EYEOPENER

24 September 2014

Sales slowed down but labour market still in a good shape

- **Weak moods in the stock markets after data from Germany and the euro zone**
- **Retail sales slowed down, labour market situation still positive, MPC members suggest a rate cut in the upcoming month**
- **EURPLN testing 4.17, temporary rebound of EURUSD**
- **Better-than-expected domestic data limited declines of IRS and bond yields**
- **Today German Ifo and new home sales in the US**

Tuesday's session passed in weak stock market moods, while CEE currencies gained thanks to strengthening in the debt markets. Retreat from stocks was fuelled by flash PMI readings for the euro zone countries' manufacturing, which showed a further decline as compared to August's numbers. Flash PMI for the German manufacturing approached the neutral mark of 50pts and is at the lowest level since June 2013. Let us note that German subindex of new orders fell below 49pts. However, FX market investors were more focused on the fact that the headline indicator posted a light rebound (to 54pts from 53.7pts). This supported the euro versus the dollar. On the other hand, the flash PMI for US manufacturing stayed at high 57.9pts (the highest level since April 2010). However, this data did not affect the investors' moods, similarly as comment of Fed's Bullard (currently a non-voter), who reiterated that rate hikes should take place already in 1Q2015.

The annual growth of retail sales slowed down in August to 1.7% YoY, in line with our expectations and above market consensus. The slower growth came mainly from a sharp decline in the sale of motor vehicles. This data is in line with our scenario for the Polish economy for the upcoming months. We are expecting a gradual improvement of retail sales, which should be supported by the good labour market situation and rise in household disposable income in real terms. The registered unemployment rate declined in August to 11.7%, in line with the estimate of the Ministry of Labour and our forecast. We expect stabilization of the unemployment rate in the next two months and then a rebound in line with the seasonal pattern to slightly above 12% at the year-end. Macro data support our expectations that the MPC will re-open the monetary easing cycle in October. In our opinion, the Council will cut rates by 75bps in total in the next three months, but a possibility of a deeper cut at the nearest meeting rose after industrial output numbers.

On Tuesday, NBP Governor Marek Belka said after the Polish August retail sales and unemployment figures that a rate cut in October is very likely. He added that recent data confirm the economic slowdown and that he agrees with statement of one of MPC members that a lack of monetary policy easing would actually be a tightening of monetary conditions. Belka did not comment on the possible scale of a rate reduction in October. In general, his comments were very similar to what he said earlier, after the meeting in September. This supports our scenario of a 75bp rate cut in 4Q. Elżbieta Chojna-Duch thinks that recent macro data are weaker than expected and this may weigh on the GDP growth in Q3 and Q4. In her view, rates can be cut by as much as 50bp in October.

EURUSD surged yesterday from 1.285 to 1.29 in the first part of the day. The market ignored the disappointing flash manufacturing PMIs for Germany and the euro zone and focused on the composite PMI for the biggest European economy. However, the upward move of the exchange rate was only temporary and EURUSD bounced back to 1.286 at the end of the day. No significant changes occurred over the night and the exchange rate is close to 1.285 today in the morning. German Ifo index is due today in the morning and if it disappoints, then composite PMI may not prevent the euro from depreciation.

Both EURPLN and USDPLN dropped yesterday. The zloty gained due to further strengthening in the debt market and decent data on the Polish retail sales. Consequently, EURPLN was testing the crucial support at 4.17 at the end of the Polish session (it reached 4.167 at night) but did not manage to stay below this level for longer. Also the forint gained yesterday – EURHUF dropped to 310 from 312. The Hungarian central bank did not surprise and left interest rates unchanged. It stressed that low inflation warrants keeping interest rates low for long. Today in the morning EURPLN is close to 4.175. One of factors supporting the zloty yesterday was the strengthening in the Polish debt market after the European data. Important US and German releases are due today that may influence domestic bonds, and thus the zloty.

