EYEOPENER

31 July 2015

Greece upsetting investors again

- **Mixed moods in the financial markets, advance US GDP below forecast, IMF mulls exit from Greek bailout programme**
- **Zloty and emerging market currencies under pressure, EURUSD slightly lower**
- **Profit taking in the domestic debt market**
- **Today, next data from the USA, flash inflation in the euro zone, central bank meeting in Russia, debt supply for August in Poland**

Thursday's session on the financial markets in Europe passed under influence of Wednesday's FOMC comment. Market reaction was mixed; stock markets in Europe gained slightly, while CEE currencies and debt were under pressure. Some investors interpreted the FOMC statement as rising chances for rate hike in September, which fuelled risk aversion. Market sentiment was not improved by mixed data from the US economy, especially the weaker-than-expected flash GDP for 2Q2015. The US economy rose by 2.3%QoQ versus forecasts at 2.5%, but reading for Q1 was revised upwards to 0.6%QoQ from -0.2%QoQ. Investors focused on the rise of core PCE inflation by 1.8%QoQ versus forecasts at 1.6%QoQ. Investor sentiment was not improved by information from Greece. The Greek Prime Minister had to defend the agreement with international creditors against his own party Syriza. After this meeting Tsipras announced an extraordinary congress of this party in September. According to the Financial Times, the IMF will not take decision on its participation in the Greek bailout until Greece introduces deep reforms and the euro zone agrees for debt restructuring, which is opposed by Germany. This can mean delays in negotiations between Greece and its creditors, which may undermine the investor moods in the upcoming weeks. Initially, negotiations were planned to be finalized before 20 August, when next Greek payment for the ECB is due. Yesterday USA imposed further sanctions on Russian officials and companies. The statement underlined that these restrictions were imposed due to Russia's actions in Ukraine.

Yesterday's session brought a continuation of decline of EURUSD, which was mainly due to investors' worries about negotiations between Greece and its creditors and possibility of IMF's retreat from the Greek bailout. As a result, the rate declined to 1.092 temporarily. Today next data from the US are due for release (including Michigan consumer confidence) and flash inflation for the euro zone. The weaker-than-expected reading from Spain generates some risk of lower HICP for the euro zone. This can undermine the single currency, but a higher pressure on the euro can be put by further information from Greece. We think that a break of support at 1.09-1.092 by EURUSD will open the door to another at 1.082.

Emerging market currencies, including the Polish zloty lost yesterday as the market interpreted FOMC statement that the date of start interest rate hikes is near. EURPLN, after the morning opening nearly 4,125, increased towards strong resistance at 4.15 at the end of the session. Higher volatility saw on USDPLN. The rate rose to almost 3.79 at the end of European session, up from c3.77 at the opening due to EURUSD decline. At night, zloty continued its depreciation against the main currencies, reaching c4,153 vs euro and 3.81 vs the U.S. dollar. But today morning the domestic currency is a bit stronger - EURPLN hovers just below 4.14, and USDPLN slightly below 3.79. Today the zloty will stay under influence of global factors, mainly macro data releases from the U.S. economy and news flow from Greece. Important levels for EURPLN are still 4.15 and 4.10.

Domestic interest rate market, similarly as the zloty, got under pressure yesterday. Bond yields and IRS rates rose 2-7bp along the curves, despite strengthening of core debt markets (yield of 10Y German Bund fell c.5bp, while corresponding US bond by 1bp). Consequently, the spread against German Bunds widened quite notably to almost 230bp, the highest level since July. Today the Ministry of Finance will announce the supply of Treasuries for August. Initial plans assumed only one auction, with supply of PLN1-2bn. Taking into account the current coverage of budget borrowing needs, we think the Ministry will be flexible as regards the offer. There is wide range of bonds to offer, but we think it is still more favourable to issue fixed-coupon bonds. However, the floaters may also appear if investors demand it.

The Ministry of Economy estimated that GDP growth in 2Q15 reached 3.8%YoY. Our forecast points to similar rate of economic growth as in the first quarter (3.6%YoY). The statistical office will publish flash Q2 GDP estimate on August 14.

