EYEOPENER

13 September 2016

Will export disappoint?

- **Market under impact of worries about global monetary policy, start of the week in weak moods**
- **Food pushed CPI up**
- **Zloty lost versus euro and dollar, EURUSD with no major changes**
- **Polish bonds stable despite weakening abroad**
- **Today Polish current account and German ZEW**

Global market mood was weak at the beginning of the new week due to disappointment with no monetary policy easing by EBC and the recent hawkish statements by FOMC members. European stock indices went significantly down (although the market started to recover), emerging markets currencies were under pressure, yields on core and peripheral markets grew noticeably. Head of Fed in Atlanta, Dennis Lockhart announced yesterday that current circumstances (inflation at 1.6% y/y and unemployment rate at 4.9%) justify a serious discussion on interest rate increase as early as next week. Later, Lael Brainard the supressed inflation and uncertain economic situation advise not to move too quickly with accommodative monetary policy. Brainard's words provided a support to US stock markets.

EURUSD fluctuated yesterday near 1.124, between Friday low and high. Today ZEW index for Germany is to be released. September reading will show investors' moods in Q3. (So far no negative impact due to Brexit visible). This in turn may impact market's expectations for EBC decision.

EURPLN rose above 4.35 and USDPLN above 3.88 and this was already the third consecutive session of the zloty's depreciation vs the euro and second vs the dollar. Other CEE currencies also did not perform well – EURHUF rose above 310 from 309 and USDRUB reached temporarily 65.3 vs 64.8 at the opening. The global market sentiment should remain the core driver for the zloty (today at the opening we see some improvement after the yesterday's high risk aversion) but in our view today's Polish data may not be ignored completely. We expect weak exports for July which could generate some negative pressure on the zloty.

No material changes on yield and IRS curves on the domestic interest rate market although rates were clearly going up at the beginning of the session following weakened bonds on core and peripheral markets. At the end of the day, Polish IRS and yields closed the day near Friday's closing which may have been caused by Moody's rating agency decision which did not change the rating for Poland.

Yesterday EU countries approved their stance regarding the EU budget for 2017. Payments will reach €133.8bn, i.e. will be 7% lower than in 2016 (€143.9bn). Spending on cohesion policy will be reduced significantly, by 24% (from €48.8bn to €37.1bn). The budget is negative for Poland, which is a big beneficiary of the cohesion funds and may imply a limitation of potential investment growth in the nearest years.

CPI inflation rose in August to -0.8% y/y, in line with the flash estimate and up from -0.9% y/y in July. Prices fell 0.2% on monthly terms. Overall, August CPI does not shed any new light on the price trends in Poland and should be a reason for the MPC to keep interest rates unchanged. Slight rise in inflation was driven by higher food prices, that partly depend on the global demand and supply, as well as by higher prices of insurance due to, among others, the new regulatory requirements and introduction of the banking tax. We expect inflation to continue rising gradually reaching positive territory in December.

The NBP presented its opinion on the draft of the President's bill calling banks to return part of FX spreads charged unfairly. In the opinion of the central bank, the costs for banks have been underestimated and may be twice higher than PLN3.6-4.0bn assumed by the President's office. Furthermore, the proposal did not include the cost for the state budget of paying back the overpaid income tax to the banks. The NBP said there is also no reason to make banks pay penalty interest and that the calculation of the spreads due for clients has been incorrect.

Today the NBP will release balance of payments data for July. They will be the first gauge of Polish exports performance in 3Q16. We expect quite poor exports, after weak industrial output and disappointing German export data.

