EYEOPENER

25 May 2015

Trading Places

- **End of last week under influence of German and US data**
- **Andrzej Duda wins presidential election in Poland**
- **Zloty clearly weaker after the weekend, EURUSD much lower; Polish election and worries about Greece in focus**
- **Large fluctuations in Polish debt market**
- **No data releases today, main foreign markets closed**

The global market sentiment was quite good since the beginning of the Friday's session. After the weaker than expected Thursday's flash manufacturing PMI, German Ifo surprised positively as it dropped only marginally in May. This release cooled worries over the euro zone economy and supported European stock indexes and the single currency. As the last chart on the next page shows, in the past few months Ifo has been performing clearly better than the manufacturing PMI. Mario Draghi said on Friday that the outlook for the euro zone economy is the brightest for seven years and this is partly thanks to the monetary policy. The US data triggered some sharp changes in the afternoon. Although the US headline CPI was in line with the consensus, core inflation surprised slightly to the upside and this supported the dollar, and weakened bonds as well as the European and US stocks.

According to exit poll, Andrzej Duda gained 52% of votes and won the second round of the Polish presidential elections. Bronisław Komorowski gained 48% and the turnout reached 55.5%. The new president will be officially sworn in on August 6. Duda's victory rises the uncertainty about the outcome of the autumn parliamentary elections and actions of the current government during the elections campaign. One cannot exclude higher volatility and risk premium in the Polish market, but we do not think this will be a reason for significant and sustained selloff of the Polish assets.

Next to the presidential elections, the case of Greece will be in the spotlight this week. Worries over further developments may intensify after the Greek internal affairs minister warned that the country will not have sufficient funds to cover all of its liabilities – wages, pensions and payments to the IMF. The Greek government claims it will first meet liabilities against its citizens.

EURUSD showed a positive reaction to the German data and broke 1.12 temporarily on Friday. However, at the end of the day the exchange rate was below the opening level (it reached 1.10) due to the US inflation data. After closing of the Polish session EURUSD reached 1.096 but is back close to 1.10 today in the morning. No important data is on the agenda today, but the FOMC members will speak in the afternoon. Until then, the exchange rate should be rather stable as the UK and US markets are closed.

On Friday EURPLN hovered near Thursday's peak at c4.10, while USDPLN was more vulnerable. The zloty initially gained to 3.66 against the US dollar from 3.68 due to EURUSD increase, and next domestic currency rapidly weakened as a result of the US dollar appreciation against the euro after the US data releases and USDPLN ended the day at c3.72. At the beginning of the week the zloty clearly lost against the euro - the exchange rate temporarily broke 4.13. It could to some extent result from the outcome of presidential elections in Poland, but also rising concerns about Greece. The scale of zloty's weakening might also result from low liquidity in the markets due to a lack of London and American investors.

Domestic interest rate market followed the changes in the core markets. At the beginning of the day, yields and IRS rates declined by a few basis points, but moved up again after CPI data from the US (core inflation gathered much attention). Eventually, at the end of the day the market was slightly weaker than on Thursday. In our view, the domestic market will be mostly driven by the US data. Two weeks ago, weak readings from the US economy fuelled the risk aversion and global market volatility as worries about global economic growth strengthened. However, global moods stabilized recently and last week's weaker-than-expected US data made hikes in the US more distant, supporting the global bond market. This week a bunch of US data is due for release and in our view reaction to these readings is similar as earlier – results below consensus will support core markets and Polish bonds. Yield of Polish 10Y bond followed the German and US bonds and similar pattern will be observed also this week.

The NBP president Marek Belka said on Friday he saw no reasons to change interest rates in Poland. In his view, current state of the economy does not diverge from the projection – a gradual acceleration of growth is visible and deflation should end by the end of the year. Belka said he did not expect the fiscal policy to provide a boost to the economy this year.

We do not expect a large scale correction due to election results. A much more significant risk comes from Greece, in our view, as the time for its bailout agreement is running out. Polish GDP data, to be released on Friday, should confirm that faster growth was fuelled by every possible component and we even don't exclude the possibility of an upward revision after the surprisingly strong foreign trade data for March. Trends in the global financial markets will be determined by U.S. data releases as they may affect expectations on the timing of the Fed's next rate hike.

