

EYEOPENER

3 February 2016

Today the MPC's decision on rates and ADP report

- **Global mood still weak, prices of Brent oil return to downward trend, PMI services in China up**
- **The zloty's appreciation halted, EURUSD slightly up**
- **Polish bonds stronger before Thursday's auction**
- **Today in Poland the MPC meeting, and ADP report in the US**

The Monday falls on the China stock markets, as well as weaker than expected afternoon data from the USA on the business activity put pressure on the risky assets from the beginning of the Tuesday session. Stock prices in Europe was plummeting, which stopped the appreciation of the CEE currencies that was visible in the last days. In the meantime, the euro was still gaining, taking advantage of the vanishing perspective of the Fed interest rates increase. The SNB rhetoric was also beneficial for the single currency. The chairman of the central bank of Switzerland, Thomas Jordan, repeated yesterday that the Swiss franc remains "significantly overvalued" against the euro and that the bank is ready to intervene to keep it from strengthening. In mid-January 2015, SNB resigned from defending the 1.20 rate and from then on, despite gradual increases – the EURCHF rate has remained below this level. Falls in oil prices and weak results of some American listed companies contributed to decrease of stock indices in the USA and Asia (Nikkei225 down by over 3%). Falls in oil prices redirected the capital towards the core debt markets. Yesterday, the yield of the American 10-year bond declined to below 1.90%, while the German 10-year bond yield went down below 0.30%. On the other hand, the data from China came as a positive surprise, as the PMI index in services grew in January to 52.4 pts from 50.2 pts in December.

Yesterday, the EURUSD rate continued its gains initiated the day before and at the end of the Polish trading hours it was close to the Friday peak at c1.091. The euro was gaining against the greenback for the very same reason as the day before (expectations for postponing the interest rates increase by the Fed), additionally supported by the SNB rhetoric which was pushing the EURCHF rate up. Today, investors will focus on the USA, which will publish a monthly ADP report. Last week, the FOMC did not change the interest rates, announcing that the macro data will be crucial to assess the moment of the next adjustment in the Fed's monetary policy. Currently, the market sees only 12% chance for an increase in March and if

today the data surprise to the upside, the dollar can gain against the euro.

Both EURPLN and USDPLN fell to 4.37 and nearly 4.00 respectively early in the day but this move proved only temporary. In the next hours the zloty was pressured by the weak global market sentiment and at the end of the Polish session both exchange rates were close to the opening levels. In the recent weeks investors became more worried about the global economy due to situation in China. U.S. ADP report is due today in the afternoon and we think that a positive surprise could have a positive impact on the global market sentiment and so on the zloty. On the other hand, during the yesterday's session EURPLN has extended the downward correction to nearly the size of the previous two downward waves and this may hint that the room for more strengthening is limited.

In the domestic interest rate market IRS did not move much while bond yields fell 2-5bp following the strengthening Bund and despite the outlook for a heavy supply at the tomorrow's auction. Today the U.S. data may have the biggest impact on the market. Investors have revised their expectations regarding timing of the Fed rate hikes and if today's number surprise to the upside then the core markets – and as a result also the Polish bonds – could be pressured.

The Finance Ministry announced that on Thursday it will offer OK1018 and DS0726 for the total amount of PLN4.5-7.5bn. This 10Y benchmark pared roughly all of its losses suffered after S&P's downgrade. According to the most recent data, at the end of December, non-residents held c40% of the DS0726 outstanding (with the mutual funds being the biggest foreign holder of this bond), and we think that this week's auction will be a better test for non-resident demand for the Polish bonds following the downgrade than the last week's tender when floaters held mainly by the domestic investors were offered.

Today the Monetary Policy Council announces decision on the interest rates. The first MPC meeting with 3 new members on board will surely attract market attention. We do not expect any policy changes at this stage, but if the zloty continues to trim its losses, the deflation outlook keeps worsening and the main central banks keep tilting their policies towards more a dovish bias, we would not exclude the possibility that the new MPC could start mulling interest rate cuts pretty soon. Please note that the tone of the MPC's statement was softened already in January by the outgoing Council members.

ECONOMIC ANALYSIS DEPARTMENT:

al. Jana Pawła II 17, 00-854 Warsaw fax +48 22 586 83 40
 email: ekonomia@bzwbk.pl Web site: skarb.bzwbk.pl
 Maciej Reluga (Chief Economist) +48 22 534 18 88
 Piotr Bielski +48 22 534 18 87
 Agnieszka Decewicz +48 22 534 18 86
 Marcin Luziński +48 22 534 18 85
 Marcin Sulewski +48 22 534 18 84

TREASURY SERVICES:

Poznań +48 61 856 5814/30
 Warszawa +48 22 586 8320/38
 Wrocław +48 71 369 9400

FX market

Today's opening

EURPLN	4.4053	CZKPLN	0.1631
USDPLN	4.0350	HUFPLN*	1.4129
EURUSD	1.0919	RUBPLN	0.0508
CHFPLN	3.9638	NOKPLN	0.4625
GBPPLN	5.8175	DKKPLN	0.5903
USDCNY	6.5799	SEKPLN	0.4713

*for 100HUF

Last session in the FX market 02/02/2016

	min	max	open	close	fixing
EURPLN	4.388	4.433	4.412	4.400	4.4015
USDPLN	4.028	4.096	4.082	4.040	4.0333
EURUSD	1.082	1.091	1.083	1.089	-

Interest rate market 02/02/2016

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0418 (2Y)	1.48	-3	29.10.2015	OK0717	1.56
PS0421 (5Y)	2.34	-3	29.10.2015	PS0421	2.185
DS0726 (10Y)	3.16	-2	29.10.2015	DS0726	2.781

