EYEOPENER

7 August 2015

Today US labour market statistics

- **Global market is calm, higher volatility in Poland after vote in the Sejm**
- **Zloty, ruble and forint under pressure, EURUSD still in horizontal trend**
- **Polish interest rate market underperforming, bonds losing due to worries about domestic banking system**
- **Today US monthly labour market statistics**

Thursday's session in the global market was rather calm. Only few macro releases and the outlook for the today's US non-farm payrolls numbers were limiting the volatility in the stock exchanges and of the main exchange rates. The only exception was the British pound that lost ground vs. the dollar and the euro. This move was triggered by the fact that there has been only one voter for a rate hike at the last Bank of England meeting. German data released today in the morning disappointed – the June industrial output contracted 1.4% MoM while exports dropped 1% MoM.

Greek PM Tsipras and French president Hollande said that talks on the new Greek bailout package should be concluded until the end of the month. On August 20 Greece should pay €3.2bn to the ECB and the agreement at least on this amount should emerge until then. The teleconference on the progress in negotiations will be held today in the evening.

Polish assets were clearly underperforming yesterday. The zloty lost versus the euro (EURPLN broke a local peak set on Wednesday evening), stock market posted huge losses and domestic bond yields were rising, which was rather exceptional on the European market. This was the investors' reaction to the bill on special terms for FX debt restructuring, accepted by the Sejm on Wednesday's evening. The bill is significantly increasing the burden on the banking sector versus the draft. The ECB assessment of this law was negative. According to the ECB, if the law passes in the current form, it may undermine the foreign investors' assessment of Poland. The Polish Financial Supervision Authority commented that calculation of impact of changes to the draft bill on the banking sector stability is necessary. After the Wednesday's vote, the bill will go to the Senate. Senate's commission will start working on it on 27 August and it will be discussed by the whole chamber on 2 September.

EURPLN was on the rise since the beginning of the week and at the end of the Polish session was already above 4.19 after it established a fresh weekly high. The negative pressure on the domestic currency was generated by worries about Polish banks after the evening vote in Polish Sejm. Other CEE currencies were also under pressure – EURHUF rose above 311 from 309 while USDRUB reached nearly 64.5 vs. 63 at the opening (the ruble was under the pressure of falling oil prices). The Czech central bank left interest rates unchanged. Its governor said that there was no deep discussion on the further rate cuts or on lifting the EURCZK floor. The exchange rate was testing 27.0 after this comment, but in general the situation did not change significantly. Today the US labour market data will probably have the biggest impact on the FX market. Should the number surprise to the upside, this could be the next factor weighing on the zloty.

EURUSD was hovering around 1.09 yesterday. The afternoon data was in line with expectations and did not trigger any big moves in the market and today in the morning the exchange rate is close to 1.09. The key event of the today's session will be the publication of the US non-farm payrolls. There have been some hawkish signals from the Fed this week and the statement from the July's FOMC meeting left the door open for the rate hike in September. However, Wednesday's ADP disappointed but the consensus did not change since then. The market is probably allowing some room for a below-expectations release so only marginally smaller increase in the payrolls should not have a significant impact on the market. Should data surprise to the upside, this is likely to be a very supportive number for the dollar.

On the domestic interest rate market T-bond yields and IRS rates have risen quite clearly, in particular on the long end of the curves by 4-8bps. Yield of 10Y benchmark and IRS 10Y reached the highest levels since mid-July. At the same time, in most of the markets in Europe noted strengthening at the same or larger scale. Polish debt underperformed due to foreign investors' fears about stability of Poland's banking system. It lost even despite a fairly successful bond auction. Today's session could bring a continuation of negative sentiment on the domestic interest rate. In addition to domestic factors, the US non-farm payrolls data will also be important for the direction of the market.