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FX market

Today's opening

EURPLN	4.3573	CZKPLN	0.1612
USDPLN	3.8821	HUFPLN*	1.4060
EURUSD	1.1224	RUBPLN	0.0599
CHFPLN	3.9906	NOKPLN	0.4704
GBPPLN	5.1679	DKKPLN	0.5854
USDCNY	6.6799	SEKPLN	0.4570

*for 100HUF

Last session in the FX market 12/09/2016

	min	max	open	close	fixing
EURPLN	4.324	4.346	4.325	4.341	4.346
USDPLN	3.832	3.879	3.846	3.864	3.8668
EURUSD	1.120	1.129	1.125	1.123	-

Interest rate market 12/09/2016

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0418 (2Y	1.76	2	1.09.2016	OK1018	1.647
PS0421 (5Y)	2.27	-1	18.08.2016	PS0721	2.114
DS0726 (10Y)	2.88	-1	1.09.2016	DS0726	2.791

IRS on the interbank market**

Term	PL %	PL Change (bps)	US %	US Change (bps)	EZ %	EZ Change (bps)
1L	1.69	0	0.97	0	-0.21	0
2L	1.76	0	1.05	0	-0.21	0
3L	1.80	1	1.12	0	-0.20	0
4L	1.87	1	1.18	1	-0.16	1
5L	1.94	1	1.24	1	-0.10	1
8L	2.15	2	1.43	1	0.18	2
10L	2.28	2	1.53	1	0.38	2

WIBOR rates

Term	%	Change (bps)
O/N	1.63	0
T/N	1.63	0
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

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.70	0
3x6	1.69	0
6x9	1.67	0
9x12	1.66	-1
3x9	1.77	0
6x12	1.73	-1

Measures of fiscal risk

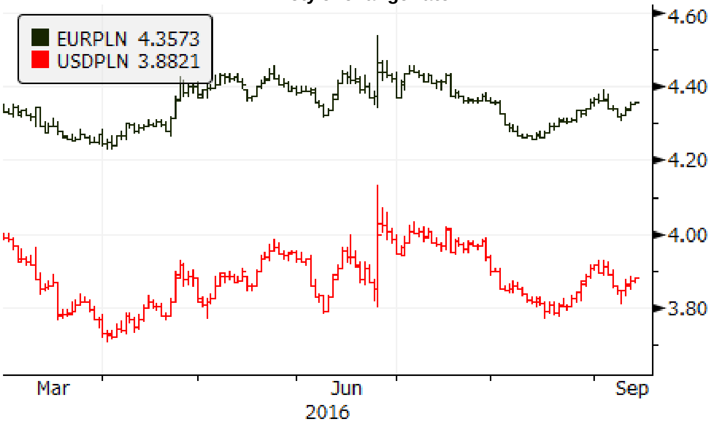
Country	CDS 5Y USD Level	CDS 5Y USD Change (bps)	10Y spread* Level	10Y spread* Change (bps)
Poland	74	-3	2.85	3
France	28	0	0.29	0
Hungary	131	-1	2.92	-1
Spain	77	2	1.04	-3
Italy	134	1	1.24	0
Portugal	288	7	3.14	0
Ireland	65	1	0.47	0
Germany	16	0	-	-

* 10Y treasury bonds over 10Y Bunds

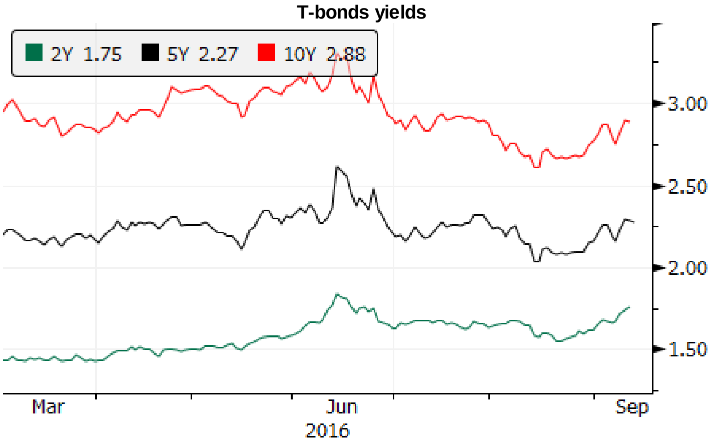
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