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.52	-1	0.69	-2	-0.16	-1
2L	1.55	-1	0.83	-4	-0.18	-1
3L	1.63	-1	0.98	-6	-0.14	-3
4L	1.75	0	1.12	-6	-0.05	-2
5L	1.88	1	1.25	-7	0.06	-2
8L	2.20	1	1.59	-7	0.43	-2
10L	2.37	0	1.75	-7	0.65	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.45	-8
T/N	1.46	-8
SW	1.55	-1
2W	1.57	-1
1M	1.60	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	1.65	0
3x6	1.54	1
6x9	1.45	2
9x12	1.43	0
3x9	1.58	0
6x12	1.50	1

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	91	1	2.87	9
France	29	1	0.34	1
Hungary	163	3	3.05	-2
Spain	94	1	1.28	6
Italy	123	6	1.18	6
Portugal	231	13	2.67	10
Ireland	43	0	0.65	-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

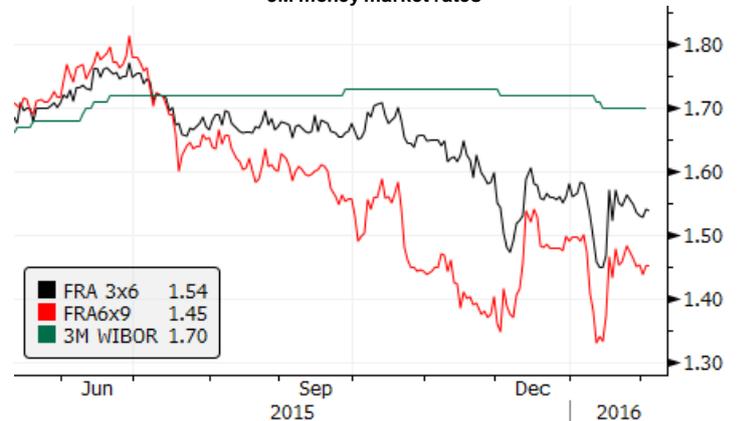
Zloty exchange rate



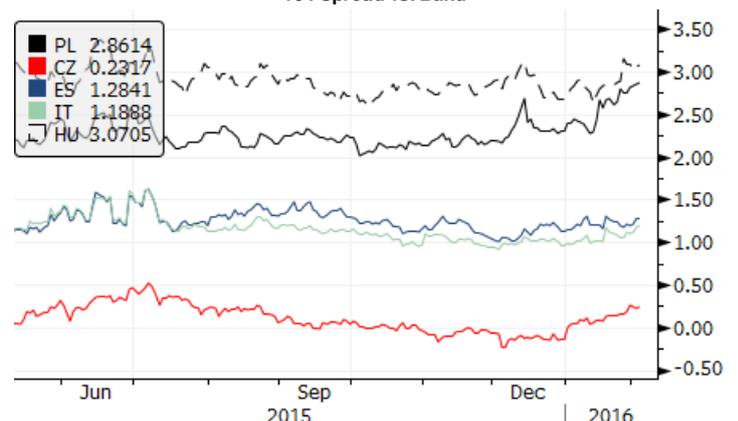
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	BZWBK			
FRIDAY (29 January)								
11:00	EZ	Flash HICP	Jan	%YoY	0.4	-	0.4	0.2
14:00	PL	Inflation expectations	Jan	%YoY	0.2	-	0.2	0.2
14:30	US	Advance GDP	Q4	%YoY	0.7	-	0.7	2.0
16:00	US	Michigan index	Jan	pts	92.5	-	92.0	93.3
MONDAY (1 February)								
2:45	CN	PMI – manufacturing	Jan	pts	48.1	-	48.4	48.2
9:00	PL	PMI – manufacturing	Jan	pts	51.8	51.9	50.9	52.1
9:55	DE	PMI – manufacturing	Jan	pts	52.1	-	52.3	53.2
10:00	EZ	PMI – manufacturing	Jan	pts	52.3	-	52.3	53.2
14:30	US	Personal income	Dec	%MoM	0.2	-	0.3	0.3
14:30	US	Consumer spending	Dec	%MoM	0.1	-	0.0	0.5
16:00	US	ISM – manufacturing	Jan	pts	48.5	-	48.2	48.2
TUESDAY (2 February)								
No important data releases								
WEDNESDAY (3 February)								
	PL	MPC decision		%	1.50	1.50		1.50
9:55	DE	PMI – services	Jan	pts	55.4	-		56.0
10:00	EZ	PMI – services	Jan	pts	53.6	-		54.2
14:15	US	ADP report	Jan	k	193	-		257
16:00	US	PMI – services	Jan	pts	55.1	-		55.3
THURSDAY (4 February)								
11:00	PL	Bond auction						
13:00	CZ	Central bank decision		%	0.05	-		0.05
14:30	US	Initial jobless claims	week	k	-	-		278
16:00	US	Industrial orders	Dec	%MoM	-1.3	-		-0.2
FRIDAY (5 February)								
8:00	DE	Industrial orders	Dec	%MoM	-0.4	-		1.5
14:30	US	Non-farm payrolls	Jan	k	200	-		292
14:30	US	Unemployment rate	Jan	%	5.0	-		5.0

Source: BZ WBK, Reuters, Bloomberg

* in case of the revision, the data is updated

This publication has been prepared by Bank Zachodni WBK S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Bank Zachodni WBK S.A., its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Bank Zachodni WBK S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Bank Zachodni WBK S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

Additional information is available on request. Please contact Bank Zachodni WBK S.A. Rates Area, Economic Analysis Department, al. Jana Pawla II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 88, email ekonomia@bzwbk.pl, http://www.bzwbk.pl.