Yesterday, at the regular auction the Poland's Ministry of Finance sold T-bonds worth PLN3.9bn, including sale of DS0725 worth PLN3.1bn and floater WZ0126 worth PLN779mn. Auction yield of 10Y benchmark amounted to 3.076%. Moreover, at the top-up auction the Ministry sold offered T-bonds worth PLN748mn. Total demand amounted to over PLN6.7bn and we believe that domestic investors preferred WZ0126 (floater), while the non-residents bid fixed-rate DS0725. According to our estimates this year's gross borrowing needs are covered at 84% after the auction.

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FX market

Today's opening

EURPLN	4.1862	CZKPLN	0.1549
USDPLN	3.8352	HUFPLN*	1.3457
EURUSD	1.0916	RUBPLN	0.06
CHFPLN	3.9062	NOKPLN	0.4633
GBPPLN	5.9483	DKKPLN	0.5611
USDCNY	6.2097	SEKPLN	0.4386

*for 100HUF

Last session in the FX market 06/08/2015

	min	max	open	close	fixing
EURPLN	4.169	4.200	4.175	4.196	4.1798
USDPLN	3.815	3.850	3.840	3.841	3.8385
EURUSD	1.087	1.094	1.087	1.093	-

Interest rate market 06/08/2015

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS1016 (2L)	1.83	2	23.04.2015	OK0717	1.645
DS1019 (5L)	2.60	4	23.04.2015	PS0420	2.083
DS0725 (10L)	3.07	-1	06.08.2015	DS0725	3.076

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.69	-2	0.58	-2	0.05	0
2L	1.84	0	0.95	-3	0.10	0
3L	2.00	-1	1.27	-3	0.18	0
4L	2.17	-1	1.53	-3	0.29	-1
5L	2.32	0	1.74	-4	0.41	-2
8L	2.65	0	2.15	-4	0.82	-3
10L	2.78	0	2.32	-4	1.04	-4

WIBOR rates

Term	%	Change (bps)
O/N	1.61	0
T/N	1.61	0
SW	1.62	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	1.67	-2
6x9	1.64	-2
9x12	1.68	-2
3x9	1.76	1
6x12	1.71	-1

Measures of fiscal risk

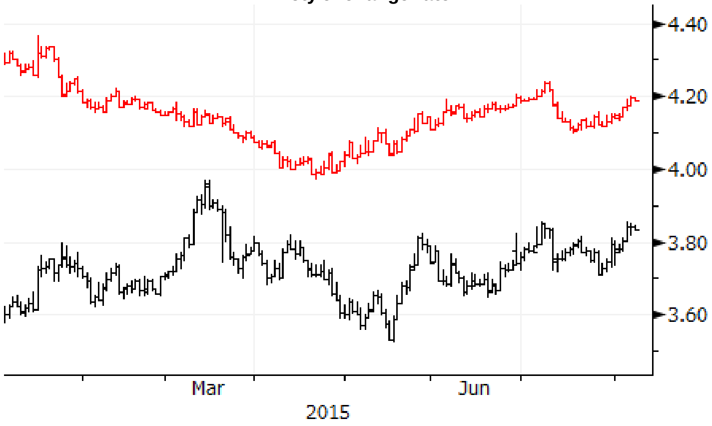
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	67	0	2.37	9
Czech Rep.	0	0	0.18	6
Hungary	149	0	2.95	9
Spain	93	1	1.31	-1
Italy	111	1	1.16	0
Portugal	164	0	1.74	0
Ireland	50	0	0.57	-2
Germany	14	0	-	-

