Bank Zachodni WBK
Grupa Santander

EYEOPENER

4 August 2015

Export orders rising at a fast pace

- **Data from Europe surprised to the upside, US numbers disappointed**
- **Polish PMI at the highest level since March, Czech also going up, indices for Hungary and Russia falling**
- **Only temporary zloty strengthening after domestic data, EURUSD with no major changes**
- **Calm start of the week on the Polish and European debt market**
- **Today US data, Polish Finance Ministry will publish details of Thursday's auction**

Since the beginning of the session the global market sentiment was quite positive. The final PMIs for the euro zone and German manufacturing proved even better than flash estimates and this pushed stock prices up in Europe, but did not influence the single currency and weighed only marginally on the core and peripheral debt. Bonds managed to return close to the opening levels thanks to the rather weaker than expected US data. The July manufacturing ISM dropped unexpectedly and reached its lowest level since April. This, together with only not bad data on consumer income and spending cooled expectations for the September Fed rate hike.

The PMI Index for Polish manufacturing rose in July to 54.5pts, in line with our forecast and above the market consensus. This was the second month of improvement and now the index is at its highest level since March. The pace of output growth was weaker than in June, but orders rose at the fastest pace for five months with export orders rising at the fastest pace since February 2014. Employment rose at its fourth fastest pace ever. The prices of finished goods rose for the first time since June 2012, but the increase was only marginal and the production costs rose only slightly. Nevertheless, this could be the first sign of price pressure rising. Overall, this data confirms our forecast of the acceleration in GDP growth in 3Q vs. 2Q.

Elsewhere in the CEE region, Czech manufacturing also performed well as the PMI rose from 56.9pt to 57.5pt (its highest since April 2011). This improvement was driven mainly by the stronger demand from abroad. Meanwhile, Russia and Hungary clearly underperformed. The Hungarian PMI plunged to 50pt from 54.9pt (the fifth lowest reading ever) and this was a broad-based deterioration. The scale of the decline seems to be substantial, but this volatility is typical for the Hungarian data. Russian PMI eased from 48.7pt to 48.3pt (the market expected a 0.1pt increase) and stayed below the neutral 50pt mark for the eighth consecutive month. Output, orders and employment weighed on July's number.

According to the IMF, sanctions imposed on Russia could reduce its GDP by 9% in total in the medium term amid weaker investments and consumption. This will hit productivity as well. The IMF expects Russian GDP to contract 3.4% this year and to grow 0.2% in 2016.

EURUSD did not change much yesterday. The European data beat expectations but did not provide much support for the euro while the disappointing US releases did not weigh significantly on the dollar. Thus, the exchange rate was close to 1.097 at the end of the Polish session. Today in the morning EURUSD is close to this level. Today less data is due than yesterday so EURUSD should remain roughly stable ahead of the US nonfarm payrolls data due later in the week.

EURPLN plunged to 4.125 from c4.14 in response to the upward surprise in Polish PMI. However, the zloty's appreciation was only temporary and at the end of the session the exchange rate was back close to the opening level at just above 4.14. On daily basis the zloty remained roughly stable also vs. the dollar. Strong Czech PMI supported the koruna and EURCZK got closer to 27.0 floor again. Disappointing Hungarian and Russian data weighed on these counties' currencies. The forint managed to recover after the morning weakening, but USDRUB ended the day well above 62.0, close to the session peak and its highest since mid-March. No big changes occurred in the Polish FX market over the night and today in the morning EURPLN is close to 4.145. Today in the morning the global market sentiment is slightly pessimistic and this could limit the scope for the zloty to appreciate. We think just like abroad, today's session will be rather calm as investors are waiting for the crucial US data due on Friday.

On the domestic interest rate market the beginning of the week did not bring any major changes. IRS rates and T-bond yields remained unchanged, oscillating around Friday's closing. Ambiguous data from Europe and the U.S. caused that both core and peripheral markets were calm. Today, investors will see the detailed supply on Thursday's bond auction. We expect a flexible approach to the offer - the Ministry of Finance can offer both fixed and floating-rate T-bonds. However, offering T-bonds from the long end of the curve could weigh on their valuation during the session, however, in our view changes in yields should not be significant.

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FX market

Today's opening

EURPLN	4.1455	CZKPLN	0.1533
USDPLN	3.7826	HUFPLN*	1.349
EURUSD	1.096	RUBPLN	0.0598
CHFPLN	3.9081	NOKPLN	0.4591
GBPPLN	5.9035	DKKPLN	0.5556
USDCNY	6.2095	SEKPLN	0.4372

*for 100HUF

Last session in the FX market 03/08/2015

	min	max	open	close	fixing
EURPLN	4.130	4.151	4.147	4.145	4.136
USDPLN	3.766	3.793	3.780	3.782	3.7705
EURUSD	1.094	1.100	1.097	1.096	-

Interest rate market 03/08/2015

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS1016 (2L)	1.78	-1	23.04.2015	OK0717	1.645
DS1019 (5L)	2.46	0	23.04.2015	PS0420	2.083
DS0725 (10L)	2.93	1	12.03.2015	DS0725	2.366

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.68	0	0.54	-1	0.05	0
2L	1.80	0	0.89	-1	0.09	-1
3L	1.95	0	1.19	-3	0.16	-1
4L	2.10	0	1.44	-4	0.26	-1
5L	2.24	0	1.64	-4	0.38	-2
8L	2.55	-1	2.06	-5	0.75	-3
10L	2.68	-1	2.23	-6	0.96	-3

