Bank Zachodni WBK
Grupa Santander

EYEOPENER

8 September 2016

Will the ECB ease today?

- **Improvement of moods after falling chances for Fed hikes**
- **The MPC is not even thinking about a rate cut**
- **Zloty gained versus euro and dollar, EURUSD stable after a strong rise**
- **Polish IRS and yields down, but MPC rhetoric limited the downward move**
- **Today ECB decision and weekly US labour market data**

Decrease of probability of Fed's interest rate hike before the end of this year after the release of weak non-manufacturing ISM had positive impact on global market sentiment, which was reflected yesterday in falling bond yields, rising equity prices and strengthening of most of emerging markets currencies. Main currencies remained roughly unchanged. According to the Fed's Beige Book, released in the evening, economic growth remains moderate and inflation stays low. Very good labour market situation has not translated into significant wage growth, though. The release had no substantial impact on the market.

As widely expected, the Monetary Policy Council kept interest rates unchanged. The statement after the meeting is similar to the previous one and the main piece reads: "the current level of interest rates is conducive to keeping the Polish economy on the sustainable growth path and maintaining macroeconomic balance". Additionally, according to the MPC, decline in investment was temporary (was driven by EU funds absorption, investments should accelerate at the start of 2017), there is no inflationary pressure in the economy and the persisting deflation has not adversely affected decisions taken by economic agents so far. At the very beginning of the press conference after the meeting, the NBP Governor Adam Glapiński stated that "nothing special has happened". Well, after the conference, it is hard to disagree. Though the Governor said that the GDP growth rate in 2016 is likely to be below the expectations of the MPC, he said it should be maintained at 3.1-3.3% (i.e., around the potential growth rate) and the Council still believed that 'wait and see' was the best policy option. Asked about the temptation to cut rates in order to accelerate growth, Glapiński rejected the idea and even started to talk about a scenario (though still quite distant) of policy tightening (if growth accelerates and CPI inflation increases toward 1.5%). We maintain our forecast that the official rate will remain stable in 2016-17.

EURUSD stabilized after the Tuesday increase and hovered near 1.125 through the whole European session yesterday. Today, investors will focus on the ECB's decision. After the Bank of England eased the monetary policy, the investors are hoping the ECB will take a similar decision. We expect that the central cank may disappoint which might mean further strengthening of the dollar and push EURUSD above 1.13.

EURPLN was decreasing yesterday for the third session in a row and was near 4.31, but the trend was partially reversed by the end of the Polish session. PLN was gaining against the dollar too, and USDPLN was temporarily below 3.84. As regards other currencies in the CEE region, the forint was benefitting from the positive sentiment for the major part of the day, the ruble remained stable against the dollar. The Polish zloty is making up for the August losses. However, in our view today's ECB decision may slow down the downward move of EURPLN. We do not expect a positive surprise form the ECB which may adversely impact PLN.

On the domestic interest rate market bond yields and IRS rates were falling since the start of Wednesday's session. The scale of move was significant and only hawkish signals from the MPC's press conference triggered a slight increase of yields at the short end of the curve, while the belly and the long end of the curve halted gains. Effectively, both yield curves became slightly steeper. Today the ECB meeting may be important for the fixed income market – we think the central bank may disappoint investors who expect a significant policy easing and as a result the yields may go up.

