EYEOPENER

8 December 2014

MPC decisions unpredictable

- **Very positive end of the week thanks to the US numbers**
- **Zloty slightly weaker after the US data, euro under pressure of US labour market data**
- **Yields of 5 and 10Y bonds and IRS rates up after better-than-expected US data**
- **MPC's Chojna-Duch says no need to cut rates, but it cannot be excluded; Zielińska-Głębocka says that MPC decisions impossible to predict**

On Thursday the ECB disappointed as it did not decide to extend its asset purchase programme. On Friday the Austrian central bank governor Ewald Nowotny tried to intervene verbally, saying that he supports Mario Draghi in his attempt to stop the downward trend of inflation. Nowotny stressed, similarly as the ECB governor one day before, that further actions of the central bank are probable already in 1Q2015. Thus, the market sentiment was quite positive since the beginning of the session, also due to expectations that the US data will surprise to the upside. Investors were not disappointed – monthly non-farm payrolls were much better than expected, with the strongest reading since January 2012 and higher than 300k for the first time since April. Moreover, the previous reading was significantly revised upwards. This was an upward impulse for yields on the global bond market and for appreciation for the dollar versus other currencies.

EURUSD was moving in a slight downward trend since the start of Friday's session. The dollar gained thanks to expectations for more monetary easing by the ECB. Appreciation of the US dollar considerably accelerated after the US labour market data – at the end of the domestic session EURUSD tested Thursday's minimum at 1.228. Today at the start of the day the rate is close to this level, despite morning's data from Germany were slightly weaker than expected. EURUSD is oscillating slightly above another support at 1.226. Recent dovish signals from the ECB and strong data from the US will be still supportive for the dollar. If 1.226 is broken, then another important level which can stop the downward trend of EURUSD is at 1.213.

Friday's session brought EURPLN increase towards 4.17, up from 4.15, but at the end of the session the exchange rate was close to 4.16. The Hungarian forint was also under pressure at the end of the week, while the Russian ruble significantly gained during morning trade (but in the next hours its appreciation was halted, trimming part of gains). There was some information that the Russian ruble appreciation resulted from central bank's intervention. Today morning EURPLN is close to 4.16. We think that the rate will stay slightly above last minimum at 4.146 in upcoming days; technical analysis suggests zloty may stabilise for a while after three weeks of significant strengthening.

In the domestic interest rate market the bond yields and IRS at the belly and the longer end posted a rise by 4bp in reaction to strong data from the US labour market. The shorter end remained stable. Recent comments on the MPC members (see details below) lower chances for further interest rates cuts, so potential for a rebound after recent rises of IRS and bond yields will be still limited, especially at the shorter end.

There are no bigger data releases in Poland this week and the calendar abroad is also very thin. As such, investors will await fresh comments of the central bankers and watch for any hints regarding the monetary policy outlook in Poland and abroad. First of such comments appeared already today in the morning. MPC member Elżbieta Chojna-Duch, whose opinion may be key for the Council's decisions in the coming months said in the interview for Reuters that that currently there is no need to cut rates as the economy grows at a decent pace and prices are falling mainly due to lower oil prices. On the other hand, she said that the interest rate disparity between Poland and euro zone and the US may cause problems like capital inflow leading to zloty's appreciation and thus hitting the competitiveness of the Polish exports. That is why in her opinion the reduction of the refinancing rate cannot be excluded. In the interview for the Polish Press Agency, she recalled similar reasoning and noticed that "there is chance for cautious rate cut in the coming months, although the room for monetary policy easing has narrowed noticeably". Anna Zielińska-Głębocka told Bloomberg that it is impossible to predict next MPC decisions as the Council itself does not know what will happen – there has never been the case before when the GDP growth was quite good and the deflation was prolonging. Jan Winiecki, one of the most hawkish members, said in the interview for Bloomberg Businessweek Poland that the interest rate at 2.5-3.0% is adequate if inflation is zero.

Later in the week the results of the second TLTRO take-up in the euro zone may affect market expectations on the scale for the ECB's QE and, if disappointing, the TLTRO results may strengthen the debt market, also in Poland. In our view, the zloty has the potential to gain further and any signals that odds for European QE are rising would definitely support this trend.

