Bank Zachodni WBK
Grupa Santander

EYEOPENER

4 August 2014

PMI below 50pts

- **Mixed data from the US, Portugal presents rescue plan for BES, S&P agency raised Greece's credit rating**
- **Zloty still under pressure, euro slightly stronger versus dollar after US data**
- **Further rises of IRS and bond yields, yet trend slowed down after US data**
- **No important data releases today**

On Friday we saw rebound not only in CEE currencies, but also in core markets, stock markets in Europe and in the US (trimming recent huge losses) and in EURUSD (the effect was the most noticeable in this case) due to slightly weaker US labour market statistics. The publication put off anxiety about advancement of Fed's first hike of interest rates in the US. Increase in non-farm payrolls was slightly lower than forecasted but it was above 200,000 for the sixth time in a row. This is the level at which the growth of employment fluctuated about before the crisis in 2007 and 2008. Apart from that, ISM manufacturing index was better than the consensus (it has reached the highest level since April 2011) and consumer sentiment index calculated by University of Michigan equalled to 81.8 versus 82.5 in the previous month.

The government of Portugal announced a plan for rescuing Banco Espirito Santo on Sunday. $4.9bn will serve for supporting the institution, which is Portugal's rest from the international bailout. It is an indispensable way to maintain stability of Portugal's banking system. Moreover, the European Commission approved its realization. Last weekend Standard&Poor's raised the credit rating for Greece to Caa1 from Caa3 with stable perspective. The decision is an effect of the advance in economic situation and perspectives created by structural reforms in this country.

Manufacturing PMI for Poland dropped to 49.4, falling below the neutral level of 50 for the first time since June 2013. The gauge was most considerably dragged lower by new orders, which fell by most since April 2013 (and export orders most by most since October 2012), which almost caused a stagnation in industry (output subindex at the lowest level in 13 months). Only employment saw an improvement versus June, but let us note that this variable is delayed versus the economic cycle, so the July's increase may be due to improvement seen in previous months. In general, the July's PMI for manufacturing was in line with weak readings from the domestic economy. It is suggesting that after slightly slower growth in Q2, Q3 may bring more deceleration of growth (yet, in our view, GDP growth should stay close to 3%).

EURUSD surged to 1.344 from 1.34 in reaction to US nonfarm payrolls data and ended the Polish session close to the daily peak. ISM release halted the upward move only for a moment. After closing of the domestic session the exchange rate has remained stable and today in the morning it is close to 1.342. EURUSD shall remain stable at the beginning of the week as no vital macro data will be released today. Important levels are at 1.336 and 1.344.

EURPLN broke 4.19 and USDPLN 3.13 on Friday amid further weakening of the Polish bonds. US labour market data halted the zloty's depreciation and at the end of the day exchange rates were close to 4.175 and 3.11, respectively. Today at the opening EURPLN is close to 4.18. Futures for the European stock indexes indicate that at least in the beginning of the session some recovery after poor end of the past week will take place. No significant macro data releases are due to be released today, so the market shall remain calm as investors await German data and ECB decision scheduled later in the week.

In the domestic interest rate market IRS and bond yields increased, but at a smaller scale than on Thursday (4-5bp for IRS in 5-10Y segment and by 3-8bp for respective bond yields). Short ends of both curves stayed roughly stable. Weaker Polish PMI released in the morning did not support the market and the trend seen in the previous days was continued in the following hours. Only in the afternoon, after the US nonfarm payrolls data was released, some correction was recorded and IRS and bond yields ended the day slightly below session peaks. The trade volume in the debt market was high again. Among 1-12M WIBOR rates, only the longest one changed and dropped by 1bp.

Given lack of domestic data releases and events (the Monetary Policy Council is on vacation in August), developments in the first week of August will be probably driven by events abroad. Investors will be awaiting results of the ECB meeting, but we are expecting no important changes in monetary policy stance, given its already dovish bias. Now the ECB shall wait with major decisions until effects of TLTRO, scheduled for September, are known, especially given recent more optimistic information about economic and loan activity in Europe. After recent surprises in the US data, sentiments will strongly depend on further statistics from the US economy, influencing expectations about timing of the first rate hike.

