EYEOPENER

23 February 2015

Still uncertain finale of Greek tragedy

- **Greece and Eurogroup reached temporary agreement, Moody's cut Russia's rating to junk**
- **Bratkowski doubts there will be majority for 50bp rate cut in March, Rzońca and Winiecki against further cuts**
- **Zloty and other CEE currencies weaker ahead of Eurogroup meeting, EURUSD lower**
- **Polish debt market under pressure at the end of the week**
- **Today, German Ifo index and US home sales**

Concerns over the outcome of the Eurogroup talks on Greece persisted in the market since the beginning of the Friday's session. That is why below-consensus flash manufacturing PMIs for euro zone did not have a noticeable impact on the market. During the day German Der Spiegel daily reported that the ECB is getting prepared for Greece leaving the euro zone, which did not support optimism before the finance ministers' meeting. Finally, decision on extending the Greek bailout program for four months was announced in the evening. At the same time, it was agreed, that until end of Monday Greece has to present list of reforms that have to be accepted by the international creditors (former Troika). Should these propositions be insufficient, the next Eurogroup summit will take place tomorrow. Information on the agreement supported moods in the capital markets, backed the single currency and pushed yields on 10Y Treasuries to 2.11%.

On Friday the Moody's rating agency cut Russia's credit rating to junk Ba1 from Baa3 on the back of deteriorating outlook of Russian economy amid prolonging conflict with Ukraine, falling oil prices and ruble's depreciation. After this decision, only Fitch has an investment rating for Russia (BBB-, lowest investment grade), but with the negative outlook.

EURUSD stayed in the downward trend since the beginning of the Friday's session on the back of worries over the future of the euro zone. The exchange rate reached 1.128 yet before the Eurogroup meeting. Higher hopes for the final solution pushed EURUSD to 1.137 at the end of the Polish trading hours and further up top 1.143 after the agreement was announced. Today in the morning, however, the exchange rate is close to 1.135. The fact that euro's appreciation was only temporary was probably due to the fact that until today Greece has to present reform list that has to be accepted so that next tranches will be available. Meanwhile, media stress the uncertainty whether actions presented by the Greece will be sufficient and that there are rising tensions within Greek government. It seems that the room for a rebound in EURUSD will be limited as long as the bailout extension is not approved for good.

EURPLN, USDPLN, EURHUF, EURRON and EURCZK increased on the higher worries over the outcome of the Eurogroup talks. The zloty depreciated to 4.185 vs. the euro and above 3.70 per dollar. However, the scale of moves in the Polish and CEE market was not big. Today in the morning EURPLN is close to 4.175 and we think the exchange rate will stay within 4.14-4.24 range also in the coming days. Even when the Greek deal is implemented, then the zloty may be under the pressure of the next week's MPC meeting and risk of a rate cut.

On the domestic interest rate market yields and IRS rates rose by 3-5bp at the beginning of Friday's session, in particular on the long end of the curves due to increased risk of Grexit. As a consequence, at the end of session yield of Polish 10Y benchmark increased again above 2.30%. At the same time, Friday's session brought further decline in WIBOR rates – 1M rate fell by 1bp, while others by 3bp (excluding 6M rate, which dropped by 2bp).

One week before the MPC rate-setting meeting new comments of the Council members appeared. Andrzej Rzońca told Gazeta Wyborcza daily that ECB policy may trigger excessive inflow of short-term capital to Poland. At the same time, quite surprisingly, for him this is not an argument for rate reduction. Rzońca thinks that too low interest rates are slowing economic growth in the long run, while in the short run they are increasing risk of economic fluctuations and spur excessive borrowing. MPC's Jan Winiecki said in Bloomberg's interview that further interest rate cuts are useless. Meanwhile, Andrzej Bratkowski told Parkiet daily that in his view a rate cut by at least 50bp in March would be justified (and he still sees room to cut by 100bp in total). However, he said that such motion is not likely to get majority support. In our view, the MPC is likely to cut rates by 25bp at the nearest meeting in March.

GUS survey of business climate showed that in February companies in manufacturing were a bit more optimistic than in January. Optimistic predictions of future production and orders improved, and assessment of their current levels remained similar as last month. Meanwhile, consumer sentiment indicators decreased sharply in February, triggered by much worse assessment of country's economic situation and households' financial stance. Such sharp contraction of moods was probably a consequence of zloty collapse versus Swiss franc. It remains to be seen whether, and to what extent, it would affect not only moods but also real consumers' demand.

