

EYEOPENER

7 April 2016

MPC not any closer to a rate cut

- Slight improbement of global sentyment after Fed minutes
- Zloty still weaker against main currencies, EURUSD higher
- Moderate yield rise in domestic debt market
- Today, bond auction in Poland, ECB's minutes

Investor sentiment index continued to remain low on Wednesday, which resulted in further sale of risk-bearing assets and depreciation of emerging market currencies, including the zloty. Safe assets continued to gain in value and the appreciation of JPY led to a verbal intervention of the Japanese government. The Japanese spokesman said that the FX market was under observation and further actions would be taken, if necessary. According to the newest EU referendum poll, ca. 50% Britons support Brexit – this publication drove GBP to the lowest level for the past 2 years. Market sentiment has improved slightly after the start of the session on the US stock exchange, and even further after the release of FOMC minutes.

According to the minutes from the FOMC meeting in March published yesterday evening, Fed members were discussing an increase of interest rates in April, although several expressed concerns about a considerable risk for the US economy in view of the situation on the global market. The minutes suggested that the advocates of cautious approach in monetary policy prevailed over those who were ready to raise interest rates as early as in April. It supported market expectations that another tightening of the US monetary policy may take place in June at the earliest.

On Wednesday the EURUSD was quite volatile in expectation for the release of FOMC minutes. In the first part of the session the rate fell to c.1.133, and then rebounded to almost 1.14. After the minutes were released, dollar weakened further and EURUSD soared above 1.144 today in the morning.

The zloty exchange rate was also quite unstable. EURPLN rose from 4.26 in the morning to almost 4.28, and then zloty appreciated slightly at the end of the day. USDPLN was fluctuating in a range 3.745-3.765. Today in the morning EURPLN is near 4.27.

Polish interest rate market was relatively stable on Wednesday. Weak sentiment push bond yields slightly higher in the belly

and at the long end of the curve, by 2-3bp. IRS curve remained stable. Today the Ministry of Finance will offer at auction 2Y bond OK1018 and 10Y DS0726, worth PLN3-6bn. The auction results will show foreign investors' attitude to Polish debt (in February and probably in March foreign players significantly increased their exposure to long-term Polish bonds).

Today's Monetary Policy Council decision to keep rates on hold was in line with expectations and the statement did not bring any new elements either. As NBP Governor Marek Belka stated during the press conference, the Council did not get any closer to a rate cut. As we wrote after the March meeting, if the new projection did not convince them, it is hard to expect a change in opinion in the following months. The decision was probably unanimous, which was confirmed by the very early hour of the announcement. Belka said that currently the Council is quite unanimous in its views (which does not mean it will continue in future, as economic background might be different). The Council accepts a significant divergence of inflation from the target, treats the target very flexibly (which is in line with Monetary Policy Guidelines). It was even stated that given the fact that the main aim of the MPC (price stability) is maintained, the Council can also focus on stability of financial sector. It was emphasized that GDP growth remains strong (although 1Q16 slightly below 4Q15), labour market situation and wage bill dynamics is very good. Most of risks for growth are external and a materialization of those (Brexit was mentioned) could be trigger for rates change. What is interesting, Belka said that one of topics during MPC's discussion was about a possibility to adjust rates more significantly in one shot (not a sequence or a series of cuts). Nevertheless, this was purely theoretical at this stage and the bottom line after today's MPC meeting is: don't expect a rate cut in Poland in a few following months.

According to poll made by Puls Biznesu daily, market analysts are anticipating a cut of Poland's rating outlook by Moody's at its nearest rating review scheduled for May 13. The results also suggest quite high risk that the rating itself (currently at A2) may be downgraded – 7 out of 18 analysts predicted such a move.

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FX market

Today's opening

EURPLN	4.2681	CZKPLN	0.1579
USDPLN	3.7305	HUFPLN*	1.3688
EURUSD	1.1441	RUBPLN	0.0551
CHFPLN	3.9145	NOKPLN	0.4513
GBPPLN	5.2680	DKKPLN	0.5734
USDCNY	6.4647	SEKPLN	0.4594

*for 100HUF

Last session in the FX market 06/04/2016

	min	max	open	close	fixing
EURPLN	4.238	4.268	4.241	4.266	4.2577
USDPLN	3.719	3.756	3.722	3.744	3.751
EURUSD	1.134	1.141	1.140	1.140	-

