

EYEOPENER

1 September 2015

Weakening activity in Chinese manufacturing

- **Calm start of the week in expectation for important data**
- **No big changes in Polish FX market, EURUSD in horizontal trend**
- **Bond yields higher at the start of the week**
- **Today, indicators of manufacturing activity**

Just like we suspected, the beginning of the week was rather calm amid lack of substantial surprises from the data releases and mainly due to the absence of the London investors. The exchange rates and yields stayed close to the opening levels for better part of the day while somewhat more noticeable changes were recorded in the equity market that was pressured by the falling stock prices in China. The most noticeable move was recorded in the case of oil price that reached its highest level since late July (and surged +25% in the last three sessions). The flash euro zone inflation was slightly above expectations but did not have a big impact on the market. Today's morning China PMI index for manufacturing confirmed that economic activity was falling and this weighed on the China stock exchanges.

EURUSD stayed in 1.12-1.125 range yesterday. The scale and pace of changes was light amid no session in London and hardly any surprises in the macro data releases. Today the intraday volatility of the exchange rate could be higher as important data on the August activity in manufacturing will be released. Final numbers for Germany and the euro zone should be close to flash estimates so the US ISM may prove to be key. In July the index dropped from the highest level this year and the market expects further drop for August. Should data surprise to the upside, the dollar could gain vs. the euro (after the morning EURUSD rise to 1.128).

Both EURPLN and USDPLN rose slightly at the beginning of the day but this was only temporary and both exchange rates were close to the opening levels at the end of the Polish session. Manufacturing activity indexes are due today in the morning. Our PMI forecast (54.7pt) is above the consensus and so the release could have some positive impact on the zloty. The July's index for Hungary was very weak and today the forint may be also quite sensitive for the final number. However, one should remember that Hungarian PMI is much more volatile than for the other countries.

On the domestic debt market yields rose by 2-5 bp, following increase in yields globally (mainly on the long end of the curves). Yield of the 10Y Bund grew at the end of the session to 0.80%, the highest level since mid-July, which coincided with a significant increase in crude oil prices. Additional pressure on the Polish market could have had information about the issuance plan for the next week's auction (see below). Meanwhile, the Polish IRS remained stable. Indicators of activity in the manufacturing sector to be released today (PMI for the euro zone and European countries, including Poland, as well as the ISM in the US) may in the short term influence the trend in the debt markets.

The Ministry of Finance announced that in September there will be two bond auctions, at which they will offer debt worth PLN4-10bn. Next Thursday the Ministry wants to sell new long-term bond DS0726 and WZ0126 worth PLN2-4bn.

According to FinMin's data, July was the third month in a row when foreign investors were buying Polish marketable PLN-denominated bonds. At the end of July they held debt worth almost PLN205bn (the most since May 2013), i.e. over PLN1.2bn more than at the end of June. Big purchases were made by foreign insurance companies (PLN718m) and pension funds (PLN509m), while foreign banks and investment funds sold Polish debt worth PLN642m and PLN622m, respectively. As regards geographical breakdown, institutions from euro zone countries sold Polish bonds worth over PLN1bn, and investors from North America purchased similar amount. Polish banks sold debt worth PLN1.3bn and it was their first reduction since April, and the biggest since June 2014.

Households' inflation expectations remained in August at 0.2% (stable already for 13 months).

Today at 9:00 CET PMI index for Polish manufacturing will be released. Most activity indicators for Germany improved in August, suggesting that impact from the Chinese turmoil has (so far) been limited. This makes us believe that the Polish manufacturing PMI may also inch up, or at least stabilise at a high level, especially that other business climate surveys for Poland have so far also been relatively optimistic, reflecting a continued modest economic recovery.

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FX market

Today's opening

EURPLN	4.2354	CZKPLN	0.1567
USDPLN	3.7536	HUFPLN*	1.3479
EURUSD	1.1283	RUBPLN	0.0577
CHFPLN	3.9089	NOKPLN	0.4521
GBPPLN	5.7811	DKKPLN	0.5675
USDCNY	6.3698	SEKPLN	0.4448

*for 100HUF

Last session in the FX market 31/08/2015

	min	max	open	close	fixing
EURPLN	4.210	4.238	4.230	4.232	4.2344
USDPLN	3.749	3.791	3.779	3.776	3.778
EURUSD	1.116	1.126	1.118	1.120	-

Interest rate market 31/08/2015

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS1016 (2L)	1.81	2	23.04.2015	OK0717	1.645
DS1019 (5L)	2.48	6	23.04.2015	PS0420	2.083
DS0725 (10L)	2.95	5	06.08.2015	DS0725	3.076

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.65	0	0.55	1	0.05	0
2L	1.75	1	0.88	2	0.10	1
3L	1.88	0	1.17	1	0.18	0
4L	2.03	0	1.42	1	0.30	1
5L	2.16	0	1.62	0	0.45	2
8L	2.48	2	2.06	0	0.87	4
10L	2.61	1	2.23	0	1.10	5

