EYEOPENER

25 September 2014

Strengthening of zloty and bonds

- Next weak data from Germany and strong from USA
- Bratkowski favouring 25bp rate cut, but may also back 50bp
- EURPLN again testing 4.17, EURUSD fell sharply
- Clear strengthening in the Polish fixed income market
- Today, US data and Czech central bank's decision

The German Ifo index fell for the fifth time in a row in September and reached the lowest level since April 2013. This reading, together with surprisingly good data from the US housing market (home sales at the highest level since May 2008), positively affected the single currency. Reinforcement of expectations for more decisive ECB actions caused a significant strengthening in the European debt market. Yields of 10Y Spanish bonds fell to the lowest level since early September.

MPC's Andrzej Bratkowski told the Polish Press Agency that he is in favour of a gradual adjustment in interest rates, starting with a 25-bp cut in October. However, he may support the motion for more decisive action if there is a majority among the MPC members. He is of the opinion that interest rates may be reduced by 100bps in total (or even 150bps) if the economic slowdown occurs to be not only a temporary deceleration. His comment came in line with our view presented recently that the latest data on industrial output increased the odds for the cut by 50bps in one move in October. It looks as if it now depends on the view of the NBP Governor Marek Belka. Given the fact that the MPC preferred rather slow action in September (they should have cut, but decided to wait), we would rather expect a 25-bp rate cut (though with subjective odds 60%:40% in favour of 25bps vs. 50bps). With respect to the cumulative scale of easing indicated by Bratkowski (100-150bps), we think this would not be shared by the majority of the Council's members and we stick to our scenario of the total 75bps easing, spread evenly over the coming three months. We expect the slowdown in the economy to be rather moderate (GDP just below 3%) and to last only a few quarters, so more significant stimulus is rather not necessary.

EURUSD fell yesterday from 1.286 to almost 1.277 due to disappointing data from Germany and strong reading from the US. After close of the domestic session the euro kept on losing and at today's opening EURUSD is at the lowest level since July 2013, close to the lower border of support area (1.275-1.280), we indicated one week ago. If it's broken, then the rate may fall to 1.266 in the upcoming weeks. Today we will see new data from the US and they can support the dollar, should they draw a positive picture again.

In the Polish foreign exchange market, the zloty still struggles with the important support level at 4.17. It touched 4.163, but this was only temporary. The zloty continues to be backed by the strengthening in the Polish bond market. The additional impulse came yesterday from Hungary, where it was decided that the Central Bank will inject euros into the system for the commercial banks. This should help banks to close FX positions when Hungarians start switching their FX mortgage loans into forints. Today in the morning EURPLN is close to 4.175. It seems there is no strong enough impulse that would push it below 4.17. Today and tomorrow important data from the USA will be released that could have impact on the zloty. Support for EURPLN at 4.17 is in place since early August and if broken, the next target is 4.12.

The downward trend in the Polish bond yields and IRS regained speed during Wednesday's session. The IRS curve plunged by 6-7bps in the 2-10Y segment (2Y rate to 2%, 10Y below 2.80%) while bond yields dropped by 5-9bps, the biggest move seen in the belly and long end. The acceleration in the trend was triggered by the weaker-than-expected German Ifo index data (that put pressure on the ECB to take more action) and the comment by the Polish Monetary Policy Council member Andrzej Bratkowski. Also the 1-12M WIBOR rates dropped by additional 1-2bps and FRA by 3-8bps. Currently, the market is pricing-in a 75bps NBP rate cut until the end of the year and possible further adjustment in early 2015. Today's session will be still driven by yesterday's moods and by the developments in the core markets. The buyback auction of the USD denominated bonds worth up to $400mn maturing in July 2015 shall rather not influence the PLN-denominated debt.

S&P rating agency expects Polish GDP to grow by 3.1% YoY this year and 3.3% YoY in 2015. Internal demand – fuelled by accommodative monetary policy, improvement in the labour market and low inflation – is expected to be the core driver of growth. The risk factor is the Ukraine-Russia crisis. We forecast GDP growth at 3.1% YoY in 2014 and 2015.

The government approved yesterday the 2015 budget draft with the PLN46.1bn budget deficit. The key assumptions did not change significantly as compared to the initial proposition.

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	1.2757	CADPLN	2.9521
USDPLN	3.2759	DKKPLN	0.5614
EURPLN	4.1778	NOKPLN	0.5114
CHFPLN	3.4594	SEKPLN	0.4550
JPYPLN*	2.9998	CZKPLN	0.1518
GBPPLN	5.3418	HUFPLN*	1.3462

*for 100JPY/100HUF

Last session 24.09.2014

	min	max	open	close	fixing
EURPLN	4.1630	4.1793	4.1747	4.1718	4.1785
USDPLN	3.2409	3.2661	3.2502	3.2604	3.2525
EURUSD	1.2773	1.2863	1.2847	1.2798	-

Interest rate market 24.09.2014

T-bonds (on the interbank market)**

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
PS1016 (2Y)	1.94	-3	7.11.13	2.983
DS1019 (5Y)	2.31	-6	08.05.14	3.406
DS1023 (10Y)	2.86	-9	03.04.14	4.261

IRS rates (on the interbank market)**

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	1.95	-7	0.36	1	0.19	0
2L	2.00	-6	0.78	1	0.21	-1
3L	2.04	-6	1.25	0	0.27	-1
4L	2.13	-7	1.64	0	0.37	-1
5L	2.24	-7	1.91	0	0.49	-1
8L	2.57	-8	2.43	-1	0.91	-2
10L	2.75	-6	2.64	-1	1.17	-2

