domestic interest rate market. On Wednesday evening moods in American stock markets were supported by publication of better than expected Apple's financial report for 2Q14. Moreover, the optimism was boosted this morning by China's flash PMI which soared to 52 points (highest level for 18 months).

Poland's retail sales data for June was another negative surprise (growth of merely 1.2%YoY, clearly below expectations). Although unemployment level was lower than forecast (12% versus 12.1% anticipated), the slowdown in positive trend has been confirmed. We still think data concerning GDP growth in the second quarter (flash estimate to be announced on 14 August) will show little slowdown but the pace of economic growth should remain above 3%. As far as the economy's perspectives and monetary policy in concerned, it will not be, however, the most important. The key issue is whether the tendency of slowing economic activity observed in recent monthly data is to be continued in third quarter. In our opinion only this scenario will trigger interest rate cuts. Second half of August promises to be very interesting, as there will be publications of monthly data for July and detailed GDP growth for the second quarter. MPC members Andrzej Kaźmierczak expressed similar opinion and added that it is necessary to wait for upcoming data in order to verify if weak data in 2Q is a clear tendency or temporary soft patch. In his view there is still no need to change the interest rates. However, Jerzy Osiatyński said that the economic growth in second and third quarter can be lower than in the first. We assume that Osiatyński (together with Chojna-Duch) will be the most eager for rates cut. You can find more information concerning yesterday data in our Instant comment.

The NBP president Marek Belka had speech in Sejm yesterday, presenting the report of NBP's activity in 2013. He said that the stability of monetary policy in recent year was favourable for enterprises' rational economic activity and positive level of real interest rates had an important influence on forming the propensity to save in the economy. Moreover, Belka added that maintaining relatively high real interest rates amid very low inflation is a justified by worry about sustainable economic growth. He highlighted that Poland avoided dangers that come with ultra-low interest rates. The speech suggests that the recent economic data did not make NBP president change his mind as far as monetary policy is concerned. After last MPC meeting he said that rates cut is possible but is not a baseline scenario for the Council.

EURUSD was hovering around 1.346 for the entire session. The daily trading range was very narrow as investors awaited today's data from the euro zone. At the today's opening the exchange rate dropped to c1.343. Flash PMI for German and euro zone manufacturing are to be released today in the morning and may have a substantial impact on EURUSD.

EURPLN dropped temporarily below 4.13. The disappointing retail sales number pushed the exchange rate back to 4.14, but this proved only a temporary phenomenon and the domestic currency was gaining in the following hours. Next to the positive sentiment in the western European stock exchanges, the zloty might have been supported by significant strengthening of Polish bonds triggered by domestic data. Today in the morning EURPLN is again close to 4.14. Yesterday's data did not manage to push the exchange rate out of the 4.11-4.17 range. Today, the zloty may be influenced by the European flash PMI data.

On the domestic interest rate market IRS rates fell by c5-10bp along the curve, with less considerable decline on the longer end. A significant strengthening amid high trade volumes was recorded also on the bond market. Impulse for such strong changes was provided by very weak data on June's retail sales, which supported the market expectations that the MPC will cut interest rates soon. Longer FRA rates, which are pricing-in a 25bp-cut in 3-6 months' time, fell slightly, but longer rates slid by almost 10bp. The market sees c85% probability that rates will be cut by 50bp in 6-9 months. As regards WIBORs between 1M and 12M, 3-month rate declined by 1bp.

The bond auction proved very successful. The Ministry of Finance placed debt worth PLN6bn (PLN1bn more than the offer and in line with earlier plans). Sales of PS0719 raised almost PLN4.8bn (with demand at almost PLN15bn and yield at 2.793%) and WZ0119 over PLN1.2bn (amid demand at PLN5.2bn). The finance minister said after this auction that this year's borrowing needs are almost fully covered.

