Bank Zachodni WBK
Grupa Santander

EYEOPENER

21 July 2015

FRA market starting to price-in cuts

- **Calm start of the week, Greece repays instalment for Greece and arrears for IMF**
- **Zloty and other CEE currencies under pressure of profit-taking, EURUSD in a horizontal trend**
- **FRA market starting to see chances for interest rate cut in 2016, slight fall of IRS and bond yields**
- **Today information on supply for Thursday's auction in Poland, decision of central bank of Hungary**

The beginning of the week saw minor increases of the stock indexes, only marginal changes in core exchange rates, stabilization on the debt market and profit taking from the recent strengthening of the EM currencies. No new important news on Greece emerged yesterday – besides that it paid cash back to the ECB and the IMF, but that was hardly any surprise – and no breaking macro data was released so the single currency remained roughly stable vs. the dollar. On the other hand, lack of any positive impulses encouraged investors to take some profit from the recent strengthening of the EM currencies.

EURUSD remained in the horizontal trend yesterday hovering around 1.085. During the night the exchange rate did not move much and is close to 1.082 at the today's opening, only marginally above its lowest level since late May at c.1.08. Also today no important data is due and so EURUSD should remain close to the current level. Only since tomorrow some important will start to be released that could trigger more noticeable move in EURUSD.

Both EURPLN and USDPLN were on the rise yesterday, the zloty depreciated particularly vs. the euro – the exchange rate broke 4.12. The forint has also lost vs. the euro – EURHUF rose above 309 but the scale of move was light. Today the Hungarian currency could be pressured somewhat by the central bank decision and likely 10bp rate cut. However, the tone of the statement seems to be more important than the cut itself (if it is not bigger than expected) as it could give some hint on the monetary policy outlook in Hungary for the coming months. Leaving the door opened for more easing by the MNB could weigh somewhat on the zloty, as investors have already started to price in some odds for rate cuts in Poland. FRA show that the market sees 50% probability for a 25bp cut in next 6-9 months despite the hawkish signals from the Fed and comment of Marek Belka from the last MPC press conference that the market is "roughly right" pricing in rate hikes in late 2016. We think the MPC will raise rates by 50bp in 4Q16 but now we see risk to this forecast. Today in the morning EURPLN is close to the yesterday's peak at slightly above 4.12. We do not expect any big changes to take place today. The yesterday's rise in EURPLN was quite noticeable (as compared to Friday, the zloty is the 7th weakest EM currency vs. the euro), but on the other hand there should be no strong impulses that could push EURPLN significantly down.

Volatility was low at the start of the week on the domestic interest rate market. IRS and bond yields declined by a few basis points. This may have been due to strengthening of the German debt (also declines by a few bps) due to declines of oil prices, which diminished chances for quick and strong rebound of inflation in Europe. The middle and the longer end of curves gained more considerably, which resulted in a further narrowing of 2-10Y spreads for bonds and IRS. Today's session will also be affected by external factors, yet information on supply for Thursday's auction may be more important in the short run.

Details of the second bond auction planned for this month will be shown today. The liquidity conditions are very supportive in July as nearly PLN11bn will flow into the market next week from redemptions and coupon payments. The recent strengthening of the Polish bonds gives the Ministry a wide range of bonds to choose from at this week's auction. As we have already mentioned in the previous reports, the last few auctions targeted domestic players as they were the main holders of the bonds offered. Now the market sentiment has improved and from the on-the-run series, the non-residents held 65% of DS0725 outstanding at the end of June. This bond was last time issued in June and so it could be among the bonds offered this week. In our view also PS0420 may be on offer.