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FX market

Today's opening

EURPLN	4.146	CZKPLN	0.1533
USDPLN	3.7851	HUFPLN*	1.3417
EURUSD	1.0954	RUBPLN	0.0634
CHFPLN	3.9185	NOKPLN	0.4638
GBPPLN	5.909	DKKPLN	0.5557
USDCNY	6.2097	SEKPLN	0.4391

*for 100HUF

Last session in the FX market **30/07/2015**

	min	max	open	close	fixing
EURPLN	4.123	4.153	4.132	4.143	4.1429
USDPLN	3.728	3.809	3.744	3.796	3.7754
EURUSD	1.089	1.108	1.104	1.091	-

Interest rate market **30/07/2015**

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS1016 (2L)	1.80	2	23.04.2015	OK0717	1.645
DS1019 (5L)	2.44	5	23.04.2015	PS0420	2.083
DS0725 (10L)	2.93	2	12.03.2015	DS0725	2.366

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.69	0	0.58	3	0.06	0
2L	1.81	2	0.96	3	0.10	0
3L	1.95	2	1.29	3	0.17	-1
4L	2.10	2	1.54	1	0.27	-2
5L	2.24	3	1.76	0	0.39	-3
8L	2.54	3	2.18	-2	0.79	-4
10L	2.68	5	2.35	-2	1.00	-6

WIBOR rates

Term	%	Change (bps)
O/N	1.59	34
T/N	1.60	4
SW	1.61	0
2W	1.63	0
1M	1.66	0
3M	1.72	0
6M	1.79	0
9M	1.82	0
1Y	1.83	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.70	-1
3x6	1.67	-2
6x9	1.65	-1
9x12	1.65	0
3x9	1.75	1
6x12	1.71	2

Measures of fiscal risk

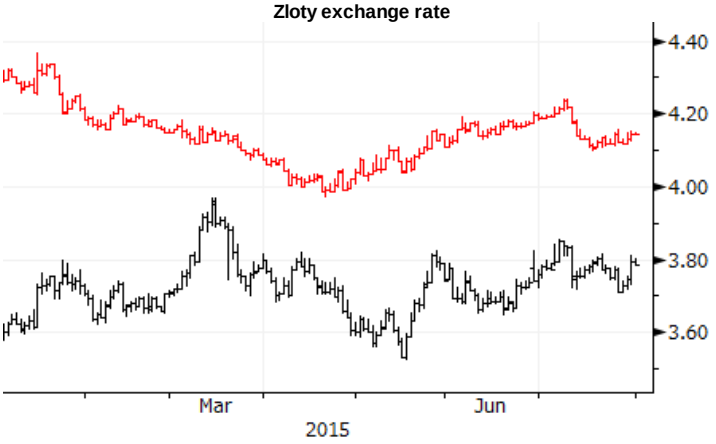
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	67	-1	2.19	1
Czech Rep.	0	0	0.15	-10
Hungary	150	0	3.00	2
Spain	94	-1	1.24	2
Italy	110	-5	1.18	0
Portugal	166	-1	1.80	-2
Ireland	50	0	0.56	-4
Germany	14	0	-	-

* 10Y treasury bonds over 10Y Bunds

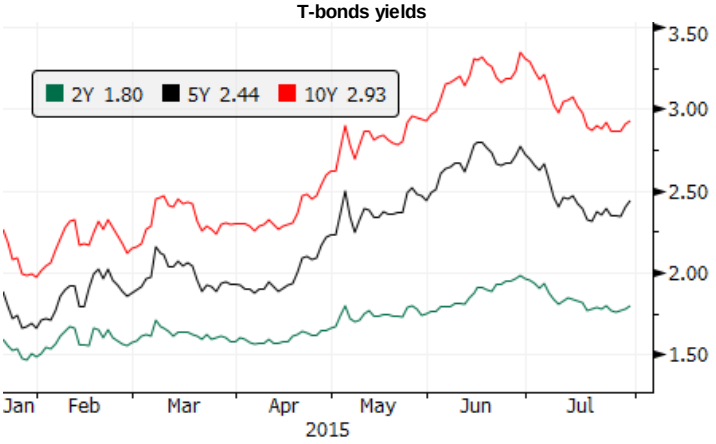
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

