Bank Zachodni WBK
Grupa Santander

EYEOPENER

3 August 2015

Today PMI indices

- **Mixed market sentiments, US data weaker than expected**
- **High volatility of EM currencies, EURUSD temporarily above 1.11**
- **Profit-taking on the domestic interest rate market**
- **Today PMI for European industrial sector, US data in the afternoon, opening of stock market in Greece**

Sentiment in the emerging markets was rather poor on Friday as assets from these markets were under pressure, including the Polish zloty and bonds. At the same time, the single currency gained thanks to the below-consensus US data and the European stock indexes rose marginally. There were also no big changes on the core debt market. Flash euro zone July HICP rose 0.2% YoY, in line with expectations, while the core CPI rose to 1% YoY from 0.8% YoY. As mentioned above, the US numbers were disappointing, including the employment cost index rose 0.2% YoY (vs. consensus at 0.6%), the weakest increase since 1982. This made investors think that the first Fed rate hike could be postponed. Meanwhile, the Chicago PMI index beat expectations rose in July to 54.7pts from 49.4pts and the July Michigan consumer confidence index reached 93.1pts (below consensus 94pts). The final July PMI for Chinese manufacturing was lower than its flash estimate and reached 47.8pts (vs. 48.2pts initially released) and this could weigh on the investors' moods.

After the very calm opening of the session, EURUSD rose temporarily to 1.111 after the much weaker than expected US data on the employment costs. During the night the euro pared most of its gains and today in the morning the exchange rate is slightly below 1.10. This week investors' attention will be shared between European and US macro releases. We think that final PMIs for the euro zone countries could support the single currency provided that they do not deviate much from the flash estimates. On the other hand, the July report from the US labour market is likely to be strong enough to support expectations for the September's Fed rate hike and this could push EURUSD down. Important levels for EURUSD are 1.115 and 1.09.

The zloty, just like the other EM currencies, remained under pressure on Friday. The uncertainty concerning Greece and expectations for a looming Fed rate hike pushed EURPLN to 4.15, but the exchange rate did not manage to stay above this level for longer. Global factors will remain key this week. Polish PMI index rose in July in line with our forecasts and more than the market expected, but this did not influence the zloty so far. Important levels for EURPLN are at 4.10 and 4.15.

Friday's session on the domestic debt market brought profit-taking after recent strong strengthen, mainly on belly and the long end of the curve. Yield of 10Y benchmark temporarily increased to 2.95%, but it ended the session more close to 2.90%. Changes in the IRS market were not as significant as on T-bond market, while FRAs increased considerably, mainly for longer tenors (FRA21x24 grew above 2% for the first time since mid-July). This week, the domestic debt market will remain under influence of global factors and Thursday's bond auction (details below).

The Finance Ministry confirmed there will be only one bond auction and the offer will be equal to PLN1-4bn, in line with the plan. Bond offer will be released two days prior to the auction (i.e. on 4 August). Supply is moderate, so we expect no problems with sales.

PMI for Polish manufacturing for July climbed to 54.5 from 54.3 in June, in line with our expectations. All subindices improved in July, with new orders index reaching the highest value in five months and new export orders index reaching the highest value in almost 1,5 years. PMI reading supports our forecast of GDP growth acceleration in Q3.

This week's macro calendar includes several important events. The U.S. will release key data – the ADP report and non-farm payrolls. The FOMC statement from its meeting in July read that "some" improvement in the labour market would trigger a rate hike, but the U.S. central bankers did not comment on when this could possibly happen. Last week's U.S. Q2 GDP data came out solid (yet below expectations) and showed an upward revision of the Q1 growth. This means that a good reading from the labour market could make the September hike more probable. PMI indices will also be important. Readings for the euro zone and Germany are not likely to be crucial since we have already seen the flash numbers. Greece may attract attention again as negotiations on its third bailout are starting and there are many hurdles to overcome. Given that Syriza is divided on whether to support the bailout conditions and the IMF is threatening to withdraw from the bailout unless Greek debt is restructured and Greece introduces deeper reforms, talks may be prolonged and more bridge financing may be needed. China is another risk factor and further falls on the equity markets cannot be ruled out.