WIBOR rates

Term	%	Change (bps)
O/N	1.63	-7
T/N	1.63	-6
SW	1.64	0
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	1.71	0
3x6	1.67	1
6x9	1.60	0
9x12	1.58	0
3x9	1.71	0
6x12	1.65	1

Measures of fiscal risk

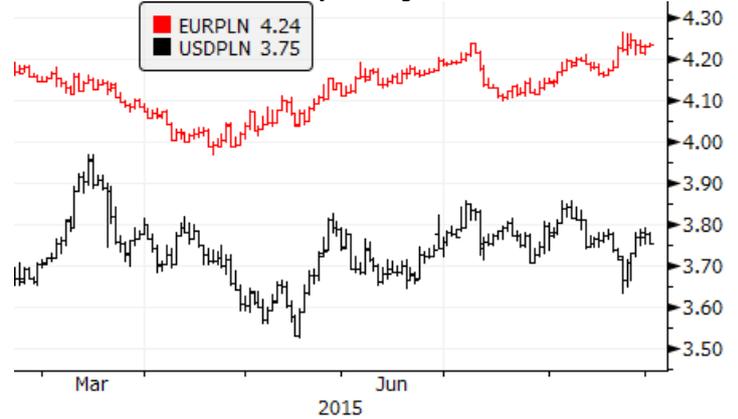
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	72	0	2.16	-4
Czech Rep.	0	0	0.12	-2
Hungary	164	1	2.91	-5
Spain	99	-1	1.32	0
Italy	113	0	1.18	-1
Portugal	171	0	1.85	-1
Ireland	51	0	0.65	0
Germany	14	0	-	-

* 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



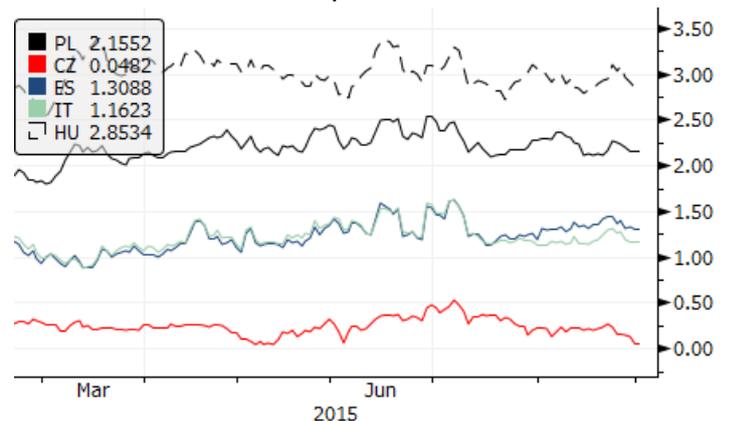
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	BZWBK			
FRIDAY (28 August)								
9:00	CZ	GDP	Q2	%YoY	4.4	-	4.4	4.0
10:00	PL	GDP	Q2	%YoY	3.3	3.3	3.3	3.6
10:00	PL	Private consumption	Q2	%YoY	3.1	3.0	3.0	3.1
10:00	PL	Investments	Q2	%YoY	9.8	9.0	6.4	11.4
14:30	US	Personal income	Jul	%MoM	0.4	-	0.4	0.4
14:30	US	Consumer spending	Jul	%MoM	0.4	-	0.3	0.3
16:00	US	Michigan confidence index	Aug	pts	93.0	-	91.9	92.9
MONDAY (31 August)								
11:00	EZ	Flash HICP	Aug	%YoY	0.1	-	0.2	0.2
14:00	PL	Inflation expectations	Aug	%YoY	0.2	-	0.2	0.2
TUESDAY (1 September)								
3:45	CN	PMI – manufacturing	Aug	pts	47.2	-	47.1	47.8
9:00	PL	PMI – manufacturing	Aug	pts	54.2	54.7		54.5
9:55	DE	PMI – manufacturing	Aug	pts	53.2	-		51.8
10:00	EZ	PMI – manufacturing	Aug	pts	52.4	-		52.4
16:00	US	ISM – manufacturing	Aug	pts	52.5	-		52.7
WEDNESDAY (2 September)								
	PL	MPC decision		%	1.50	1.50		1.50
14:15	US	ADP report	Aug	k	200	-		185
16:00	US	Industrial orders	Jul	%MoM	0.7	-		1.8
20:00	US	Fed Beige Book						
THURSDAY (3 September)								
9:55	DE	PMI – services	Aug	pts	53.6	-		53.8
10:00	EZ	PMI – services	Aug	pts	54.3	-		54.0
13:45	EZ	ECB decision		%	0.05	-		0.05
14:30	US	Initial jobless claims	week	k	-	-		271
16:00	US	ISM – services	Aug	pts	58.3	-		60.3
FRIDAY (4 September)								
8:00	DE	Industrial orders	Jul	%MoM	-0.8	-		2.0
9:00	HU	GDP	Q2	%YoY	2.7	-		3.5
14:30	US	Non-farm payrolls	Aug	k	218	-		215
14:30	US	Unemployment rate	Aug	%	5.3	-		5.3

Source: BZ WBK, Reuters, Bloomberg

* in case of the revision, the data is updated

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