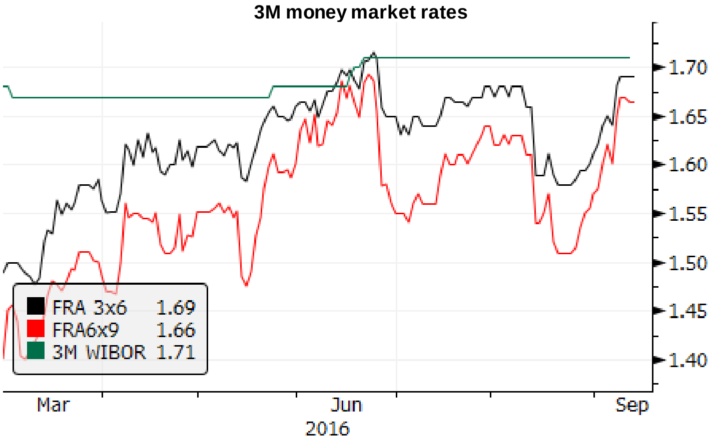
Zloty exchange rate



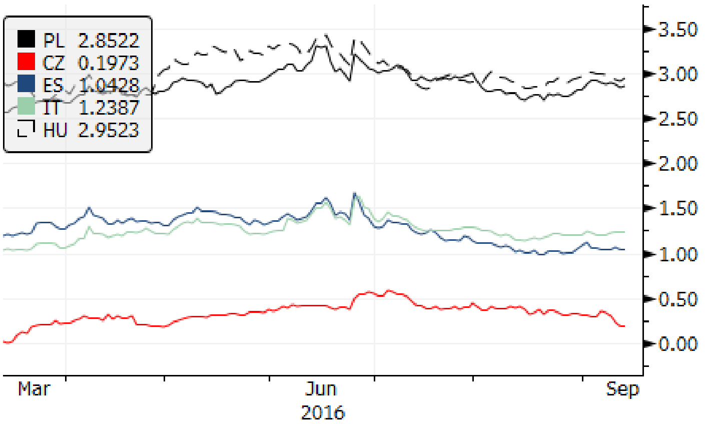
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE*
		FRIDAY (9 September)						
	PL	**Moody's decision**			**A2 (n)**	**A2 (n)**	**A2 (n)**	**A2 (n)**
8:00	DE	Exports	Jul	% m/m	0.4	-	-2.6	0.2
9:00	CZ	CPI	Aug	% y/y	0.7	-	0.6	0.5
16:00	US	Wholesale inventories	Jul	% m/m	0.1	-	0.0	0.0
		MONDAY (12 September)						
14:00	**PL**	**CPI**	**Aug**	**% y/y**	**-0.8**	**-0.8**	**-0.8**	**-0.9**
		TUESDAY (13 September)						
11:00	GE	ZEW index	Sep	pts	56.0	-		57.6
14:00	**PL**	**Current account**	**Jul**	**€m**	**-438**	**-367**		**-203**
14:00	**PL**	**Exports**	**Jul**	**€m**	**13 780**	**13 665**		**15 218**
14:00	**PL**	**Imports**	**Jul**	**€m**	**13 925**	**13 697**		**14 814**
14:00	**PL**	**Core inflation**	**Aug**	**% y/y**	**-0.4**	**-0.4****		**-0.4**
		WEDNESDAY (14 September)						
11:00	EZ	Industrial output	Aug	% y/y	-0.7	-		0.6
14:00	**PL**	**Money supply**	**Aug**	**% y/y**	**10.7**	**10.5**		**10.7**
		THURSDAY (15 September)						
11:00	EZ	HICP	Aug	% y/y	0.2	-		0.2
14:30	US	Retail sales	Aug	% m/m	-0.1	-		0.0
14:30	US	Initial jobless claims	week	k	-	-		259
14:30	US	Philly Fed index	Sep	pts	1.0	-		2.0
15:15	US	Industrial output	Aug	% m/m	-0.2	-		0.7
		FRIDAY (16 September)						
14:00	**PL**	**Wages in corporate sector**	**Aug**	**% y/y**	**5.0**	**4.4**		**4.8**
14:00	**PL**	**Employment in corporate sector**	**Aug**	**% y/y**	**3.2**	**3.3**		**3.2**
14:30	US	CPI	Aug	% m/m	0.1	-		0.0
16:00	US	Flash Michigan	Sep	pts	91.0	-		89.8

Source: BZ WBK, Reuters, Bloomberg

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

*** estimate after CPI inflation data*

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