EYEOPENER

29 September 2014

New GDP estimates due today

- **Solid data from the USA at the end of the week**
- **Zloty stable versus euro and weaker against dollar, EURUSD keeps falling**
- **Profit taking at domestic fixed income market at the end of the week**
- **Today, revised GDP data according to ESA2010 and important publications in the USA**

No significant changes were recorded in the market at the end of the week. European stock exchanges stayed close to the Thursday's closing levels and the dollar remained strong vs. main currencies. The US currency was supported slightly on Friday by the final US 2Q GDP data that was revised upward again. The release confirmed that the world's biggest economy was rising at the fastest pace since 4Q11. Emerging currencies continued to depreciate vs. the dollar but generally at slower pace than a day earlier. Some profit taking was recorded in the European debt markets, but yields stayed close to the local lows.

EURUSD dropped to 1.268 from 1.274. The greenback was supported by the US data that confirmed the recovery in this economy. Today in the morning the exchange rate is close to 1.268. A set of the US data is due in the afternoon that may influence the market at the beginning of the week. Crucial level for EURUSD is at 1.266, a low from November 2012.

EURPLN stayed stable close to 4.18. The zloty was performing quite well on Friday. Although the domestic currency depreciated vs. the dollar – USDPLN surged to slightly above 3.29 from 3.275 – it performed quite well when compared to its EM peers, just in the middle of the group. The Russian ruble was under the significant pressure as it reached its new all-time low vs. the dollar as the USDRUB broke 39.0 for the first time. Today in the morning EURPLN is close to 4.18, vital levels to watch are still at 4.17 and 4.23.

The domestic interest rate market saw a profit-taking, with 5Y and 10Y IRS and bond yields rebounding by c5-8bps. WIBOR3-12M slid by 2bp, 1M rate by 1bp. The 3-12M WIBOR rates have fallen by 38-48bps since July when the MPC dropped its forward guidance, assuming stable rates until the end of 3Q. The FRA market is currently pricing-in a further drop of the 3M WIBOR by nearly 50bps over the next 3 months. This means that the market is anticipating interest rate cuts of almost c100bps until the end of this year, with a high probability of a 50-bp rate cut in October. According to our baseline scenario, the total adjustment will reach 75bps with the Central Bank more likely to deliver cuts in small steps — by 25bps in each of the next three months. We, therefore, see the risk of correction (at least short-term) if the MPC decides to cut rates by 25bps only at the nearest meeting. But, before this happens, further falls in money market rates are possible, especially if September PMI disappoints. Spreads of the Polish 2Y, 5Y and 10Y benchmark bond yields vs. the 1M WIBOR (used as an approximation of financing costs) are at their lowest since May 2013. Only the spread on the longer-term debt is positive. But even if residents' demand for Polish bonds fades, foreign investors could continue to be interested in zloty-denominated debt as the looming abundance of cheap liquidity in the euro zone favours yield hunting. Although the PL-DE 10Y spread has been on the downside since the beginning of the year, domestic bonds still look more attractive when compared to Italian or Spanish debt. The latter may be underperforming in the nearest time due to uncertainty concerning independence referendum in Catalonia. We see potential for further flattening of the Polish curves as the ECB is expected to start injecting fresh cash into the euro zone market as soon as from October. This should have the biggest impact on the 5Y and 10Y tenors. The risks for this scenario, apart from the situation in Eastern Europe and the Middle East, are signals from the US. September's monthly labour market data will be released at the end of the week. The last reading disappointed strongly and cooled the market expectations about interest rate hikes. The ISM index may also prove important, as it reached the highest level since March 2011 last month. In Poland, the manufacturing PMI for September is due on Wednesday and we expect it to have the biggest impact on the short-end of the domestic curves as this will be the final data release before the MPC meeting. The PMI could prove decisive whether the market will continue to expect a 50-bp rate cut in October or whether the market will reduce its expectations to 25bps.

This week is filled with key macro data releases from the euro zone and the US, with a very light domestic calendar. The flash September PMIs for the European economies were unimpressive again and we think that the index for Poland will again show stagnation in industrial activity. On the other hand, macro data from the US (including the September non-farm payrolls) should confirm that the US economy is on an upward track, strengthening expectations for earlier monetary tightening. This may pressure the CEE currencies, as well as the longer- end of the yield curves. The ECB meeting will also be a key event as the bank will provide details on its new ABS and covered bond asset purchase programmes. Today at 10:00 the CSO will release revised GDP estimates for 2002-2013 calculated with respect to the new ESA2010 methodology (including incomes from so-called "black economy", i.e. illegal activities).

