EYEOPENER

1 June 2016

CPI in May below expectations again

- **Stable sentiment in global markets, mixed US data**
- **Poland's GDP growth slowed in 1Q16 due to falling investments**
- **Deflation in May deeper than expected, LFS unemployment at the record low level, PMI rebounded**
- **EURUSD slightly up, zloty gained vs. main currencies**
- **Polish interest rate market stable**
- **Today, manufacturing PMI indices and Fed's Beige Book**

On Tuesday, moods in the markets were quite stable. European stock exchanges noted slight losses. Similarly, slight decreases were recorded in the USA and Asia. The US data were mixed (highest consumer spending in 7 years, but weaker consumer sentiment) and did not trigger any major changes in the market. Today and in the next few days, the situation may be more dynamic as information that is eagerly awaited by the market will be published. This morning, China's PMI was again rather disappointing as it went down to 49.2p. This, however, have not resulted in a sudden change of moods.

During the day, US dollar was supported by a positive data on American consumers spending, however this move was only of temporary nature. As an effect, EURUSD rate continued the trend that started this Monday and went up from 1.113 at session opening to 1.117 at closing of the session. However, during the night there was a correction of this move and this morning, the exchange rate is close to 1.113 yet again. We expect that EURUSD rate will become more stable during the day, anticipating the publication of Fed's Beige Book, which may contain important hints on the potential date of interest rate hikes in the USA.

Following its weakening this Monday, Polish zloty was gaining on Tuesday, despite quite pessimistic information about the GDP breakdown in Q1, which suggested a major slowdown in investments. EURPLN rate decreased from 4.394 to 4.383. The movement on USDPLN currency pair was stronger and the exchange rate went down from 3.947 to 3.923 thanks to weakening of US dollar against euro. A rebound of Polish PMI index may have positive impact on the zloty today (indicating chances of GDP growth acceleration in Q2), provided that global sentiment will not deteriorate.

There were no significant changes on the interest rate market: bond yields, IRS and FRA rates were relatively stable. The Finance Ministry informed there will be one regular and one switching tender. On 9 June the Ministry will offer OK1018 and DS0726 bonds worth PLN3-6bn. On 27 June, during the switching tender the Ministry will repurchase OK0716, IZ0816 and PS1016. The choice of offered securities will depend on the market situation. Deputy finance minister Piotr Nowak said that after May the borrowing needs were covered in 68%.

Poland's GDP growth in 1Q16 reached 3.0% y/y, in line with flash estimate. The main source of a slowdown from 4.3% y/y in 4Q15 was drop of investments (-1.8% y/y) and negative net exports' contribution (-0.9 pp). Private consumption growth was stable at 3.2% y/y. We think GDP growth in the coming quarters should accelerate slightly, boosted by faster export growth (effect of solid economic growth in euro zone + competitive exchange rate), and in 2H16 by much higher private consumption (effect of 500+ child benefits programme). The biggest question mark concerns investments. It seems their drop in 1Q16 was mainly the effect of collapse of public investment spending and some rebound is possible before the end of the year if the absorption of EU support funds improves. So on average GDP growth in 2016 may be slightly below 3.5%, according to our forecast.

Inflation rate in May reached -1.0% y/y according to flash estimate. It is much below our forecast (-0.7% y/y). According to our observations prices of food and fuels rose in May, so such low CPI print probably implies a further drop of core inflation – possibly to the new record low -0.5% y/y.

The seasonally-adjusted LFS unemployment rate fell in April to 6.3%, the lowest level in history. We expect further declines of the unemployment rate in the months to come, yet downward trend should be slowing down due to drying up supplies of labour force.

Prime Minister Beata Szydło said in an interview for Gazeta Polska that the government will decide at the end of June whether to introduce an uniform personal income tax (according to Henryk Kowalczyk, it may be in force in 2018). Szydło added also that retirement age will be lowered before the year-end.

Polish manufacturing PMI index rose in May to 52.1, after surprisingly strong drop to 51.0 in April. Growth rates for output, new orders, exports and employment all picked up, signalling improvement in business conditions and confirming our assessment that Polish industry should benefit from solid economic growth in the euro zone and weak zloty. What is interesting, survey showed that input prices rose at the fastest rate in 31 months, due to weak zloty and higher commodity prices.

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FX market

Today's opening

EURPLN	4.3882	CZKPLN	0.1624
USDPLN	3.9431	HUFPLN*	1.3992
EURUSD	1.1129	RUBPLN	0.0591
CHFPLN	3.9686	NOKPLN	0.4710
GBPPLN	5.7045	DKKPLN	0.5900
USDCNY	6.5911	SEKPLN	0.4730

*for 100HUF

Last session in the FX market 31/05/2016

	min	max	open	close	fixing
EURPLN	4.387	4.400	4.389	4.398	4.382
USDPLN	3.943	3.955	3.951	3.950	3.9369
EURUSD	1.110	1.115	1.112	1.113	-

Interest rate market 31/05/2016

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0418 (2Y	1.59	2	5.05.2016	OK1018	1.645
PS0421 (5Y)	2.30	-1	25.05.2016	PS0721	2.454
DS0726 (10Y)	3.11	1	5.05.2016	DS0726	3.134

