

# EYEOPENER

28 January 2015

## Polish 10Y yield below 2%

- **Weak data from the US weighed on moods**
- **Annual data suggest GDP slowdown in Q4, retail sales slightly weaker than expected**
- **Zloty weaker versus euro, but stable vs. dollar thanks to rebound of EURUSD**
- **Polish 10Y yield below 2%**
- **FOMC decision today in the evening**

Demand for risky assets faded yesterday and was weaker than in the previous days. The positive impact of the last week's ECB decision abated after the below-consensus US durable goods orders and disappointing US companies quarterly earnings. Although the real estate data and consumer confidence index surprised to the upside, these releases failed to have a significant impact on the market. Consequently, retreat from the risky assets strengthened the yield down impulse in the global FI market triggered after the ECB decision.

According to the fast estimate, Polish GDP expanded 3.3% in 2014 in real terms, in line with expectations and faster than in the two previous years. The growth was driven by the domestic demand, mainly private consumption (+3.0%) and investments (+9.4%) while the contribution of net exports was negative. Our estimate for 4Q shows that the Polish economy slowed down to 3.1% YoY from 3.3% YoY in 3Q, just like we had been expecting so far. We assume the deceleration may continue into 1Q15 but this should be only marginal and short-lived and followed by gradual acceleration due to the recovery in the euro zone that will support demand for Polish exports.

Retail sales increased 1.8% YoY in December 2014, below consensus. In real terms, sales increased 4%, most since May 2014. Improvement in the labour market and real disposable incomes growing at decent pace should continue to support retail sales in the coming months. At the same time, the unemployment rate increased to 11.5% in December from 11.4%, but this is a seasonal phenomenon. Data on the unemployment confirm further improvement in the labour market. Yesterday's data (mainly the GDP estimate) do not provide dovish MPC members with new arguments. However, given our inflation forecasts (deepening of deflation in 1Q2015) we think that the MPC will cut rates by 25bp in March.

EURUSD was quite volatile yesterday. First, the exchange rate followed the fast increase in EURCHF (the market speculated that SNB was intervening) and it surged to 1.134 from 1.124. After the correction to 1.126, poor US durable goods orders release triggered another upward wave that took EURUSD to around 1.14 at the end of the Polish session. No big changes occurred over the night and we expect that today's session will be quite calm as investors await the outcome of the FOMC meeting. The market hopes that the statement will be less hawkish than a month ago and if this is the case, then the euro could gain more vs. the dollar.

EURPLN increased yesterday to c.4.24 from 4.21. To some extent this was driven by weaker than expected Polish retail sales data (that strengthened expectations for more cuts in Poland to come soon) and deterioration of the global sentiment after the US data. USDPLN stayed close to 3.73-3.74 thanks to the rebound in EURUSD. Over the night the zloty remained stable and we do not expect any noticeable moves during the day as investors await the evening statement from the FOMC. Should signals from the US central bank be less hawkish than previously, the zloty could gain vs. the euro and the dollar.

Polish IRS and bond yields reached fresh all-time lows after a roughly 10-bp drop on Tuesday in the belly and long end of the curves. The 10Y bond yield dropped marginally below 2% due to last week's ECB decision and Tuesday's below-consensus release of Polish December retail sales. Stronger expectations for more rate cuts to come in Poland pushed IRS and bond yields lower. Also, further strengthening in the core market after the weak US durable goods orders also supported a downward move in yields/rates across the curves. 1M and 9M WIBOR rates dropped 1bp. We think Polish IRS and bond yields could drop further should the FOMC sound less hawkish today, just like the market expects.

Deputy finance minister, Artur Radziwiłł, said yesterday that the ministry has covered 40% of 2015 borrowing needs. He added that issuing bonds in the foreign markets will be aimed only at rolling the outstanding series.

The Finance Ministry showed its schedule of revenues and spending in 2015. This plan assumes the budget deficit in January at PLN1.7bn, i.e. 3.7% of the annual plan at PLN46.08bn.