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FX market

Today's opening

EURUSD	1.3424	CADPLN	2.8510
USDPLN	3.1148	DKKPLN	0.5608
EURPLN	4.1798	NOKPLN	0.4969
CHFPLN	3.4370	SEKPLN	0.4540
JPYPLN*	3.0332	CZKPLN	0.1512
GBPPLN	5.2431	HUFPLN*	1.3357

*for 100JPY/100HUF

Last session 01.08.2014

	min	max	open	close	fixing
EURPLN	4.1737	4.1930	4.1803	4.1802	4.1887
USDPLN	3.1030	3.1317	3.1224	3.1130	3.1280
EURUSD	1.3377	1.3444	1.3387	1.3429	-

Interest rate market 01.08.2014

T-bonds (on the interbank market)**

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
PS0416 (2Y)	2.47	1	7.11.13	2.983
PS0719 (5Y)	2.96	3	08.05.14	3.406
DS1023 (10Y)	3.49	8	03.04.14	4.261

IRS rates (on the interbank market)**

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	2.48	1	0.32	-2	0.31	0
2L	2.56	1	0.69	-6	0.34	0
3L	2.67	4	1.14	-7	0.41	-1
4L	2.81	5	1.53	-8	0.52	-1
5L	2.93	5	1.83	-7	0.65	-2
8L	3.20	4	2.43	-3	1.11	-2
10L	3.33	4	2.66	-4	1.38	-2

WIBOR rates

TERM	%	Daily change (bp)
O/N	2.63	0
T/N	2.62	0
SW	2.60	0
2W	2.60	0
1M	2.60	0
3M	2.67	0
6M	2.69	0
9M	2.71	0
1Y	2.72	-1

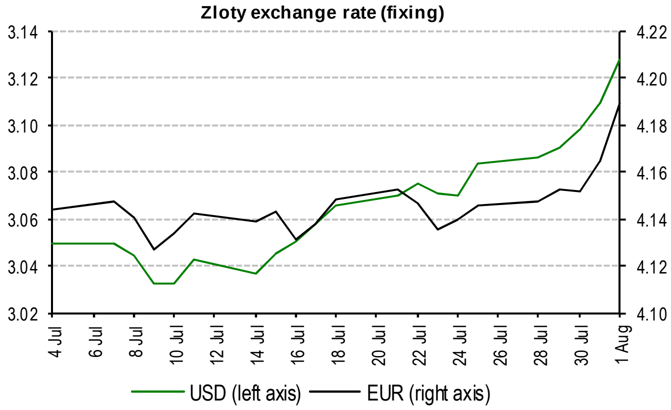
FRA rates (on the interbank market)**

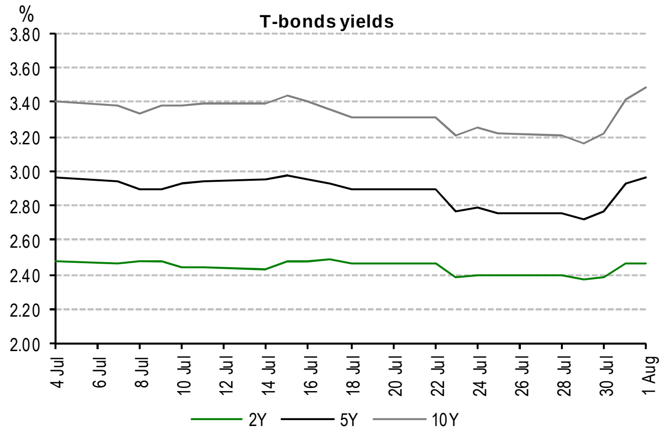
TERM	%	Daily change (bp)
1x2	2.61	3
1x4	2.67	4
3x6	2.46	1
6x9	2.36	1
9x12	2.36	2
3x9	2.48	1
6X12	2.36	0

