Bank Zachodni WBK
Grupa Santander

EYEOPENER

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CPI may surprise to the upside in May

- **Calm start of the week in the financial markets**
- **Slight changes in the debt market, EURPLN and EURUSD slightly higher**
- **MPC's Chrzanowski supports stable monetary policy**
- **Today numerous data releases in Poland and abroad, including flash inflation, detailed GDP for 1Q16 and supply of government securities for June**

The situation in the financial markets was very calm at the beginning of this week. As the US and British markets were closed, the entire investors' focus was placed on the European markets. The European Commission informed that in May, the economic sentiment was at 104.7 (increase from 103.9 after adjustments and expectations at 104.4). Increase of GDP in France was also higher than expected (1.4% y/y vs. projected 1.3% y/y). However, the publications had no direct impact on the market sentiment - European stock exchange indices remained stable and USD lost some of the earlier increases. James Bullard, the president of Fed from St. Louis, stated yesterday that global markets are well-prepared for the increase of interest rates in the USA. This statement had no significant influence on the investors' actions.

At the beginning of this week, EUR increased slightly and EURUSD rate went up from ca. 1.111 at session opening to almost 1.114. The common currency was supported by relatively positive data on the European economy. Additionally, the move may be attributed to a rebound after strengthening of the US dollar at the end of the previous week. In the upcoming days, important US data will be published (personal income and consumer spending today, labour market data on Thursday/Friday) and they will be of key importance for US dollar valuation.

On Monday, the zloty weakened against EUR: The EURPLN rate soared from ca. 4.385 at session opening to reach almost 4.4 in the evening. We think that, similarly as in the case of EURUSD, the investors decided to take profits after PLN strengthened last week. USDPLN rate decreased from 3.948 to 3.943, which was attributable to weakening of the US dollar (but it returned to nearly 3.95 this morning). Today, zloty may be influenced by data on Q1 GDP and flash inflation rate for May.

On Monday, there were no significant changes on the interest rate market. Bond yields climbed slightly (by 1-3bps) along the curve, while IRS were more or less stable. Today the market will focus on Polish data, especially on flash CPI for May. In our view, inflation rebounded to -0.7% y/y, stronger than the market expects, which may provide an upward impulse for FRA, IRS and front end yields. Today in the afternoon we will get to see T-bond supply plan for June. The Ministry may launch two auctions: regular and switching, in line with Q2 issuance plan. The Ministry has already covered 68% of the borrowing needs, so it may be quite flexible about the bond supply in June.

MPC's Marek Chrzanowski said in an interview for PAP, that keeping rates unchanged is an optimal scenario and rate cuts are very unlikely. According to Chrzanowski, GDP growth at 3.8% in 2016 is feasible thanks to 500+ child benefit programme and launch of EU funds in the second half of the year. Chrzanowski's comments were in line with the generally hawkish bias of the Council, earlier shown by minutes from its last meeting.

Marek Magierowski, spokesman for the President, said that the last meeting of experts working on the CHF bill is scheduled for June 7 and then the team will present results of its work before the President's Chancellery. These results will be used when shaping the final proposal. Witold Modzelewski, head of this experts team, criticized the yesterday's proposal of the Polish Banks Association as being too selective. Dziennik Gazeta Prawna daily informed today that experts consider a solution that the banks will not be forced to converse FX loans provided that they accept settlements with clients, fulfilling some boundary conditions. We think that the final shape of the proposal will be presented by the President in mid-June.

The Energy Ministry wants to hike the so-called "temporary charge", which is a part of the electricity bill. The charge may rise in 2017 by 88%-109%, based on households' annual electricity consumption. We estimate that this hike may increase annual CPI by 0.10-0.15 percentage points.

