Bank Zachodni WBK
Grupa Santander

EYEOPENER

13 February 2015

German economy accelerating

- **Market still hoping for positive finale of talks with Greece, truce in Ukraine improves sentiment**
- **4Q GDP growth in Germany much better than forecast**
- **Zloty stronger against euro and dollar and EURUSD higher thanks to lower worries about Ukraine, weak US data**
- **Polish bonds trimming earlier losses**
- **Today, Polish GDP, CPI, C/A, M3, plus data from the USA**

Despite lack of agreement of euro zone finance ministers on Greece, even on a post-meeting statement, the global mood was relatively positive since the beginning of Thursday. Investors remained positive prior to another round of talks, planned for Monday. Even though politician are still cautious about possible agreement, yesterday the Greek PM agreed with the euro group president, Dutch finance minister that talks between Greece and its creditors about working out common ground before Monday's euro group meeting will begin today. On the other hand, German chancellor Angela Merkel reiterated her stance that Greece may either fulfill criteria of current help package or apply for its enhancement by the end of February. This suggests lack of German approval for current proposals of the Greek government.

After all-night talks in Minsk, leaders of Russia, Ukraine, Germany and France agreed yesterday that cease-fire in Ukraine will start on Tuesday and this decision was welcomed by investors (even though many comments point to the fact that it was not signed yet and seems temporary). The optimism lost strength at the end of the day, after disappointing data from the US were released, but factors offsetting these negative news appeared quite soon – the ECB decision to enlarge liquidity line of the Greek banks (ELA) to €65bn.

Today's morning German 4Q GDP data surprised well to the upside (0.7% QoQ). Somewhat weaker growth was recorded in France (0.1% QoQ), but taking these two releases together this is still a net positive surprise for the market at the beginning of the day.

EURUSD stayed in the up-trend yesterday amid hopes for positive ending of the Greek case, weak US data released in the afternoon and the ECB decision. Consequently, EURUSD reached 1.14 during the Polish trading hours and 1.144 already during the US/Asian session. Today in the morning the exchange rate is close to this level. It seems that worries over the Greek future in the euro zone faded somewhat recently, so investors' attention could switch today to the euro zone and US macro releases. However, we think EURUSD will stay below 1.153 today due to the outlook for the Monday's euro group meeting.

Both EURPLN and USDPLN plunged yesterday sharply on the back of information on the cease-fire agreed in the Eastern Europe and the ECB decision. The zloty appreciated to 4.175 per euro and 3.66 per dollar. Other CEE currencies also gained – EURHUF dropped to 306 from 309 while EURRON descended to 4.42 from 4.44 (though the decline was only temporary in this case). Today in the morning EURPLN is close to 4.17. Today Polish data may have some impact on the zloty. Polish 4Q14 GDP is due in the morning and we think this may have a positive impact on the currency as the pace of growth has stayed above 3% in our view. However, any support from this release may be at least partly neutralized in the afternoon when hopes for more rate cuts in Poland may strengthen after the CPI data. Also, the Greek case remains unsolved and only postponed until Monday and this may limit the potential for the zloty's appreciation. Thus, we do not expect the EURPLN down wave to be continued below 4.146 today.

Polish bond yields and IRS plunged on Thursday on the back of the cease-fire agreed by the leaders of Russia, Ukraine, France and Germany, weaker than expected US data that postponed in the market's view the first Fed rate hike and hopes that Greek crisis will be resolved soon. All this dragged both curves down by 10-15bps. In the case of WIBOR rates, only 1M and 9M stayed flat and did not drop 1bp. Despite Wednesday's lack of agreement in the Greek talks, that market still hopes that more action towards solving this case will take place on Monday. Meanwhile, today market attention is likely to focus on Polish data releases. Our forecast for January's CPI (-1.4% YoY) is below the consensus (-1.2% YoY). If we prove right, then Polish bonds could continue to recover thanks to stronger hopes for more interest rate cuts in Poland. We think that the impact of inflation data should be stronger than that of flash GDP growth for 4Q14 showing that pace of growth stayed above 3%. Please note that the Monetary Policy Council has recently dropped the condition for rate cuts saying that more data showing deepening growth slowdown are needed, so the inflation data should be in focus in the debt market.

At Thursday's auction, the Polish Ministry of Finance sold bonds for PLN5bn, which is at the upper boundary of the planned supply. It collected over PLN1.3bn from the sale of the new 2Y bond, OK0717, and nearly PLN3.7bn from new 5Y bond, PS0420. Demand reached c.PLN3bn and nearly PLN6.3bn, respectively, and yields at the auction were 1.667% and 1.987%, respectively. So, just as we anticipated, results were quite decent and did not disappoint.