Negative news flow from Greece or China could hit risky assets. As regards the U.S. payrolls data, a positive reading may trigger higher volatility than a negative one as the market is not betting on a FOMC rate hike in September. Thus, in our view, the risk is skewed toward a weaker PLN and higher yields.

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FX market

Today's opening

EURPLN	4.1457	CZKPLN	0.1531
USDPLN	3.7797	HUFPLN*	1.3475
EURUSD	1.0969	RUBPLN	0.0611
CHFPLN	3.9113	NOKPLN	0.4612
GBPPLN	5.9041	DKKPLN	0.5555
USDCNY	6.2097	SEKPLN	0.438

*for 100HUF

Last session in the FX market 31/07/2015

	min	max	open	close	fixing
EURPLN	4.139	4.155	4.143	4.141	4.1488
USDPLN	3.734	3.803	3.796	3.771	3.7929
EURUSD	1.090	1.111	1.091	1.098	-

Interest rate market 31/07/2015

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS1016 (2L)	1.79	-1	23.04.2015	OK0717	1.645
DS1019 (5L)	2.46	4	23.04.2015	PS0420	2.083
DS0725 (10L)	2.93	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	1.69	0	0.55	-4	0.05	0
2L	1.80	-1	0.91	-6	0.10	0
3L	1.94	0	1.22	-7	0.17	0
4L	2.10	0	1.47	-7	0.28	0
5L	2.24	0	1.68	-7	0.40	1
8L	2.56	1	2.12	-6	0.78	0
10L	2.69	1	2.29	-6	0.99	0

WIBOR rates

Term	%	Change (bps)
O/N	1.61	2
T/N	1.61	1
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	0
3x6	1.66	-1
6x9	1.65	0
9x12	1.65	-1
3x9	1.73	-2
6x12	1.70	-1

Measures of fiscal risk

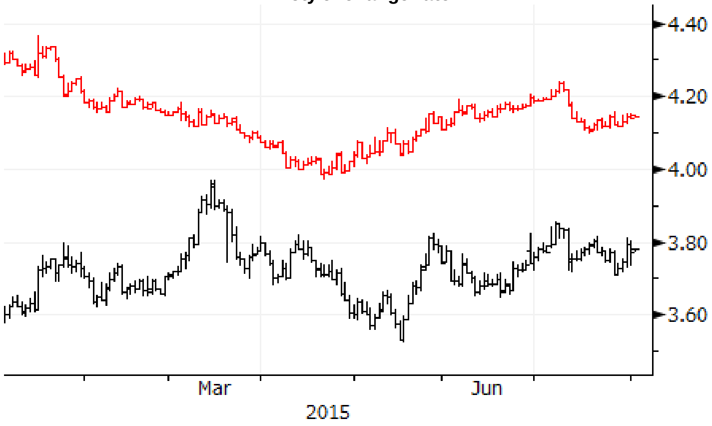
Country	CDS 5Y USD Level	CDS 5Y USD Change (bps)	10Y spread* Level	10Y spread* Change (bps)
Poland	67	0	2.28	9
Czech Rep.	0	0	0.20	5
Hungary	150	0	3.10	10
Spain	95	0	1.25	1
Italy	115	5	1.17	-1
Portugal	165	-1	1.80	0
Ireland	51	1	0.55	-1
Germany	15	1	-	-

* 10Y treasury bonds over 10Y Bunds

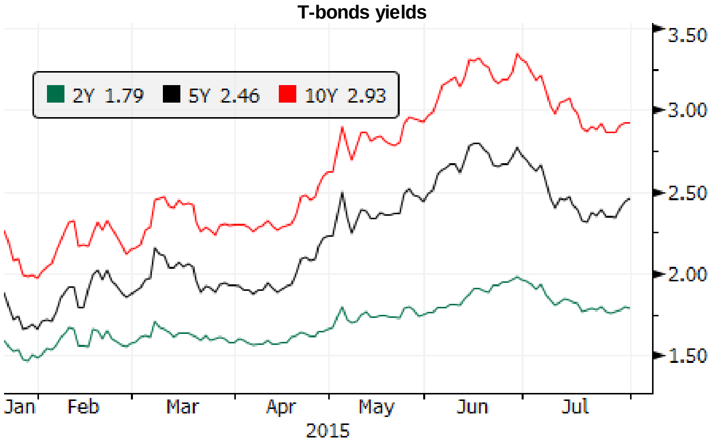
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