ECONOMIC ANALYSIS DEPARTMENT:

ul. Marszałkowska 142. 00-061 Warszawa fax +48 22 586 83 40

email: ekonomia@bzwbk.pl Web site: skarb.bzwbk.pl

Maciej Reluga (Chief Economist)	+48 22 534 18 88
Piotr Bielski	+48 22 534 18 87
Agnieszka Decewicz	+48 22 534 18 86
Marcin Luziński	+48 22 534 18 85
Marcin Sulewski	+48 22 534 18 84

TREASURY SERVICES:

Poznań	+48 61 856 5814/30
Warszawa	+48 22 586 8320/38
Wrocław	+48 71 369 9400

FX market

Today's opening

EURUSD	1.3448	CADPLN	2.8674
USDPLN	3.0792	DKKPLN	0.5552
EURPLN	4.1398	NOKPLN	0.4960
CHFPLN	3.4090	SEKPLN	0.4498
JPYPLN*	3.0341	CZKPLN	0.1508
GBPPLN	5.2447	HUFPLN*	1.3461

*for 100JPY/100HUF

Last session 23.07.2014

	min	max	open	close	fixing
EURPLN	0.0000	4.1476	4.1384	4.1349	4.1355
USDPLN	3.0592	3.0803	3.0737	3.0713	3.0707
EURUSD	0.0000	1.3464	1.3464	1.3463	-

Interest rate market 23.07.2014

T-bonds (on the interbank market)**

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
PS0416 (2Y)	2.38	-8	7.11.13	2.983
PS0719 (5Y)	2.76	-13	08.05.14	3.406
DS1023 (10Y)	3.21	-10	03.04.14	4.261

IRS rates (on the interbank market)**

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	2.41	-4	0.31	0	0.30	0
2L	2.43	-5	0.66	-1	0.33	0
3L	2.49	-9	1.09	-1	0.40	0
4L	2.60	-11	1.46	-2	0.50	-1
5L	2.72	-11	1.75	-2	0.63	-2
8L	3.02	-11	2.31	-2	1.08	-2
10L	3.17	-11	2.56	-2	1.35	-3

WIBOR rates

TERM	%	Daily change (bp)
O/N	2.61	-2
T/N	2.61	-2
SW	2.60	0
2W	2.60	0
1M	2.60	0
3M	2.67	-1
6M	2.69	0
9M	2.71	0
1Y	2.73	0

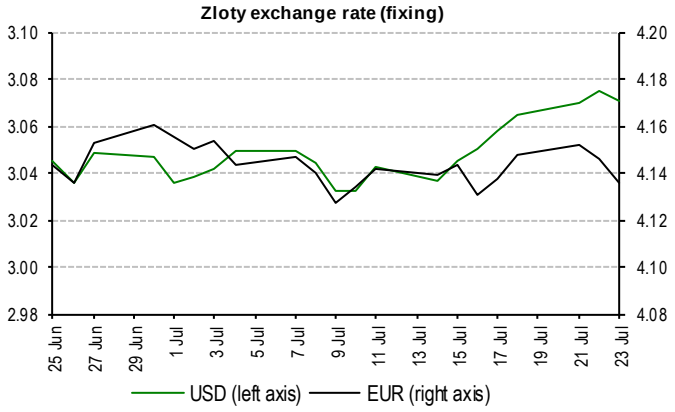
FRA rates (on the interbank market)**

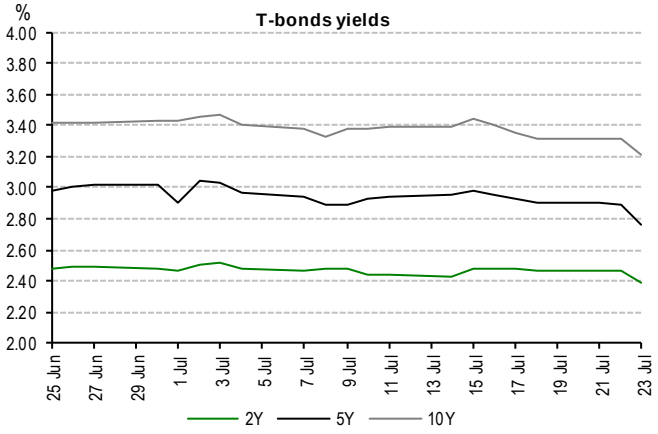
TERM	%	Daily change (bp)
1x2	2.57	-1
1x4	2.63	-1
3x6	2.42	-2
6x9	2.25	-7
9x12	2.25	-7
3x9	2.42	-4
6X12	2.26	-7