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FX market

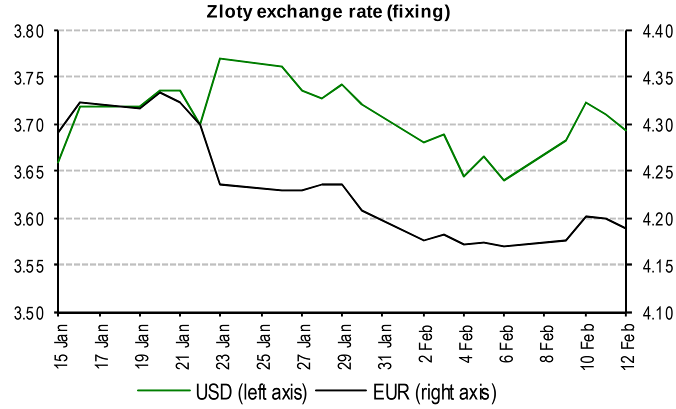
Today's opening

EURUSD	1.1424	CADPLN	2.9193
USDPLN	3.6525	DKKPLN	0.5605
EURPLN	4.1705	NOKPLN	0.4790
CHFPLN	3.9363	SEKPLN	0.4337
JPYPLN*	3.0721	CZKPLN	0.1510
GBPPLN	5.6248	HUFPLN*	1.3639

*for 100JPY/100HUF

Last session 12.02.2015

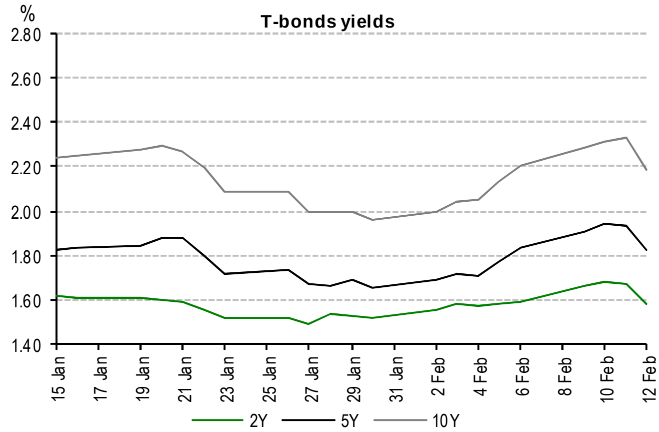
	min	max	open	close	fixing
EURPLN	0.0000	4.2112	4.2112	4.1765	4.1884
USDPLN	0.0000	3.7211	3.7211	3.6730	3.6926
EURUSD	1.1301	1.1373	1.1320	1.1373	-



Interest rate market 12.02.2015

T-bonds (on the interbank market)**

Bond (term)	Yield (%)	Change (bp)	Last auction	Offered paper	Avg yield
PS1016 (2Y)	1.58	-9	22.01.2015	OK0717	1.734
DS1019 (5Y)	1.82	-11	22.01.2015	PS0420	1.978
DS0725 (10Y)	2.19	-14	5.02.2015	DS0725	2.092

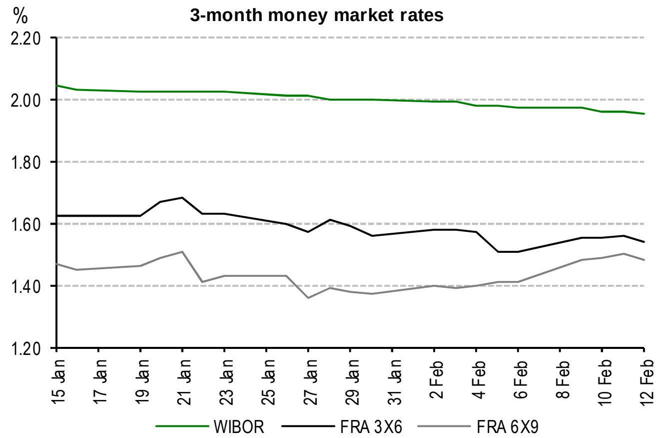


IRS rates (on the interbank market)**

TERM	PL %	PL Change (bp)	US %	US Change (bp)	EA %	EA Change (bp)
1L	1.61	-3	0.49	0	0.13	-1
2L	1.62	-6	0.88	-2	0.13	-1
3L	1.65	-8	1.23	-1	0.17	-1
4L	1.70	-9	1.47	-1	0.23	-1
5L	1.75	-10	1.64	-1	0.30	-1
8L	1.92	-13	1.96	-1	0.54	-2
10L	2.01	-13	2.09	-2	0.69	-2

