

# EYEOPENER

26 August 2015

## China cut interest rates

- **China cut rates, a strong rebound on the market**
- **Zloty stable versus euro and weaker versus dollar after decline of EURUSD**
- **Bonds weaken considerably due to higher chances for rate hike in the U.S. in September**
- **Today U.S. data**

Tuesday was yet another bad day for Chinese equities, but despite this fact the European session passed in quite good moods. Stock market indices were rising and CEE currencies were trimming losses, as weakening from the start of the week was used by investors to accumulate higher-risk assets. At the start of the session good data from Germany was released – Ifo index unexpectedly rose in August. Later during the day there was a positive news from China – the Chinese central bank cut interest rates, which gave investors hope that the authorities will not leave markets without assistance (recently there were rumours that the interventionist stock purchases may be suspended) and will make further steps to counter a significant slowdown in the world's second biggest economy. Higher chances for stabilizing the situation means higher odds for September's interest rate hike in the U.S. and yesterday yields of global bonds increased significantly. The second factor reducing demand for safe assets was data from the U.S. New home sales was roughly in line with expectations, but index of consumer confidence was much better than forecast, reaching the second highest level this year, and returning above 100 pts for the first time after four months.

EURUSD was falling yesterday steadily and at the end of Polish session it was close to 1.143. The dollar was gaining thanks to stabilization of situation in global markets and a decrease of risk of delaying Fed's rate hike. U.S. data were better than expected, but did not trigger any sharp moves, only slightly strengthening the dollar. Overnight the euro trimmed some losses and today in the morning the rate was near 1.15. Yesterday's US data did not trigger strong EURUSD move, and today we will see only durable goods orders, so the rate is likely to stay in range 1.136-1.17 determined by Monday's session. Stronger fluctuations are possible in the following days, when numerous important US data will be released, including the second estimate of 2Q GDP growth.

EURPLN stayed in the horizontal trend close to 4.22-4.23. On Monday the zloty was performing quite well amid strong deterioration of the global market sentiment, but yesterday it did not benefit much from the significant improvement of moods. USDPLN rose to 3.69 from 3.65 amid falling EURUSD. Among the other CEE currencies, the forint and koruna depreciated vs. the euro (EURHUF rose above 313 from 311 and EURCZK to c27.14 from 27) while the ruble gained vs. the dollar (USDRUB fell below 69 from 71). The Hungarian central bank left interest rates unchanged, in line with expectations, the main rate is still at its 1.35% all-time low. According to the MNB, keeping interest rates low "for an extended period is consistent with the medium-term achievement of the inflation target" and the current market situation justifies cautious approach in the monetary policy. Today in the morning EURPLN is close to 4.24. Although stock indexes rose in China, European equities are falling at the opening. The global market sentiment is still fragile and this is likely to pressure the CEE currencies and limit the scope for the zloty's recovery.

In the domestic interest rate market IRS and yields surged for the second day in a row. It seems that the main factor weighing on the Polish bonds were again stronger expectations that the Fed rate hike will take place in September as the Chinese government is taking actions aimed at stabilizing the situation and the yesterday's US data was quite strong. Consequently, the 10Y IRS and bond yields rose 6bp and 13bp, respectively. The 10Y asset swap spread rose to nearly 40bp, its highest since September 2012. Yield of the 10Y Bund rose even more than its Polish counterpart so the 10Y spread narrowed slightly.

The registered unemployment rate dropped to 10.1% in July, to its lowest since 2008. On monthly basis, the number of unemployed fell by 37k, more than a year ago (34k). Similar phenomenon was recorded in June and this means that pace of the unemployment decline has accelerated while we expected some slowdown amid lower stock of labour force. However, the bigger decline of the jobless rate is partly due to stronger intervention of the Labour Ministry – 9k more unemployed than a year ago got a subsidized job or were sent to training. According to LFS methodology, the unemployment rate fell to 7.4% in 2Q, its lowest since 2008.

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**FX market**

**Today's opening**

EURPLN	4.2368	CZKPLN	0.1565
USDPLN	3.688	HUFPLN*	1.3457
EURUSD	1.1488	RUBPLN	0.0534
CHFPLN	3.9093	NOKPLN	0.4465
GBPPLN	5.7931	DKKPLN	0.5677
USDCNY	6.4148	SEKPLN	0.4398

\*for 100HUF

**Last session in the FX market 25/08/2015**

	min	max	open	close	fixing
EURPLN	4.208	4.263	4.226	4.234	4.2309
USDPLN	3.644	3.715	3.666	3.706	3.6613
EURUSD	1.140	1.162	1.153	1.142	-

**Interest rate market 25/08/2015**

**T-bonds on the interbank market\*\***

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS1016 (2L)	1.82	3	23.04.2015	OK0717	1.645
DS1019 (5L)	2.51	11	23.04.2015	PS0420	2.083
DS0725 (10L)	2.97	12	06.08.2015	DS0725	3.076

**IRS on the interbank market\*\***

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.68	3	0.51	1	0.05	0
2L	1.77	3	0.83	2	0.10	1
3L	1.92	6	1.11	2	0.19	3
4L	2.08	9	1.36	3	0.31	5
5L	2.23	12	1.56	4	0.45	7
8L	2.56	15	2.00	7	0.84	10
10L	2.68	15	2.18	7	1.07	12

