

EYEOPENER

20 April 2015

Another set of the positive domestic data

- End of the week under influence of concerns about China and Greece, the People's Bank of China cut the reserve ratio
- Strong growth of wages, (revised) GDP growth up
- EURPLN still close to 4.0, EURUSD slightly increase
- Domestic debt market under pressure of significant debt weakening on peripheral euro zone
- Today in Poland March industrial output

Concerns over economic slowdown in China and uncertainty about talks on Greek bailout extension were wedging on global market moods on Friday. European equities were falling, there was a significant weakening in the euro zone peripheral debt markets (yields of 10Y bonds rose by as much as 10bp). At the same time, a return to safe havens strengthened the 10Y German Bund to the new record – its yield fell just below 0.05%. On Sunday the People's Bank of China decided to trim the reserve requirement ratio by 1 percentage point, to 18.5%, in reaction to recent weaker data from the economy. It is expected that there will be more actions in the near term aimed at reviving growth in the Chinese economy.

The EURUSD reached 1.085 in the first part of the session, but in the following hours the dollar was trimming losses. It was supported by US inflation – even though the CPI was lower than forecast, the core inflation surprised to the upside. At the end of the day the rate was close to 1.075. Today there will be no major data releases in the global market, do the EURUSD will probably stay in the range 1.045-1.105. Stronger move above the resistance of below the support may be triggered later this week by the speculation about the result of Greek bailout talks.

EURPLN was hovering on Friday near 4.02, without clear reaction to significant deterioration of global moods. Hungarian forint and Czech koruna were also quite stable, while Russian ruble and Romanian leu depreciated slightly. EURPLN remains close to 4.0 and we think that today it may make another attempt to break this important support. The impulse may come from the release of industrial output data – our forecast is above market consensus. However, the attempt may be a failure, just like the previous ones, especially taking into account high uncertainty related to situation in Greece and approaching deadlines for agreement on Greek bailout terms.

In the domestic interest rate market IRS and bond yields rose by no more than 1bp. The reason for slight weakening at the end of the week was clear deterioration of moods, especially in the euro zone peripheries. The factor that could neutralize impact of this factor to some extent was further strengthening of German debt. Today we

will see data on industrial production for March. If our forecasts prove correct, it may mean that Polish debt market will be under pressure.

Polish March labour market data surprised with a much stronger than expected wage growth (4.9% YoY). Although the employment growth slightly decelerated (to 1.1% YoY), the pace of labour income growth accelerated sharply to levels last seen in 2008. However, it is still uncertain whether the March surge is sustainable or whether it is just a one-off effect originating from higher bonuses. Anyway, the data allow us to expect faster consumption growth in 1Q.

The NBP president Marek Belka said after the last MPC meeting that only a considerable weakening of the economic activity can make Council change its view about monetary policy prospects. In this context, recent data should significantly cool market expectations about chances for rate cuts. Appreciation of the zloty would have to become even more considerable to encourage the MPC to act. MPC's Elżbieta Chojna-Duch commented on the Friday's CSO data they are proof that the Polish economy is following a positive macroeconomic and fiscal scenario. She added that favourable growth prospects support the MPC's decision to end the easing cycle in March and stabilize monetary policy parameters.

GDP growth for 2014 was revised up on Friday showing that the slowdown in 2014 was only marginal. 4Q14 data was revised to 3.3%YoY from 3.1% and for all of last year to 3.4% from 3.3%. Earlier estimates that 2014 deficit reached 3.2% of GDP were confirmed. We expect GDP growth to accelerate this year, reaching 4%YoY in 4Q15, driven by both private and external demand.

On Friday Reuters cited the anonymous source in the Polish government saying that the actualization of the convergence report that will be send to EC later this month will assume that public deficit will drop to 2.7% of GDP in 2015 and 2.3% in 2016. Pace of the economic growth is expected to reach 3.4% in 2015 and 3.8% in 2016. The government counts that the excessive debt procedure (EDP) will be terminated already this year. Finance minister confirmed deficit estimates and added that the government will take actions aiming at lifting the EDP.

