EYEOPENER

16 November 2015

Higher risk aversion

- **Poor sentiment at the end of the week after data from euro zone and USA**
- **Polish GDP and CPI higher than expected, export disappointed**
- **On Friday the zloty slightly weaker against euro and dollar, EURUSD lower, bonds stronger**
- **Risk aversion rose after weekend terrorist attacts**
- **Today, core inflation in Poland, HICP in the euro zone**

Rather poor market sentiment that emerged on Thursday persisted also on Friday. Flash 3Q GDP data for euro zone and Germany were slightly weaker than expected and so stock prices and bond yields were falling again quite noticeably. Additionally, the afternoon US retail sales data disappointed already third month in a row. Flash November Michigan index surprised to the upside, rising to its highest level since July, but this number failed to trigger any noticeable market reaction.

Risk aversion increased after the terrorist attack in Paris and France's revenge airstrike on ISIS. Stock prices plummeted in Asia, oil and gold prices rose while the euro lost vs. the dollar. Additionally, GDP in Japan contracted 0.8% YoY in 3Q meaning that this country entered the fourth technical recession in the last five years.

EURUSD dropped to 1.072 on Friday after a temporary rise to 1.08 seen at the beginning of the day. During the final session of the week the exchange rate stayed within the Thursday's trading rage and no big changes were recorded despite the data releases deviating from the consensus, particularly for the US. Higher risk aversion at the beginning of the new week pushed EURUSD down to 1.068 but at the opening of the domestic session the exchange rate is close to 1.075. Euro zone October inflation is due today but the investors' attention is likely to be attracted by the numerous comments of the ECB members, including governor Draghi. The room for higher EURUSD remains limited after the last strong US nonfarm payrolls data and we do not expect the situation to change today.

EURPLN rose on Friday temporarily to 4.245 and USDPLN to 3.95 due to deterioration of global moods and drop of EURUSD. At the end of the day rates were close to their session's highs. As regards other CEE currencies, EURHUF fell to 311 from slightly above 312, and ruble remained stable despite central bank president's comment suggesting that interest rates in Russia may be reduced at one of the next three meetings. Today at the opening EURPLN is close to Friday's close and so far there is no negative reaction visible to deterioration of global moods. However, stock market futures are declining at the opening, which may limit the EURPLN's potential to decrease at today's session.

On the domestic interest rate market yields fell considerably for the third time in a row, by 1-8bps on Friday. Changes of IRS were only slight and 10Y asset swap spread fell to 33bps, the lowest level since end of October. Bonds strengthened visibly also on foreign markets. Rising risk aversion after the terrorist attacks can support low yields after the weekend.

According to the flash estimate, pace of the GDP growth in Poland reached 3.4% in 3Q15, slightly above expectations. October CPI also surprised to the upside rising to -0.7%YoY (flash release pointed to stabilization at -0.8%YoY) but this was mainly thanks to higher food prices and we think that core CPI stayed low at 0.2%YoY. September balance of payments showed wider C/A deficit due to weaker exports growth (4.1%YoY). We expect the pace of the GDP growth to stay sound in the quarters to come thanks to decent internal demand and exports' acceleration due to economic revival in the euro zone. At the same time, inflation should continue rising mainly on the back of low base effect, higher food and fuel prices and later also due to decent consumption and the impact of tax on large stores. The Finance Ministry informed that GDP growth in Q4 can be close to the Friday's reading.

The president Andrzej Duda on Friday designated Beata Szydło as the new PM and her new cabinet will be sworn-in today. The new PM's inaugural speech (possibly even this week) will be key for assessing PiS's fiscal programme in practice. Two PiS nominations for economic positions in the cabinet should be perceived by the market as at least neutral and potentially confidence-building, as the names are well-known. The finance minister candidate already underscored the importance of stability in public finances and of keeping the budget deficit in check (possible minor deficit increase of PLN1-1.5bn) and we feel that at least some of the PiS election promises may be watered down. On the other hand, some controversial ideas are still in the air (modification of the fiscal spending rule, change of NBP's role, FX loan conversion, shortening of the retirement age) and may be a reason for investors to remain cautious. We think that the domestic market may remain under the influence of expectations for monetary policy decisions of the world's two major central banks, the U.S. Fed and the ECB.

