

EYEOPENER

20 October 2016

Stabilisation before the ECB meeting

- Markets stabilised in anticipation of the ECB meeting
- Next disappointing data from the Polish economy
- Zloty stable, EURUSD slightly lower
- Polish 10Y bond gained again
- Today MPC minutes, ECB decision, numerous US data

After increased fluctuations recorded on Monday and Tuesday, calmer moods dominated Wednesday session. Stock exchange indices settled in Europe and bond yields did not change materially. US housing market data caused mixed reactions and did not disturb the investors awaiting today EBC decision. According to the Fed's Beige Book released in the evening, some signals of wage pressure appeared in the US economy, but in general the wage growth was moderate and the pace of economic growth in most of the regions was slight or moderate. The last US presidential debate before elections did not trigger any material changes in the financial markets. Investors think Donald Trump did not materially improve his chances if winning presidential elections scheduled for the beginning of November.

The ECB decision will be announced today at 13:45 and Mario Draghi's press conference starts at 14:30. Recently, the media have reported that the ECB may taper its QE program (reported by Bloomberg), or it may discuss its asset purchases this month and leave time for a decision until November (Reuters story). Already in September, Mario Draghi said that some review of the current measures may take place in the weeks to come so that new/adjusted instruments could be used if necessary. Last month, the ECB refrained from extending its QE program saying that the market/economic situation does not justify more monetary policy easing. Since its meeting in September, PMIs and the other economic activity indexes performed quite good and so we think the ECB will stay put this time as well. Last month, the market felt disappointed but the same decision this week should be less surprising and it is Mario Draghi's press conference that could trigger some significant market reaction. However, we do not expect ECB's governor to give any more details on what and when the central bank could do.

EURUSD fell slightly below Tuesday low and temporarily reached c.1.096. The trading range narrowed what indicated

anticipation atmosphere awaiting ECB decision today. A month ago ECB meeting caused (a temporary) rebound of EURUSD and today it may be the same in our view. Important levels are 1.095 and 1.106.

EURUSD remained stable yesterday just above 4.31, while USDPLN recorded a slight rebound due to EURUSD decrease. The zloty negatively reacted to EBC decision in September and in our view, it may be the same. EURPLN broke the resistance at 4.32 and we are expecting further increases towards 4.36.

On the domestic interest rate market both IRS and bond curves continued to flatten amid strengthening on the belly and long ends. As a result, the 10Y yield fell below 3% for the first time since early October. We think that the ECB decision will have a key impact on Polish market rates today if the outcome of the ECB's meeting is roughly the same as last month then the market response may also be similar. The yield of 10Y Polish bond was rising a month before and after the September's ECB meeting. Just like last month, the yield was rising this time as well. Last month's disappointment triggered an upside move, which could be smaller this time for two reasons – market could be somewhat more prepared for such a decision and the 10Y yields above 3% could be attractive for foreign investors hunting for yield. Later in the year, we expect yields to rise due to the Fed rate hike.

Industrial production in September rose 3.2% y/y, construction output fell 15.9% y/y, while retail sales rose 6.3% y/y (in constant prices). Despite slight rebound in construction, we think that on balance the data were disappointing and confirmed that the GDP growth in 3Q16 was probably below 3% y/y. However, it has to be noted that the forecast error is bigger than usually as the stat office informed earlier today about upward revision of GDP growth in 2015, without providing the revised quarterly time series. Amid investments falling and export growth slowing down, the private consumption is now the main engine of economic growth in Poland. However, its pace of growth also seems to be disappointing, in our view, taking into account solid growth of households' revenue (from both labour and family subsidies). We maintain the view that next quarters are unlikely to see an acceleration of economic growth above 3% y/y.

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FX market

Today's opening

EURPLN	4.3124	CZKPLN	0.1596
USDPLN	3.9334	HUFPLN*	1.4062
EURUSD	1.0963	RUBPLN	0.0631
CHFPLN	3.9717	NOKPLN	0.4825
GBPPLN	4.8284	DKKPLN	0.5795
USDCNY	6.7397	SEKPLN	0.4446

*for 100HUF

Last session in the FX market 19/10/2016

	min	max	open	close	fixing
EURPLN	4.309	4.327	4.322	4.317	4.3204
USDPLN	3.914	3.942	3.929	3.928	3.9285
EURUSD	1.097	1.103	1.100	1.099	-

Interest rate market 19/10/2016

T-bonds on the interbank market**

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
PS0418 (2Y)	1.75	0	6.10.2016	OK1018	1.742
PS0421 (5Y)	2.42	1	22.09.2016	PS0721	2.243
DS0726 (10Y)	2.96	-5	6.10.2016	DS0727	3.098