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

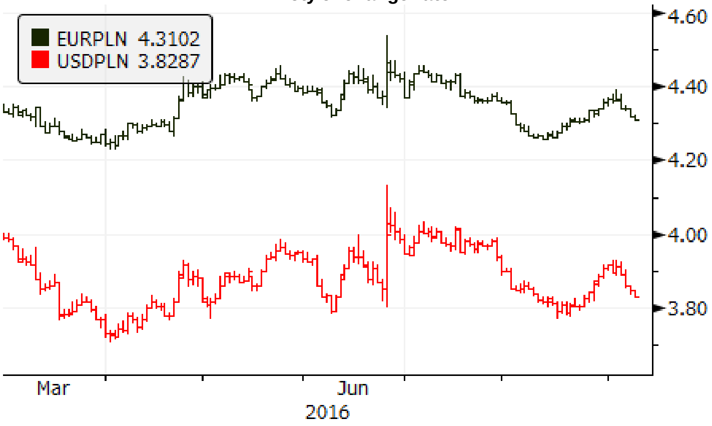
EURPLN	4.3101	CZKPLN	0.1595
USDPLN	3.8287	HUFPLN*	1.3977
EURUSD	1.1258	RUBPLN	0.0598
CHFPLN	3.9480	NOKPLN	0.4694
GBPPLN	5.1049	DKKPLN	0.5790
USDCNY	6.6673	SEKPLN	0.4542

*for 100HUF

Last session in the FX market 07/09/2016

	min	max	open	close	fixing
EURPLN	4.330	4.348	4.341	4.339	4.3289
USDPLN	3.851	3.903	3.892	3.860	3.8515
EURUSD	1.114	1.126	1.115	1.124	-

Zloty exchange rate

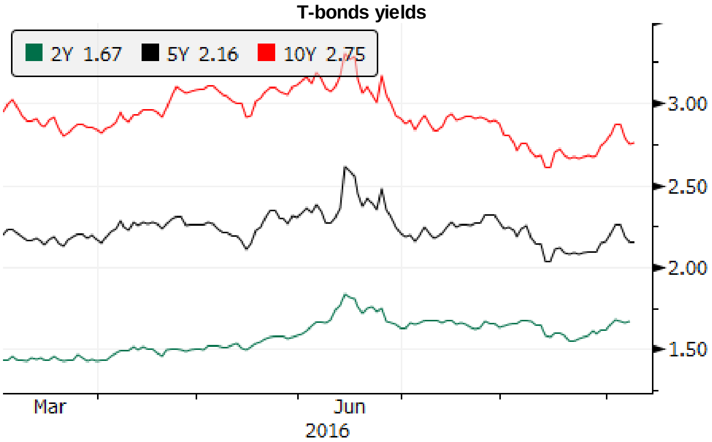


Interest rate market 07/09/2016

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0418 (2Y	1.67	1	1.09.2016	OK1018	1.647
PS0421 (5Y)	2.16	0	18.08.2016	PS0721	2.114
DS0726 (10Y)	2.75	0	1.09.2016	DS0726	2.791

T-bonds yields



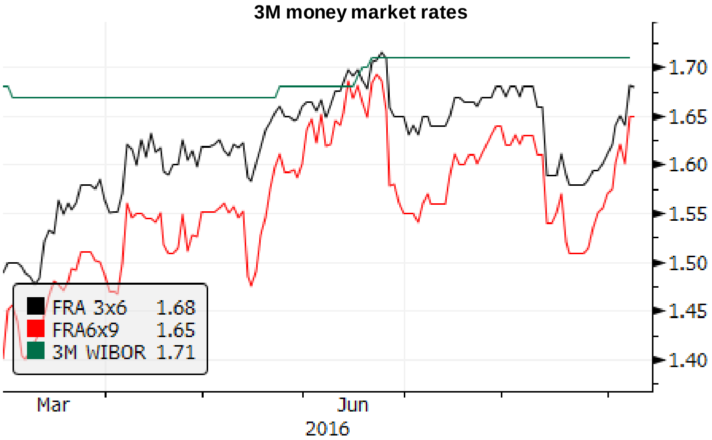
IRS on the interbank market**

Term	PL %	PL Change (bps)	US %	US Change (bps)	EZ %	EZ Change (bps)
1L	1.68	4	0.93	0	-0.22	0
2L	1.70	3	0.98	0	-0.24	0
3L	1.70	2	1.03	-1	-0.24	0
4L	1.76	1	1.08	-1	-0.21	0
5L	1.83	0	1.13	-1	-0.17	0
8L	2.03	-2	1.29	-1	0.07	-1
10L	2.15	-2	1.39	-1	0.25	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.63	-1
T/N	1.63	-1
SW	1.60	0
2W	1.62	0
1M	1.65	0
3M	1.71	0
6M	1.79	0
9M	1.80	0
1Y	1.81	0

