EYEOPENER

20 October 2015

Zloty approaching the important resistance

- **No major changes at the start of the week**
- **Industrial production in September slightly better than expected, construction output and retail sales disappointed**
- **Zloty slightly weaker against major currencies, EURUSD lower**
- **Polish IRS and bond yields slightly higher**
- **Today, data from the US housing market, Hungarian central bank decision**

Monday's session did not bring considerable changes on the FX and FI market. Data from China were close to expectations and did not initiate any strong and persistent move, which would be visible during the European trading hours. No important data were released in the euro zone and in the U.S. Some weakening was however recorded on the emerging markets.

EURUSD fell yesterday to almost 1.13, which may have been due to prospects of Thursday's ECB meeting, where investors expect to see suggestions about more accommodative monetary policy. Overnight the euro trimmed some of its losses and today at the start of the session the rate is close to 1.133. Results of the ECB meeting will be known on Thursday, but FOMC is taking its decision on Wednesday next week, so today's U.S. data may affect EURUSD. If the data are strong, then the downward move fuelled by expectations for further monetary easing in the euro zone can be amplified and the rate may slide below 1.13.

Yesterday EURPLN was oscillating slightly above 4.23 and broke 4.24 at the end of the day, exceeding the Tuesday's high. USDPLN climbed to 3.74 from 3.72 under impact of falling EURUSD. The forint and the Czech koruna remained stable versus the euro yesterday, while the ruble was under pressure and lost versus the dollar – USDRUB increased above 62 from below 61. Pressure on the Russian currency was put by a strong – by over 3% – decline in oil prices. Today in the morning the zloty is losing versus the euro – EURPLN is close to 4.25. After the wave of weakening we saw at the turn of September and October, the rate is again close to an important resistance at 4.26-4.27. Downward moves of EURPLN are becoming more shallow and volatility – measured as difference between monthly maximum and minimum – in October is even lower than in September (when it was the lowest since November 2014). Neighbourhood of a strong resistance and risk of higher volatility are in our view not favourable for the domestic currency so we see risk of considerable (yet temporary) zloty weakening in the coming days.

In the domestic interest rate market IRS and yields rose by 1-2bp, the most in the long ends. Changes in the core and peripheral markets were rather small, excluding Greece where the 10Y yield plunged third day in a row after the Greek parliament accepted next reforms. In Poland, there was no reaction to the macro data. Domestic bonds might have been under the pressure ahead of the Poland's parliamentary elections (due on October 25) and just like we suggested, some investors may be reducing exposure to Polish debt amid uncertainty how the political scene will look like after the weekend. Today's session should be driven by the global moods and we think IRS/yields may continue to rise as investors are waiting for the Thursday's ECB decision.

Industrial production rose by 4.1%YoY in September, in line with expectations. On the other hand, construction output (-2.5%YoY) and retail sales (2.9%YoY in constant prices) disappointed again. In general, real growth of industrial output accelerated in the third quarter (to 4.4%YoY from 3.9%YoY), while construction and retail sales decelerated (to 0.6%YoY from 1.9%YoY and to 2.8%YoY from 3.5%YoY, respectively). In our view, this means a slight downward risk for our forecasts assuming a slight acceleration of GDP growth in the second year-half. Another risk factor for GDP forecast is the revision of GDP data for 2010-2014, shown by the stat office last week – we do not know exactly at this point what will be its impact on the quarterly GDP growth path, as revised quarterly data will be released by the end of November.

MPC member, Andrzej Rzońca, said yesterday that there are no reasons for a sudden changes in the monetary policy as the Polish economy is nearly perfectly balanced. He added, however, that the next Council should start monetary policy normalization as soon as possible, so that the tightening cycle is very gradual and thus less costly.