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FX market

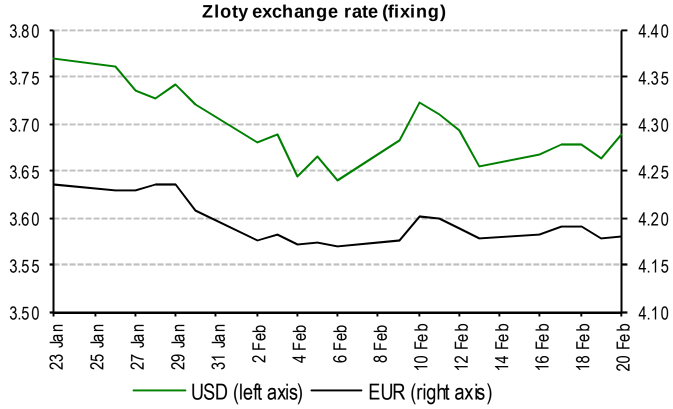
Today's opening

EURUSD	1.1359	CADPLN	2.9277
USDPLN	3.6777	DKKPLN	0.5601
EURPLN	4.1776	NOKPLN	0.4867
CHFPLN	3.8876	SEKPLN	0.4379
JPYPLN*	3.0879	CZKPLN	0.1517
GBPPLN	5.6573	HUFPLN*	1.3674

*for 100JPY/100HUF

Last session 20.02.2015

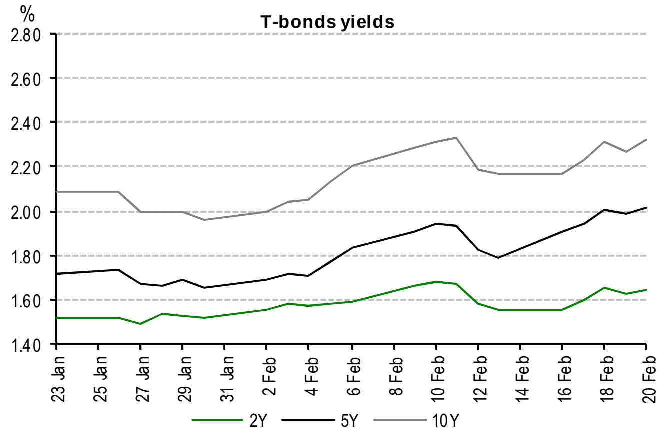
	min	max	open	close	fixing
EURPLN	4.1610	4.1841	4.1700	4.1762	4.1800
USDPLN	3.6670	3.7068	3.6757	3.6745	3.6895
EURUSD	1.1278	1.1370	1.1348	1.1370	-



Interest rate market 20.02.2015

T-bonds (on the interbank market)**

Bond (term)	Yield (%)	Change (bp)	Last auction	Offered paper	Avg yield
PS1016 (2Y)	1.64	2	12.02.2015	OK0717	1.667
DS1019 (5Y)	2.02	3	12.02.2015	PS0420	1.987
DS0725 (10Y)	2.32	5	5.02.2015	DS0725	2.092

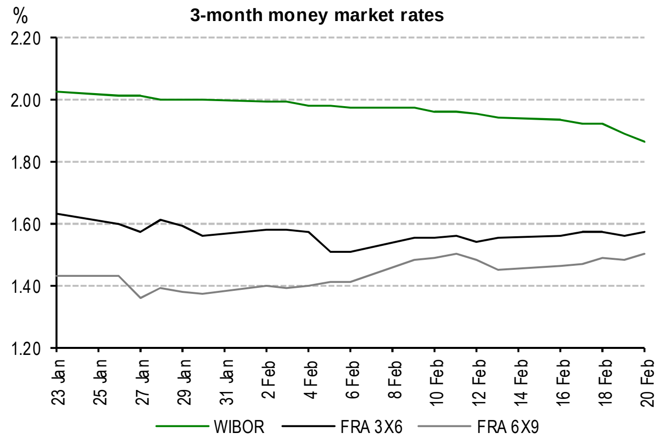


IRS rates (on the interbank market)**

TERM	PL %	PL Change (bp)	US %	US Change (bp)	EA %	EA Change (bp)
1L	1.63	1	0.48	1	0.14	1
2L	1.66	1	0.87	0	0.13	1
3L	1.73	3	1.22	-1	0.17	0
4L	1.80	3	1.47	-2	0.23	-1
5L	1.88	4	1.66	-3	0.30	-1
8L	2.08	5	2.02	-2	0.55	-2
10L	2.18	5	2.17	-2	0.71	-3