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FX market

Today's opening

EURPLN	4.1248	CZKPLN	0.1522
USDPLN	3.811	HUFPLN*	1.3303
EURUSD	1.0823	RUBPLN	0.0669
CHFPLN	3.9543	NOKPLN	0.4626
GBPPLN	5.9352	DKKPLN	0.5529
USDCNY	6.2097	SEKPLN	0.4418

*for 100HUF

Last session in the FX market 20/07/2015

	min	max	open	close	fixing
EURPLN	4.103	4.126	4.107	4.124	4.1083
USDPLN	3.781	3.806	3.790	3.805	3.7868
EURUSD	1.082	1.087	1.084	1.084	-

Interest rate market 20/07/2015

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS1016 (2L)	1.77	1	23.04.2015	OK0717	1.645
DS1019 (5L)	2.32	-7	23.04.2015	PS0420	2.083
DS0725 (10L)	2.87	0	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	1.66	-3	0.56	2	0.06	0
2L	1.78	-3	0.96	4	0.10	0
3L	1.90	-3	1.31	4	0.18	0
4L	2.02	-3	1.59	4	0.30	0
5L	2.14	-4	1.82	3	0.44	0
8L	2.46	-4	2.27	2	0.86	-1
10L	2.59	-5	2.45	1	1.08	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.66	5
T/N	1.65	4
SW	1.62	0
2W	1.63	0
1M	1.66	0
3M	1.72	0
6M	1.79	0
9M	1.81	0
1Y	1.83	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.70	0
3x6	1.68	0
6x9	1.60	-6
9x12	1.61	-6
3x9	1.69	-6
6x12	1.66	-5

Measures of fiscal risk

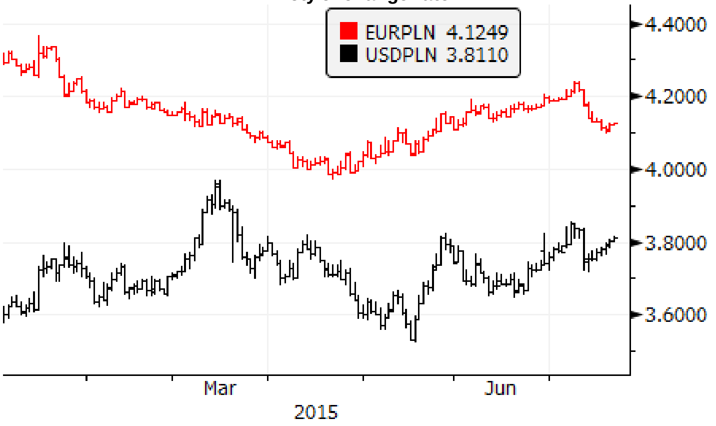
Country	CDS 5Y USD Level	CDS 5Y USD Change (bps)	10Y spread* Level	10Y spread* Change (bps)
Poland	0	-74	2.11	1
Czech Rep.	0	0	0.36	0
Hungary	146	0	2.83	-4
Spain	85	0	1.17	3
Italy	103	0	1.14	1
Portugal	159	0	1.82	-2
Ireland	50	-2	0.58	-4
Germany	14	0	-	-

* 10Y treasury bonds over 10Y Bunds

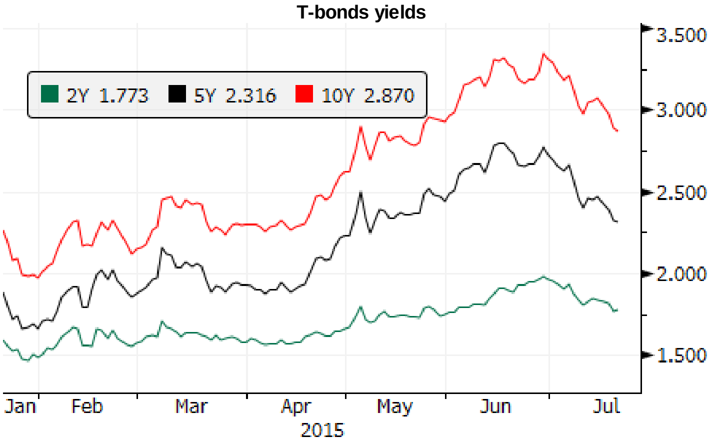
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

