Bank Zachodni WBK
Grupa Santander

EYEOPENER

2 September 2014

PMI suggests falling activity in manufacturing

- **Calm start of the week amid market holiday in the USA**
- **Further drop of Polish PMI, indices for euro zone and Germany lower than expected**
- **Zloty and interest rates stable ahead of MPC meeting**
- **Today, manufacturing ISM index in the USA**

No significant changes occurred in the global stock, FX and fixed income markets on Monday due to market holiday in the US. Final manufacturing PMI indexes for Germany and whole euro zone proved weaker than flash estimates, but this did not trigger any significant reaction. In our view, calm beginning of the week does not mean that low volatility will stay with us in the coming days. Today the crucial US data are due. ISM index has been in the upward trend since the beginning of the year and in July reached its highest since April 2011. Later in the week the market attention will focus on the ECB decision and monthly US nonfarm payrolls data. These events may trigger significant changes in the global market.

Polish PM Donald Tusk said yesterday in the TV interview that he will remain a leader of the Civil Platform until December 1 and then he will resign. In contrast to earlier declarations, the name of his successor as a PM will rather not be announced today. According to the press speculation, Sejm speaker Ewa Kopacz is widely expected to be nominated for the new PM.

EURUSD stayed close to 1.313 yesterday. Absence of the US investors constrained the trading range and there was no reaction to the European data. Over the night the exchange rate stayed stable and is close to 1.312 today in the morning. Important US data is due in the afternoon – on the activity in the manufacturing sector. Recent macro releases from the world biggest economy were above-consensus and if this is the case also today, then the dollar may gain further vs. the euro. Vital levels are at 1.31 and 1.323.

EURPLN exchange rate remained close to 4.205 and USDPLN near 3.20. Also the forint and the Czech koruna were stable given closed market in the US. The ruble continued its depreciation versus the dollar, with USDRUB reaching an all-time high (37.515). Overnight no important changes occurred on the PLN market, EURPLN is close to 4.21 at today's opening. We think that the rate will stay relatively stable while awaiting the MPC decision, but last week's break of 4.225 (peak set in early August) generates a further risk of PLN depreciation in the upcoming weeks.

Polish interest rate market remained stable on Monday amid low trade volume and closed market in the US. WIBOR rates between 1M and 12M decreased, 9M by 2bp and remaining ones by 1bp. Despite the relatively sudden upward move in IRS and bond yields seen in the final days of the past week (triggered by higher tensions in Ukraine), we are bullish on Polish bonds, as we believe the Monetary Policy Council will cut the main interest rates by 75bps (in total) until November. However, before that happens, the correction may even deepen, not only due to further escalation of conflict in the Ukraine, but also due to a lack of interest rate cuts at the MPC meeting on Wednesday. Some investors are expecting that monetary policy will be relaxed already in September and though such a decision would be justified by macroeconomic outlook, the recent comments by MPC members suggested it might be hard to get majority support for the motion.

According to data released on Friday by the Polish Ministry of Finance, the portfolio of foreign investors contracted in July after three consecutive months of purchases. Non-residents sold debt of PLN3.7bn nominal value, highest monthly outflow since January. At the end of July foreigners still owned c41% of the total, nominal, marketable, zloty-denominated bonds outstanding (PLN196.1bn out of PLN477.3bn). Polish investors bought in July bonds worth over PLN4bn with banks' contribution of PLN2.4bn. Among other domestic investors, only non-financial institutions reduced their holdings.

Polish PMI for manufacturing index dropped in August to 49.0pts from 49.4pts in July, which was in line with our forecast and market expectations. As a result, after six consecutive months of decline (the trend started in February at 55.9pts), the index is now at the lowest level since May 2013. New orders dropped in August for the 3rd consecutive month and at the fastest pace since April 2013. On the other hand, although export orders contracted for the 4th month in a row, the pace of a decline was the lowest within this period. Some improvement in this category could be a glimmer of hope for the coming months, but one should remember about further drop in economic activity in the Western Europe. Due to falling orders, the output index dropped below 50pts first time for 14 months. The Polish companies continued hiring despite clear deterioration in current and expected economic conditions, but the pace of job creation was the weakest in last 13 months. Interestingly, the input prices rebounded in August and index reached above 50pts for the first time for 5 months. Data for Germany and whole euro zone also showed further drop in economic activity. However, scale of deceleration in Poland is bigger than in the Western Europe. Spreads of Polish vs. Euro zone and German manufacturing PMIs are close to their highest since 2Q11. Obviously, this data confirms that economic slowdown continues in 3Q14, supporting our view for rate cuts in Poland.