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FX market

Today's opening

EURUSD	1.2743	CADPLN	2.9498
USDPLN	3.2818	DKKPLN	0.5618
EURPLN	4.1812	NOKPLN	0.5124
CHFPLN	3.4640	SEKPLN	0.4552
JPYPLN*	3.0090	CZKPLN	0.1520
GBPPLN	5.3520	HUFPLN*	1.3408

*for 100JPY/100HUF

Last session 26.09.2014

	min	max	open	close	fixing
EURPLN	4.1730	4.1837	4.1812	4.1790	4.1781
USDPLN	3.2725	3.2986	3.2818	3.2924	3.2776
EURUSD	1.2677	1.2757	1.2743	1.2697	-

Interest rate market 26.09.2014

T-bonds (on the interbank market)**

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
PS1016 (2Y)	1.93	5	7.11.13	2.983
DS1019 (5Y)	2.31	8	08.05.14	3.406
DS1023 (10Y)	2.91	8	03.04.14	4.261

IRS rates (on the interbank market)**

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	1.93	-1	0.36	0	0.18	0
2L	2.00	2	0.80	1	0.20	0
3L	2.06	3	1.27	2	0.26	0
4L	2.17	5	1.66	2	0.35	0
5L	2.29	6	1.94	2	0.47	0
8L	2.62	7	2.44	1	0.89	-1
10L	2.80	6	2.64	0	1.16	0

WIBOR rates

TERM	%	Daily change (bp)
O/N	2.57	16
T/N	2.59	4
SW	2.54	-1
2W	2.53	-1
1M	2.44	-1
3M	2.30	-2
6M	2.28	-2
9M	2.27	-2
1Y	2.26	-2

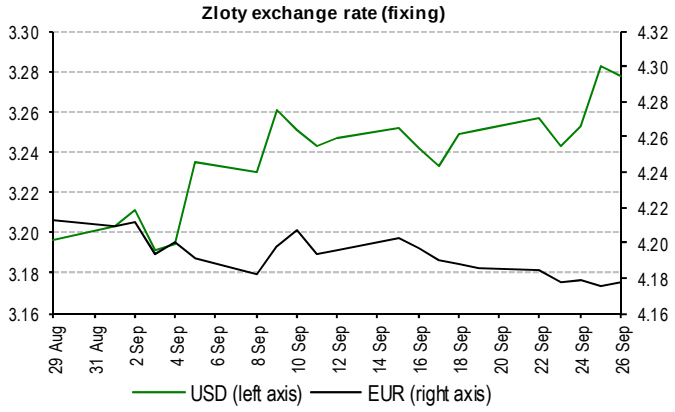
FRA rates (on the interbank market)**

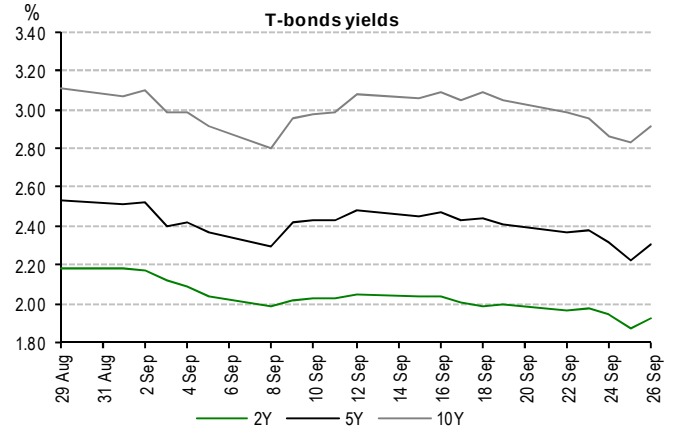
TERM	%	Daily change (bp)
1x2	2.20	3
1x4	2.05	-1
3x6	1.85	0
6x9	1.76	1
9x12	1.78	1
3x9	1.84	-2
6X12	1.76	1

