

EYEOPENER

16 June 2015

Inflation and current account surplus below forecast

- **Uncertainty about Greece still weighs on markets**
- **Inflation and current account surplus below forecasts**
- **Zloty slightly weaker amid higher risk aversion and Polish data, EURUSD in horizontal trend**
- **Polish interest rate market under pressure of Greece**
- **Today, important data from Germany and USA, Polish core inflation**

Another weekend with no agreement on Greece and signals about no progress in talks ahead of the Eurogroup summit scheduled for Thursday caused that the start of the week on the global markets was rather weak. European stock market lost considerably, while euro zone peripheral bond yields climbed by c10bps. The considerably weaker-than-expected data on US industrial output (second month in a row of decline while the market expected a rise) failed to bring a rebound.

Information on Greece are still suggesting a high risk that lack of agreement on bailout terms will end with default and possible Grexit. Representatives of Greece announced they are not going to put forward any new proposals ahead of the Eurogroup meeting, while PM Tsipras accused creditors of "pillaging" his country over the last few years. The German Süddeutsche Zeitung wrote that creditors are working on an ultimatum for Greece. Should it be rejected, the country would be cut off from liquidity and capital controls would be imposed over the weekend.

Polish CPI inflation reached -0.9% YoY in May so it continued the rebound from the trough but at a slower pace than it had been expected. This, however, does not change our expectations for the coming quarters. We expect CPI to continue rising to c.0.7% YoY at the year-end. Based on the CPI data, we estimate that core inflation excluding food and energy prices (due for release this afternoon) remained in May at 0.4%YoY.

April was fourth consecutive month with a current account surplus and although the balance (€1.14bn) was slightly below our estimates (due to stronger imports), we still think that 2015 will be the first year for two decades when Poland's C/A will end with a surplus.

EURUSD stayed within 1.12-1.126 range yesterday and did not show any significant reaction neither to the prolonging deadlock in Greek talks nor to disappointing US data. Today at 9:30 The European Court of Justice will announce its ruling on the ECB's OMT program. The initial opinion issued in January said that this facility is in line with the central bank's mandate. Should today's decision confirm this opinion, there should be no significant market reaction. Important German and US data is due today, so the EURUSD daily trading range may be wider than yesterday. On the other hand, investors are waiting for the outcome of the FOMC meeting (tomorrow) and the Eurogroup decision (on Thursday) so the exchange rate will rather stay in the 1.14-1.105 range.

EURPLN broke 4.16 temporarily on the back of the poor global market sentiment and weaker data on Polish C/A and lower inflation. USDPLN stayed close to 3.70. The other CEE currencies performed similarly vs. the euro while the Russian ruble gained vs. the dollar. The Russian central bank cut interest rates by 100bp yesterday, the main refi rate to 11.5%. This was in line with expectations and perhaps it was the lack of a deeper cut that decided for ruble's appreciation. We expect EURPLN to remain close to 4.15 today. Somewhat more noticeable changes could occur later in the week in reaction to Polish data (our forecasts are above consensus), signals from the FOMC and news on Greece.

In the domestic interest rate market IRS and bond yields surged 8-12bp for 5Y and 10Y and 2-5bp for the short end. We think rates will remain high in the short term and the case of Greece will remain the main driver for the Polish market. Polish market could recover somewhat should FOMC does not sound too hawkish, that any strengthening may be only temporary if there is no positive news on Greece.

Budget deficit amounted to cPLN19.6bn at the end of May and was slightly higher than planned (PLN18.9bn). It was a result of lower budget revenues, which reached the level of PLN116.3bn (vs PLN118.3bn expected) and accounted for 39.1% of annual plan. Revenues from indirect taxes were much lower than in the same period of last year. Incomes from VAT, according to our estimates, amounted to cPLN50.2bn and were lower by 6.8%YoY.

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FX market

Today's opening

EURPLN	4.1601	CZKPLN	0.1525
USDPLN	3.6895	HUFPLN*	1.3286
EURUSD	1.1276	RUBPLN	0.0677
CHFPLN	3.9668	NOKPLN	0.4752
GBPPLN	5.7548	DKKPLN	0.5577
USDCNY	6.2081	SEKPLN	0.4513

*for 100HUF

Last session in the FX market 15/06/2015

	min	max	open	close	fixing
EURPLN	4.141	4.163	4.146	4.157	4.1486
USDPLN	3.683	3.711	3.693	3.685	3.6905
EURUSD	1.119	1.129	1.123	1.128	-