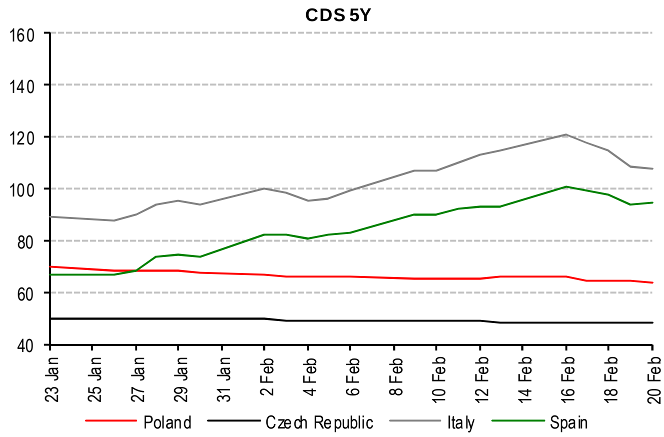
WIBOR rates

TERM	%	Daily change (bp)
O/N	2.08	-1
T/N	2.08	-1
SW	2.02	0
2W	2.00	0
1M	1.93	-1
3M	1.86	-3
6M	1.84	-2
9M	1.83	-3
1Y	1.83	-3



FRA rates (on the interbank market)**

TERM	%	Daily change (bp)
1x2	1.78	-13
1x4	1.69	-2
3x6	1.57	1
6x9	1.50	2
9x12	1.50	2
3x9	1.58	1
6X12	1.52	3



Measures of fiscal risk

Country	CDS 5Y Value	CDS 5Y Change (bp)	Spread 10Y* Value	Spread 10Y* Change (bp)
Poland	63.8	-1	1.98	8
Czech Republic	48.3	0	0.34	4
Hungary	135.1	0	3.01	9
Greece	1653.6	-4	9.59	-5
Spain	95.1	1	1.17	0
Italy	107.9	-1	1.28	3
Portugal	148.5	-4	1.91	4
Ireland	46.0	0	0.77	3
Germany	16.3	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 (20 February)						
9:30	DE	Flash PMI – manufacturing	Feb	pts	51.5	-	50.9	50.9
10:00	EZ	Flash PMI – manufacturing	Feb	pts	51.5	-	51.1	51.0
		MONDAY (23 February)						
10:00	DE	Ifo index	Feb	pts	107.2	-		106.7
16:00	US	Home sales	Jan	m	5.0	-		5.04
		TUESDAY (24 February)						
8:00	DE	GDP	Q4	%YoY	1.6	-		1.2
10:00	**PL**	**Unemployment rate**	**Jan**	**%**	**11.9**	**12.1**		**11.5**
11:00	EZ	HICP	Jan	%YoY	-0.6	-		-0.2
14:00	HU	Central bank decision		%	2.10	-		2.1
16:00	US	Consumer confidence index	Fed	pts	99.5	-		102.9
		WEDNESDAY (25 February)						
16:00	US	New home sales	Jan	k	475	-		481
		THURSDAY (26 February)						
14:30	US	CPI	Jan	%MoM	-0.6	-		-0.4
14:30	US	Initial jobless claims	week	k	-	-		283
14:30	US	Durable goods orders	Jan	%MoM	1.6	-		-3.3
		FRIDAY (27 February)						
9:00	CZ	GDP	Q4	%YoY	1.3	-		2.4
10:00	**PL**	**GDP**	**Q4**	**%YoY**	**3.0**	**3.0**		**3.3**
10:00	**PL**	**Fixed investments**	**Q4**	**%YoY**	**8.8**	**8.8**		**9.9**
10:00	**PL**	**Private consumption**	**Q4**	**%YoY**	**3.0**	**3.0**		**3.2**
14:00	**PL**	**Inflation expectations**	**Feb**	**%YoY**	**-**	**-**		**0.2**
14:30	US	Preliminary GDP	Q4	%YoY	2.1	-		5.0
16:00	US	Pending home sales	Jan	%MoM	2.4	-		-3.7
16:00	US	Michigan index	Feb	pts	94.0	-		98.1

Source: BZ WBK, Reuters, Bloomberg

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

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