

EYEOPENER

20 January 2016

New MPC members not in a rush to cut rates

- Lower worries about China and good data from Germany increased optimism temporarily, today Asian markets fell again
- Zloty trimmed part of losses, EURUSD slightly higher
- Polish bonds stronger, a return of US investors did not harm the market
- New MPC members in favour of keeping rates stable
- Today data from the Polish labour market and US housing market, plus US CPI

Expectations for further stimulus for the Chinese economy from the People's Bank of China and better than consensus ZEW index reading for Germany caused global mood improvement during Tuesday's session. European stock indices recorded strong growth, which weighed slightly on both core and peripheral debt markets. The CEE currencies, including the Polish zloty and the Russian ruble, benefited from rising demand for risky assets. What is more, the ruble also gained thanks to the rebound in oil prices. However, the wave of optimism did not last long. Today's session in Asia was marked by strong declines in stock prices, oil prices returned to downward move, while futures contracts on the European indices also opened in the red.

German data did not have a sustainable impact on the FX market while stabilization of the global market sentiment provided only temporary support for the dollar. EURUSD was long stable close to the daily low 1.086 reached at the beginning of the session but at the end of the European trading hours it rebounded to 1.09. European futures are falling strongly at the beginning of the day and this may limit the room for the dollar's appreciation at least in the first part of the day. Important US data is on the agenda in the afternoon that could trigger some market reaction. EURUSD is nearing the 1.10 resistance.

EURPLN continued the retreat initiated on Monday and reached 4.43 during the day. Return of the US investors did not have a negative impact on the Polish currency that managed to pare more than half of losses suffered vs. the euro after the S&P's downgrade. The zloty gained also vs. the dollar and USDPLN fell to 4.07 from 4.10. In the case of the other CEE currencies, EURHUF fell temporarily to nearly 314 but rebounded back to 315 later on while USDRUB neared 78 but ended the day close to 78.5. Today in the morning EURPLN is close to 4.46 and we think that it could be tough task for the zloty to continue the recovery amid very poor global market sentiment persisting at the start of the session.

In the domestic interest rate market Tuesday saw further bonds' recovery after losses suffered on Monday in reaction to the S&P

decision. Yields fell 7bp for 10Y benchmark, 4bp for 5Y while the short end gained 5bp. The IRS moved at a smaller scale, by 1-3bp along the curve.

NBP governor Marek Belka said yesterday that he will do "everything" to keep the zloty stable and he would not even mention cutting interest rates in the current market situation. Commenting on the S&P decision Belka said that he has had no signals from the Finance Ministry or from the Ministry of Development that the central bank's mandate will be modified and he also does not see such need. S&P's analyst for Poland mentioned changing the NBP's mandate as one of the factors that could lead to further rating's downgrade. Belka criticized also the draft of the FX mortgage loans conversion bill saying that banking tax plus this bill are a good recipe for a banking crisis.

Jerzy Kropiwnicki, the new MPC member, said yesterday in interview for PAP that he sees no reason to change interest rates or inflation target in the near term. He also repeated he is not an advocate of changing something that works well. In his view, CPI slightly below the target is not a reason for lowering interest rates, and additionally the economic growth is solid (and does not require additional stimulus) and deflation is not a threat for economic activity. According to Kropiwnicki the economy does not need additional support from the central bank at this stage.

The opinion, that the current level of interest rates is appropriate for the economy and there is no need to change it is shared by Eugeniusz Gatnar, another new MPC's member appointed recently by Senate. He added that realisation of the inflation target of 2.5% should pursued at any cost as the global deflationary environment persists and we have to accept it. In his opinion there is no need to use unconventional monetary policy measures by the NBP to support loan growth.

These statements suggest that the new MPC members will not hurry to ease monetary policy unless there is a significant change in Poland's economic outlook.

Yesterday IMF released its World Economic Outlook update, in which it revised down its GDP forecasts for the global economy. Now IMF expects the global economy to expand by 3.4% in 2016 and 3.6% in 2017 (both by 0.2 pp lower than in previous report). The growth revision stemmed from the weaker trade of China and falling prices of commodities, which had negative impact, among others, on Brazil.

Today at 2 pm local time Stat Office will release the data from Polish labour market. Data should confirm continuation of positive trends in December, with employment rising 1.2%YoY, and average wage growth at a solid 3.6%YoY.

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FX market

Today's opening

EURPLN	4.4555	CZKPLN	0.1648
USDPLN	4.0717	HUFPLN*	1.4112
EURUSD	1.0944	RUBPLN	0.0512
CHFPLN	4.0661	NOKPLN	0.4611
GBPPLN	5.7690	DKKPLN	0.5970
USDCNY	6.5795	SEKPLN	0.4772

*for 100HUF

Last session in the FX market 19/01/2016

	min	max	open	close	fixing
EURPLN	4.447	4.495	4.447	4.458	4.449
USDPLN	4.084	4.128	4.111	4.093	4.0917
EURUSD	1.087	1.094	1.092	1.089	-

Interest rate market 19/01/2016

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
DS1017 (2L)	1.46	-2	29.10.2015	OK0717	1.56
DS1020 (5L)	2.25	-5	29.10.2015	PS0421	2.185
DS0725 (10L)	3.11	-8	29.10.2015	DS0726	2.781