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FX market

Today's opening

EURPLN	4.1137	CZKPLN	0.1504
USDPLN	3.7434	HUFPLN*	1.339
EURUSD	1.0989	RUBPLN	0.0751
CHFPLN	3.9748	NOKPLN	0.4899
GBPPLN	5.7978	DKKPLN	0.5517
USDCNY	6.201	SEKPLN	0.4455

*for 100HUF

Last session in the FX market 24/05/2015

	min	max	open	close	fixing
EURPLN	4.090	4.111	4.093	4.109	4.098
USDPLN	3.660	3.735	3.676	3.731	3.669
EURUSD	1.100	1.121	1.113	1.101	-

Interest rate market 24/05/2015

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS1016 (2L)	1.73	-1	23.04.2015	OK0717	1.645
DS1019 (5L)	2.37	1	23.04.2015	PS0420	2.083
DS0725 (10L)	2.80	2	12.03.2015	DS0725	2.366

IRS on the interbank market**

Term	PL %	PL Change (bps)	US %	US Change (bps)	EZ %	EZ Change (bps)
1L	1.70	0	0.50	2	0.07	1
2L	1.83	0	0.89	4	0.11	0
3L	1.97	0	1.18	-2	0.18	0
4L	2.11	0	1.50	5	0.28	0
5L	2.23	0	1.71	5	0.41	0
8L	2.49	1	2.13	4	0.75	-2
10L	2.61	2	2.30	3	0.94	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.58	5
T/N	1.58	0
SW	1.61	0
2W	1.62	0
1M	1.65	0
3M	1.68	0
6M	1.75	1
9M	1.77	0
1Y	1.79	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.69	0
3x6	1.70	0
6x9	1.71	0
9x12	1.72	-1
3x9	1.71	-5
6x12	1.73	0

Measures of fiscal risk

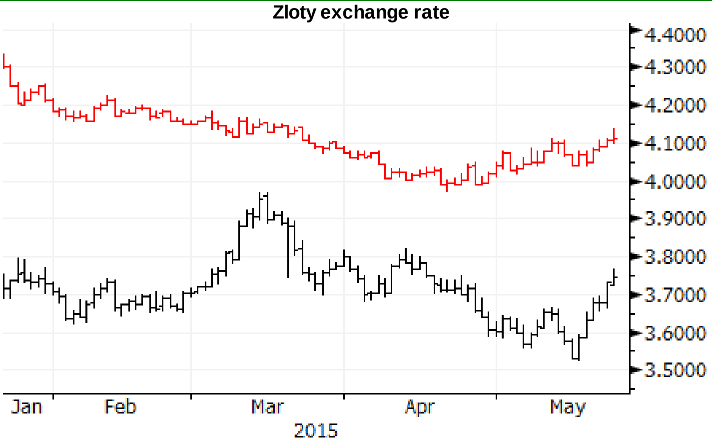
Country	CDS 5Y USD Level	CDS 5Y USD Change (bps)	10Y spread* Level	10Y spread* Change (bps)
Poland	59	0	2.18	2
Czech Rep.	47	1	0.19	4
Hungary	139	0	2.94	2
Spain	81	0	1.18	5
Italy	108	1	1.25	5
Portugal	144	1	1.79	2
Ireland	51	0	0.67	-3
Germany	16	0	-	-

* 10Y treasury bonds over 10Y Bunds

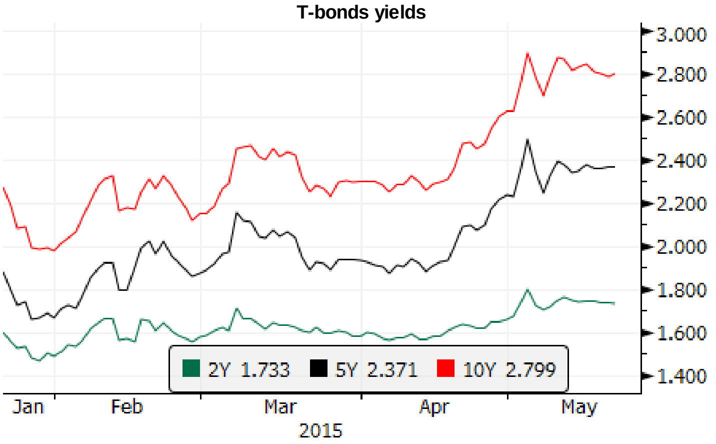
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