Already today we expect to see more positive news from the Polish economy – a solid rebound in industrial and construction output (even though biased, to some extent, by calendar effects), stronger retail sales. Investors will also focus on a bunch of important releases abroad, such as the most important leading indicators for the euro zone (expected to show a gradual improvement of economic conditions) and in the USA. Greece will also remain one of the most important topics for the market since there is still little progress in talks on its bailout extension and the country may run out of cash by the end of the month.

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FX market

Today's opening

EURUSD	1.0790	CADPLN	3.0605
USDPLN	3.7322	DKKPLN	0.5397
EURPLN	4.0267	NOKPLN	0.4768
CHFPLN	3.9179	SEKPLN	0.4322
JPYPLN*	3.1451	CZKPLN	0.1468
GBPPLN	5.5807	HUFPLN*	1.3375

*for 100JPY/100HUF

Last session

17.04.2015

	min	max	open	close	fixing
EURPLN	4.0090	4.0338	4.0262	4.0170	4.0330
USDPLN	3.6989	3.7476	3.7380	3.7291	3.7277
EURUSD	1.0735	1.0848	1.0771	1.0776	-

Interest rate market 17.04.2015

T-bonds (on the interbank market)**

Bond (term)	Yield (%)	Change (bp)	Last auction	Offered paper	Avg yield
PS1016 (2Y)	1.58	1	12.02.2015	OK0717	1.667
DS1019 (5Y)	1.91	1	26.03.2015	PS0420	1.915
DS0725 (10Y)	2.29	1	12.03.2015	DS0725	2.366

IRS rates (on the interbank market)**

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	1.60	1	0.44	3	0.06	0
2L	1.66	1	0.76	0	0.07	0
3L	1.71	1	1.05	0	0.09	0
4L	1.77	0	1.28	1	0.14	0
5L	1.83	0	1.46	1	0.18	-1
8L	1.99	1	1.81	1	0.35	-1
10L	2.07	1	1.96	1	0.44	-2

WIBOR rates

TERM	%	Daily change (bp)
O/N	163	1
T/N	163	0
SW	161	0
2W	162	0
1M	164	0
3M	165	0
6M	166	0
9M	167	0
1Y	168	0

FRA rates (on the interbank market)**

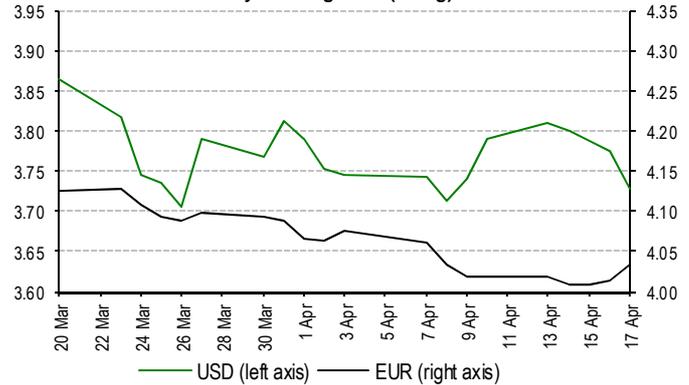
TERM	%	Daily change (bp)
1x2	165	7
1x4	166	3
3x6	159	0
6x9	154	1
9x12	154	1
3x9	161	1
6X12	156	1

Measures of fiscal risk

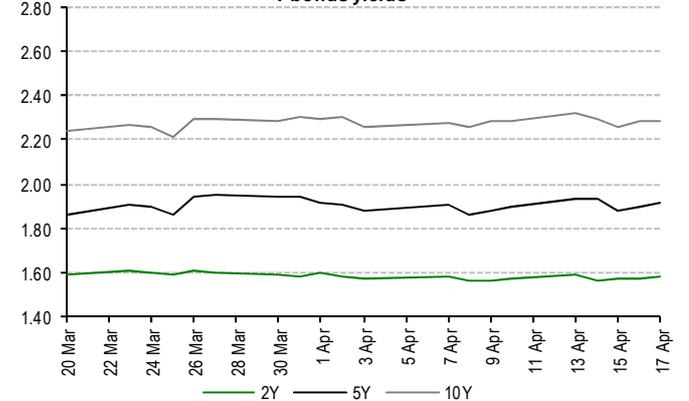
Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	58.3	0	2.22	2
Czech Republic	47.8	0	0.29	0
Hungary	136.1	1	3.31	2
Greece	2828.5	822	12.85	27
Spain	96.5	9	1.36	13
Italy	123.2	14	1.39	14
Portugal	143.3	7	1.92	18
Ireland	46.7	0	0.62	5
Germany	15.1	0	--	--