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FX market

Today's opening

EURPLN	4.2415	CZKPLN	0.1569
USDPLN	3.9453	HUFPLN*	1.3615
EURUSD	1.0751	RUBPLN	0.0594
CHFPLN	3.9264	NOKPLN	0.4542
GBPPLN	5.9985	DKKPLN	0.5685
USDCNY	6.3674	SEKPLN	0.4544

*for 100HUF

Last session in the FX market 13/11/2015

	min	max	open	close	fixing
EURPLN	4.226	4.246	4.235	4.244	4.2362
USDPLN	3.909	3.959	3.928	3.940	3.9388
EURUSD	1.071	1.083	1.078	1.077	-

Interest rate market 13/11/2015

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS1016 (2L)	1.58	2	24.09.2015	OK0717	1.77
DS1019 (5L)	2.04	-4	24.09.2015	PS0420	2.317
DS0725 (10L)	2.68	-5	06.08.2015	DS0725	3.076

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.53	0	0.63	-1	-0.07	-1
2L	1.52	1	0.95	-2	-0.07	-1
3L	1.57	-1	1.23	-3	-0.01	-1
4L	1.68	0	1.45	-3	0.10	-2
5L	1.81	-1	1.62	-4	0.23	-3
8L	2.17	0	2.00	-3	0.67	-3
10L	2.34	0	2.17	-3	0.92	-3

WIBOR rates

Term	%	Change (bps)
O/N	1.62	0
T/N	1.62	0
SW	1.63	0
2W	1.65	0
1M	1.67	0
3M	1.73	0
6M	1.80	0
9M	1.82	0
1Y	1.82	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.71	0
3x6	1.62	-1
6x9	1.42	0
9x12	1.33	0
3x9	1.65	3
6x12	1.43	1

Measures of fiscal risk

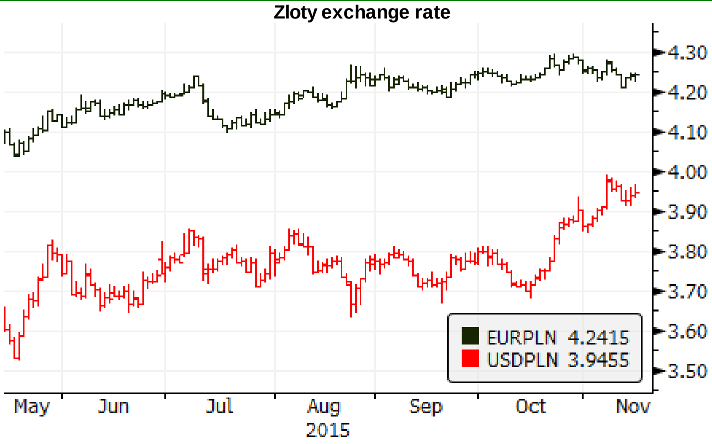
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	73	0	2.17	-4
Czech Rep.	0	0	-0.07	3
Hungary	163	1	2.82	-2
Spain	90	0	1.23	0
Italy	98	1	1.01	0
Portugal	201	1	2.19	2
Ireland	47	1	0.54	1
Germany	13	0	-	-

* 10Y treasury bonds over 10Y Bunds

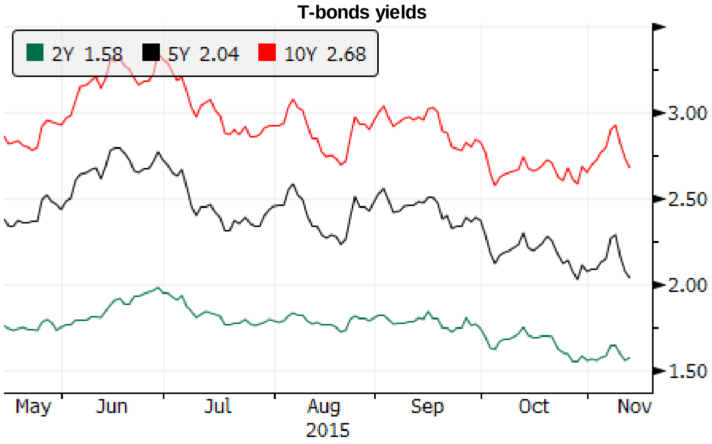
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