Today the statistics office will release the GDP data for Q1 (at 10:00 CET) and flash CPI inflation for May (14:00 CET). We expect the GDP growth in Q1 to be in line with the flash estimate 3.0% y/y. In our view, these numbers should confirm the slowdown in investment, given relatively stable rise of private consumption. We expect that inflation rebounded in May to -0.7% y/y (from -1.1% in April), after rise by 0.4% m/m. Median of market expectations according to Bloomberg is at -0.9% y/y. Deflation was lower due to rising fuel prices (by 5% m/m) and further rise in food prices (by 0.5% m/m). .

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FX market

Today's opening

EURPLN	4.3950	CZKPLN	0.1626
USDPLN	3.9470	HUFPLN*	1.3995
EURUSD	1.1135	RUBPLN	0.0600
CHFPLN	3.9795	NOKPLN	0.4721
GBPPLN	5.7887	DKKPLN	0.5909
USDCNY	6.5850	SEKPLN	0.4739

*for 100HUF

Last session in the FX market **30/05/2016**

	min	max	open	close	fixing
EURPLN	4.384	4.413	4.409	4.387	4.3945
USDPLN	3.924	3.949	3.945	3.947	3.947
EURUSD	1.111	1.120	1.118	1.112	-

Interest rate market 30/05/2016

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0418 (2Y	1.57	0	5.05.2016	OK1018	1.645
PS0421 (5Y)	2.31	5	25.05.2016	PS0721	2.454
DS0726 (10Y)	3.10	5	5.05.2016	DS0726	3.134

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.65	1	0.89	3	-0.16	0
2L	1.66	0	1.08	6	-0.16	0
3L	1.72	0	1.21	7	-0.13	1
4L	1.82	0	1.28	4	-0.07	1
5L	1.95	0	1.36	3	0.01	1
8L	2.23	0	1.59	2	0.35	3
10L	2.39	0	1.71	2	0.57	3

WIBOR rates

Term	%	Change (bps)
O/N	1.71	45
T/N	1.48	12
SW	1.55	2
2W	1.57	0
1M	1.59	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	1.68	1
3x6	1.65	0
6x9	1.59	-1
9x12	1.56	0
3x9	1.71	0
6x12	1.65	1

Measures of fiscal risk

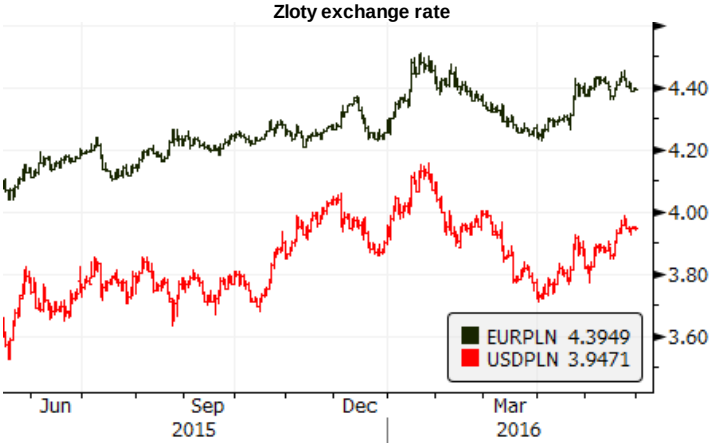
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	85	0	2.88	-5
France	36	-1	0.34	0
Hungary	144	1	3.19	-4
Spain	91	-1	1.32	-2
Italy	125	1	1.20	-2
Portugal	256	-1	2.89	0
Ireland	65	1	0.61	-1
Germany	19	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

