EYEOPENER

4 October 2016

Manufacturing activity improved in September

- **Calm start of the week amid market holiday in Germany**
- **Polish PMI higher than expected in September**
- **Zloty slightly weaker against euro and dollar under influence of US data**
- **Polish interest rate market rebounded after weakening**
- **No important data releases today**

The week started in a relatively good mood on the global financial markets. Friday optimism persisted on the market but a bank holiday in Germany caused little fluctuations in FX rates and bond prices. GBP was an exception as it was under pressure after the British Prime Minister said that the Brexit procedure will be formally triggered in March. Final PMI for German industry and the Euro zone for September were in line with the flash data and therefore did not trigger any material reaction. September ISM for American industry turned out to be slightly better than the forecast, therefore the US dollar slightly gained while the CEE currencies lost slightly. US data prove that the index grew thanks to improvement in new orders and industrial output.

EURUSD was hovering day near 1.123 for the better part of the day, the level which was reached after rumours that the Deutsche Bank fine is going to be decreased. The US dollar started to appreciate and EURUSD reached 1.12. The trend is persisting this morning and the rate is near 1.118. Yesterday the rate remained between Friday minimum and maximum and in our view today it is going to be similar as there are no important data due.

EURPLN rebounded from the Friday low at 4.29 and at the end of the Polish session it was near 4.30 thanks to strong US data. USDPLN went up to 3.84 and this morning it is above this level as the US dollar strenghtened. No major changes as regards the Hungarian forint while the ruble gained against the dollar thanks to oil prices recovery. Fluctuations on Polish FX market were slight due to market holiday in Germany. In our view, only slight volatility may persist today too as there will be no important data releases that could cause a major movement prior to Friday US labour market data.

On the domestic interest rates, yields and IRS rates rebounded after a weakening suffered in the second hald of the last week. Bond yields fell by 2-3bps (mostly at the longer end), while IRS curve shifted down by 1-2bps. Scale of the strengthening would have been greater, if it was not for the US data, which proved hawkish.

PMI for the Polish manufacturing surprised to the upside growing in September to 52.2pts from 51.5pts in August. The rebound was driven mainly by output and new orders (particularly export ones) that were rising at the fastest pace since March. Employment grew for the 38th month in a row but at the slowest pace for two years. PMI joined several other indexes that improved in September suggesting that Polish manufacturing might have performed quite well in the past month. However, we still see a risk that the GDP growth could be slightly below 3% in 3Q16 (flash estimate will be released in mid-November).

Yesterday, Fitch rating agency released its GDP Forecasts for Poland. It expects that the Polish economy will grow 3% this 2016, 3.2% in 2017 and 3.3% in 2018. Slower growth vs 2015 will be due to contraction in investment while the gradual acceleration in the coming years should be driven by sound labour market, higher government spending and a recovery in investment. According to Fitch, the MPC will raise rates in 2017. Our forecasts for GDP growth are below Fitch expectations and we do not assume that the economy could grow faster than 3% until 2018. We also think that the first NBP rate hike will take place in 2018.

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FX market

Today's opening

EURPLN	4.3013	CZKPLN	0.1592
USDPLN	3.8473	HUFPLN*	1.3970
EURUSD	1.1180	RUBPLN	0.0616
CHFPLN	3.9373	NOKPLN	0.4808
GBPPLN	4.9307	DKKPLN	0.5779
USDCNY	6.6718	SEKPLN	0.4479

*for 100HUF

Last session in the FX market 03/10/2016

	min	max	open	close	fixing
EURPLN	4.295	4.320	4.306	4.296	4.2976
USDPLN	3.820	3.872	3.836	3.823	3.8252
EURUSD	1.115	1.125	1.122	1.124	-

Interest rate market 03/10/2016

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0418 (2Y	1.74	1	1.09.2016	OK1018	1.647
PS0421 (5Y)	2.31	1	18.08.2016	PS0721	2.114
DS0726 (10Y)	2.89	0	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	1.68	-1	0.96	1	-0.21	0
2L	1.73	0	1.03	2	-0.22	0
3L	1.77	-1	1.08	1	-0.21	0
4L	1.85	-1	1.14	2	-0.18	1
5L	1.93	-1	1.20	1	-0.13	0
8L	2.14	-2	1.37	1	0.12	1
10L	2.26	-2	1.47	0	0.29	1

WIBOR rates

Term	%	Change (bps)
O/N	1.63	-13
T/N	1.67	1
SW	1.61	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	1.68	-1
6x9	1.64	-1
9x12	1.63	0
3x9	1.75	-1
6x12	1.72	0

Measures of fiscal risk

Country	CDS 5Y USD Level	CDS 5Y USD Change (bps)	10Y spread* Level	10Y spread* Change (bps)
Poland	71	-1	2.98	-5
France	29	0	0.32	1
Hungary	116	1	2.96	-4
Spain	83	1	1.03	3
Italy	151	4	1.36	5
Portugal	310	6	3.47	4
Ireland	65	1	0.47	0
Germany	19	0	-	-

