

# EYEOPENER

10 March 2015

## ECB's QE did not support Polish debt yet

- Euro zone central banks started bond purchases, but markets in bad moods after data from USA and Germany
- EURPLN close to local low, EURUSD just above the last bottom
- Polish bond yields and IRS still higher despite strengthening in euro zone debt markets
- Today, inflation data in Hungary

Strong Friday's US nonfarm payrolls numbers and weak Monday's German exports weighed on the market mood at the beginning of the week. Hawkish US labour market data did not meet with warm investors' reception as the release brought the first Fed rate hike closer and hit the demand for risky assets – European stock indexes dropped following the Friday's decline of equities in the US. Debt markets gained due to retreat to safe assets and the start of ECB's government bond buying. Yesterday the euro zone's central banks started buying debt of their countries. Spokesperson of the Bundesbank confirmed its activity in the market. Consequently, yields in the core and peripheral euro zone markets eased quite noticeably (with the biggest decline in the case of German Bunds).

The yesterday's Eurogroup meeting on Greek reforms did not bring any breakthrough conclusions. Head of the Eurogroup Jeroen Dijsselbloem said that on Wednesday Greece starts talks with creditors on reforms that are condition to receiving next tranche of the financial aid. He did not exclude that Greece could obtain part of €7.2bn of support if it implements agreed reforms.

EURUSD rebounded yesterday slightly from the recent bottom at nearly 1.08. However, the scale and pace of move was marginal and this suggests this is too early for the exchange rate to increase more noticeably and sustainably. The ECB started government bond purchases yesterday and investors might want to wait for any effects of these actions before trying to bet that the market has already priced in the ECB monetary easing. Yesterday the exchange rate reached 1.09 but was back to 1.085 at the end of the Polish trading hours. Today in the morning EURUSD is close to 1.08 and managed to break this level just before the session started. The down trend is still in place and there are no signs of reversal.

EURPLN dropped yesterday and reached nearly the Friday's low at 4.11. Despite the weaker global market sentiment, the zloty continued to benefit from the end of the easing cycle announced by the Polish MPC and remained resilient to closer Fed rate hikes. At the end of the Polish session the exchange rate was close to the daily low. USDPLN

recovered slightly after the recent surge and eased to slightly below 3.80. However, further drop in EURUSD hit the zloty vs. the dollar again and USDPLN is above 3.81 today in the morning. EURPLN is close to 4.12. The domestic currency remains quite strong due to hopes for capital inflow from the euro zone due to ECB easing and the end of the rate cuts cycle in Poland. EURPLN hovers close to October's bottom at 4.12 and if it drops below this level for longer, then it may continue falling to 4.09.

On the domestic interest rate market IRS and bond yields started the day with a weakening, continuing the move initiated after hawkish data from the US. 10Y benchmark approached 2.50% (the highest level since end of 2014). At the end of the day a slight rebound was recorded, which may have been due to strengthening in the core and peripheral euro zone markets. Eventually, at the end of the day IRS and bond yields were close to Friday's closing. We still haven't seen a strong positive impact of start of full ECB's QE on Polish papers. Spread between Polish and German 10Y bonds climbed to 214bps, the highest level since end of September. WIBOR1-12M rates remained stable. Today the Finance Ministry will release information on final bond supply at the Thursday's auction – in our view it will not change considerably versus the earlier offer. The Ministry planned to sell long-term bonds WZ0124/DS0725/WS0428 worth PLN3-6bn.

Yesterday the NBP presented the new *Inflation report*. The new central bank's projection of GDP growth is roughly consistent with the November's projection and our forecasts. The NBP expects the economic growth to stay more or less stable at 3.4% in 2015, 3.3% in 2016 and 3.5% in 2017. The slight slowdown in 2016 will be due to lower inflow of EU funds. In general, growth will be driven by consumption and investment, with negative contribution of net exports throughout the projection horizon. The NBP sees balanced risks for growth. The potential growth rate is expected to accelerate on the back of higher total factor productivity growth and favourable labour market conditions, yet to remain below the expected GDP growth. Thus, the output gap will be closing, but remain negative within the horizon. The projection showed a considerable downward revision of CPI path, with CPI averaging -0.5% in 2015, 0.9% in 2016 and 1.2% in 2017 and not reaching the target of 2.5% within the projection horizon. The revision is primarily due to lower energy prices, as a result of decline of global crude oil prices. Core inflation is expected to stay rather flat in 0-1% range due to negative output gap. We are more optimistic about inflation growth and expect CPI to reach target at the turn of 2016 and 2017, as in our view strong consumer demand will translate into higher prices more pronouncedly than the NBP expects. Moreover, we are expecting a stronger rise in employment, causing higher wage pressure and faster growth of unit labour costs. Meanwhile, the NBP actually assessed that risks to inflation are skewed downwards, mainly due to possible longer deflation in the euro area.

