

EYEOPENER

18 March 2015

Domestic data overshadowed by Fed meeting

- Slight rebound of Monday's optimism
- No big surprise from the labour market
- Zloty trimming gains versus euro, stable against dollar
- No big change on the Polish debt market
- Today, data on retail sales and industrial output in Poland, FOMC meeting in the evening

After the very positive start of the week and rising demand for risky assets due to lower expectations for hawkish signals from the FOMC, Tuesday saw profit-taking. European stock markets lost, CEE currencies trimmed part of their Monday's strengthening while oil prices were declining due to worries about global oversupply. Yesterday's rebound was, apart from reluctance to take any actions before the FOMC decision, due to mixed data released in Germany and the US. ZEW index for the euro zone's biggest economy was much better than expected and reached the highest level since July 2014. On the other hand, ZEW expectations index rebounded less than expected. US data were also ambiguous, as new home starts were at the lowest level since January 2014 and building permits lowest since October 2014.

Average wage growth in corporate sector slowed down in February to 3.2%YoY (from 3.6% in January), in line with our forecast and market consensus. At the same time, employment growth reached 1.2%YoY (the same as in January) and was slightly lower than expected. We do not have detailed data by sectors yet, but it is likely that slowdown of wage growth was mainly due to lower bonus payments in mining industry (due to difficult financial situation in mining many companies decided to split usual bonus payments into two instalments; the second one will be reimbursed in September). We predict that in other sectors wage growth remained decent. Employment figure was slightly disappointing, however it is hard to draw any strong conclusions at this point, as most of business climate surveys were showing recently that firms' demand for new jobs remains strong. Total wage bill in corporate sector is still rising quickly (6.2%YoY in February, vs. 6.4%YoY in January, supporting healthy growth of private consumption).

Yesterday EURUSD broke Monday's peak at 1.062 and reached 1.065. At the end of the domestic session it was hovering closer to 1.06. During the Asian trading time the dollar

gained somewhat and today in the morning EURUSD is oscillating close to 1.06. Today financial markets will focus on the FOMC decision. It is expected that the Fed will drop the word "patient" from its statement, which will support expectations for earlier rate hikes. This can be a factor pushing EURUSD to test the last minimum at 1.0456. Until results of the FOMC meeting we expect insignificant changes of the exchange rate, which should remain in 1.056-1.065 range.

Since last week EURPLN is moving in a horizontal trend and yesterday no crucial changes were observed. After Monday's strengthening of the zloty, on Tuesday a profit-taking was seen, repeating the pattern from the last few days. Yesterday EURPLN rebounded above 4.14 from 4.125. Thanks to rising EURUSD the domestic currency remained stable in relation to dollar close to 3.90. Overnight no important changes took place. At the start of the day EURPLN is slightly below 4.14, while USDPLN slightly above 3.91. Domestic data on output and sales can support the zloty in the short term. Support for EURPLN remains unchanged at 4.11 (minimum from early March).

There were no big changes in the domestic fixed income market yesterday. After lower fluctuations, today volatility may rise again. We think that today's domestic data releases may have negative impact on debt and IRS rates. However, changes may be limited by expectation for the FOMC meeting in the evening. The tone of the Fed statement may overshadow Polish data and set direction for the nearest weeks.

Today, data about Polish industrial output and retail sales will be released. We are quite optimistic about February's industrial output and expect an above-consensus reading. There is a neutral working day effect in February and the weather was more or less similar to what it was a year earlier. So the reading will actually show the underlying trend, which, in our view, is improving thanks to robust internal demand and the reviving euro zone. Strong data on car output support our forecast. We also expect acceleration of retail sales growth. The nominal growth rate of this category is not that informative about private consumption given the deflation and it is better to look at the real growth, which we expect at 4%YoY. New car registrations fell sharply in February, pointing to a considerable downward risk to our forecast. Though it should be noted that changes in car registrations were not exactly very helpful in forecasting retail sales in the last few months.