ECONOMIC ANALYSIS DEPARTMENT:
al. Jana Pawła II 17, 00-854 Warsaw 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	1.2377	CADPLN	2.9461
USDPLN	3.3577	DKKPLN	0.5586
EURPLN	4.1560	NOKPLN	0.4753
CHFPLN	3.4563	SEKPLN	0.4480
JPYPLN*	2.7959	CZKPLN	0.1505
GBPPLN	5.2573	HUFPLN*	1.3543

*for 100JPY/100HUF

Last session 04.12.2014

	min	max	open	close	fixing
EURPLN	4.1460	4.1675	4.1525	4.1570	4.1538
USDPLN	3.3429	3.3825	3.3757	3.3429	3.3728
EURUSD	0.0000	1.2437	1.2301	1.2437	-

Interest rate market 04.12.2014

T-bonds (on the interbank market)**

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
PS1016 (2Y)	1.88	-1	23.10.2014	1.653
DS1019 (5Y)	2.16	1	23.10.2014	2.007
DS1023 (10Y)	2.57	1	03.04.2014	4.261

IRS rates (on the interbank market)**

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	1.89	0	0.36	1	0.18	0
2L	1.94	1	0.76	1	0.21	0
3L	1.97	1	1.16	0	0.26	1
4L	2.04	2	1.48	1	0.33	1
5L	2.10	2	1.72	0	0.42	1
8L	2.30	3	2.18	-2	0.76	1
10L	2.41	2	2.37	-2	0.99	2

WIBOR rates

TERM	%	Daily change (bp)
O/N	2.07	-1
T/N	2.10	1
SW	2.08	0
2W	2.08	0
1M	2.08	0
3M	2.06	0
6M	2.05	0
9M	2.04	0
1Y	2.04	1

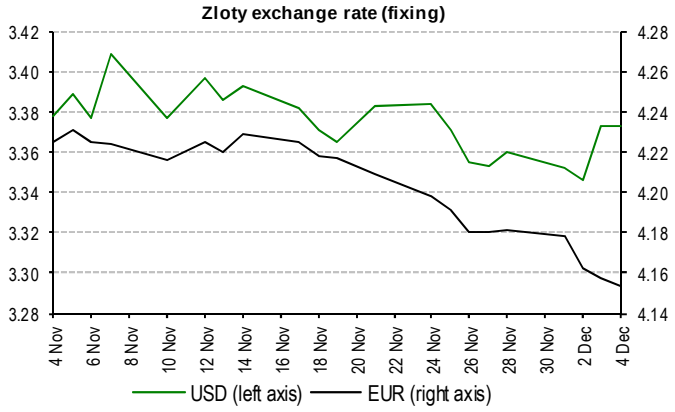
FRA rates (on the interbank market)**

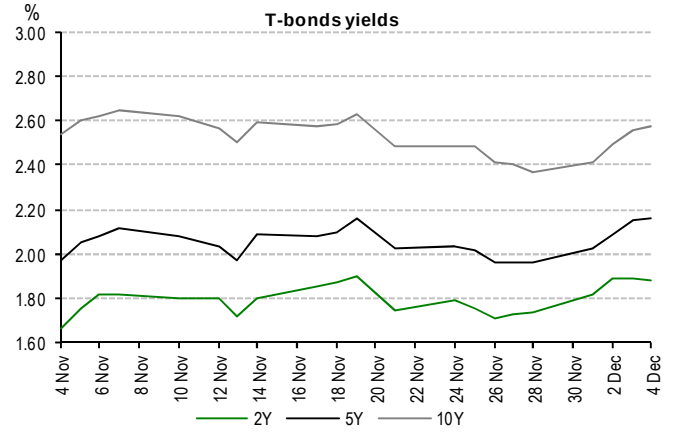
TERM	%	Daily change (bp)
1x2	2.09	4
1x4	2.04	0
3x6	1.90	1
6x9	1.84	7
9x12	1.82	4
3x9	1.91	2
6X12	1.83	4