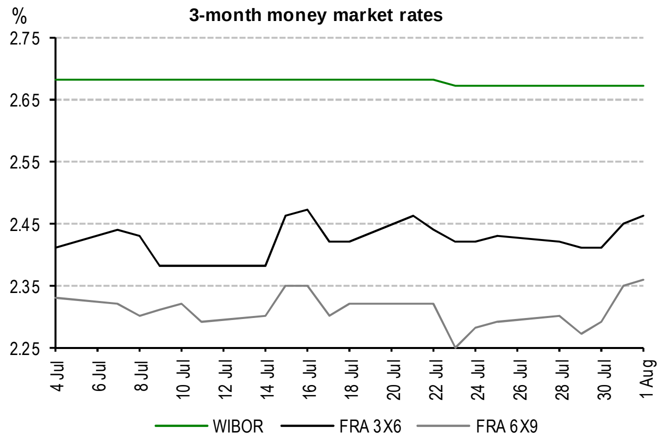
Measures of fiscal risk

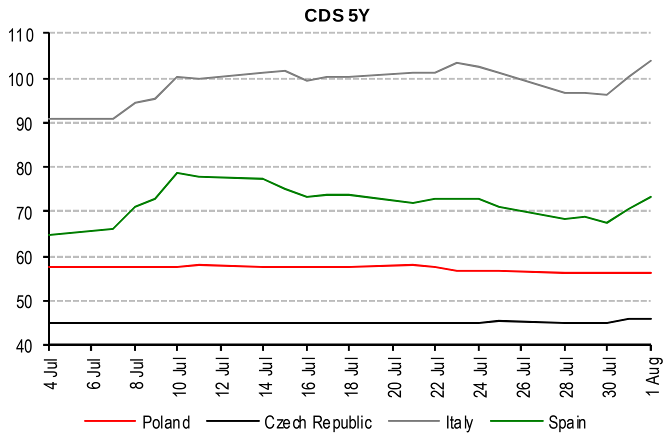
Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	56.2	0	2.31	11
Czech Republic	45.9	0	0.35	7
Hungary	173.1	1	3.90	26
Greece	37030.5	0	4.93	9
Spain	73.3	3	1.39	5
Italy	104.0	3	1.59	6
Portugal	201.5	12	2.51	7
Ireland	55.5	2	1.10	5
Germany	22.0	0	--	--

* 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 MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE*
		FRIDAY (1 August)						
3:45	CN	PMI – manufacturing	Jul	pts	52.0	-	51.7	50.7
9:00	**PL**	**PMI – manufacturing**	**Jul**	**pts**	**50.5**	**50.5**	**49.4**	**50.3**
9:55	DE	PMI – manufacturing	Jul	pts	52.9	-	52.4	52.0
10:00	EZ	PMI – manufacturing	Jul	pts	51.9	-	51.8	51.7
14:30	US	Non-farm payrolls	Jul	k	231	-	209	298
14:30	US	Unemployment rate	Jul	%	6.1	-	6.2	6.1
14:30	US	Consumer income	Jun	%MoM	0.4	-	0.4	0.4
14:30	US	Consumer spending	Jun	%MoM	0.4	-	0.4	0.3
15:55	US	Michigan index	Jul	pts	81.8	-	81.8	82.5
16:00	US	ISM – manufacturing	Jul	pts	56.0	-	57.1	55.3
		MONDAY (4 August)						
		Lack of important macro releases						
		TUESDAY (5 August)						
9:55	DE	PMI – services	Jul	pts	56.6	-		54.6
10:00	EZ	PMI – services	Jul	pts	54.4	-		52.8
16:00	US	ISM – services	Jul	pts	56.5	-		56.0
16:00	US	Industrial orders	Jun	%MoM	0.6	-		-0.5
		WEDNESDAY (6 August)						
8:00	DE	Industrial orders	Jun	%MoM	0.5	-		-1.7
9:00	CZ	Industrial output	Jun	%YoY	8.0	-		2.5
		THURSDAY (7 August)						
8:00	DE	Industrial output	Jun	%MoM	1.3	-		-1.8
13:45	EZ	ECB decision		%	0.15	-		0.15
14:30	US	Initial jobless claims	week	k		-		302
		FRIDAY (8 August)						
8:00	DE	Exports	Jun	%MoM	1.3	-		-1.1

Source: BZ WBK, Reuters, Bloomberg

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

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