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FX market

Today's opening

EURUSD	1.0594	CADPLN	3.0546
USDPLN	3.9085	DKKPLN	0.5552
EURPLN	4.1410	NOKPLN	0.4694
CHFPLN	3.8846	SEKPLN	0.4501
JPYPLN*	3.2225	CZKPLN	0.4522
GBPPLN	5.7687	HUFPLN*	1.3625

*for 100JPY/100HUF

Last session

17.03.2015

	min	max	open	close	fixing
EURPLN	4.1195	4.1491	4.1282	4.1458	4.1397
USDPLN	3.8880	3.9134	3.8944	3.9093	3.9034
EURUSD	1.0551	1.0650	1.0601	1.0605	-

Interest rate market 17.03.2015

T-bonds (on the interbank market)**

Bond (term)	Yield (%)	Change (bp)	Last auction	Offered paper	Avg yield
PS1016 (2Y)	1.64	1	12.02.2015	OK0717	1.667
DS1019 (5Y)	2.06	1	12.02.2015	PS0420	1.987
DS0725 (10Y)	2.43	2	12.03.2015	DS0725	2.366

IRS rates (on the interbank market)**

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	1.64	1	0.52	2	0.09	1
2L	1.73	1	0.91	0	0.10	1
3L	1.84	1	1.26	0	0.15	1
4L	1.96	1	1.50	-1	0.22	1
5L	2.06	1	1.68	-1	0.29	1
8L	2.24	0	2.02	-2	0.50	0
10L	2.32	0	2.14	-3	0.61	0

WIBOR rates

TERM	%	Daily change (bp)
O/N	1.64	1
T/N	1.64	1
SW	1.61	0
2W	1.62	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)**

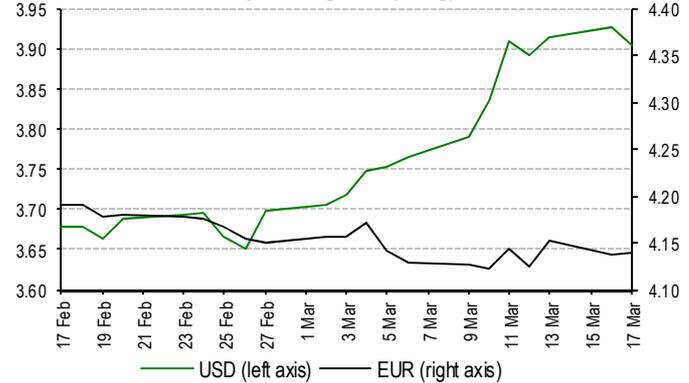
TERM	%	Daily change (bp)
1x2	1.67	0
1x4	1.64	0
3x6	1.62	1
6x9	1.60	0
9x12	1.62	0
3x9	1.65	0
6X12	1.64	1

Measures of fiscal risk

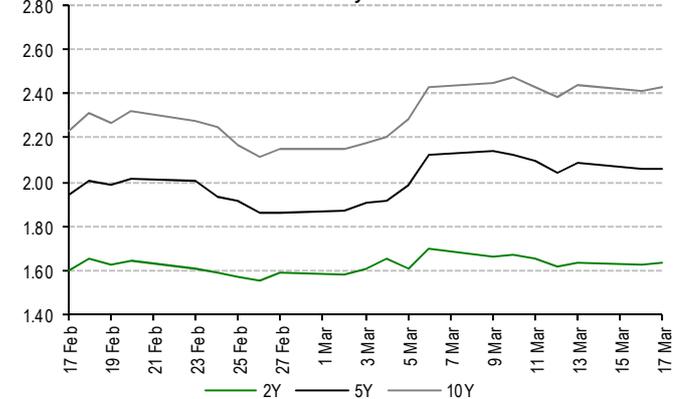
Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	59.8	0	2.14	0
Czech Republic	47.8	-1	0.23	-4
Hungary	136.1	0	3.46	1
Greece	1437.0	0	10.61	-3
Spain	75.0	2	0.94	6
Italy	95.3	3	0.96	7
Portugal	111.3	1	1.31	0
Ireland	43.5	0	0.54	0
Germany	15.3	0	--	--

