EYEOPENER

27 August 2014

PM Tusk to talk about government's plans

- **Moods in global markets still supported by expectations for ECB actions, summit in Belarus without breakthrough**
- **Zloty, forint, koruna and ruble still stable, EURUSD still close to 1.32**
- **IRS and yields of Polish bonds at new lows**
- **Today no important data releases, PM Tusk's speech in parliament about government plans**

Expectations for further policy easing by the ECB are still playing an important role on the global market. On Tuesday European stock market indices rose and German 10Y bond yield approached its new historical minimum established at the start of week. Meanwhile, there were mixed data released in the US. July saw a significant growth of industrial orders but it was mainly caused by strong one-off rise in aircraft industry. Durable goods orders excluding transport declined on monthly basis. On the other hand, consumer sentiment in August improved more than expected, fourth time in a row. The index is already at the highest level since October 2007. The data helped the S&P500 index to establish new record high (slightly above 2000 at close).

Trilateral summit Ukraine – EU – Eurasian Economic Union in Minsk, Belarus did not bring any breakthrough as regards solution of the conflict in Ukraine, in line with our presumptions. President Poroshenko informed in a statement published after the meeting that Eurasian Economic Union's leaders supported his plan for peaceful regulation of situation in eastern Ukraine and preparation is going to start soon. The talks in Misk did not stop the fights in Ukraine.

Retail sales growth accelerated in July to 2.1%YoY, which was in line with market consensus and higher than we predicted. We think that better result may be to some extent connected with very good weather in July, which caused that more people spent their holidays in Poland rather than going abroad. On top of that we had higher than expected sales of motor vehicles. The data did not change substantially the outlook for the coming months – we expect slightly higher sales growth, as consumer demand is still supported by gradually increasing real households' income. On the other hand, rising uncertainty and waning pace of improvement in the labour market will limit consumer confidence to some extent. Unemployment rate fell in July to 11.9%, and next few months may see its stabilisation (before seasonal rise slightly above 12% at the year-end). In general, the set of economic data released in the recent weeks reduced optimism regarding GDP and inflation outlook for the nearest quarters and we think the Monetary Policy Council will cut interest rates in Poland (by 75bp in total in the next three months). However, we doubt if there is majority of votes to support the first rate cut already in September.

EURUSD hovered close to 1.32 yesterday. Despite US macro releases deviating clearly from expectations, the trading range remained tight. Only at night the euro started to depreciate more significantly. The single currency resumed its depreciation trend due to expectations for more ECB monetary policy easing and EURUSD reached 1.315 (its lowest since September). Today in the morning the exchange rate is close to this level. As no important macro releases are due today, EURUSD is likely to remain stable. However, the outlook for the single currency is rather poor given recent disappointing European data and strong releases in the US.

EURPLN has remained stable close to 4.18 and USDPLN around 3.165. Other CEE currencies did not change much either. It seems that tensions in Ukraine limit the room for appreciation of the zloty, forint, koruna and ruble. Over the night the domestic currency depreciated temporarily to 4.196 per euro, but today in the morning the exchange rate is close to 4.185 again. We expect EURPLN to stay in the 4.16-4.225 range waiting for important tomorrow's US and Friday's Polish macro data.

Yields of Polish bonds declined on Tuesday to new record low levels (2.2% for 2Y benchmark, 2.5% for 5Y and 3.0% for 10Y), as the domestic debt market was still supported by expectations for rate cuts in Poland, more monetary policy easing in the euro zone, and further strengthening of German Bunds. Data released by the Polish statistical office in the first part of the day also supported the market. Although the retail sales growth in July accelerated in line with the market consensus, investors interpreted the data as a factor that does not diminish the probability of rate cuts in Poland. The IRS curve has also moved down quite significantly and rates fell to their lowest levels ever recorded. In contrast to Monday's session (when the London market was closed), the trade volume on Tuesday was very high. At the end of the day, some profit-taking was recorded. 3-12M WIBOR rates dropped by 1bp. No important domestic data is due to be released today, but the Prime Minister Donald Tusk will have a speech in the Parliament (starting at 9:15 CET), addressing the government's plans for the upcoming months. Other important events include detailed GDP data for 2Q14 due on Friday and the Monetary Policy Council's decision next Wednesday. Currently, investors perceive rate cuts in Poland as a deal done, although the timing and scale remain uncertain. Any positive surprise from GDP data (for example, surprisingly strong domestic demand) or lack of a rate cut in September may be a reason for a short-term correction.