WIBOR rates

TERM	%	Daily change (bp)
O/N	2.06	0
T/N	2.06	0
SW	2.02	0
2W	2.01	0
1M	2.00	0
3M	1.95	-1
6M	1.94	-1
9M	1.93	0
1Y	1.92	-1



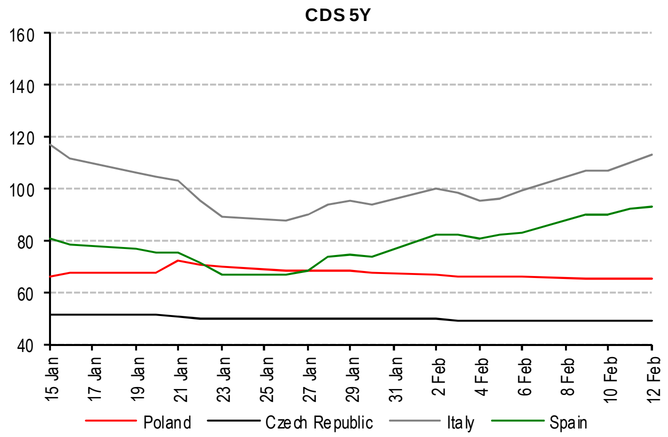
FRA rates (on the interbank market)**

TERM	%	Daily change (bp)
1x2	1.77	-4
1x4	1.71	-2
3x6	1.54	-2
6x9	1.48	-2
9x12	1.45	-5
3x9	1.54	-2
6X12	1.46	-5

Measures of fiscal risk

Country	CDS 5Y Value	CDS 5Y Change (bp)	Spread 10Y* Value	Spread 10Y* Change (bp)
Poland	65.7	0	1.88	-10
Czech Republic	49.3	0	0.25	5
Hungary	133.1	-6	2.89	-7
Greece	1788.0	62	10.12	-41
Spain	93.6	1	1.29	2
Italy	113.3	3	1.34	2
Portugal	167.0	-2	2.17	-5
Ireland	46.5	0	0.89	0
Germany	16.1	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

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE*
		FRIDAY (6 February)						
8:00	DE	Industrial output	Dec	%MoM	0.4	-	0.1	0.1
9:00	CZ	Industrial output	Dec	%YoY	6.7	-	7.3	-0.4
14:30	US	Non-farm payrolls	Jan	k	231	-	257	329
14:30	US	Unemployment rate	Jan	%	5.6	-	5.7	5.6
		MONDAY (9 February)						
8:00	DE	Exports	Dec	%MoM	1.5	-	3,4	-2.2
9:00	CZ	CPI	Jan	%YoY	-0.2	-	0.1	0.1
		TUESDAY (10 February)						
		No important data releases						
		WEDNESDAY (11 February)						
9:00	HU	CPI	Jan	%YoY	-1.1	-	-1.4	-0.9
		THURSDAY (12 February)						
11:00	**PL**	**Bond auction**						
11:00	EZ	Industrial output	Dec	%MoM	0.2	-	0.0	0.1
14:30	US	Retail sales	Jan	%MoM	-0.4	-	-0.8	-0.9
14:30	US	Initial jobless claims	week	k	287	-	304	279
		FRIDAY (13 February)						
8:00	DE	Flash GDP	Q4	%YoY	1.0	-	1.6	1.2
9:00	CZ	Flash GDP	Q4	%YoY	1.9	-	1.3	2.4
9:00	HU	Flash GDP	Q4	%YoY	2.7	-	3.4	3.2
10:00	**PL**	**Flash GDP**	**Q4**	**%YoY**	**3.1**	**3.1**		**3.3**
11:00	EZ	Flash GDP	Q4	%YoY	0.8	-		0.8
14:00	**PL**	**CPI**	**Jan**	**%YoY**	**-1.2**	**-1.4**		**-1.0**
14:00	**PL**	**Current account**	**Dec**	**€m**	**-386**	**-539**		**-268**
14:00	**PL**	**Exports**	**Dec**	**€m**	**12016**	**12549**		**13 556**
14:00	**PL**	**Imports**	**Dec**	**€m**	**12251**	**12810**		**13 652**
14:00	**PL**	**Money supply**	**Jan**	**%YoY**	**9.0**	**8.8**		**8.4**
15:55	US	Flash Michigan	Feb	pts	98.1	-		98.1

Source: BZ WBK, Reuters, Bloomberg

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

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