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.65	0	0.87	-2	-0.16	0
2L	1.68	1	1.03	-5	-0.16	0
3L	1.73	2	1.15	-6	-0.13	0
4L	1.84	2	1.25	-3	-0.08	-1
5L	1.97	2	1.34	-1	0.00	-1
8L	2.25	2	1.57	-1	0.32	-2
10L	2.40	1	1.70	-1	0.54	-3

WIBOR rates

Term	%	Change (bps)
O/N	1.63	-8
T/N	1.66	18
SW	1.57	2
2W	1.58	1
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	0
3x6	1.66	1
6x9	1.60	1
9x12	1.58	2
3x9	1.70	-1
6x12	1.66	1

Measures of fiscal risk

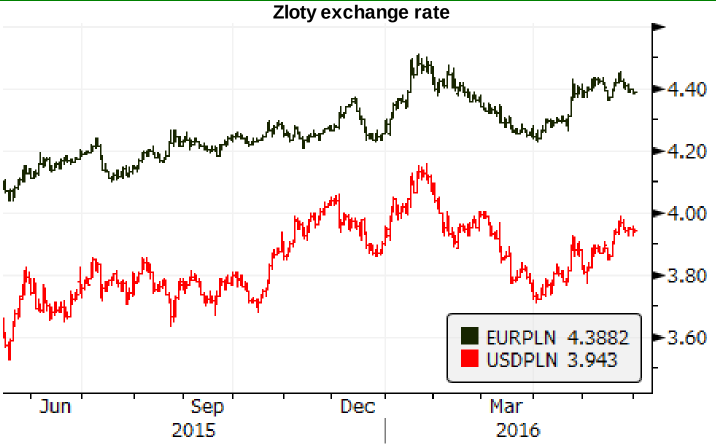
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	85	0	2.96	8
France	36	0	0.34	0
Hungary	143	-1	3.29	10
Spain	94	3	1.33	1
Italy	126	1	1.22	2
Portugal	258	2	2.91	3
Ireland	65	1	0.62	0
Germany	18	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

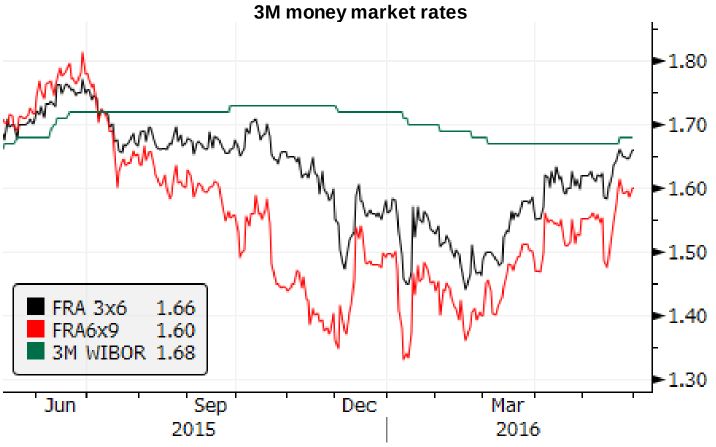
Source: Bloomberg

Zloty exchange rate

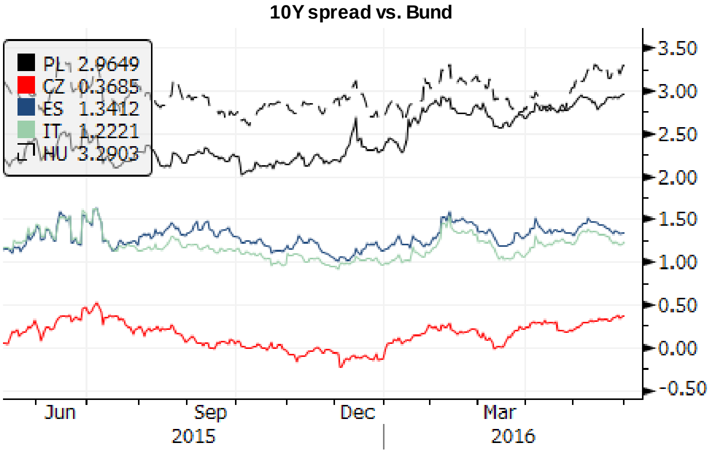


T-bonds yields

3M money market rates



10Y spread vs. Bund



Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE*
		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**	**3.0**	**4.3**
10:00	**PL**	**Fixed investment**	**Q1**	**% y/y**	**-**	**3.8**	**-1.8**	**4.4**
10:00	**PL**	**Private consumption**	**Q1**	**% y/y**	-	**3.2**	**3.2**	**3.0**
11:00	EZ	Flash HICP	May	% y/y	-0.1		-0.1	-0.2
14:00	**PL**	**Flash CPI**	**May**	**% y/y**	-0.9	**-0.7**	**-1.0**	**-1.1**
14:30	US	Personal income	Apr	% m/m	0.4	-	0.4	0.4
14:30	US	Consumer spending	Apr	% m/m	0.6		1.0	0.1
16:00	US	Consumer confidence index	May	pts	96		92.6	94.2
		WEDNESDAY (1 June)						
3:45	CN	PMI – manufacturing	May	pts	49.3	-	49,2	49.4
9:00	**PL**	**PMI – manufacturing**	**May**	**pts**		**51.4**	**52,1**	**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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