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FX market

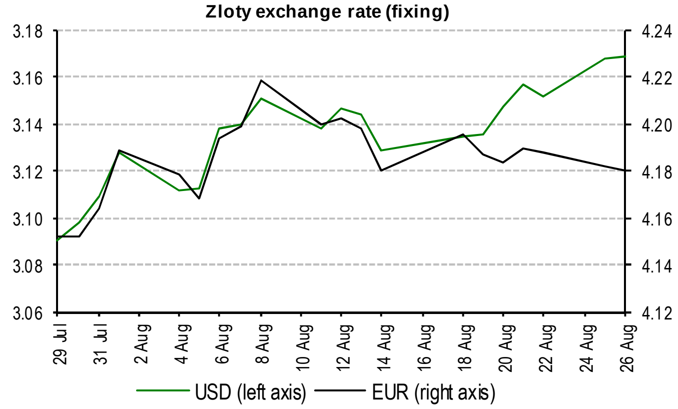
Today's opening

EURUSD	1.3177	CADPLN	2.9117
USDPLN	3.1770	DKKPLN	0.5616
EURPLN	4.1873	NOKPLN	0.5146
CHFPLN	3.4655	SEKPLN	0.4571
JPYPLN*	3.0566	CZKPLN	0.1510
GBPPLN	5.2633	HUFPLN*	1.3365

*for 100JPY/100HUF

Last session 26.08.2014

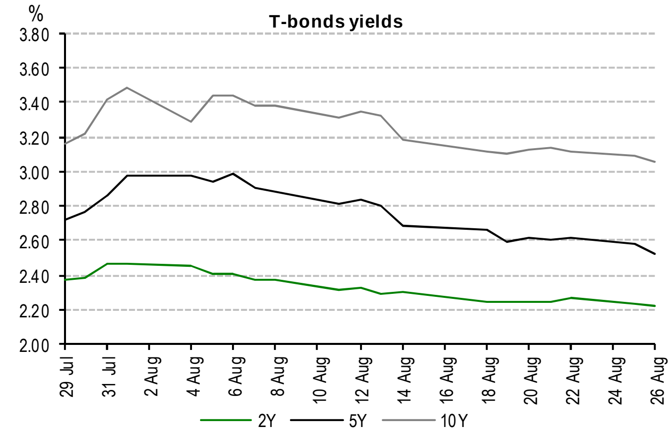
	min	max	open	close	fixing
EURPLN	4.1765	4.1860	4.1837	4.1850	4.1800
USDPLN	3.1620	3.1718	3.1677	3.1697	3.1686
EURUSD	1.3185	1.3214	1.3209	1.3203	-



Interest rate market 26.08.2014

T-bonds (on the interbank market)**

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
PS0416 (2Y)	2.22	-2	7.11.13	2.983
PS0719 (5Y)	2.52	-6	08.05.14	3.406
DS1023 (10Y)	3.05	-3	03.04.14	4.261

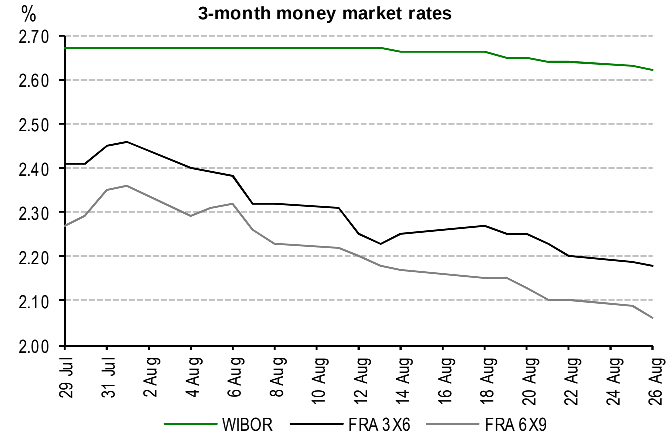


IRS rates (on the interbank market)**

TERM	PL %	PL Change (bp)	US %	US Change (bp)	EA %	EA Change (bp)
1L	2.25	-4	0.33	0	0.25	0
2L	2.26	-4	0.71	-1	0.27	1
3L	2.31	-8	1.15	0	0.33	2
4L	2.39	-9	1.51	-1	0.41	1
5L	2.48	-9	1.77	-2	0.52	0
8L	2.75	-10	2.28	-3	0.90	0
10L	2.88	-10	2.49	-3	1.14	-1