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## FX market

## Today's opening

EURUSD	1.1368	CADPLN	3.0012
USDPLN	3.7246	DKKPLN	0.5686
EURPLN	4.2345	NOKPLN	0.4814
CHFPLN	4.1105	SEKPLN	0.4551
JPYPLN*	3.1563	CZKPLN	0.1519
GBPPLN	5.6535	HUFPLN*	1.3627

\*for 100JPY/100HUF

## Last session

27.01.2015

	min	max	open	close	fixing
EURPLN	4.2060	4.2385	4.2220	4.2385	4.2285
USDPLN	3.7120	3.7702	3.7702	3.7167	3.7348
EURUSD	1.1198	1.1403	1.1198	1.1403	-

## Interest rate market 27.01.2015

## T-bonds (on the interbank market)\*\*

Bond (term)	Yield (%)	Change (bp)	Last auction	Offered paper	Avg yield
PS1016 (2Y)	1.49	-2	22.01.2015	OK0717	1.734
DS1019 (5Y)	1.67	-6	22.01.2015	PS0420	1.978
DS0725 (10Y)	1.99	-9	15.01.2015	DS0725	2.295

## IRS rates (on the interbank market)\*\*

Term Rate (On the medium market)						
TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	1.59	-3	0.39	-1	0.12	0
2L	1.53	-6	0.73	-4	0.12	0
3L	1.51	-6	1.03	-4	0.16	-1
4L	1.52	-6	1.25	-6	0.23	-1
5L	1.55	-5	1.43	-5	0.30	-1
8L	1.68	-7	1.75	-4	0.56	0
10L	1.77	-7	1.89	-4	0.72	0

## WIBOR rates

TERM	%	Daily change (bp)
O/N	1.83	5
T/N	1.89	1
SW	2.01	0
2W	2.03	0
1M	2.02	-1
3M	2.01	0
6M	2.00	0
9M	1.99	-1
1Y	1.99	0

## FRA rates (on the interbank market)\*\*

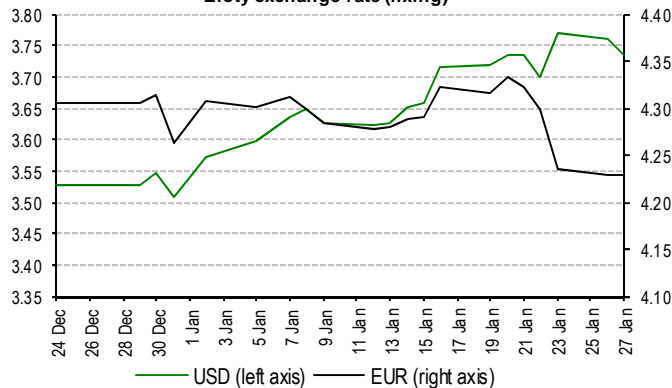
TERM	%	Daily change (bp)
1x2	1.89	2
1x4	1.85	-2
3x6	1.57	-3
6x9	1.36	-7
9x12	1.34	-6
3x9	1.57	-4
6x12	1.36	-7

## Measures of fiscal risk

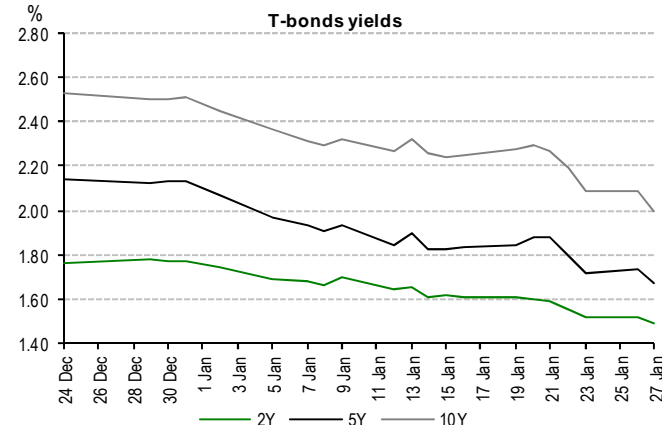
Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	68.7	0	160	-11
Czech Republic	50.3	0	0.02	0
Hungary	166.8	0	2.51	-3
Greece	37030.5	0	9.30	80
Spain	68.4	2	1.02	-1
Italy	90.1	2	1.20	2
Portugal	1519	2	1.80	0
Ireland	45.5	0	0.74	3
Germany	16.3	0	--	--