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FX market

Today's opening

EURPLN	4.2481	CZKPLN	0.1569
USDPLN	3.7492	HUFPLN*	1.3695
EURUSD	1.133	RUBPLN	0.0601
CHFPLN	3.9216	NOKPLN	0.4617
GBPPLN	5.8018	DKKPLN	0.5695
USDCNY	6.3513	SEKPLN	0.4516

*for 100HUF

Last session in the FX market 19/10/2015

	min	max	open	close	fixing
EURPLN	4.232	4.248	4.237	4.245	4.2342
USDPLN	3.721	3.755	3.733	3.750	3.7265
EURUSD	1.131	1.138	1.135	1.132	-

Interest rate market 19/10/2015

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS1016 (2L)	1.71	1	24.09.2015	OK0717	1.77
DS1019 (5L)	2.25	3	24.09.2015	PS0420	2.317
DS0725 (10L)	2.69	3	06.08.2015	DS0725	3.076

IRS on the interbank market**

Term	PL %	PL Change (bps)	US %	US Change (bps)	EZ %	EZ Change (bps)
1L	1.63	1	0.47	-1	0.01	0
2L	1.65	2	0.73	0	0.03	0
3L	1.72	2	0.97	0	0.10	0
4L	1.83	2	1.19	1	0.20	0
5L	1.94	1	1.38	1	0.33	0
8L	2.25	1	1.81	2	0.72	1
10L	2.39	2	2.00	2	0.95	1

WIBOR rates

Term	%	Change (bps)
O/N	1.67	0
T/N	1.67	0
SW	1.65	0
2W	1.65	0
1M	1.67	0
3M	1.73	0
6M	1.81	0
9M	1.83	0
1Y	1.84	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.72	1
3x6	1.69	1
6x9	1.56	1
9x12	1.51	0
3x9	1.71	0
6x12	1.58	0

Measures of fiscal risk

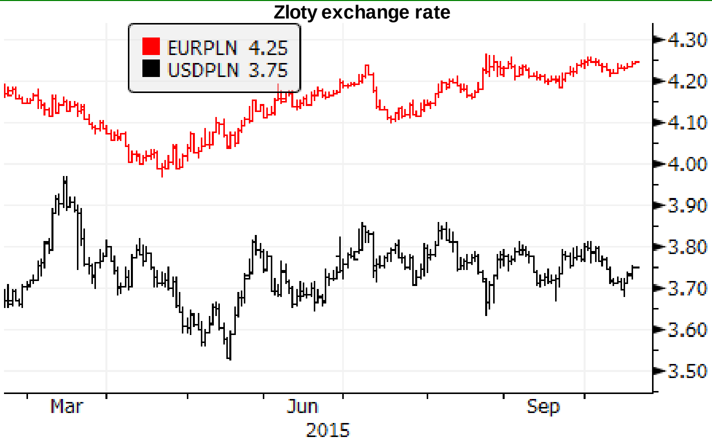
Country	CDS 5Y USD Level	CDS 5Y USD Change (bps)	10Y spread* Level	10Y spread* Change (bps)
Poland	75	1	2.13	1
Czech Rep.	0	0	0.00	0
Hungary	161	3	2.78	-2
Spain	98	-2	1.19	-3
Italy	114	-3	1.03	-2
Portugal	169	0	1.81	-7
Ireland	49	-1	0.61	2
Germany	14	0	-	-

* 10Y treasury bonds over 10Y Bunds

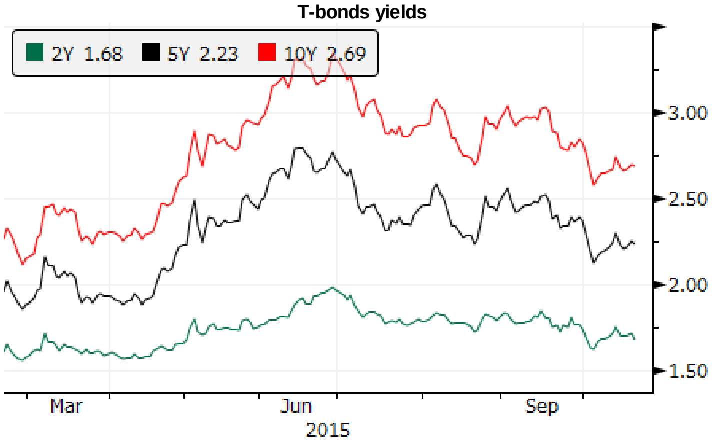
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