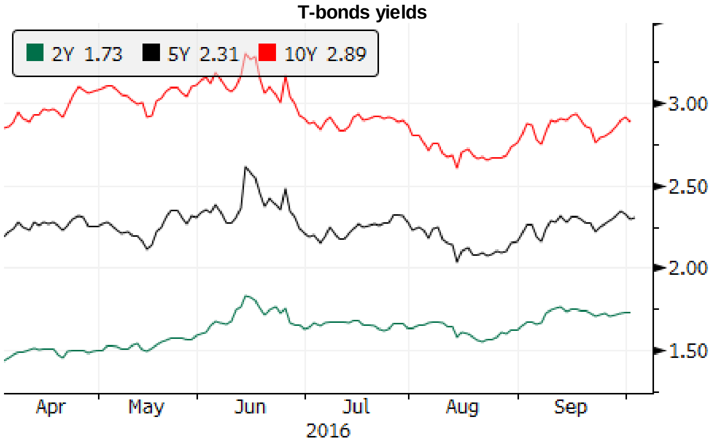
* 10Y treasury bonds over 10Y Bunds

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

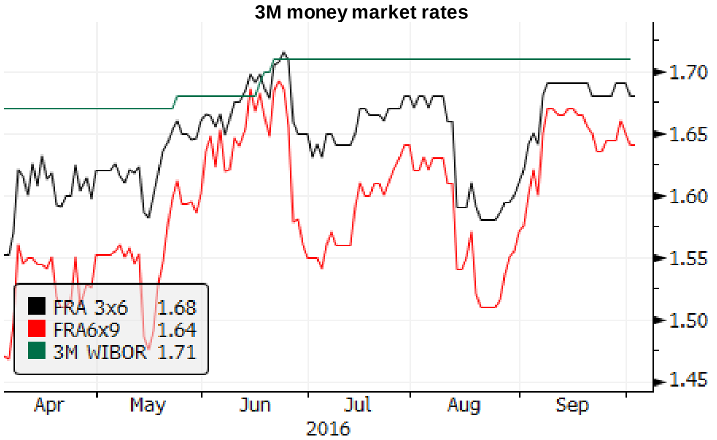
Source: Bloomberg

Zloty exchange rate

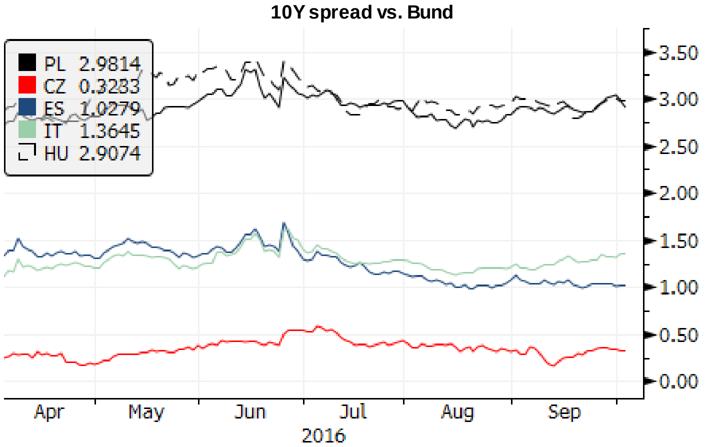
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE*
		FRIDAY (30 September)						
9:00	CZ	GDP	Q2	% y/y	2.5	-	2.6	2.6
11:00	EZ	Flash HICP	Sep	% y/y	0.3	-	0.4	0.2
14:00	**PL**	**Flash CPI**	**Sep**	**% y/y**	**-0.4**	**-0.3**	**-0.5**	**-0.8**
14:30	US	Personal income	Aug	% m/m	0.2	-	0.2	0.4
14:30	US	Consumer spending	Aug	% m/m	0.2	-	0.0	0.4
16:00	US	Michigan index	Sep	pts.	90.0	-	91.2	89.8
		MONDAY (3 October)						
9:00	**PL**	**PMI – manufacturing**	**Sep**	**pts**	**52.1**	**51.0**	**52.2**	**51.5**
9:55	GE	PMI – manufacturing	Sep	pts	54.3	-	54.3	53.6
10:00	EZ	PMI – manufacturing	Sep	pts	52.6	-	52.6	51.7
16:00	US	ISM – manufacturing	Sep	pts	50.2	-	51.5	49.4
		TUESDAY (4 October)						
		No important data releases						
		WEDNESDAY (5 October)						
	PL	**MPC decision**		**%**	**1.50**	**1.50**		**1.50**
9:55	GE	PMI – services	Sep	pts	50.6	-		51.7
10:00	EZ	PMI – services	Sep	pts	52.1	-		52.8
14:15	US	ADP report	Sep	k	160	-		177
16:00	US	Industrial orders	Aug	% m/m	-0.5	-		1.9
16:00	US	ISM – services	Sep	pts	53.0	-		51.4
		THURSDAY (6 October)						
8:00	GE	Industrial orders	Aug	% m/m	0.3	-		0.2
11:00	**PL**	**Bond auction**						
14:30	US	Initial jobless claims	week	k	-	-		254
		FRIDAY (7 October)						
8:00	GE	Industrial output	Aug	% m/m	0.9	-		-1.5
9:00	CZ	Industrial output	Aug	% y/y	8.3	-		-14.1
14:30	US	Non-farm payrolls	Sep	k	175	-		151
14:30	US	Unemployment rate	Sep	%	4.9	-		4.9

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.