In the Polish interest rate market, mid- and long-term bond yields and IRS dropped marginally (benefiting from the disappointing flash manufacturing PMI for Germany and the euro zone) while short finished the day around Monday's closing levels. The rates continued to move south since the beginning of Tuesday's session, but the above-consensus Polish retail sales data halted this trend. The trade volume in the bond market was quite high. WIBOR rates continued the move down. Just like on Monday, 3-12M rates dropped by 2bps and 1M by 1bps. Expectations for rate cuts in Poland and more liquidity in the euro zone after the ECB's action should keep rates low. Additionally, Polish PMI for manufacturing is due next week and it is likely to confirm that economic activity has slowed down in 3Q.

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FX market

Today's opening

EURUSD	12847	CADPLN	2.9340
USDPLN	3.2502	DKKPLN	0.5610
EURPLN	4.1747	NOKPLN	0.5116
CHFPLN	3.4580	SEKPLN	0.4547
JPYPLN*	2.9919	CZKPLN	0.1517
GBPPLN	5.3259	HUFPLN*	13433

*for 100JPY/100HUF

Last session 23.09.2014

	min	max	open	close	fixing
EURPLN	4.1690	4.1820	4.1788	4.1722	4.1775
USDPLN	3.2350	3.2560	3.2538	3.2433	3.2430
EURUSD	12841	12901	12846	12865	-

Interest rate market 23.09.2014

T-bonds (on the interbank market)**

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
PS1016 (2Y)	198	1	7.11.13	2.983
DS1019 (5Y)	2.38	1	08.05.14	3.406
DS1023 (10Y)	2.95	-4	03.04.14	4.261

IRS rates (on the interbank market)**

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	2.02	0	0.35	-1	0.19	1
2L	2.06	-1	0.77	-3	0.22	1
3L	2.10	-2	1.25	-2	0.28	1
4L	2.20	-2	1.63	-3	0.38	1
5L	2.31	-3	1.92	-4	0.50	1
8L	2.65	-3	2.44	-3	0.93	-1
10L	2.81	-3	2.65	-3	1.19	-1

WIBOR rates

TERM	%	Daily change (bp)
O/N	2.61	-1
T/N	2.61	-1
SW	2.56	0
2W	2.56	0
1M	2.49	-1
3M	2.38	-2
6M	2.37	-2
9M	2.36	-2
1Y	2.35	-2

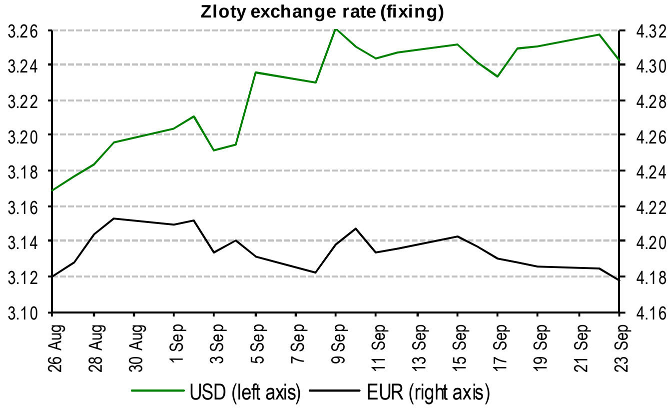
FRA rates (on the interbank market)**

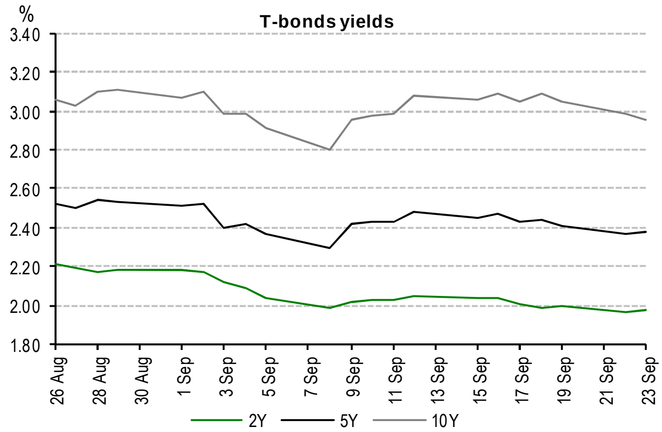
TERM	%	Daily change (bp)
1x2	2.18	-27
1x4	2.12	-1
3x6	193	2
6x9	184	1
9x12	185	1
3x9	194	0
6X12	183	-2