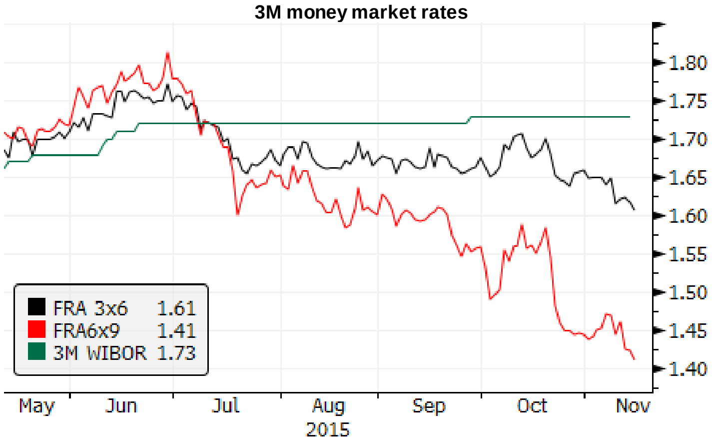
Zloty exchange rate



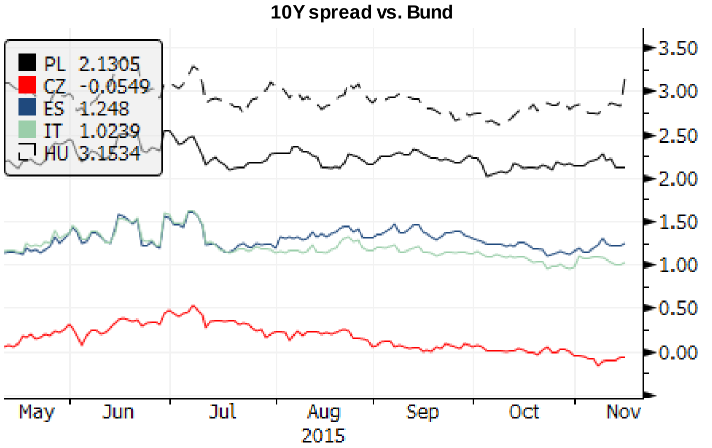
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE*
		FRIDAY (13 November)						
8:00	DE	Flash GDP	Q4	%YoY	1.8	-	1.7	1.6
9:00	CZ	Flash GDP	Q4	%YoY	4.2	-	4.3	4.6
9:00	HU	Flash GDP	Q4	%YoY	2.5	-	2.3	2.7
10:00	**PL**	**Flash GDP**	**Q4**	**%YoY**	**3.3**	**3.3**	**3.4**	**3.3**
11:00	EZ	Flash GDP	Q4	%YoY	1.7	-	1.6	1.5
14:00	**PL**	**CPI**	**Oct**	**%YoY**	**-0.8**	**-0.8**	**-0.7**	**-0.8**
14:00	**PL**	**Current account**	**Sep**	**€m**	**-437**	**-519**	**-959**	**-930**
14:00	**PL**	**Exports**	**Sep**	**€m**	**15 090**	**15 446**	**15 059**	**12 775**
14:00	**PL**	**Imports**	**Sep**	**€m**	**14 719**	**15 000**	**14 972**	**12 963**
14:00	**PL**	**Money supply**	**Oct**	**%r/r**	**8.4**	**8.5**	**9.2**	**8.4**
14:30	US	Retail sales	Sep	%MoM	0.3	-	0.1	0.1
16:00	US	Flash Michigan	Nov	pts	91.5	-	93.1	90.0
		MONDAY (16 November)						
11:00	EZ	HICP	Oct	%YoY	0.0	-		0.0
14:00	**PL**	**Core inflation**	**Oct**	**%YoY**	**0.3**	**0.2**		**0.2**
		TUESDAY (17 November)						
11:00	DE	ZEW index	Nov	pts	54.5	-		55.2
14:00	HU	Central bank decision		%	1.35	-		1.35
14:30	US	CPI	Oct	%MoM	0.2	-		-0.2
15:15	US	Industrial output	Oct	%MoM	0.1	-		-0.2
		WEDNESDAY (18 November)						
14:00	**PL**	**Wages in corporate sector**	**Oct**	**%YoY**	**3.6**	**3.6**		**4.1**
14:00	**PL**	**Employment in corporate sector**	**Oct**	**%YoY**	**1.0**	**1.0**		**1.0**
14:30	US	House starts	Oct	k	1160	-		1206
14:30	US	Building permits	Oct	k	1140	-		1103
20:00	US	FOMC minutes						
		THURSDAY (19 November)						
11:00	**PL**	**Bond switch auction**						
14:00	**PL**	**Industrial output**	**Oct**	**%YoY**	**2.4**	**1.4**		**4.1**
14:00	**PL**	**Construction and assembly output**	**Oct**	**%YoY**	**-0.9**	**-3.5**		**-2.5**
14:00	**PL**	**Real retail sales**	**Oct**	**%YoY**	**3.0**	**3.2**		**2.9**
14:00	**PL**	**PPI**	**Oct**	**%YoY**	**-2.5**	**-2.4**		**-2.9**
14:00	**PL**	**MPC minutes**						
14:30	US	Initial jobless claims	week	k	-	-		276
14:30	US	Philly Fed index	Nov	pts	0.0	-		-4.5
		FRIDAY (20 November)						
		No important data releases						

Source: BZ WBK, Reuters, Bloomberg

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

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