Interest rate market 06/04/2016

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0418 (2Y)	1.47	2	3.03.2016	OK1018	1.553
PS0421 (5Y)	2.24	2	24.03.2016	PS0721	2.221
DS0726 (10Y)	2.88	3	3.03.2016	DS0726	3.014

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.57	2	0.75	1	-0.15	0
2L	1.59	3	0.85	1	-0.15	0
3L	1.63	4	0.96	1	-0.12	0
4L	1.73	4	1.06	2	-0.07	0
5L	1.82	2	1.17	2	0.01	0
8L	2.06	2	1.47	3	0.32	2
10L	2.21	1	1.63	3	0.52	2

WIBOR rates

Term	%	Change (bps)
O/N	1.61	1
T/N	1.61	1
SW	1.55	0
2W	1.56	1
1M	1.56	0
3M	1.67	0
6M	1.74	0
9M	1.75	0
1Y	1.76	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.64	1
3x6	1.57	2
6x9	1.50	3
9x12	1.46	3
3x9	1.63	1
6x12	1.55	4

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	89	0	2.74	0
France	32	0	0.34	0
Hungary	152	0	2.91	-1
Spain	99	1	1.39	0
Italy	130	3	1.17	-1
Portugal	263	4	3.06	2
Ireland	60	2	0.64	0
Germany	18	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



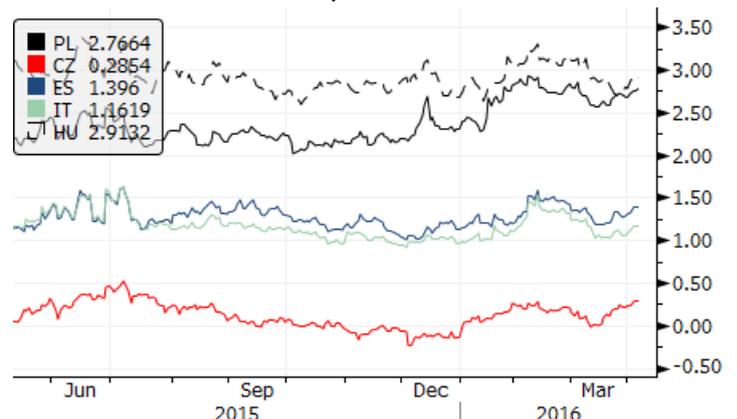
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	BZWBK			
FRIDAY (1 April)								
3:45	CN	PMI – manufacturing	Mar	pts	48.3	-	49.7	48.0
9:00	PL	PMI – manufacturing	Mar	pts	52.8	53.0	53.8	52.8
9:55	DE	PMI – manufacturing	Mar	pts	50.4	-	50.7	50.5
10:00	EZ	PMI – manufacturing	Mar	pts	51.4	-	51.6	51.2
14:30	US	Non-farm payrolls	Mar	k	207	-	215	245
14:30	US	Unemployment rate	Mar	%	4.9	-	5.0	4.9
16:00	US	ISM manufacturing	Mar	pts	50.7	-	51.8	49.5
16:00	US	Michigan index	Mar	pts	90.5	-	91.0	91.7
MONDAY (4 April)								
16:00	US	Factory orders	Feb	% m/m	-1.7	-	-1.7	1.2
TUESDAY (5 April)								
8:00	DE	Industrial orders	Feb	% m/m	0.5	-	-1.2	-0.1
9:55	DE	PMI – services	Mar	pts	55.5	-	55.1	55.3
10:00	EZ	PMI – services	Mar	pts	54.0	-	53.1	53.2
14:30	US	Trade balance	Feb	\$bn	-46.3	-	-47.1	-45.7
16:00	US	ISM – services	Mar	pts	47.5	-	54.5	53.4
WEDNESDAY (6 April)								
	PL	MPC decision		%	1.5	1.5	1.5	1.5
8:00	DE	Industrial output	Feb	% m/m	-2.0	-	-0.5	3.3
20:00	US	FOMC minutes						
THURSDAY (7 April)								
9:00	CZ	Industrial output	Feb	% y/y	5.3	-		1.0
11:30	PL	Bond auction						
13:30	EZ	ECB minutes						
14:30	US	Initial jobless claims	Week	k	-			276
FRIDAY (8 April)								
8:00	DE	Exports	Feb	% m/m	0.1	-		-0.5
9:00	HU	CPI	Mar	% y/y	-	-		0.3
16:00	US	Wholesale inventories	Fed	% m/m	-0.3	-		0.3

Source: BZ WBK, Reuters, Bloomberg

* in case of the revision, the data is updated

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