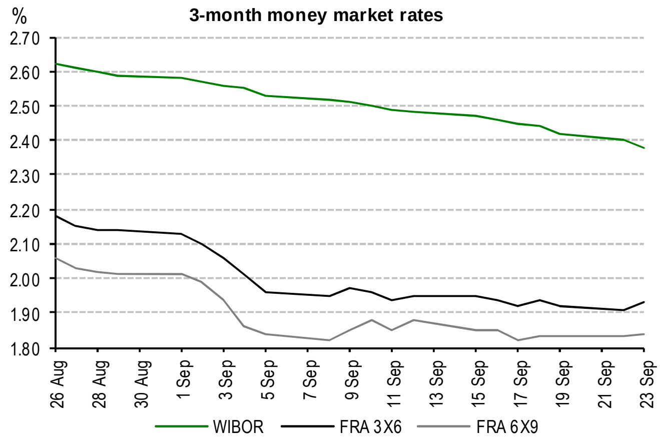
Measures of fiscal risk

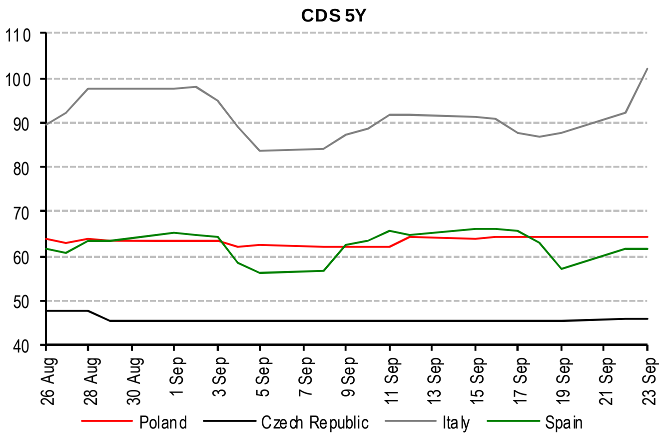
Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	64.2	0	195	-2
Czech Republic	45.9	0	0.14	0
Hungary	151.9	0	3.69	0
Greece	37030.5	0	5.07	19
Spain	61.5	0	120	3
Italy	102.0	10	139	5
Portugal	159.2	7	2.17	3
Ireland	53.0	1	0.74	3
Germany	17.9	-1	--	--

* 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 (19 September)						
10:00	**PL**	**Presentation of new government**						
		MONDAY (22 September)						
16:00	US	Home sales	Aug	m	5.20	-	5.05	5.15
		TUESDAY (23 September)						
3:45	CN	Flash PMI – manufacturing	Sep	pts	50.0	-	50.5	50.2
9:30	DE	Flash PMI – manufacturing	Sep	pts	51.2	-	50.3	51.4
10:00	EZ	Flash PMI – manufacturing	Sep	pts	50.6	-	50.5	50.7
10:00	**PL**	**Retail sales**	**Sep**	**%YoY**	**1.3**	**1.8**	**1.7**	**2.1**
10:00	**PL**	**Unemployment rate**	**Sep**	**%**	**11.8**	**11.7**	**11.7**	**11.9**
14:00	HU	Central bank decision		%	2.10	-	2.10	2.10
		WEDNESDAY (24 September)						
10:00	DE	Ifo index	Sep	pts	105.8	-		106.3
16:00	US	New home sales	Aug	k	430	-		412
		THURSDAY (25 September)						
13:00	CZ	Central bank decision		%	0.05	-		0.05
14:30	US	Initial jobless claims	week	k	-	-		280
14:30	US	Durable goods orders	Aug	%MoM	-17.0	-		22.6
		FRIDAY (26 September)						
14:30	US	Third estimate of GDP	Q2	%YoY	4.6	-		-2.1
15:55	US	Michigan index	Sep	pts	85.0	-		82.5

Source: BZ WBK, Reuters, Bloomberg

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

*** estimate after CPI data*

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