

EYEOPENER

27 May 2015

Unemployment falling, yet not as fast as before

- **Market sentiment still not good due to worries about Greece; good data from the USA**
- **Zloty keeps weakening against euro and dollar, EURUSD keeps falling, forint under pressure of monetary easing**
- **Polish debt market weaker, following euro zone peripheries**
- **No important data releases today**

Worries over the Greece and high support for the anti-austerity parties in the Spanish local elections pressured the global market sentiment since the beginning of the Tuesday's session. Yesterday Greek and German officials were trying to play down worries about the possible lack of payment to the IMF in early June, but concern about Greek bailout still remains an important factor for the market. Yields in the European bond market were rising by a several basis points (exceptions were Greece and Turkey where 10Y yields jumped 50bp and 15bp, respectively, and Germany where the debt strengthened) while the stock indexes were falling quite noticeably. The US data was quite decent but did not have a big impact on the European market. The consumer confidence index rose in May more than expected and the new home sales also surprised to the upside.

EURUSD continued the decline initiated on Monday's night and was close to 1.088 at the end of the Polish session, the lowest level since late April. However, the pace and scale of the decline was moderate and the impact of the US data was not that big. Today in the morning the exchange rate is back above 1.09. We think there is little room for a sustained and noticeable euro's recovery given the uncertainty concerning Greece and strong US data that brought the Fed rate hikes closer again. EURUSD is close to the short term support at 1.085, the next important level for the coming days is at 1.065.

EURPLN was rising gradually since the beginning of the day and thus it broke the Monday's peak at 4.13 and temporarily reached 4.15. Since the beginning of the week the zloty is the second weakest EM currency – after the Ukrainian hryvnia – vs. the euro and the dollar. However, the scale of the zloty's depreciation is only marginally larger than in the case of forint, so we think that the impact of the presidential elections results on the recent EURPLN moves should not be exaggerated. Yesterday the other CEE currencies – like forint, ruble and Romanian leu – were also under

the pressure. The former lost yesterday on the back of the Hungarian central bank decision to cut interest rates by 15bp.

In the domestic interest rate market bond yields were rising since the beginning of the day but at the smaller scale than elsewhere in Europe. More noticeable changes were recorded in the case of IRS that rose 5-15bp. The Polish macro data was ignored while the main drivers of the domestic market yesterday were the weakening in the euro zone market and sharp zloty's depreciation. Both curves steepened quite noticeably as the long end moved the most – 2-10 spread widened to nearly 120bp for bonds and to 85bp for IRS. Following the rise in the IRS, FRA moved also up and now the market expects first NBP rate hike in 12 months' time (FRA12x15 is close to 1.85%).

The registered unemployment rate dropped in April to 11.2% from 11.7%, the drop was slightly bigger than the Ministry of Labour estimated. On the annual basis, the jobless rate dropped 1.8pp and the number of unemployed dropped by c300k, to 1.78mn. The detailed data showed that the number of initial registrations rose from the last year while the number of removals from the unemployment rolls are lower than a year ago. This suggests that pace of the decline of unemployment is fading. We expect the unemployment rate to fall further in the coming months but at the slightly slower pace than recently. Our forecast for the year-end is at 10.2%.

Detailed data on wages in different branches of the enterprise sector confirmed our estimate that April saw a strong rise of wages in mining, but other branches recorded a slowdown. This may have been due to earlier payment of bonuses (before Easter), so we are expecting a rebound in the months to come.

The CSO seasonally adjusted business climate index in May improved somewhat for manufacturing but weakened for construction and retail trade. Indicator for construction declined for the fourth time in a row, while indicator for trade moved down for a second time in a row. If the manufacturing indicator also follows this trend, it may be a worrying signal about pace of recovery in the second half of the year.

The NBP president Marek Belka said yesterday in TVN24 that banks should get ready to solve the CHF-loan issue, but conversion at the exchange rate from the day the loan was taken would be undesirable, as it would negatively influence financial condition of some banks (mainly domestic ones). Belka was positive about re-polonisation of banks, provided that there is such a possibility, but criticized the idea of lowering the retirement age.

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FX market

Today's opening

EURPLN	4.1424	CZKPLN	0.151
USDPLN	3.7952	HUFPLN*	1.3422
EURUSD	1.0916	RUBPLN	0.0747
CHFPLN	4.0006	NOKPLN	0.4916
GBPPLN	5.8523	DKKPLN	0.5559
USDCNY	6.2043	SEKPLN	0.4491

*for 100HUF

Last session in the FX market

26/05/2015

	min	max	open	close	fixing
EURPLN	4.102	4.153	4.104	4.153	4.1279
USDPLN	3.736	3.816	3.736	3.813	3.7898
EURUSD	1.087	1.099	1.099	1.089	-

Interest rate market

26/05/2015

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS1016 (2L)	1.79	0	23.04.2015	OK0717	1.645
DS1019 (5L)	2.52	12	23.04.2015	PS0420	2.083
DS0725 (10L)	2.96	0	12.03.2015	DS0725	2.366

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.72	0	0.51	1	0.07	0
2L	1.88	3	0.88	0	0.10	-1
3L	2.05	6	1.21	-1	0.17	-1
4L	2.22	9	1.46	-2	0.26	-2
5L	2.37	10	1.66	-3	0.37	-3
8L	2.66	11	2.06	-5	0.71	-5
10L	2.79	10	2.22	-6	0.90	-6