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FX market

Today's opening

EURUSD	1.3125	CADPLN	2.9430
USDPLN	3.2067	DKKPLN	0.5649
EURPLN	4.2087	NOKPLN	0.5180
CHFPLN	3.4848	SEKPLN	0.4577
JPYPLN*	3.0585	CZKPLN	0.1517
GBPPLN	5.3190	HUFPLN*	1.3381

*for 100JPY/100HUF

Last session 01.09.2014

	min	max	open	close	fixing
EURPLN	4.2030	4.2140	4.2132	4.2074	4.2099
USDPLN	3.1986	3.2099	3.2088	3.2028	3.2035
EURUSD	1.3117	1.3145	1.3129	1.3138	-

Interest rate market 01.09.2014

T-bonds (on the interbank market)**

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
PS0416 (2Y)	2.18	0	7.11.13	2.983
PS0719 (5Y)	2.52	-2	08.05.14	3.406
DS1023 (10Y)	3.07	-4	03.04.14	4.261

IRS rates (on the interbank market)**

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	2.20	-1	0.33	-1	0.24	-1
2L	2.23	-1	0.71	0	0.26	-2
3L	2.28	-2	1.19	5	0.31	-2
4L	2.37	-2	1.50	0	0.39	-2
5L	2.47	-3	1.77	1	0.49	-2
8L	2.75	-3	2.28	2	0.85	-1
10L	2.89	-3	2.48	0	1.09	0

WIBOR rates

TERM	%	Daily change (bp)
O/N	2.62	-2
T/N	2.62	-1
SW	2.59	0
2W	2.59	0
1M	2.58	-1
3M	2.58	-1
6M	2.59	-1
9M	2.60	-2
1Y	2.61	-1

FRA rates (on the interbank market)**

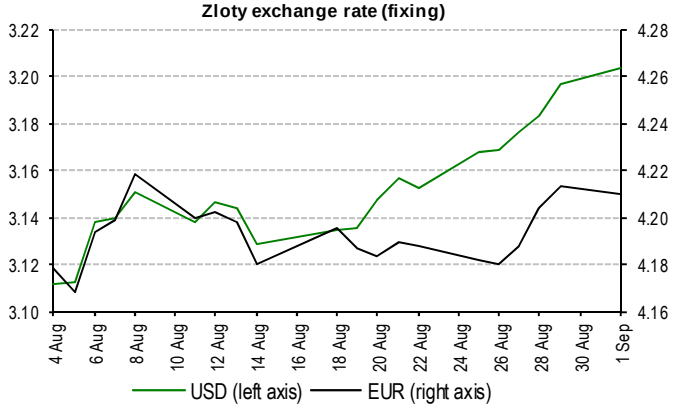
TERM	%	Daily change (bp)
1x2	2.38	-8
1x4	2.44	-2
3x6	2.13	-1
6x9	2.01	0
9x12	2.01	0
3x9	2.15	-1
6X12	2.03	-1

Measures of fiscal risk

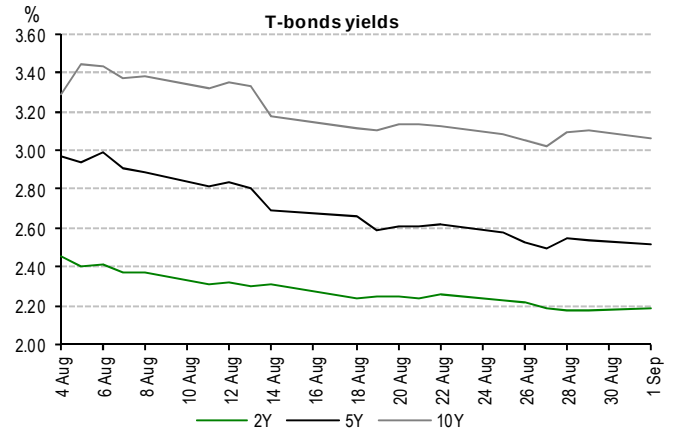
Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	63.5	0	2.19	-4
Czech Republic	45.3	0	0.33	0
Hungary	165.3	0	3.67	1
Greece	37030.5	0	4.86	-7
Spain	65.1	2	1.36	3
Italy	97.5	0	1.53	0
Portugal	160.4	-3	2.29	-4
Ireland	53.7	0	0.89	-1
Germany	19.5	-1	--	--