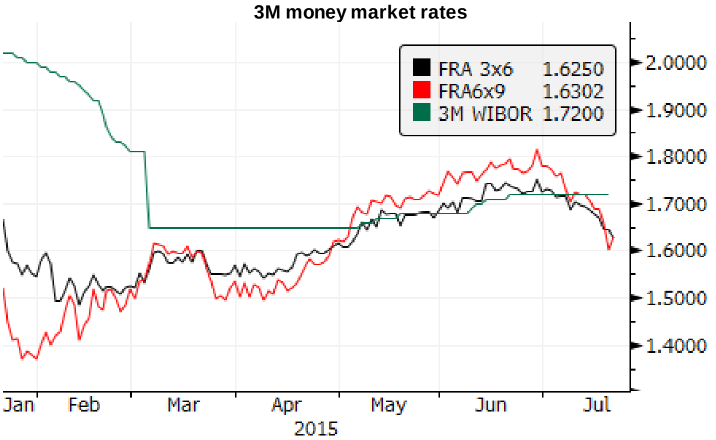
Zloty exchange rate



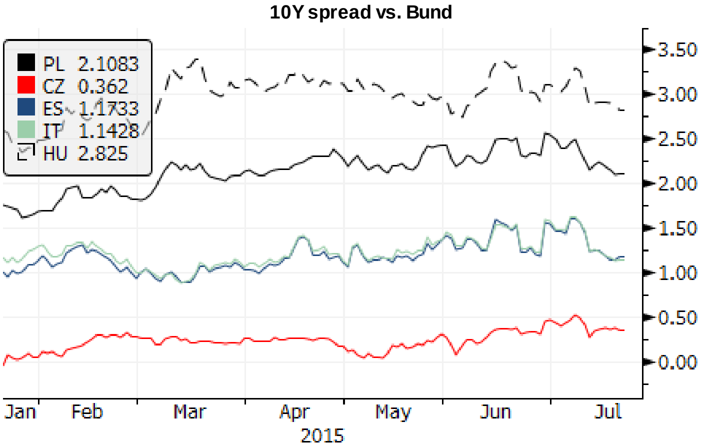
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE*
		FRIDAY (17 July)						
14:00	**PL**	**Industrial output**	**Jun**	**%YoY**	**7.0**	**7.9**	**7.6**	**2.8**
14:00	**PL**	**Construction and assembly output**	**Jun**	**%YoY**	**4.0**	**3.1**	**-2.5**	**1.3**
14:00	**PL**	**Retail sales**	**Jun**	**%YoY**	**5.4**	**6.9**	**6.6**	**4.7**
14:00	**PL**	**PPI**	**Jun**	**%YoY**	**-1.9**	**-1.9**	**-1.6**	**-2.1**
14:30	US	CPI	Jun	%MoM	0.3	-	0.3	0.4
14:30	US	House starts	Jun	k	1106	-	1174	1069
14:30	US	Building permits	Jun	k	1150	-	1343	1250
16:00	US	Flash Michigan	Jul	pts	96.0	-	93.3	96.1
		MONDAY (20 July)						
		No important data releases						
		TUESDAY (21 July)						
14:00	HU	Central bank decision		%	1.40	-		1.50
		WEDNESDAY (22 July)						
16:00	US	Home sales	Jun	m	5.4	-		5.35
		THURSDAY (23 July)						
10:00	**PL**	**Unemployment rate**	**Jun**	**%**	**10.4**	**10.4**		**10.8**
11:00	**PL**	**Bond auction**						
14:30	US	Initial jobless claims	week	k	-	-		281
		FRIDAY (24 July)						
3:45	CN	Flash PMI – manufacturing	Jul	pts	49.8	-		49.4
9:30	DE	Flash PMI – manufacturing	Jul	pts	52.0	-		51.9
9:30	DE	Flash PMI – services	Jul	pts	54.0	-		53.8
10:00	EZ	Flash PMI – manufacturing	Jul	pts	52.5	-		52.5
10:00	EZ	Flash PMI – services	Jul	pts	54.2	-		54.4
16:00	US	New home sales	Jun	k	540	-		546

Source: BZ WBK, Reuters, Bloomberg

** in case of the revision, the data is updated*

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