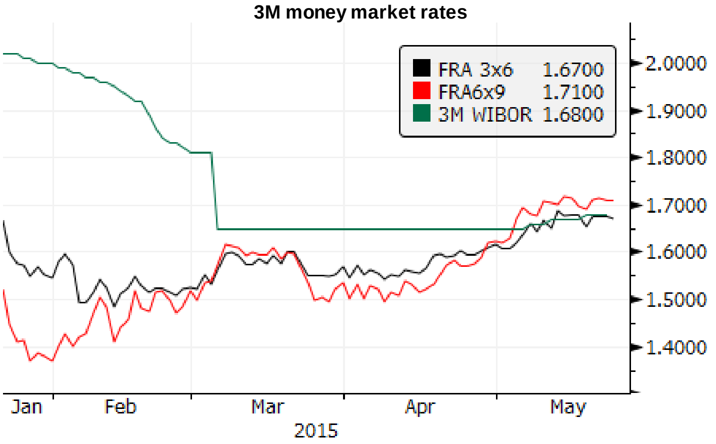
Zloty exchange rate



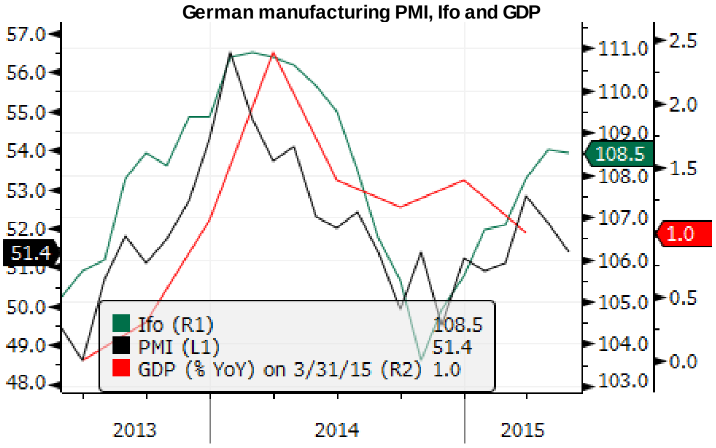
T-bonds yields



3M money market rates



German manufacturing PMI, Ifo and GDP



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Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE*
		FRIDAY (22 May)						
8:00	DE	GDP	Q1	%YoY	1.1	-	1.1	1.4
10:00	DE	Ifo index	May	pts	108.3	-	108.5	108.6
14:30	US	CPI	Apr	%MoM	0.1	-	0.1	0.2
		MONDAY (25 May)						
		No important data releases						
		TUESDAY (26 May)						
10:00	**PL**	**Unemployment rate**	**Apr**	**%**	**11.3**	**11.3**		**11.7**
14:00	HU	Central bank decision		%	1.65	-		1.8
14:30	US	Durable goods orders	Apr	%MoM	-0.5	-		4.0
16:00	US	Consumer confidence index	May	pts	95.2	-		95.2
16:00	US	New home sales	Apr	k	500	-		481
		WEDNESDAY (27 May)						
		No important data releases						
		THURSDAY (28 May)						
14:30	US	Initial jobless claims	week	k	-	-		274
16:00	US	Pending home sales	Apr	%MoM	0.7	-		1.1
		FRIDAY (29 May)						
10:00	**PL**	**GDP**	**Q1**	**%YoY**	**3.5**	**3.5**		**3.3**
10:00	**PL**	**Private consumption**	**Q1**	**%YoY**	**3.2**	**3.4**		**3.0**
10:00	**PL**	**Investment**	**Q1**	**%YoY**	**6.4**	**8.5**		**8.6**
14:00	**PL**	**Inflation expectations**	**May**	**%YoY**	**-**	**-**		**0.2**
14:30	US	Preliminary GDP	Q1	%QoQ	0.2	-		2.2
16:00	US	Michigan index	May	pts	90.0	-		95.9

Source: BZ WBK, Reuters, Bloomberg
** in case of the revision, the data is updated*

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