**WIBOR rates**

Term	%	Change (bps)
O/N	1.77	10
T/N	1.77	10
SW	1.64	1
2W	1.63	0
1M	1.66	0
3M	1.72	0
6M	1.80	0
9M	1.82	0
1Y	1.83	0

**FRA rates on the interbank market\*\***

Term	%	Change (bps)
1x4	1.72	1
3x6	1.70	2
6x9	1.64	3
9x12	1.63	2
3x9	1.76	4
6x12	1.68	3

**Measures of fiscal risk**

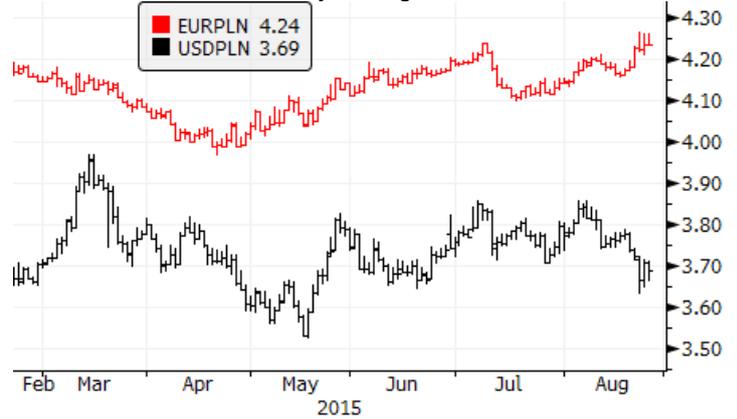
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	73	-1	2.24	-2
Czech Rep.	0	0	0.16	-7
Hungary	167	-2	2.96	4
Spain	104	-6	1.37	-7
Italy	119	-7	1.25	-6
Portugal	178	-3	1.99	-10
Ireland	51	0	0.67	9
Germany	14	0	-	-

\* 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**



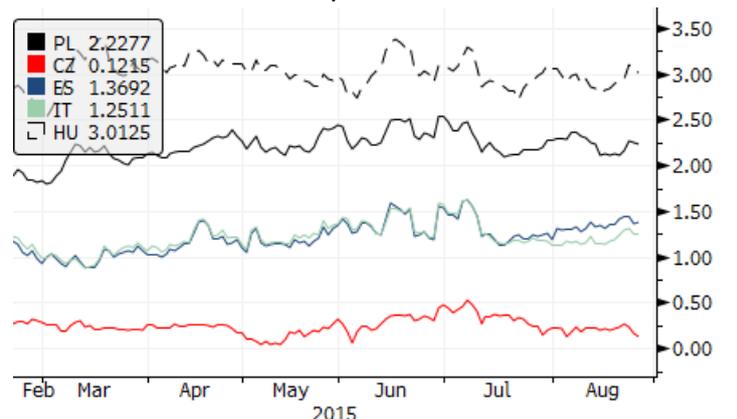
**T-bonds yields**



**3M money market rates**



**10Y spread vs. Bund**



## Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	BZWBK			
<b>FRIDAY (21 August)</b>								
3:45	CN	Flash manufacturing PMI	Aug	pts	48.2	-	47.1	47.8
9:30	DE	Flash manufacturing PMI	Aug	pts	51.6	-	53.2	51.8
10:00	EZ	Flash manufacturing PMI	Aug	pts	52.2	-	52.4	52.4
<b>MONDAY (24 August)</b>								
No important data releases								
<b>TUESDAY (25 August)</b>								
8:00	DE	GDP	Q2	%YoY	1.6	-	1.6	1.1
<b>10:00</b>	<b>PL</b>	<b>Unemployment rate</b>	<b>Jul</b>	<b>%</b>	<b>10.1</b>	<b>10.1</b>	<b>10.1</b>	<b>10.3</b>
10:00	DE	Ifo index	Aug	pts	107.6	-	108.3	108.0
14:00	HU	Central bank decision		%	1.35	-	1.35	1.35
16:00	US	New home sales	Jul	k	510	-	507	481
16:00	US	Consumer confidence index	Aug	pts	93.4	-	101.5	91.0
<b>WEDNESDAY (26 August)</b>								
14:30	US	Durable goods orders			-0.4	-		3.4
<b>THURSDAY (27 August)</b>								
14:30	US	Initial jobless claims	week	k	3.2	-		0.6
14:30	US	Preliminary GDP	Q2	%YoY	-	-		277
16:00	US	Pending home sales	Jul	%MoM	1.5	-		-1.8
<b>FRIDAY (28 August)</b>								
9:00	CZ	GDP	Q2	%YoY	4.4	-		4.0
<b>10:00</b>	<b>PL</b>	<b>GDP</b>	<b>Q2</b>	<b>%YoY</b>	<b>3.3</b>	<b>3.3</b>		<b>3.6</b>
<b>10:00</b>	<b>PL</b>	<b>Private consumption</b>	<b>Q2</b>	<b>%YoY</b>	<b>3.1</b>	<b>3.0</b>		<b>3.1</b>
<b>10:00</b>	<b>PL</b>	<b>Investments</b>	<b>Q2</b>	<b>%YoY</b>	<b>9.8</b>	<b>9.0</b>		<b>11.4</b>
14:30	US	Personal income	Jul	%MoM	0.4	-		0.4
14:30	US	Consumer spending	Jul	%MoM	0.4	-		0.2
16:00	US	Michigan confidence index	Aug	pts	93.2	-		92.9

Source: BZ WBK, Reuters, Bloomberg

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

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