Bank Zachodni WBK
Grupa Santander

EYEOPENER

29 February 2016

The GDP data for 4Q15 due today

- **US data keep surprising on positive side**
- **EURPLN still close to 4.36, dolar gained sharply at the end of the week**
- **Bonds in the region weakened, euro zone peripheries still strong**
- **Osiatyński: interest rate cuts unjustified**
- **Today, Polish 4Q15 GDP and important data abroad**

Thursday's data from the U.S. were supportive for the market optimism also on Friday. European stock indices were in black, CEE currencies were oscillating close to strong levels reached earlier in the week and euro zone peripheral yields were falling. On Friday data from the U.S. economy proved quite optimistic and supported the market moods. Second estimate of Q4 GDP was revised upwards, monthly data on consumer spending and incomes surprised to the upside, similarly as February's Michigan. Data on retail sales in Germany, released this morning, were better than expected as well (January's growth rate above forecast and December's data were revised up), but moods at the start of the week can be negatively affected by considerable losses on the Asian stock markets.

On Friday, EURUSD fell to 1.093 from 1.105 and this move was mainly attributable to better-than-expected data from the U.S. economy with made the Fed interest rate hikes a bit more probable. Today we will see further new data, which may affect the exchange rate – flash inflation for February in the euro zone and U.S. housing market data.

EURPLN was oscillating slightly above 4.35 for the better part of Friday's session. As we were expecting, prospects of the end of the week were limiting the potential for further PLN appreciation, even despite positive global mood. The zloty lost versus the dollar on Friday due to a considerable decline of EURUSD – USDPLN rebounded to 3.99 from 3.94. As regards other CEE currencies, the forint and the ruble strengthened temporarily. Over the weekend EURPLN rebounded and this morning it is near 4.37, still close to an important resistance and awaiting an impulse than may push it below 4.36.

On the interest rate market the end of the week saw a significant profit taking with yields rising even by 5bp while IRS by 1-2bp. German, Czech and Hungarian bonds were also under pressure while peripheral debt continued to gain, but at a smaller scale than seen in the previous days.

Today, the Finance Ministry will announce its monthly bond supply plan. Deputy Finance Minister Piotr Nowak said that the ministry's last bond auction helped cover 39% of this year's gross borrowing needs. Nowak believes that reaching the 50% mark at the end of 1Q is likely, but the ministry will not aim for this at any price. In its original 1Q plan, the ministry planned to sell bonds worth PLN28-38bn. It has already issued debt for c.PLN29bn, so we think its supply in March should not be higher than PLN10bn. There are also no significant coupon payments/maturities in March, so liquidity will not favour an ambitious supply plan.

The Finance Ministry informed that at the end of January there was PLN1.76bn surplus in the state budget. Revenues were covered in 9.8% and spending in 7.9% of the annual plan. According to the Ministry, tax revenues were 12.5% higher than a year ago.

On Friday the stat office confirmed our suspicions that Thursday's Poland's HICP data released by the Eurostat was miscalculated. After the correction, data for January showed -0.3% YoY vs. -0.4% YoY in December 2015.

MPC member, Jerzy Osiatyński, said in the interview for Newseria website that further rate cuts in Poland would be wrong despite deflation persisting longer than previously expected. Furthermore, in his view the Council should start to consider a change of its policy bias towards more hawkish because the economic growth remains strong and wage pressure could rise.

Today at 10:00CET the statistics office will publish detailed GDP breakdown for Q4 on Monday. We expect the headline number to be the same as the already released 3.9% flash estimate. In our view, the growth breakdown was roughly similar to that in Q3, with slightly higher growth rates of private consumption, fixed investment, and a lower contribution of net exports. In the upcoming quarters, we expect GDP growth to remain close to 3.5% YoY, the growth rate that was seen throughout 2015. We believe that private consumption growth will accelerate, driven by favourable labour market developments and higher social benefits (the government's 500+ child benefit programme). On the other hand, fixed investments are likely to decelerate due to lower public outlays and a worse business climate caused by an unstable regulatory environment. Booming private consumption is likely to fuel imports. In our base scenario, we expect the ongoing recovery in the euro zone to strongly support Polish exports. However, recent data from Europe has cast some doubt on this. In general, we expect a negative contribution of net exports.