* 10Y treasury bonds over 10Y Bunds

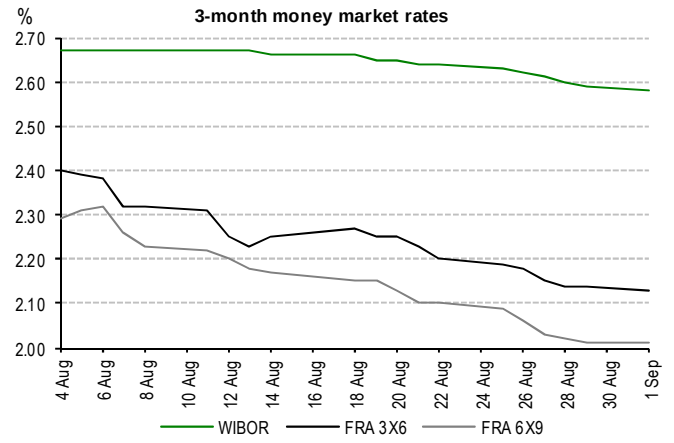
Zloty exchange rate (fixing)



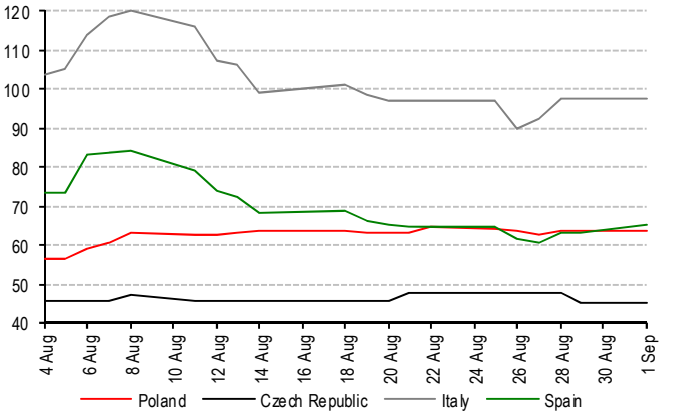
T-bonds yields



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		
		FRIDAY (29 August)						
9:00	CZ	Flash GDP	Q2	%YoY	2.6	-		2.9
10:00	**PL**	**GDP**	**Q2**	**%YoY**	**3.2**	**3.2**	**3.3**	**3.4**
10:00	**PL**	**Private consumption**	**Q2**	**%YoY**	**2.7**	**2.8**	**2.8**	**2.6**
10:00	**PL**	**Fixed investments**	**Q2**	**%YoY**	**5.5**	**3.0**	**8.4**	**10.7**
11:00	EZ	Flash HICP	Aug	%YoY	0.3	-	0.3	0.4
14:00	**PL**	**Inflation expectations**	**Aug**	**%YoY**	**-**	**-**	**0.2**	**0.1**
14:30	US	Personal income	Jul	%MoM	0.3	-	0.2	0.4
14:30	US	Consumer spending	Jul	%MoM	0.2	-	-0.1	0.4
15:55	US	Michigan index	Aug	pts	80.1	-	82.5	79.2
		MONDAY (1 September)						
	US	Market holiday						
3:45	CN	PMI-manufacturing	Aug	pts	-	-	50.2	51.7
8:00	DE	GDP	Q2	%YoY	0.8	-	0.8	2.5
9:00	**PL**	**PMI-manufacturing**	**Aug**	**pts**	**49.0**		**49.0**	**49.4**
9:55	DE	PMI-manufacturing	Aug	pts	52.0	-	51.4	52.4
10:00	EZ	PMI-manufacturing	Aug	pts	50.8	-	50.7	51.8
		TUESDAY (2 September)						
16:00	US	ISM-manufacturing	Aug	pts	57.0	-	-	57.1
		WEDNESDAY (3 September)						
	PL	**MPC decision**		**%**	**2.50**	**2.50**	**2.50**	**2.50**
9:00	HU	GDP	Q2	%YoY	3.9	-	-	3.5
9:55	DE	PMI-services	Aug	pts	56.4	-	-	56.7
10:00	EZ	PMI-services	Aug	pts	53.5	-	-	54.2
11:00	EZ	Preliminary GDP	Q2	%YoY	0.7	-	-	0.9
16:00	US	Industrial orders	Jul	%MoM	11.0	-	-	1.1
20:00	US	Fed Beige Book						
		THURSDAY (4 September)						
11:00	**PL**	**Bond auction WZ0124/DS0725 worth PLN 1-3bn**						
13:45	EZ	ECB decision		%	0.15	-	-	0.15
14:15	US	ADP report	Aug	k	209	-	-	218
14:30	US	Initial jobless claims	week	k	299	-	-	299
16:00	US	ISM-services	Aug	pts	57.6	-	-	58.7
		FRIDAY (5 September)						
8:00	DE	Industrial output	Jul	%MoM	0.5	-	-	0.3
14:30	US	Non-farm payrolls	Aug	k	220	-	-	209
14:30	US	Unemployment rate	Aug	%	6.1	-	-	6.2

Source: BZ WBK, Reuters, Bloomberg

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

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