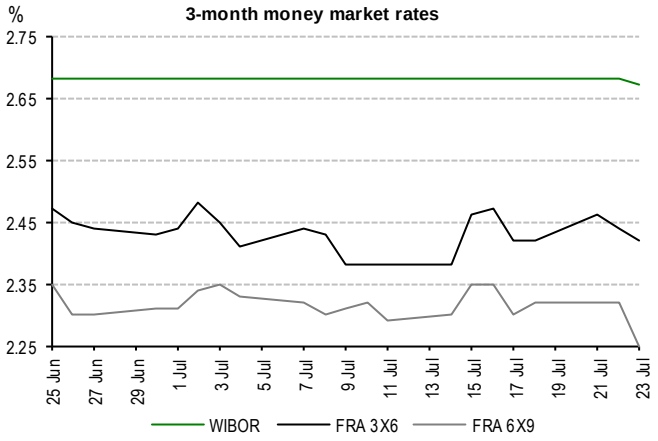
Measures of fiscal risk

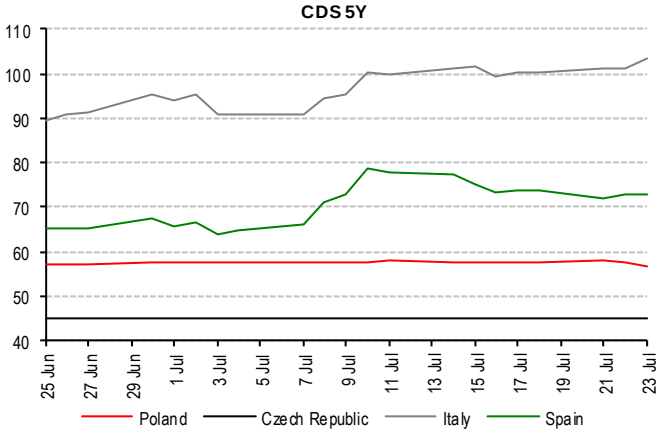
Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	56.9	-1	2.07	-8
Czech Republic	45.2	0	0.30	1
Hungary	168.2	0	3.11	-1
Greece	3703.5	0	5.16	8
Spain	72.8	0	1.41	1
Italy	103.5	2	1.59	-1
Portugal	189.4	-1	2.55	1
Ireland	53.7	1	1.11	1
Germany	22.0	0	--	--

* 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		ACTUAL VALUE	LAST VALUE*
					MARKET	BZWBK		
		FRIDAY (18 July)						
15:55	US	Flash Michigan index	Jul	pts	83.0	-	81.3	82.5
		MONDAY (21 July)						
		No important data releases						
		TUESDAY (22 July)						
14:00	HU	Central bank decision		%	2.2	-	2.1	2.3
14:30	US	CPI	Jun	%MoM	0.3	-	0.3	0.4
16:00	US	Home sales	Jun	m	4.97	-	5.04	4.91
		WEDNESDAY (23 July)						
10:00	**PL**	**Retail sales**	**Jun**	**%YoY**	**4.0**	**3.8**	**1.2**	**3.8**
10:00	**PL**	**Unemployment rate**	**Jun**	**%**	**12.1**	**12.1**	**12.0**	**12.5**
11:00	**PL**	**Bond auction**						
	PL	**NBP governor's testimony before the Sejm**						
		THURSDAY (24 July)						
3:45	CN	Flash PMI-manufacturing	Jul	pts	51.0	-	52.0	50.7
9:30	DE	Flash PMI- manufacturing	Jul	pts	51.9	-		52.0
10:00	EZ	Flash PMI- manufacturing	Jul	pts	51.7	-		51.8
14:30	US	Initial jobless claims	week	k	307	-		302
16:00	US	New home sales	Jul	k	475	-		504
		FRIDAY (25 July)						
10:00	DE	Ifo index	Jul	pts	109.4	-		109.7
14:30	US	Durable goods orders	Jun	%MoM	0.5	-		-0.9

Source: BZ WBK, Reuters, Bloomberg

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

Additional information is available on request. Please contact Bank Zachodni WBK S.A. Rates Area, Economic Analysis Department, ul. Marszałkowska 142, 00-061 Warsaw, Poland, phone +48 22 534 18 88, email ekonomia@bzwbk.pl, http://www.bzwbk.pl.