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.72	-1	0.96	0	-0.20	0
2L	1.79	-2	1.03	0	-0.20	0
3L	1.84	-2	1.10	0	-0.18	-1
4L	1.94	-2	1.17	-1	-0.13	0
5L	2.04	-2	1.24	-1	-0.07	0
8L	2.27	-4	1.46	-1	0.21	0
10L	2.40	-4	1.57	-1	0.40	0

WIBOR rates

Term	%	Change (bps)
O/N	1.68	-1
T/N	1.68	-1
SW	1.64	0
2W	1.64	0
1M	1.66	0
3M	1.72	0
6M	1.80	0
9M	1.82	0
1Y	1.84	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.72	0
3x6	1.72	0
6x9	1.70	-2
9x12	1.69	-3
3x9	1.79	-1
6x12	1.78	-3

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	71	-1	2.98	-4
France	29	0	0.28	-1
Hungary	116	1	2.90	-2
Spain	66	-1	1.08	2
Italy	135	-1	1.36	1
Portugal	303	0	3.15	-5
Ireland	65	1	0.45	-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



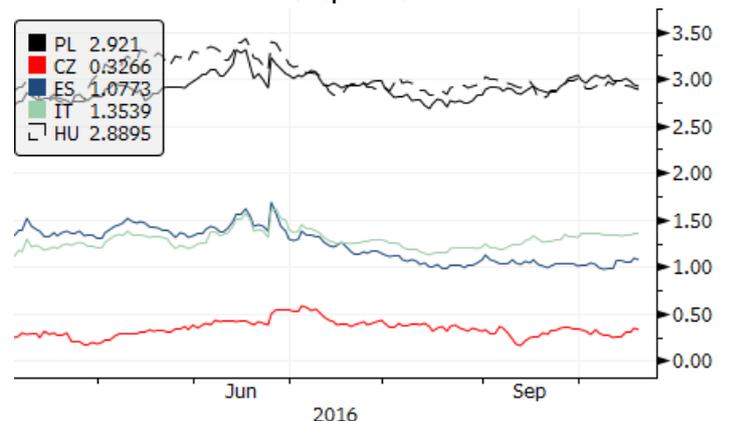
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	BZWBK			
FRIDAY (14 October)								
14:00	PL	Current account	Aug	€m	-366	-672	-1047	-635
14:00	PL	Exports	Aug	€m	13815	14089	13 750	13520
14:00	PL	Imports	Aug	€m	13754	14134	14 259	13842
14:00	PL	Money supply	Sep	% y/y	9.5	9.6	9,3	10,1
14:30	US	Retail sales	Sep	% m/m	0.6	-	-0.6	-0.2
16:00	US	Flash Michigan	Oct	pts	91.9	-	87.9	91.2
MONDAY (17 October)								
11:00	EZ	HICP	Sep	% y/y	0.4	-	0.4	0.4
15:15	US	Industrial output	Sep	% m/m	0.2	-	0.1	-0.5
TUESDAY (18 October)								
14:00	PL	Wages in corporate sector	Sep	% y/y	4.5	4.4	3.9	4.7
14:00	PL	Employment in corporate sector	Sep	% y/y	3.1	3.0	3.2	3.1
14:30	US	CPI	Sep	% y/y	1.5	-	1.5	1.1
WEDNESDAY (19 October)								
14:00	PL	Industrial output	Sep	% y/y	3.5	4.6	3.2	7.5
14:00	PL	Construction and assembly output	Sep	% y/y	-18.8	-20.9	-15.3	-20.5
14:00	PL	Real retail sales	Sep	% y/y	7.8	8.0	6.3	7.8
14:00	PL	PPI	Sep	% y/y	0.2	0.3	0.2	-0.1
14:30	US	House starts	Sep	% m/m	2.9	-	-9.0	-5.6
14:30	US	Building permits	Sep	% m/m	1.1	-	6.3	-0.4
20:00	US	Fed Beige Book						
THURSDAY (20 October)								
13:45	EZ	ECB decision		%	0.00	-		
14:00	PL	MPC minutes						
14:30	US	Initial jobless claims	week	k	250	-		
14:30	US	Philly Fed index	Oct	pts.	5.0	-		
16:00	US	Home sales	Sep	% m/m	0.4	-		
FRIDAY (21 October)								
11:00	PL	Bond auction						

Source: BZ WBK, Reuters, Bloomberg

* in case of the revision, the data is updated

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