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**FX market**

**Today's opening**

EURUSD	1.0813	CADPLN	3.0171
USDPLN	3.8115	DKKPLN	0.5531
EURPLN	4.1211	NOKPLN	0.4783
CHFPLN	3.8523	SEKPLN	0.4486
JPYPLN*	3.1309	CZKPLN	0.1511
GBPPLN	5.7530	HUFPLN*	1.3499

\*for 100JPY/100HUF

**Last session**

**09.03.2015**

	min	max	open	close	fixing
EURPLN	4.1115	4.1411	4.1411	4.1170	4.1259
USDPLN	3.7593	3.8107	3.7593	3.7959	3.7890
EURUSD	1.0840	1.1016	1.1016	1.0846	-

**Interest rate market 09.03.2015**

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

Bond (term)	Yield (%)	Change (bp)	Last auction	Offered paper	Avg yield
PS1016 (2Y)	1.67	-3	12.02.2015	OK0717	1.667
DS1019 (5Y)	2.14	2	12.02.2015	PS0420	1.987
DS0725 (10Y)	2.45	2	5.02.2015	DS0725	2.092

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

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	1.64	1	0.52	-1	0.10	0
2L	1.76	-1	0.95	-1	0.11	-1
3L	1.88	1	1.32	-2	0.15	-1
4L	1.99	2	1.59	-2	0.22	-1
5L	2.08	4	1.79	-2	0.30	-2
8L	2.25	5	2.15	-3	0.56	-3
10L	2.33	5	2.29	-2	0.72	-3

**WIBOR rates**

TERM	%	Daily change (bp)
O/N	1.62	-1
T/N	1.63	0
SW	1.61	-1
2W	1.63	0
1M	1.64	0
3M	1.65	0
6M	1.66	0
9M	1.67	0
1Y	1.68	0

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

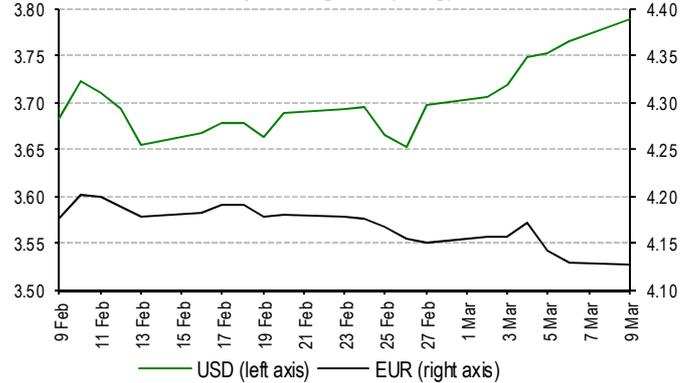
TERM	%	Daily change (bp)
1x2	1.58	-9
1x4	1.64	1
3x6	1.64	2
6x9	1.64	3
9x12	1.65	2
3x9	1.65	2
6x12	1.65	3

**Measures of fiscal risk**

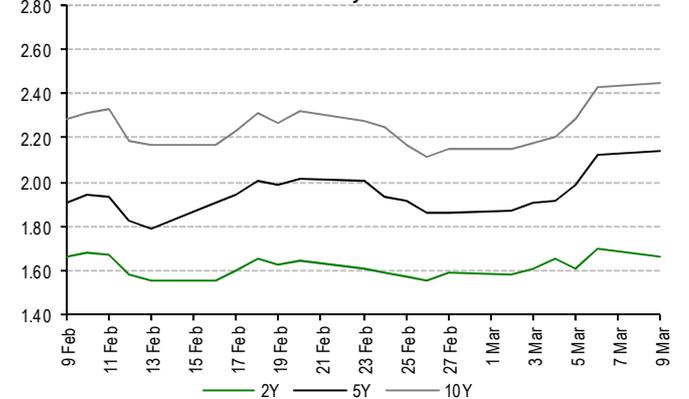
Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	59.8	1	2.14	18
Czech Republic	48.8	0	0.30	7
Hungary	122.2	1	3.08	26
Greece	1438.0	-1	9.77	67
Spain	75.5	-1	0.97	8
Italy	88.9	-1	0.99	7
Portugal	107.9	-3	1.46	12
Ireland	45.0	0	0.53	4
Germany	14.8	0	--	--