WIBOR rates

TERM	%	Daily change (bp)
O/N	2.55	-8
T/N	2.58	-5
SW	2.60	0
2W	2.59	-1
1M	2.60	0
3M	2.62	-1
6M	2.63	-1
9M	2.65	-1
1Y	2.66	-1



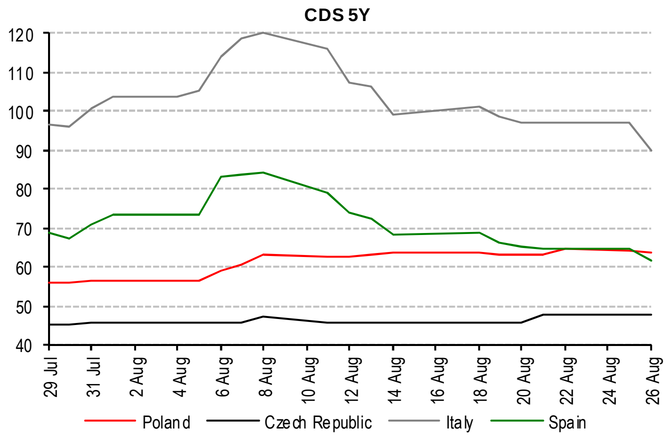
FRA rates (on the interbank market)**

TERM	%	Daily change (bp)
1x2	2.45	-11
1x4	2.45	-1
3x6	2.18	-1
6x9	2.06	-3
9x12	2.06	-3
3x9	2.18	-2
6X12	2.08	-2

Measures of fiscal risk

Country	CDS 5Y Value	CDS 5Y Change (bp)	Spread 10Y* Value	Spread 10Y* Change (bp)
Poland	63.8	0	2.10	-5
Czech Republic	47.8	0	0.32	-6
Hungary	171.7	0	3.59	-4
Greece	37030.5	0	4.74	-3
Spain	61.4	-3	1.25	-6
Italy	89.6	-8	1.50	-3
Portugal	152.6	-9	2.14	5
Ireland	52.0	-3	0.86	-3
Germany	20.5	-1	--	--

* 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 (22 August)						
14:00	**PL**	**CSO business climate indices**						
		MONDAY (25 August)						
10:00	DE	Ifo index	Aug	pts	107	-	106.3	108
16:00	US	New home sales	Jul	k	425	-	412	422
		TUESDAY (26 August)						
10:00	**PL**	**Retail sales**	**Jul**	**%YoY**	**2.1**	**1.6**	**2.1**	**1.2**
10:00	**PL**	**Unemployment rate**	**Jul**	**%**	**11.8**	**11.9**	**11.9**	**12.0**
14:00	HU	Central bank decision		%	2.1	-	2.1	2.1
14:30	US	Durable goods orders	Jul	%MoM	8.0	-	22.6	2.7
16:00	US	Consumer confidence index	Aug	pts	88.5	-	92.4	90.3
		WEDNESDAY (27 August)						
		No important data releases						
		THURSDAY (28 August)						
14:30	US	Preliminary GDP	Q2	%QoQ	3.9	-		-2.1
14:30	US	Initial jobless claims	Week	k	-	-		298
16:00	US	Pending home sales	Jul	%MoM	0.5	-		-1.1
		FRIDAY (29 August)						
9:00	CZ	Flash GDP	Q2	%YoY	2.6	-		2.9
10:00	**PL**	**GDP**	**Q2**	**%YoY**	**3.2**	**3.2**		**3.4**
10:00	**PL**	**Private consumption**	**Q2**	**%YoY**	**2.7**	**2.8**		**2.6**
10:00	**PL**	**Fixed investments**	**Q2**	**%YoY**	**5.5**	**3.0**		**10.7**
11:00	EZ	Flash HICP	Aug	%YoY	0.3	-		0.4
14:00	**PL**	**Inflation expectations**	**Aug**	**%YoY**	**-**	**-**		**0.1**
14:30	US	Personal income	Jul	%MoM	0.3	-		0.4
14:30	US	Consumer spending	Jul	%MoM	0.2	-		0.4
15:55	US	Michigan index	Aug	pts	80.1	-		79.2

Source: BZ WBK, Reuters, Bloomberg

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

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