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FX market

Today's opening

EURPLN	4.3698	CZKPLN	0.1616
USDPLN	3.9885	HUFPLN*	1.4033
EURUSD	1.0956	RUBPLN	0.0525
CHFPLN	4.0032	NOKPLN	0.4596
GBPPLN	5.5467	DKKPLN	0.5858
USDCNY	6.5478	SEKPLN	0.4666

*for 100HUF

Last session in the FX market 26/02/2016

	min	max	open	close	fixing
EURPLN	4.352	4.380	4.373	4.363	4.357
USDPLN	3.947	3.979	3.967	3.952	3.9545
EURUSD	1.099	1.105	1.102	1.104	-

Interest rate market 26/02/2016

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0418 (2Y	1.44	0	04.02.2016	OK1018	1.665
PS0421 (5Y)	2.22	1	18.02.2016	PS0421	2.219
DS0726 (10Y)	2.94	0	04.02.2016	DS0726	3.168

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.48	0	0.76	5	-0.18	-1
2L	1.48	0	0.85	8	-0.19	-1
3L	1.53	1	0.95	9	-0.14	1
4L	1.64	2	1.06	9	-0.09	0
5L	1.76	2	1.16	9	0.01	0
8L	2.05	3	1.45	8	0.34	1
10L	2.20	2	1.60	7	0.54	1

WIBOR rates

Term	%	Change (bps)
O/N	1.43	41
T/N	0.82	-55
SW	1.49	1
2W	1.54	0
1M	1.57	0
3M	1.68	0
6M	1.74	0
9M	1.75	0
1Y	1.76	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.61	0
3x6	1.47	0
6x9	1.40	1
9x12	1.37	1
3x9	1.52	2
6x12	1.43	1

Measures of fiscal risk

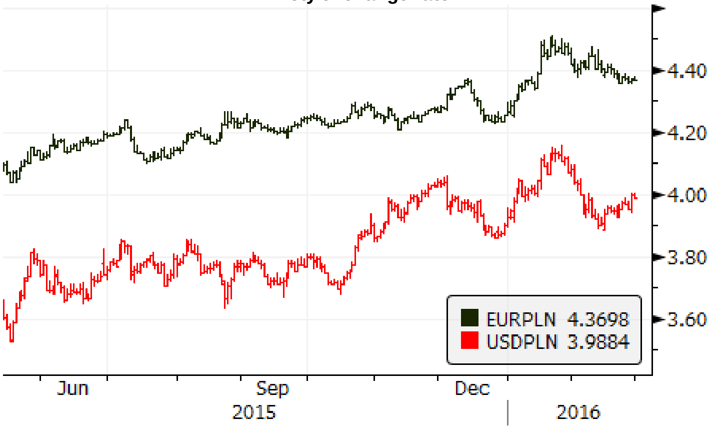
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	94	0	2.80	5
France	37	1	0.36	-2
Hungary	166	1	3.12	1
Spain	112	-3	1.42	-4
Italy	143	-4	1.33	-5
Portugal	322	-6	2.92	-26
Ireland	66	0	0.76	1
Germany	24	0	-	-

* 10Y treasury bonds over 10Y Bunds

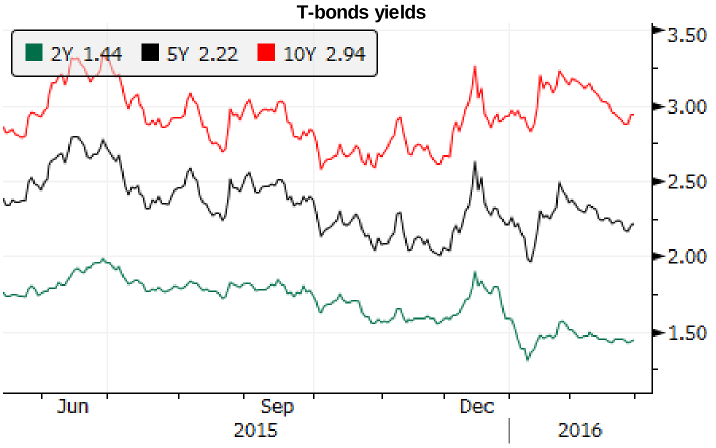
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