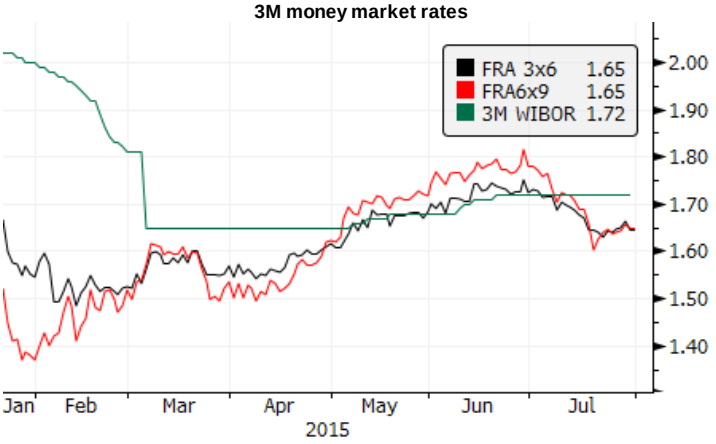
Zloty exchange rate



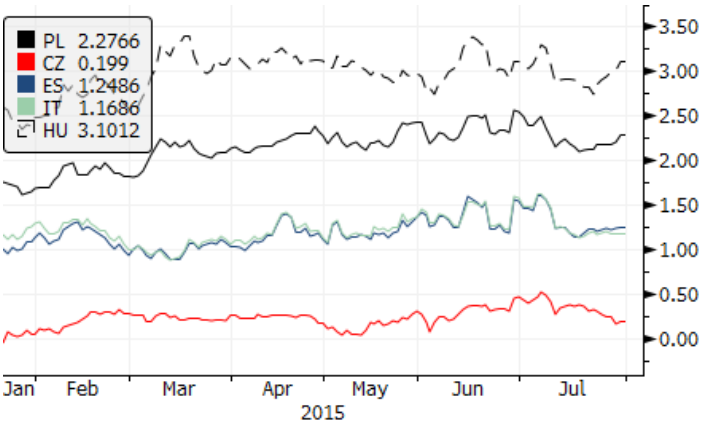
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE*
		FRIDAY (24 July)						
3:45	CN	Flash PMI – manufacturing	Jul	pts	49.7	-	48.2	49.4
9:30	DE	Flash PMI – manufacturing	Jul	pts	51.9	-	51.5	51.9
9:30	DE	Flash PMI – services	Jul	pts	54.0	-	53.7	53.8
10:00	EZ	Flash PMI – manufacturing	Jul	pts	52.5	-	52.2	52.5
10:00	EZ	Flash PMI – services	Jul	pts	54.2	-	53.8	54.4
16:00	US	New home sales	Jun	k	548	-	482	517
		MONDAY (27 July)						
10:00	DE	Ifo index	Jul	pts	107.5	-	108	107.5
14:30	US	Durable goods orders	Jun	%MoM	3.0	-	3.4	-2.1
		TUESDAY (28 July)						
16:00	US	Consumer confidence index	Jul	pts	100	-	90.9	99.8
		WEDNESDAY (29 July)						
16:00	US	Pending home sales	Jun	%MoM	0.9	-	-1.8	0.6
20:00	US	FOMC decision		%	0.0-0.25	-		0.0-0.25
		THURSDAY (30 July)						
14:30	US	Advance GDP	Q2	%QoQ	2.5	-	2.3	0.6
14:30	US	Initial jobless claims	week	k	270	-	267	255
		FRIDAY (31 July)						
11:00	EZ	Flash HICP	Jul	%YoY	0.2	-		0.2
14:00	**PL**	**Inflation expectations**	**Jul**	**%YoY**	**-**	**-**		**0.2**
16:00	US	Michigan index	Jul	pts	94.0	-		96.1

Source: BZ WBK, Reuters, Bloomberg

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

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