Interest rate market 15/06/2015

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS1016 (2L)	1.88	1	23.04.2015	OK0717	1.645
DS1019 (5L)	2.78	8	23.04.2015	PS0420	2.083
DS0725 (10L)	3.31	0	12.03.2015	DS0725	2.366

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.79	2	0.56	-2	0.10	1
2L	2.06	3	0.97	-2	0.17	2
3L	2.28	4	1.32	-2	0.27	1
4L	2.48	6	1.60	-2	0.41	1
5L	2.64	6	1.83	-2	0.56	1
8L	2.98	6	2.27	-2	0.97	0
10L	3.10	6	2.43	-2	1.18	0

WIBOR rates

Term	%	Change (bps)
O/N	1.58	1
T/N	1.58	1
SW	1.61	0
2W	1.62	0
1M	1.65	0
3M	1.71	0
6M	1.78	0
9M	1.80	0
1Y	1.82	1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.73	0
3x6	1.76	0
6x9	1.79	2
9x12	1.84	3
3x9	1.83	1
6x12	1.88	2

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	72	4	2.49	12
Czech Rep.	47	1	0.35	4
Hungary	155	4	3.34	9
Spain	102	11	1.58	18
Italy	127	12	1.53	15
Portugal	185	17	2.41	22
Ireland	52	1	0.99	5
Germany	15	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



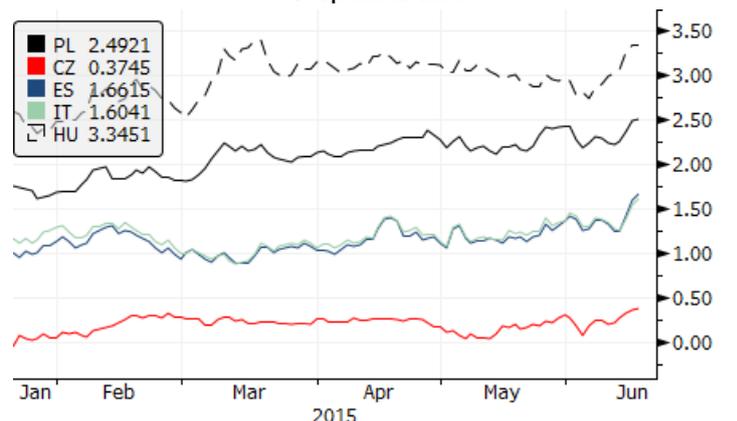
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	BZWBK			
FRIDAY (12 June)								
11:00	EZ	Industrial output	Apr	%MoM	0.4	-	0.1	-0.3
14:00	PL	Money supply	May	%YoY	7.5	7.6	7.7	7.2
16:00	US	Flash Michigan	Jun	pts	91	-	94.6	90.7
MONDAY (15 June)								
14:00	PL	CPI	May	%YoY	-0.7	-0.7	-0.9	-1.1
14:00	PL	Current account	Apr	€m	1155	1541	1138	1938
14:00	PL	Imports	Apr	€m	14524	14200	14485	15322
14:00	PL	Exports	Apr	€m	13952	13750	14358	14648
15:15	US	Industrial output	May	%m/m	0.2	-	-0.2	-0.5
TUESDAY (16 June)								
	DE	ZEW index	Jun	pts	37.3	-		41.9
14:00	PL	Core inflation	May	%YoY	0.5	0.4		0.4
	US	House starts	May	k	1097	-		1035
	US	Building permits	May	k	1100	-		1143
WEDNESDAY (17 June)								
11:00	EZ	HICP	May	%YoY	0.3	-		0.3
14:00	PL	Wages in corporate sector	May	%YoY	3.7	4.1		3.7
14:00	PL	Employment in corporate sector	May	%YoY	1.1	1.1		1.1
	US	Decyzja FOMC			0.0-0.25	-		0.0-0.25
THURSDAY (18 June)								
14:00	PL	Industrial output	May	%YoY	3.3	4.5		2.3
14:00	PL	Construction and assembly output	May	%YoY	8.1	9.0		8.5
14:00	PL	Retail sales	May	%YoY	4.2	4.7		1.5
14:00	PL	PPI	May	%YoY	-2.2	-2.0		-2.6
14:00	PL	MPC minutes			-	-		-
14:30	US	Initial jobless claims	week	k	-	-		279
14:30	US	CPI	May	%MoM	0.0	-		-0.2
	US	Philly Fed index	Jun	pts	8.0	-		6.7
FRIDAY (19 June)								
No important data releases								

Source: BZ WBK, Reuters, Bloomberg

* in case of the revision, the data is updated

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