\* 10Y treasury bonds over 10Y Bunds

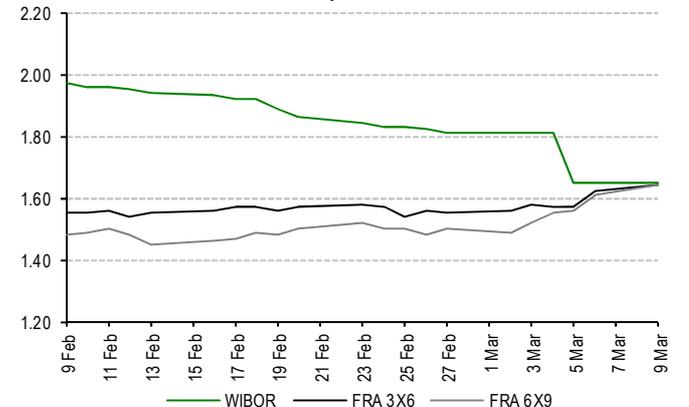
**Zloty exchange rate (fixing)**



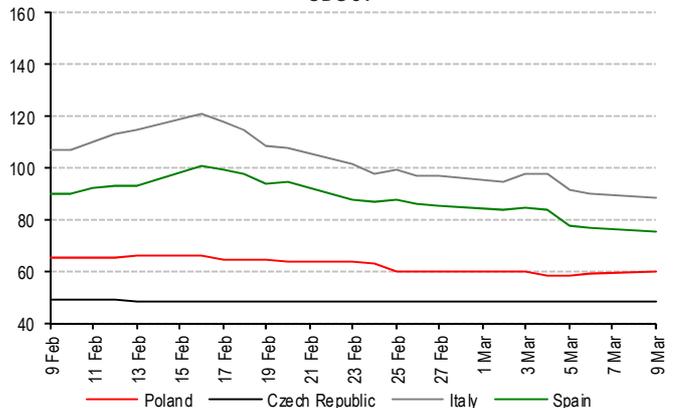
**T-bonds yields**



**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		
<b>FRIDAY (6 March)</b>								
8:00	DE	Industrial output	Jan	%MoM	0.5	-	0.6	0.1
11:00	EZ	GDP	Q4	%YoY	0.9	-	0.9	0.9
14:30	US	Non-farm payrolls	Feb	k	235	-	295	239
14:30	US	Unemployment rate	Feb	%	5.6	-	5.5	5.7
<b>MONDAY (9 March)</b>								
8:00	DE	Exports	Jan	%MoM	-1.5	-	-2.1	2.8
9:00	CZ	CPI	Feb	%YoY	-0.1	-	0.1	0.1
<b>10:00</b>	<b>PL</b>	<b>Inflation report</b>						
<b>TUESDAY (10 March)</b>								
9:00	HU	CPI	Jan	%YoY	-1.2	-		-1.4
<b>WEDNESDAY (11 March)</b>								
No important data releases								
<b>THURSDAY (12 March)</b>								
<b>11:00</b>	<b>PL</b>	<b>Bond auction</b>						
11:00	EZ	Industrial output	Dec	%MoM	0.2	-		0.0
13:30	US	Initial jobless claims	week	k	-	-		320
13:30	US	Retail sales	Jan	%MoM	0.4	-		-0.8
<b>FRIDAY (13 March)</b>								
9:00	CZ	Industrial output	Jan	%YoY	2.5	-		7.3
<b>14:00</b>	<b>PL</b>	<b>CPI</b>	<b>Feb</b>	<b>%YoY</b>	<b>-1.3</b>	<b>-1.5</b>		<b>-1.3</b>
<b>14:00</b>	<b>PL</b>	<b>Money supply</b>	<b>Feb</b>	<b>%YoY</b>	<b>8.6</b>	<b>8.8</b>		<b>8.5</b>
15:00	US	Flash Michigan	Mar	pts	96.0	-		95.4

Source: BZ WBK, Reuters, Bloomberg

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

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