\* 10Y treasury bonds over 10Y Bunds

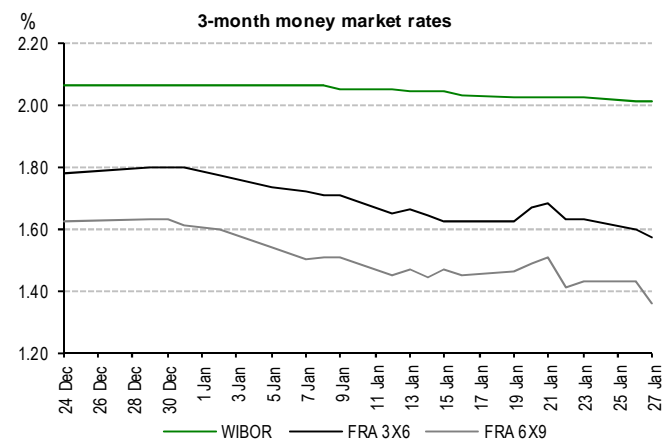
## Zloty exchange rate (fixing)



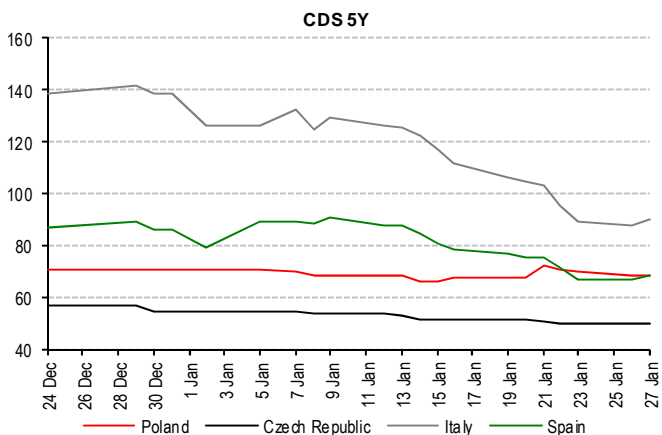
## T-bonds yields



## 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

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	BZWBK		
FRIDAY (23 January)								
2:45	CN	Flash PMI – manufacturing	Jan	pts	49.5	-	49.8	49.6
9:30	DE	Flash PMI – manufacturing	Jan	pts	51.6	-	51.0	51.2
10:00	EZ	Flash PMI – manufacturing	Jan	pts	51.0	-	51.0	50.6
16:00	US	Home sales	Dec	%MoM	2.4	-	2.4	-6.3
MONDAY (26 January)								
10:00	DE	Ifo index	Jan	pts	106.2	-	106.7	105.5
TUESDAY (27 January)								
10:00	PL	GDP	2014	%YoY	3.3	3.3	3.3	1.7
10:00	PL	Retail sales	Dec	%YoY	2.2	1.2	1.8	-0.2
10:00	PL	Unemployment rate	Dec	%	11.6	11.5	11.5	11.4
14:00	HU	Central bank decision		%	2.1	-	2.1	2.1
14:30	US	Durable goods orders	Dec	%MoM	0.4	-	-3.4	-2.1
16:00	US	New home sales	Dec	k	450	-	481	431
16:00	US	Consumer confidence index	Jan	pts	95.5	-	102.9	93.1
WEDNESDAY (28 January)								
20:00	US	FOMC decision						
THURSDAY (29 January)								
14:30	US	Initial jobless claims	week	k	-	-		307
16:00	US	Pending home sales	Dec	%MoM	0.5	-		0.8
FRIDAY (30 January)								
11:00	EZ	Flash HICP	Jan	%YoY	-0.5	-		-0.2
14:00	PL	Inflation expectations	Jan	%YoY	-	-		0.2
14:30	US	Advance GDP	Q4	%QoQ	3.3	-		5.0
16:00	US	Michigan index	Jan	pts	98.2	-		98.2

Source: BZ WBK, Reuters, Bloomberg

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

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