WIBOR rates

TERM	%	Daily change (bp)
O/N	2.60	-1
T/N	2.60	-1
SW	2.55	-1
2W	2.55	-1
1M	2.48	-1
3M	2.36	-2
6M	2.35	-2
9M	2.34	-2
1Y	2.33	-2

FRA rates (on the interbank market)**

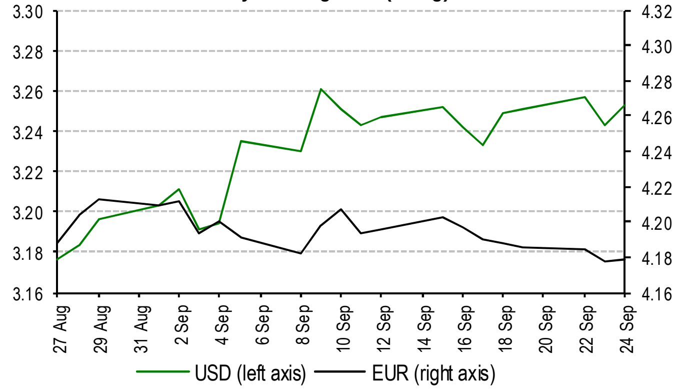
TERM	%	Daily change (bp)
1x2	2.14	-4
1x4	2.09	-3
3x6	1.85	-8
6x9	1.77	-7
9x12	1.78	-7
3x9	1.87	-7
6X12	1.78	-5

Measures of fiscal risk

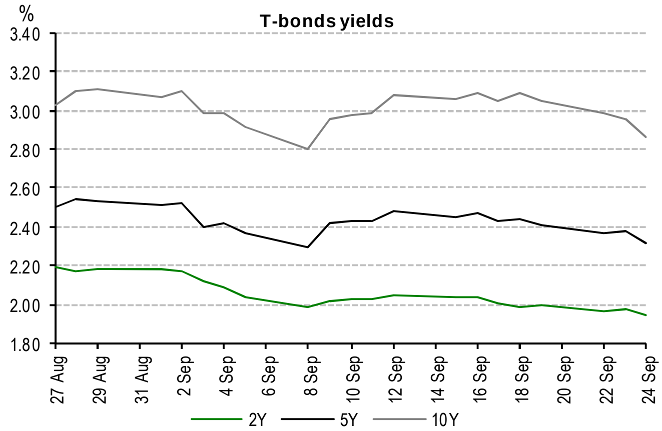
Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	65.2	1	1.92	-3
Czech Republic	45.9	0	0.17	4
Hungary	152.0	0	3.70	1
Greece	37030.5	0	5.20	13
Spain	61.5	0	1.16	-4
Italy	96.8	-5	1.38	0
Portugal	168.0	9	2.16	-1
Ireland	52.3	-1	0.73	-1
Germany	17.8	0	--	--

* 10Y treasury bonds over 10Y Bunds

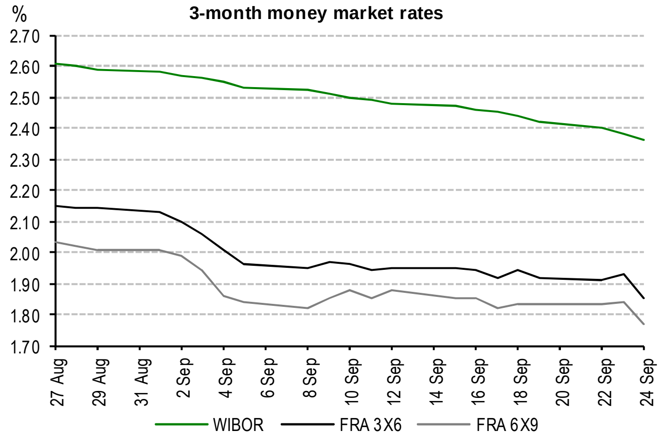
Zloty exchange rate (fixing)



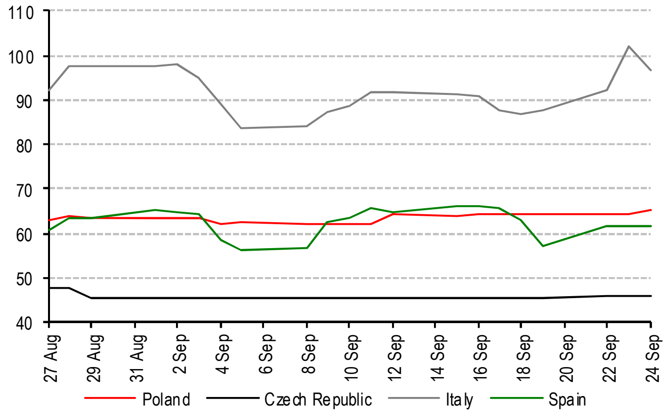
T-bonds yields



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 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	-	104.7	106.3
16:00	US	New home sales	Aug	k	430	-	504	427
		THURSDAY (25 September)						
13:00	CZ	Central bank decision		%	0.05	-		0.05
14:30	US	Initial jobless claims	week	k	296	-		280
14:30	US	Durable goods orders	Aug	%MoM	-18.0	-		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*

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.