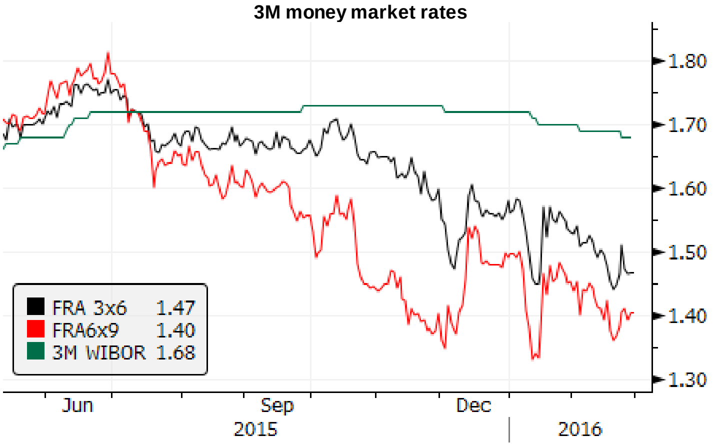
Zloty exchange rate



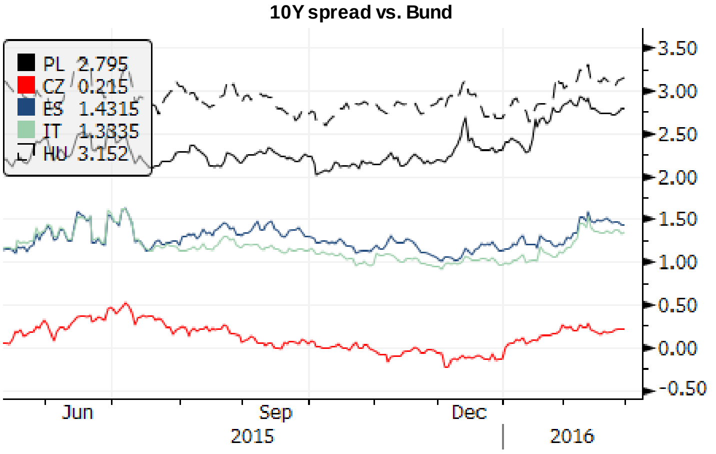
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE*
		FRIDAY (26 February)						
14:30	US	Preliminary GDP	Q4	%QoQ	0.4	-	1.0	0.7
14:30	US	Personal income	Jan	%MoM	0.4	-	0.5	0.3
14:30	US	Consumer spending	Jan	%MoM	0.3	-	0.5	0.1
16:00	US	Michigan index	Feb	pts	91.0	-	91.7	92.0
		MONDAY (29 February)						
10:00	**PL**	**GDP**	**Q4**	**%YoY**	**3.9**	**3.9**		**3.5**
10:00	**PL**	**Private consumption**	**Q4**	**%YoY**	**3.2**	**3.2**		**3.1**
10:00	**PL**	**Investments**	**Q4**	**%YoY**	**4.9**	**5.0**		**4.6**
11:00	EZ	Flash HICP	Feb	%YoY	0.0	-		0.3
14:00	**PL**	**Inflation expectations**	**Feb**	**%YoY**	**0.2**	**0.2**		**0.2**
16:00	US	Pending home sales	Jan	%MoM	0.6	-		0.1
		TUESDAY (1 March)						
2:45	CN	PMI – manufacturing	Feb	pts	48.4	-		48.4
9:00	**PL**	**PMI – manufacturing**	**Feb**	**pts**	**50.5**	**50.6**		**50.9**
9:55	DE	PMI – manufacturing	Feb	pts	50.2	-		52.3
10:00	EZ	PMI – manufacturing	Feb	pts	51.0	-		52.3
16:00	US	ISM – manufacturing	Feb	pts	48.5	-		48.2
		WEDNESDAY (2 March)						
14:15	US	ADP report	Feb	k	180	-		205
20:00	US	Fed Beige Book						
		THURSDAY (3 March)						
9:55	DE	PMI – services	Feb	pts	55.1	-		55.0
10:00	EZ	PMI – services	Feb	pts	53.0	-		53.6
11:00	**PL**	**Bond auction**						
14:30	US	Initial jobless claims	week	k	-	-		272
16:00	US	Industrial orders	Jan	%MoM	2.0	-		-2.9
16:00	US	ISM – services	Feb	pts	53.0	-		53.5
		FRIDAY (4 March)						
9:00	CZ	GDP	Q4	%YoY	3.9	-		4.7
14:30	US	Non-farm payrolls	Feb	k	188	-		151
14:30	US	Unemployment rate	Feb	%	4.9	-		4.9

Source: BZ WBK, Reuters, Bloomberg

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

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