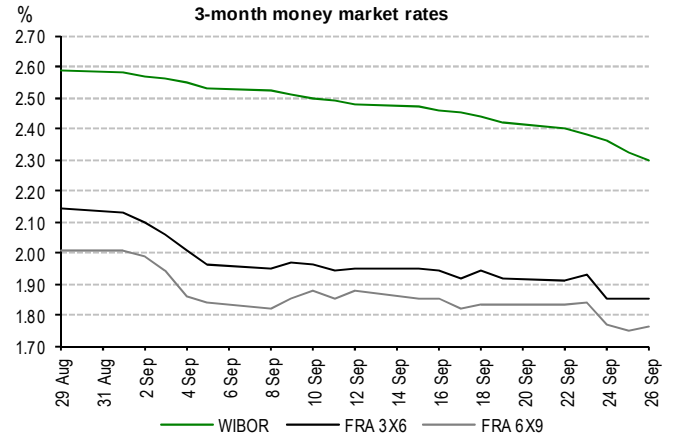
Measures of fiscal risk

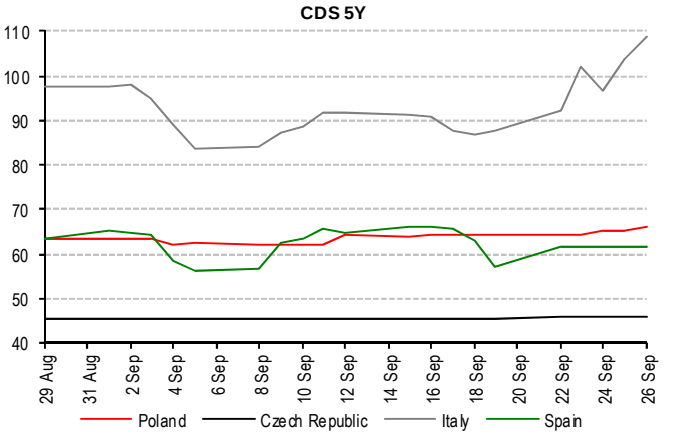
Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	66.2	1	1.94	8
Czech Republic	45.9	0	0.23	2
Hungary	154.4	0	3.66	5
Greece	37030.5	0	5.15	-2
Spain	61.5	0	1.21	4
Italy	108.8	5	1.41	3
Portugal	164.2	-4	2.14	-1
Ireland	53.5	1	0.70	-1
Germany	18.8	-1	--	--

* 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 (26 September)						
14:30	US	Third estimate of GDP	Q2	%YoY	4.6	-	4.6	-2.1
15:55	US	Michigan index	Sep	pts	84.8	-	84.6	82.5
		MONDAY (29 September)						
10:00	**PL**	**GDP according to ESA2010 for 2002-2013**						
14:30	US	Personal income	Aug	%MoM	0.3	-		0.2
14:30	US	Consumer spending	Aug	%MoM	0.4	-		-0.1
16:00	US	Pending home sales	Aug	k	-0.5	-		3.3
		TUESDAY (30 September)						
9:00	CZ	GDP	Q2	%YoY	2.7	-		2.9
11:00	EZ	Flash HICP	Sep	%YoY	0.3	-		0.4
14:00	**PL**	**Current account**	**Q2**	**€m**	**674**	**674**		**-766**
14:00	**PL**	**Inflation expectations**	**Sep**	**%YoY**	**-**	**-**		**0.2**
16:00	US	Consumer confidence	Sep	pts	92.4	-		92.4
		WEDNESDAY (1 October)						
3:45	CN	PMI – manufacturing	Sep	pts	50.5	-		50.2
9:00	**PL**	**PMI – manufacturing**	**Sep**	**pts**	**48.6**	**49.2**		**49.0**
9:55	DE	PMI – manufacturing	Sep	pts	50.3	-		51.4
10:00	EZ	PMI – manufacturing	Sep	pts	50.5	-		50.7
14:15	US	ADP report	Sep	k	204	-		204
16:00	US	ISM – manufacturing	Sep	pts	58.5	-		59.0
		THURSDAY (2 October)						
13:45	EZ	ECB decision		%	0.05	-		0.05
14:30	US	Initial jobless claims	week	k	-	-		293
16:00	US	Factory orders	Aug	%MoM	-9.0	-		10.5
		FRIDAY (3 October)						
9:55	DE	PMI – services	Sep	pts	55.4	-		54.9
10:00	EZ	PMI – services	Sep	pts	52.8	-		53.1
14:30	US	Non-farm payrolls	Sep	k	210	-		142
14:30	US	Unemployment rate	Sep	%	6.1	-		6.1
16:00	US	ISM – services	sep	pts	58.5	-		59.6

Source: BZ WBK, Reuters, Bloomberg

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

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