* 10Y treasury bonds over 10Y Bunds

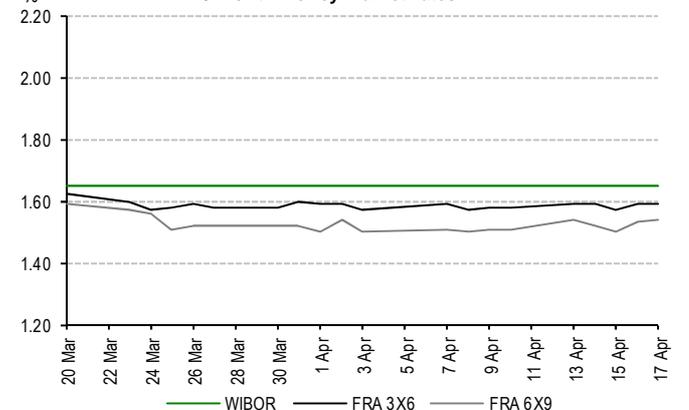
Zloty exchange rate (fixing)



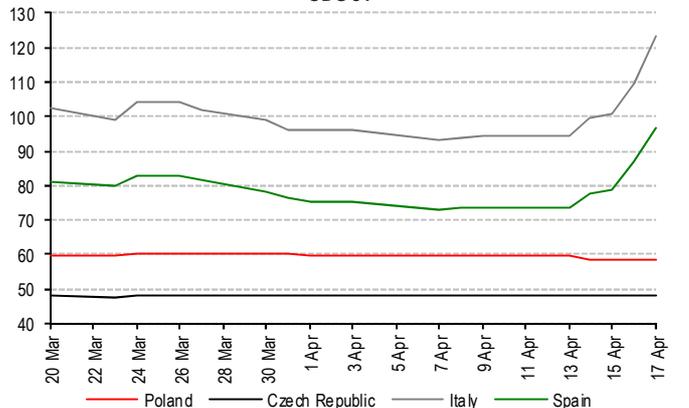
T-bonds yields



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 (17 April)								
11:00	EZ	HICP	Mar	%YoY	-0.1	-	-0.1	-0.3
14:00	PL	Wages in corporate sector	Mar	%YoY	3.4	3.4	4.9	3.2
14:00	PL	Employment in corporate sector	Mar	%YoY	1.2	1.2	1.1	1.2
14:30	US	CPI	Mar	%MoM	0.3	-	0.2	0.2
16:00	US	Flash Michigan	Apr	pts	94.0	-	95.9	93.0
MONDAY (20 April)								
14:00	PL	Industrial output	Mar	%YoY	7.2	8.3		4.9
14:00	PL	Construction and assembly output	Mar	%YoY	2.1	3.6		-0.3
14:00	PL	Retail sales (constant prices)	Mar	%YoY	4.5	4.7		2.4
14:00	PL	PPI	Mar	%YoY	-2.5	-2.6		-2.7
TUESDAY (21 April)								
11:00	DE	ZEW index	Apr	pts	55.0	-		55.1
14:00	HU	Central bank decision		%	1.80	-		1.95
WEDNESDAY (22 April)								
16:00	US	Home sales	Mar	m	5.01	-		4.88
THURSDAY (23 April)								
3:45	CN	PMI – manufacturing	Apr	pts	49.4	-		49.6
9:30	DE	PMI – manufacturing	Apr	pts	53.0	-		52.8
10:00	EZ	PMI – manufacturing	Apr	pts	52.5	-		52.2
11:00	PL	Bond auction						
14:00	PL	MPC minutes						
14:30	US	Initial jobless claims	week	k	-	-		294
16:00	US	New home sales	Mar	k	509	-		539
FRIDAY (24 April)								
10:00	DE	Ifo index	Apr	pts	108.3	-		107.9
10:00	PL	Unemployment rate	Mar	%	11.7	11.7		12.0
14:30	US	Durable goods orders	Mar	%MoM	0.6	-		-1.4

Source: BZ WBK, Reuters, Bloomberg

* in case of the revision, the data is updated

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