* 10Y treasury bonds over 10Y Bunds

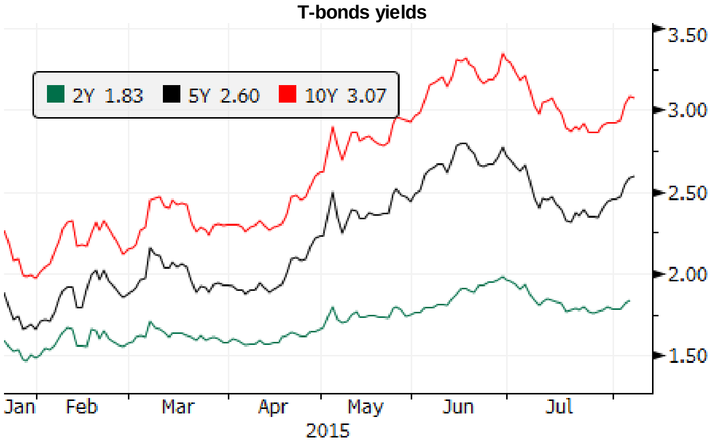
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

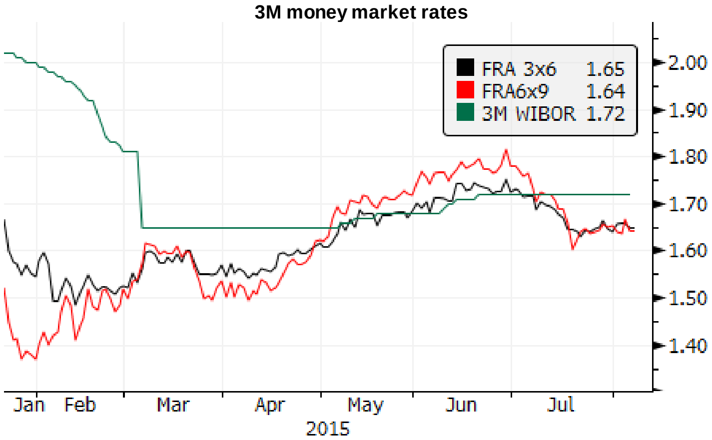
Zloty exchange rate



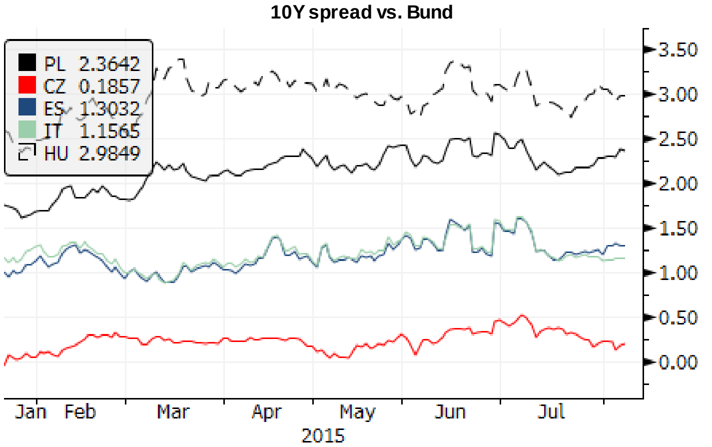
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE*
		FRIDAY (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	-	1.8	-1.1
		WEDNESDAY (5 August)						
9:55	DE	PMI – services	Jul	pts	53.7	-	53.8	53.8
10:00	EZ	PMI – services	Jul	pts	53.8	-	54.0	54.4
14:15	US	ADP report	Jul	k	215	-	185	229
16:00	US	ISM – non-manufacturing	Jul	pts	56.3	-	60.3	56.0
		THURSDAY (6 August)						
8:00	DE	Factory orders	Jun	%MoM	0.1	-	2.0	-0.3
9:00	CZ	Industrial output	Jun	%YoY	6.4	-	8.1	2.0
11:30	**PL**	**Bond auction**						
13:00	CZ	Central bank decision		%	0.05	-	0.05	0.05
14:30	US	Initial jobless claims	week	k	272	-	270	267
		FRIDAY (7 August)						
8:00	DE	Industrial output	Jun	%MoM	0.3	-	-1.4	0.1
8:00	DE	Exports	Jun	%MoM	0.0	-	-1.0	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*

Additional information is available on request. Please contact Bank Zachodni WBK S.A. Rates Area, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 88, email ekonomia@bzwbk.pl, http://www.bzwbk.pl.