WIBOR rates

Term	%	Change (bps)
O/N	1.61	0
T/N	1.61	0
SW	1.62	1
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	1.71	1
3x6	1.68	2
6x9	1.64	-1
9x12	1.64	-1
3x9	1.73	1
6x12	1.72	2

Measures of fiscal risk

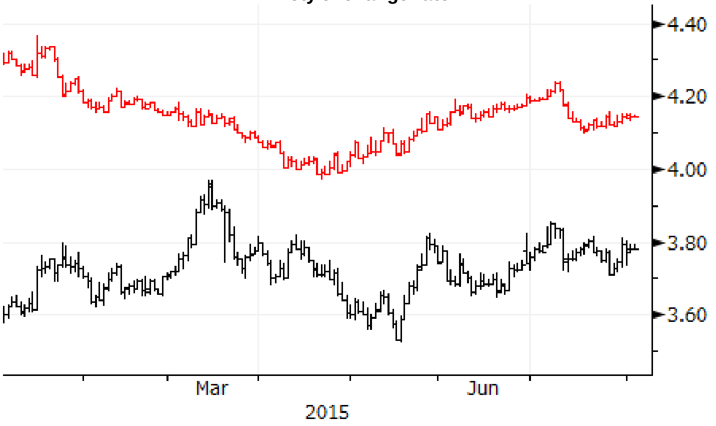
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	68	1	2.30	1
Czech Rep.	0	0	0.23	1
Hungary	150	0	3.07	-4
Spain	95	1	1.31	12
Italy	115	1	1.14	1
Portugal	164	0	1.76	2
Ireland	51	0	0.55	-1
Germany	14	-1	-	-

* 10Y treasury bonds over 10Y Bunds

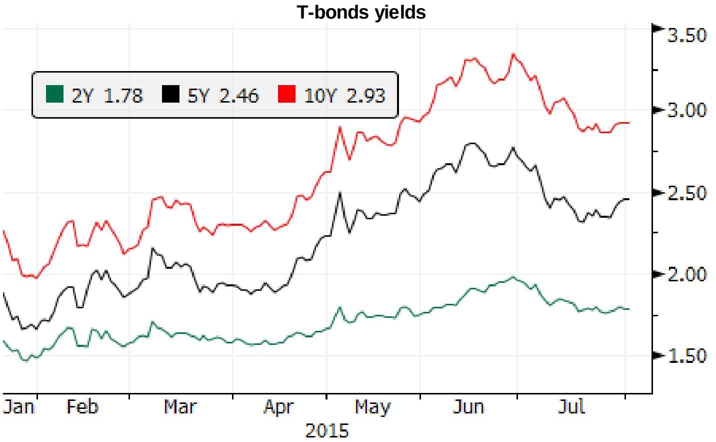
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

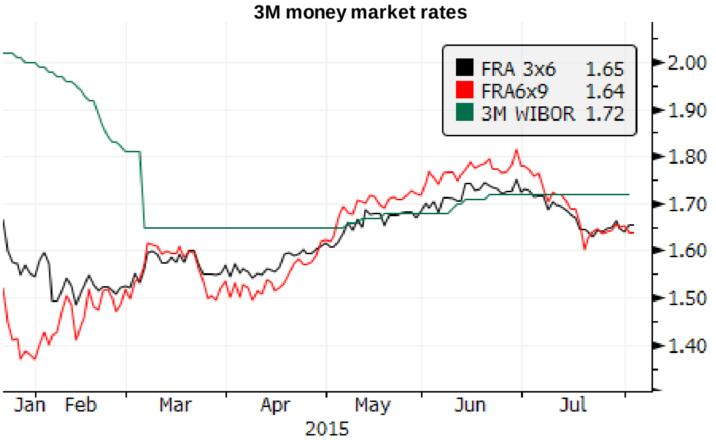
Zloty exchange rate



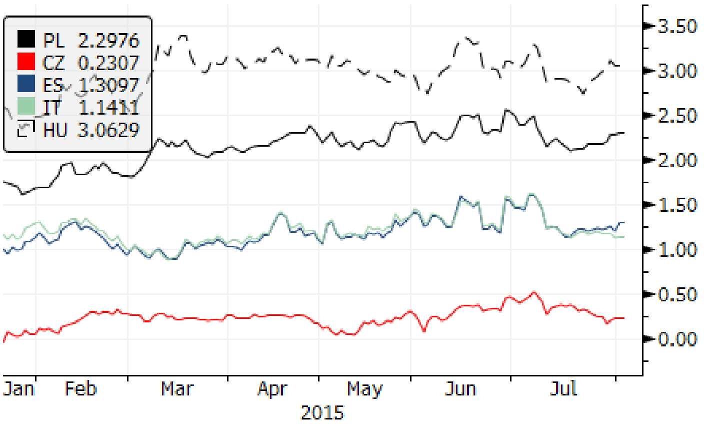
T-bonds yields



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	-	51.8	51.9
10:00	EZ	PMI – manufacturing	Jul	pts	52.2	-	52.4	52.5
14:30	US	Personal income	Jun	%MoM	0.3	-	0.4	0.4
14:30	US	Personal spending	Jun	%MoM	0.2	-	0.2	0.7
16:00	US	ISM – manufacturing	Jul	pts	53.5	-	52.7	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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