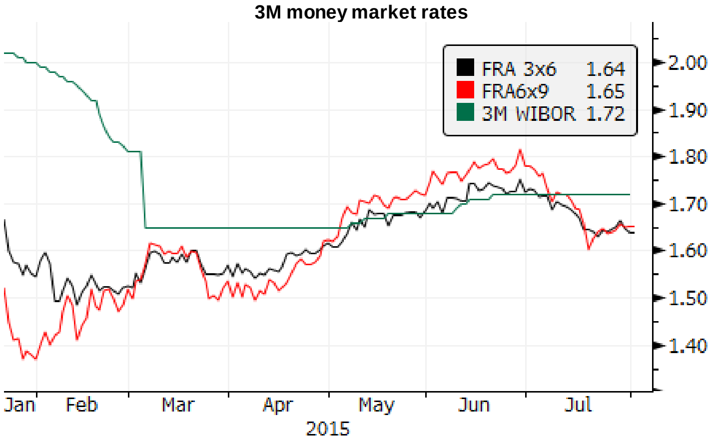
Zloty exchange rate



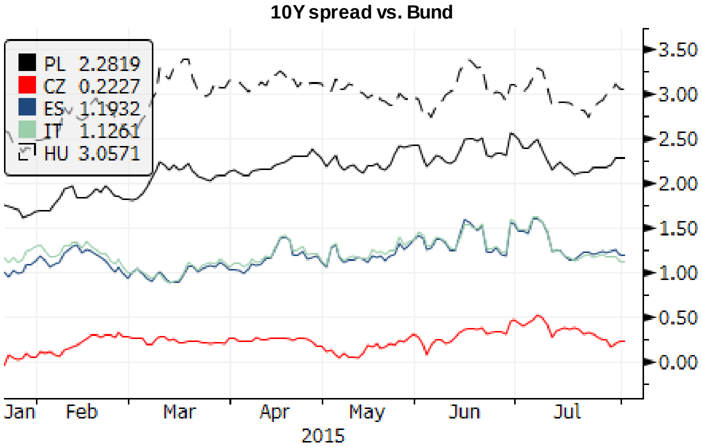
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE*
		FRIDAY (31 July)						
11:00	EZ	Flash HICP	Jul	%YoY	0.2	-	0.2	0.2
14:00	**PL**	**Inflation expectations**	**Jul**	**%YoY**	**-**	**-**	**0.2**	**0.2**
16:00	US	Michigan index	Jul	pts	94.0	-	93.1	96.1
		MONDAY (3 August)						
9:00	**PL**	**PMI – manufacturing**	**Jul**	**pts**	**54.3**	**54.5**	**54.5**	**54.3**
9:55	DE	PMI – manufacturing	Jul	pts	51.5	-		51.9
10:00	EZ	PMI – manufacturing	Jul	pts	52.2	-		52.5
14:30	US	Personal income	Jun	%MoM	0.3	-		0.5
14:30	US	Personal spending	Jun	%MoM	0.2	-		0.9
16:00	US	ISM – manufacturing	Jul	pts	53.5	-		53.5
		TUESDAY (4 August)						
16:00	US	Factory orders	Jun	%MoM	1.7	-		-1.0
		WEDNESDAY (5 August)						
9:55	DE	PMI – services	Jul	pts	53.8	-		54.4
10:00	EZ	PMI – services	Jul	pts	53.7	-		53.8
14:15	US	ADP report	Jul	k	210	-		237
16:00	US	ISM – non-manufacturing	Jul	pts	56.3	-		56.0
		THURSDAY (6 August)						
8:00	DE	Factory orders	Jun	%MoM	0.1	-		-0.2
11:30	**PL**	**Bond auction**						
14:30	US	Initial jobless claims	week	k		-		267
		FRIDAY (7 August)						
8:00	DE	Industrial output	Jun	%MoM	0.3	-		0.1
8:00	DE	Exports	Jun	%MoM	0.0	-		1.7
14:30	US	Non-farm payrolls	Jul	k	225	-		223
14:30	US	Unemployment rate	Jul	%	5.3	-		5.3

Source: BZ WBK, Reuters, Bloomberg

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

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