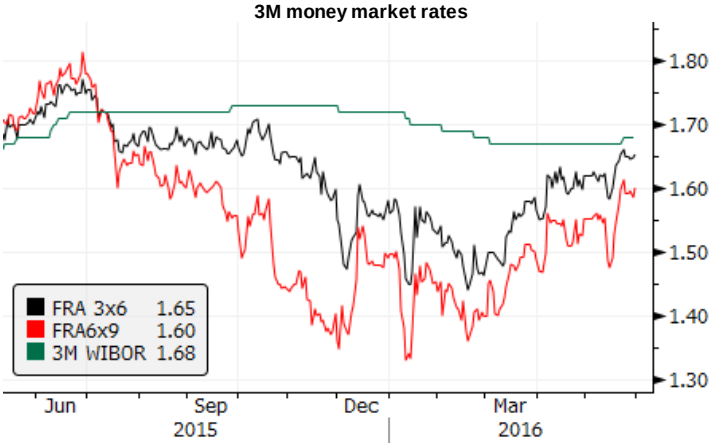
Source: Bloomberg

Zloty exchange rate

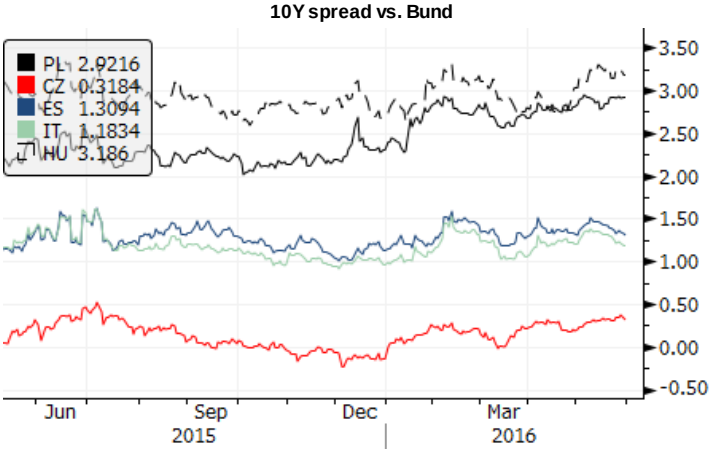


T-bonds yields

3M money market rates



10Y spread vs. Bund



Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	BZWBK		
		FRIDAY (27 May)						
14:00	**PL**	**MPC minutes**						
14:30	US	Preliminary GDP	Q1	% y/y	0.8			0.5
16:00	US	Michigan index	May	pts	95.8			89.0
		MONDAY (30 May)						
	US/GB	Public holiday						
		TUESDAY (31 May)						
10:00	**PL**	**GDP**	**Q1**	**% y/y**	**3.0**	**3.0**		**4.3**
10:00	**PL**	**Fixed investment**	**Q1**	**% y/y**	**-**	**3.8**		**4.4**
10:00	**PL**	**Private consumption**	**Q1**	**% y/y**	-	**3.2**		**3.0**
11:00	EZ	Flash HICP	May	% y/y	-0.1			-0.2
14:00	**PL**	**Flash CPI**	**May**	**% y/y**	-0.9	**-0.7**		**-1.1**
14:30	US	Personal income	Apr	% m/m	0.4	-		0.4
14:30	US	Consumer spending	Apr	% m/m	0.6			0.1
16:00	US	Consumer confidence index	May	pts	96			94.2
		WEDNESDAY (1 June)						
3:45	CN	PMI – manufacturing	May	pts	49.3	-		49.4
9:00	**PL**	**PMI – manufacturing**	**May**	**pts**		**51.4**		**51.0**
9:55	DE	PMI – manufacturing	May	pts	52.4	-		51.8
10:00	EZ	PMI – manufacturing	May	pts	51.5	-		51.7
16:00	US	ISM – manufacturing	May	pts	50.5	-		50.8
20:00	US	Fed Beige Book						
		THURSDAY (2 June)						
13:45	EZ	ECB decision	Jun	%	0.00	0.00		0.00
14:15	US	ADP report	May	k	178	-		156
14:30	US	Initial jobless claims	weekly	k	-	-		268
		FRIDAY (3 June)						
9:55	DE	PMI – services	May	pts	55.2	-		55
10:00	EZ	PMI – services	May	pts	53.1	-		53.1
14:30	US	Non-farm payrolls	May	k	160	-		160
14:30	US	ISM – services	May	% y/y	55.3	-		55.7

Source: BZ WBK, Reuters, Bloomberg

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

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