3M money market rates



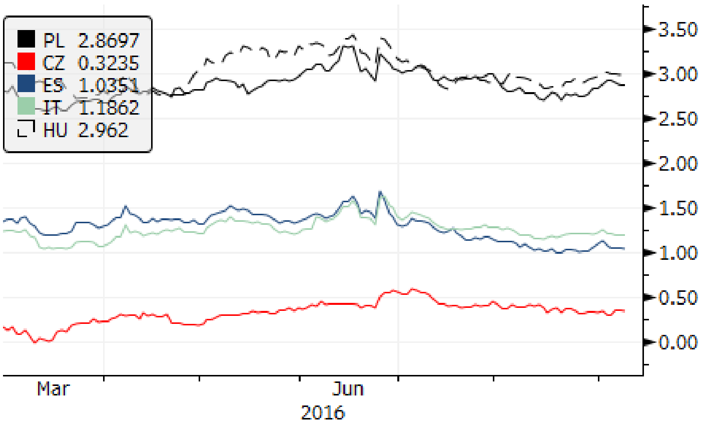
FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.70	2
3x6	1.68	4
6x9	1.65	5
9x12	1.64	6
3x9	1.76	5
6x12	1.72	6

Measures of fiscal risk

Country	CDS 5Y USD Level	CDS 5Y USD Change (bps)	10Y spread* Level	10Y spread* Change (bps)
Poland	74	-3	2.87	-3
France	28	0	0.28	0
Hungary	132	-1	2.99	0
Spain	74	-1	1.05	1
Italy	131	0	1.20	0
Portugal	283	-1	3.08	-1
Ireland	65	1	0.48	0
Germany	16	0	-	-

10Y spread vs. Bund



* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE*
		FRIDAY (2 September)						
9:00	CZ	GDP	Q2	% y/y	2.5	-	2.6	2.5
14:30	US	Non-farm payrolls	Aug	k	180	-	151	275
14:30	US	Unemployment rate	Aug	k	4.8	-	4.9	4.9
16:00	US	Industrial orders	Jul	% m/m	1.9	-	1.9	-1.5
		MONDAY (5 September)						
	US	Market holiday						
9:55	DE	PMI – services	Aug	pts	53.3	-	51.7	54.4
10:00	EZ	PMI – services	Aug	pts	53.1	-	52.8	52.9
11:00	EZ	Retail sales	Jul	% y/y	1.9	-	2.9	1.6
		TUESDAY (6 September)						
8:00	DE	Industrial orders	Jul	% m/m	0.5	-	0.2	-0.4
9:00	HU	GDP	Q2	% y/y	2.6	-	2.6	0.9
11:00	EZ	GDP	Q2	% y/y	1.6	-	1.6	1.7
16:00	US	ISM services	Aug	pts	55.4	-	51.4	55.5
		WEDNESDAY (7 September)						
	PL	**MPC decision**		**%**	**1.50**	**1.50**	**1.50**	**1.50**
8:00	DE	Industrial output	Jul	% m/m	0.1	-	-1.5	0.8
20:00	US	Fed Beige Book						
		THURSDAY (8 September)						
9:00	HU	CPI	Aug	% y/y	0.1	-		-0.3
13:45	EZ	ECB decision		%	0.00	-		0.00
14:30	US	Initial jobless claims	week	k	265	-		263
		FRIDAY (9 September)						
8:00	DE	Exports	Jul	% m/m	0.4	-		0.3
9:00	CZ	CPI	Aug	% y/y	0.7	-		0.5
16:00	US	Wholesale inventories	Jul	% m/m	0.1	-		0.0
	PL	**Moody's decision**			**A2 (n)**	**A2 (n)**		**A2 (n)**

Source: BZ WBK, Reuters, Bloomberg
** in case of the revision, the data is updated*

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