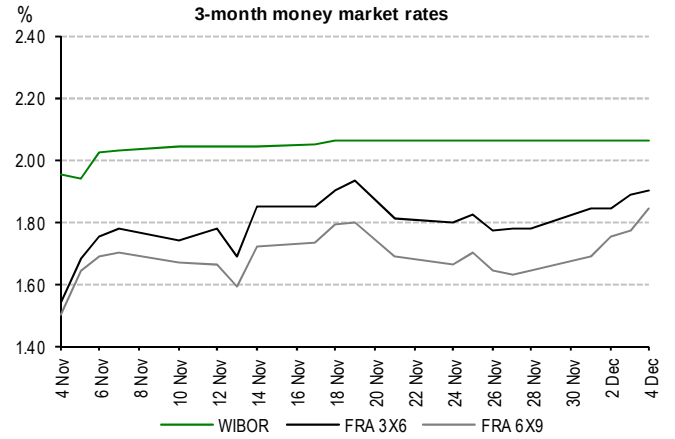
Measures of fiscal risk

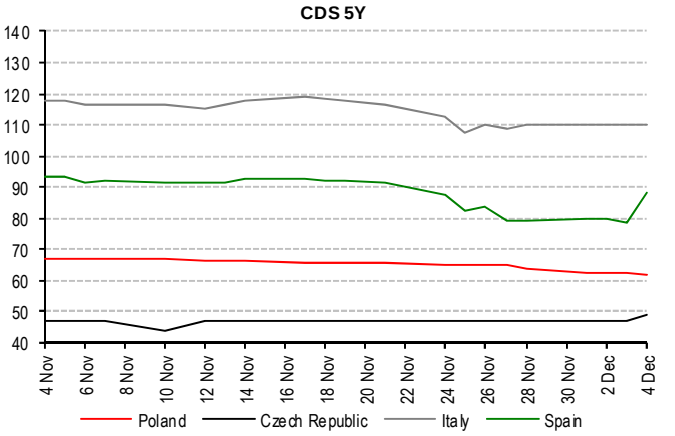
Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	62.0	0	1.81	1
Czech Republic	49.0	2	-0.05	-2
Hungary	160.0	-4	2.96	-2
Greece	37030.5	0	6.96	1
Spain	88.0	9	1.11	2
Italy	109.9	0	1.26	2
Portugal	166.1	0	2.04	1
Ireland	48.5	0	0.65	2
Germany	16.4	0	--	--

* 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 (5 December)						
8:00	DE	Industrial orders	Oct	%MoM	0.4	-	2.5	1.1
14:30	US	Non-farm payrolls	Nov	k	225	-	321	243
14:30	US	Unemployment rate	Nov	%	5.8	-	5.8	5.8
16:00	US	Industrial orders	Oct	%MoM	-0.2	-	-0.7	-0.5
		MONDAY (8 December)						
8:00	DE	Industrial output	Oct	%MoM	0.4	-	0.2	1.1
9:00	CZ	Industrial output	Oct	%MoM	4.2	-	3.2	8.5
		TUESDAY (9 December)						
8:00	DE	Exports	Oct	%MoM	-	-		5.5
9:00	CZ	CPI	Nov	%YoY	0.7	-		0.7
		WEDNESDAY (10 December)						
		No important data releases						
		THURSDAY (11 December)						
9:00	HU	CPI	Nov	%YoY	-0.5	-		-0.4
14:30	US	Retail sales	Nov	%MoM	0.3	-		0.3
14:30	US	Initial jobless claims	week	k	-	-		313
		FRIDAY (12 December)						
11:00	EZ	Industrial output	Oct	%MoM	0.0	-		0.6
14:00	**PL**	**Money supply**	**Nov**	**%YoY**	**7.9**	**7.9**		**7.7**
15:55	US	Flash Michigan	Dec	pts	89.5	-		88.8

Source: BZ WBK, Reuters, Bloomberg

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

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Additional information is available on request. Please contact Bank Zachodni WBK S.A. Rates Area, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 88, email ekonomia@bzwbk.pl, http://www.bzwbk.pl.