* 10Y treasury bonds over 10Y Bunds

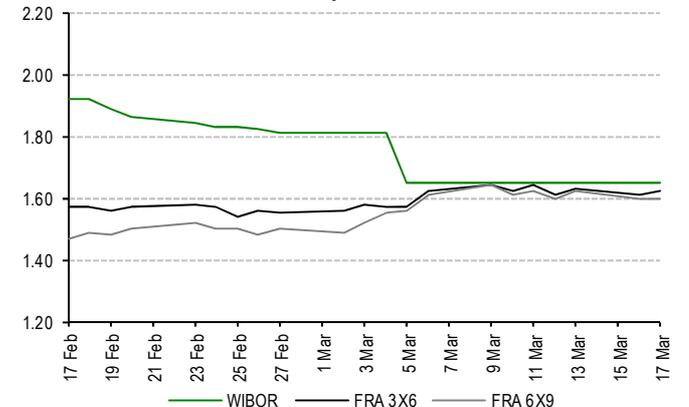
Zloty exchange rate (fixing)



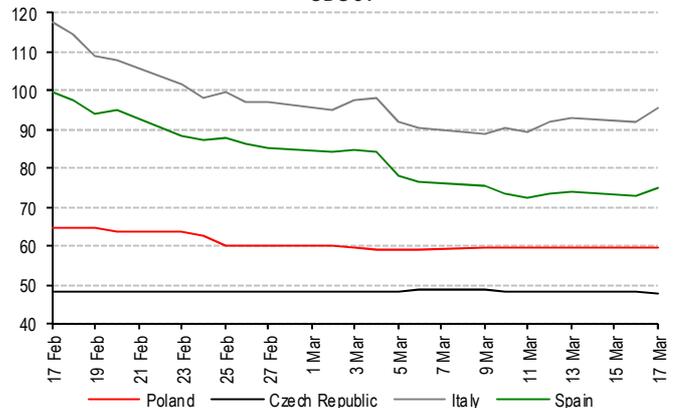
T-bonds yields



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 (13 March)								
9:00	CZ	Industrial output	Jan	%YoY	2.5	-	2.9	7.3
14:00	PL	CPI	Feb	%YoY	-1.3	-1.5	-1.6	-1.4
14:00	PL	Money supply	Feb	%YoY	8.6	8.8	8.8	8.5
15:00	US	Flash Michigan	Mar	pts	96.0	-	91.2	95.4
MONDAY (16 March)								
14:00	PL	Current account	Jan	€m	-920	-1194	56	-1005
14:00	PL	Exports	Jan	€m	12755	12611	13 472	11967
14:00	PL	Imports	Jan	€m	12956	12670	12 451	12600
14:00	PL	Core inflation	Feb	%YoY	0,5	0.4	0.4	0.6
14:15	US	Industrial output	Feb	%MoM	0.3	-	0.1	-0.3
TUESDAY (17 March)								
11:00	DE	ZEW index	Mar	pts	52.0	-	55.1	45.5
11:00	EZ	HICP	Feb	%YoY	-0.3	-	-0.3	-0.6
13:30	US	House starts	Feb	k	1040	-	897	1081
13:30	US	Building permits	Feb	k	1065	-	1092	1060
14:00	PL	Wages in corporate sector	Feb	%YoY	3.2	3.1	3.2	3.6
14:00	PL	Employment in corporate sector	Feb	%YoY	1.3	1.3	1.2	1.2
WEDNESDAY (18 March)								
14:00	PL	Retail sales	Feb	%YoY	0.0	1.0		0.1
14:00	PL	Industrial output	Feb	%YoY	4.1	5.6		1.7
14:00	PL	Construction and assembly output	Feb	%YoY	-0.3	-0.1		1.3
14:00	PL	PPI	Feb	%YoY	-2.7	-2.7		-2.9
19:00	US	FOMC decision			0.25	-		0.25
THURSDAY (19 March)								
13:30	US	Initial jobless claims	week	k		-		289
14:00	PL	MPC minutes						
15:00	US	Philly Fed index	Mar	pts	8.0	-		5.2
FRIDAY (20 March)								
No important data releases								

Source: BZ WBK, Reuters, Bloomberg

* in case of the revision, the data is updated

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