WIBOR rates

Term	%	Change (bps)
O/N	1.55	-2
T/N	1.57	-1
SW	1.61	0
2W	1.62	0
1M	1.65	0
3M	1.68	0
6M	1.75	0
9M	1.78	1
1Y	1.79	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.69	1
3x6	1.70	0
6x9	1.72	0
9x12	1.76	3
3x9	1.77	1
6x12	1.77	0

Measures of fiscal risk

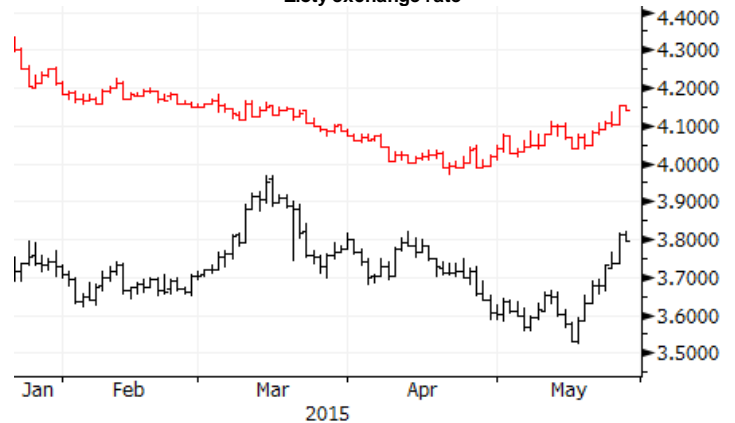
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	60	1	2.41	9
Czech Rep.	47	1	0.23	5
Hungary	138	-2	3.00	12
Spain	89	8	1.32	12
Italy	116	6	1.39	15
Portugal	149	1	1.97	16
Ireland	52	0	0.69	-3
Germany	16	-1	-	-

* 10Y treasury bonds over 10Y Bunds

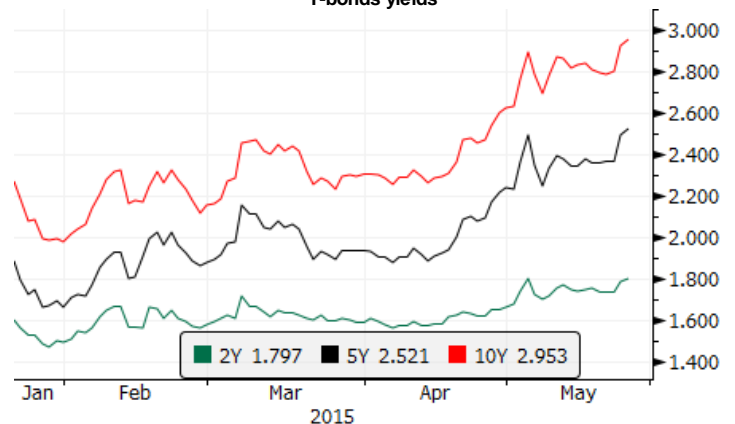
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

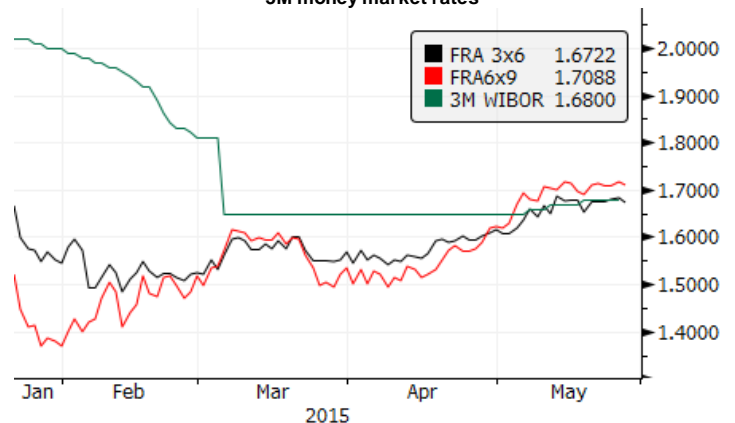
Zloty exchange rate



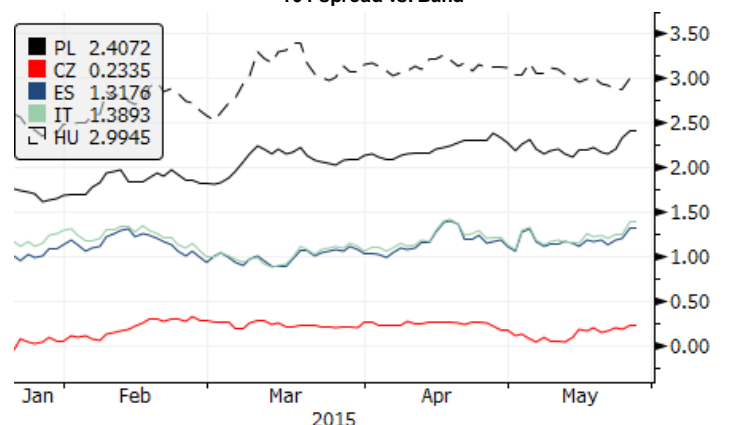
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar								
TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	BZWBK			
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	11.2	11.7
14:00	HU	Central bank decision		%	1.65	-	1.65	1.8
14:30	US	Durable goods orders	Apr	%MoM	-0.5	-	-0.5	5.1
16:00	US	Consumer confidence index	May	pts	95.0	-	95.4	94.3
16:00	US	New home sales	Apr	k	505	-	517	484
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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