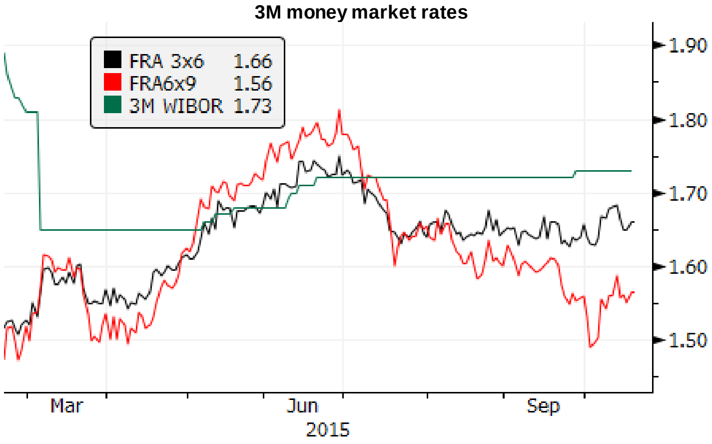
Zloty exchange rate



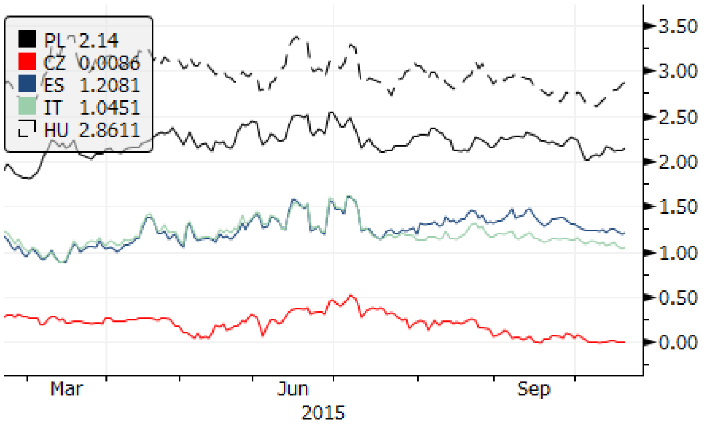
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE*
		FRIDAY (16 October)						
11:00	EZ	HICP	Sep	%YoY	-0.1	-	-0.1	0.1
14:00	**PL**	**Wages in corporate sector**	**Sep**	**%YoY**	**3.3**	**3.3**	**4.1**	**3.4**
14:00	**PL**	**Employment in corporate sector**	**Sep**	**%YoY**	**1.0**	**1.0**	**1.0**	**1.0**
14:00	**PL**	**Core inflation**	**Sep**	**%YoY**	**0.4**	**0.2****	**0.2**	**0.4**
15:15	US	Industrial output	Sep	%MoM	-0.2	-	-0.2	-0.1
16:00	US	Flash Michigan	Oct	pts	89.0	-	92.1	87.2
		MONDAY (19 October)						
4:00	CN	GDP	Q3	%YoY	6.8	-	6.9	7.0
4:00	CN	Industrial output	Sep	%YoY	6.0	-	5.7	6.1
4:00	CN	Retail sales	Sep	%YoY	10.8	-	10.9	10.8
14:00	**PL**	**Industrial output**	**Sep**	**%YoY**	**4.0**	**3.9**	**4.1**	**5.3**
14:00	**PL**	**Construction and assembly output**	**Sep**	**%YoY**	**1.2**	**1.4**	**-2.5**	**4.8**
14:00	**PL**	**Real retail sales**	**Sep**	**%YoY**	**3.1**	**3.9**	**2.9**	**2.0**
14:00	**PL**	**PPI**	**Sep**	**%YoY**	**-2.8**	**-2.9**	**-2.9**	**-2.7**
		TUESDAY (20 October)						
14:00	HU	Central bank decision		%	1.35	-		1.35
14:30	US	House starts	Sep	k	1147	-		1126
14:30	US	Building permits	Sep	k	1165	-		1170
		WEDNESDAY (21 October)						
		No important data releases						
		THURSDAY (22 October)						
13:45	EZ	ECB decision		%	0.05	-		0.05
14:00	**PL**	**MPC minutes**						
14:30	US	Initial jobless claims	week	k	-	-		255
16:00	US	Home sales	Sep	m	5.36	-		5.31
		FRIDAY (23 October)						
9:30	DE	Flash PMI – manufacturing	Oct	pts	51.9	-		52.3
10:00	EZ	Flash PMI – manufacturing	Oct	pts	51.8	-		52.0
10:00	**PL**	**Unemployment rate**	**Sep**	**%**	**9.9**	**9.8**		**10.0**

Source: BZ WBK, Reuters, Bloomberg

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

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