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.52	-3	0.76	2	-0.09	0
2L	1.55	-4	0.93	3	-0.09	-1
3L	1.66	-5	1.10	3	-0.03	-1
4L	1.80	-6	1.25	2	0.08	-1
5L	1.94	-8	1.39	1	0.20	-1
8L	2.30	-10	1.72	0	0.61	0
10L	2.48	-8	1.88	-1	0.85	0

WIBOR rates

Term	%	Change (bps)
O/N	1.58	0
T/N	1.58	0
SW	1.59	0
2W	1.60	0
1M	1.62	0
3M	1.70	0
6M	1.75	0
9M	1.76	0
1Y	1.77	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.66	-1
3x6	1.52	-5
6x9	1.43	-3
9x12	1.40	-5
3x9	1.55	-8
6x12	1.46	-4

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	87	-6	2.65	21
Czech Rep.	0	0	0.08	-1
Hungary	170	-4	2.83	4
Spain	99	0	1.15	-5
Italy	107	0	1.01	-2
Portugal	195	2	2.21	-1
Ireland	41	0	0.57	0
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

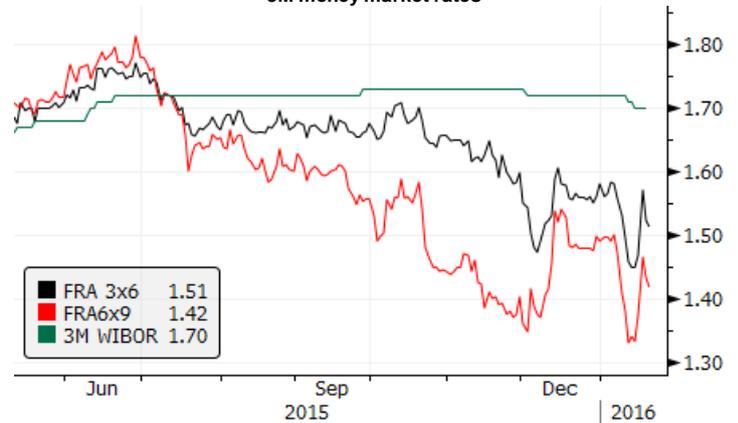
Zloty exchange rate



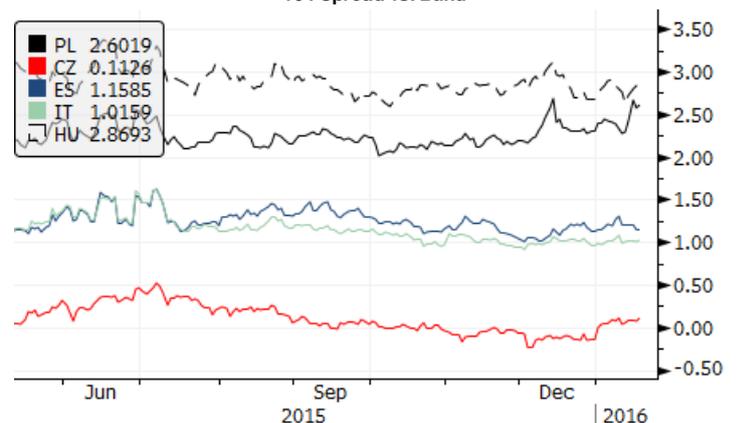
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	BZWBK			
FRIDAY (15 January)								
14:00	PL	CPI	Dec	%YoY	-0.5	-0.5	-0.5	-0.6
14:30	US	Retail sales	Dec	%MoM	-0.1	-	-0.1	0.4
15:15	US	Industrial output	Dec	%MoM	-0.2	-	-0.4	-0.9
16:00	US	Flash Michigan	Jan	pts	92.9	-	93.3	92.6
MONDAY (18 January)								
	US	Market holiday						
14:00	PL	Core inflation	Dec	%YoY	0.2	0.2	0.2	0.2
TUESDAY (19 January)								
11:00	EZ	HICP	Dec	% YoY	0.2	-	0.2	0.2
11:00	DE	ZEW index	Jan	pts	53.1	-	59.7	55.0
WEDNESDAY (20 January)								
14:00	PL	Wages in corporate sector	Dec	%YoY	3.5	3.6		4.0
14:00	PL	Employment in corporate sector	Dec	%YoY	1.2	1.2		1.2
14:30	US	CPI	Dec	%MoM	0.0	-		0.0
14:30	US	House starts	Dec	k	1200	-		1173
14:30	US	Building permits	Dec	k	1200	-		1282
THURSDAY (21 January)								
11:00	EZ	HICP	Dec	%YoY	0.2	-		0.2
13:45	EZ	ECB decision			0.05	-		0.05
14:00	PL	Industrial output	Dec	%YoY	5.5	6.8		7.8
14:00	PL	Retail sales (real)	Dec	%YoY	2.4	3.0		1.2
14:00	PL	Construction and assembly output	Dec	%YoY	5.3	5.1		5.7
14:00	PL	PPI	Dec	%YoY	-0.9	-0.8		-1.8
14:30	US	Initial jobless claims	week	k	-	-		284
14:30	US	Philly Fed index	Jan	pts	-3.2	-		-5.9
FRIDAY (22 January)								
9:30	DE	Flash PMI – manufacturing	Jan	pts	53.0	-		53.2
10:00	EZ	Flash PMI – manufacturing	Jan	pts	53.0	-		53.2
16:00	US	Home sales	Dec	m	5.20	-		4.76

Source: BZ WBK, Reuters, Bloomberg

* in case of the revision, the data is updated

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