

EYEOPENER

11 August 2014

Poland's rating unchanged with stable outlook

- End of the week in weaker moods despite better than expected data from Germany, Poland's rating unchanged with stable outlook
- Considerable zloty volatility, profit-taking on EURUSD
- IRS and bond yields with no major changes at the end of the week despite record-strong Bunds
- Today CPI inflation in the Czech Republic

The end of the previous week on the global market proceeded with weak moods. Aversion to risky assets was boosted by the same factors as in recent days – anxiety about the situation in Ukraine, Middle East and Iraq. Better than expected data concerning German exports published on Friday did not have a significant influence on the session but supported the euro. Fear about growth of geopolitical risk made German 10Y bonds reach 1% once again. Despite the uncertain geopolitical situation, stock market indices in the US and Asia advanced quite considerably (including Nikkei which added 2.4%). On one hand, it was the result of factors specific for particular countries (i.e. information about Japanese pension funds which decided to purchase a great volume of stocks). On the other hand, it was the result of information that Russia ended its air force exercises which took place near Ukraine's border, where pro-Russian separatists fight the Ukrainian army. In Gaza Strip an armistice for 3 days has been announced.

EURUSD was climbing quite dynamically since Friday session's beginning and reached 1.342 at the end of the day. The euro appreciated despite rather negative mood on the market and ECB's dovish rhetoric. The impulse for taking profit from recent depreciation trend was provided by slightly better than expected data concerning German exports. At today's opening EURUSD is at 1.34. Clear improvement of mood does not have an impact on EUR now. Over the last few days, the euro did not react strongly on dynamic changes in global markets. Data from the US and the euro zone were more important and their first bunch for this week is due for release. Therefore, EURUSD should remain stable near 1.333-1.344.

EURPLN and USDPLN continued growths in the first hours of Monday's session. Rates reached 4.225 and 3.16, respectively. PLN is still under pressure of anxiety of exacerbation of situation in Ukraine. However, correction came fast, moving the rates back to Thursday's close. There appeared a rumour that

BGK's intervention is the reason for PLN's appreciation. HUF and RUB trimmed losses as well. CZK stayed under pressure. This morning EURPLN fluctuates slightly above 4.19. The tension concerning the situation in the East diminished which can positively influence PLN on the beginning of this week. We will get to know CPI YoY in Czech Republic and in Hungary. The data can influence expectations concerning forecasts for Poland. In recent weeks the negative impact on zloty due to expectations for monetary policy easing was scaled back by capital inflow on Polish debt market. This is why low CPI may not influence the zloty.

In the domestic interest rate market Friday's session did not bring any significant changes. Polish bond and IRS did not show any noticeable reactions to strengthening of 10Y Bunds (yield reached all-time low at nearly 1.02%) and falling yields in the euro zone peripheries. Trade volume lower than in the previous days of the week. 1-12M WIBOR rates stayed unchanged. German bond started the session on the weaker side and this may mean also some increase in yields in the Polish market. However, we expect domestic IRS and bond yields to stay close to the current levels as investors wait for important Polish macro data (CPI and flash GDP).

During the weekend S&P and Fitch rating agencies affirmed Polish rating at A-/A-2 and A-, respectively, with the stable outlooks. Statements issued underlined the improvement in the economic outlook, for 2015-2016, in particular. Risk factors are related mainly to the uncertainty regarding the impact of the US and EU sanctions imposed on Russia.

There are no important data releases from core economies scheduled for today, so investors' attention is likely to remain focused on the geopolitical situation. However, macro calendar for the next days is full of important data publications so the fluctuations in the markets can stay high. German ZEW index will show if manufacturing PMI for July was something more than a temporary rebound and flash GDP will indicate how strong was the slowdown of economic growth in Europe during 2Q14. Apart from external factors, data from Poland can have an impact on the zloty and domestic interest rate market. We expect data to show deflation in July and slower pace of the GDP growth in 2Q14 which should be enough to sustain market expectations of rate cuts in Poland later this year. In recent weeks the negative impact of expectations of monetary policy easing on the zloty was smoothed out by the inflow of foreign capital into the Polish debt market. We expect this relationship to be maintained in the coming days.

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FX market

Today's opening

EURUSD	1.3395	CADPLN	2.8533
USDPLN	3.1309	DKKPLN	0.5625
EURPLN	4.1930	NOKPLN	0.5014
CHFPLN	3.4559	SEKPLN	0.4544
JPYPLN*	3.0667	CZKPLN	0.1506
GBPPLN	5.2530	HUFPLN*	13401

*for 100JPY/100HUF

Last session

08.08.2014

	min	max	open	close	fixing
EURPLN	4.1915	4.2250	4.2207	4.2050	4.2184
USDPLN	3.1296	3.1598	3.1568	3.1346	3.1509
EURUSD	1.3356	1.3432	1.3373	1.3415	-

Interest rate market 08.08.2014

T-bonds (on the interbank market)**

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
PS0416 (2Y)	2.37	-1	7.11.13	2.983
PS0719 (5Y)	2.89	-2	08.05.14	3.406
DS1023 (10Y)	3.38	1	03.04.14	4.261

IRS rates (on the interbank market)**

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	2.40	-2	0.32	0	0.31	0
2L	2.47	2	0.65	-2	0.33	1
3L	2.57	1	1.08	-3	0.40	0
4L	2.71	0	1.45	-5	0.50	0
5L	2.86	1	1.73	-5	0.62	0
8L	3.15	3	2.29	-6	1.04	-2
10L	3.28	2	2.53	-6	1.30	-3

WIBOR rates

TERM	%	Daily change (bp)
O/N	2.63	-1
T/N	2.63	0
SW	2.60	0
2W	2.60	0
1M	2.60	0
3M	2.67	0
6M	2.69	0
9M	2.71	0
1Y	2.72	0

FRA rates (on the interbank market)**

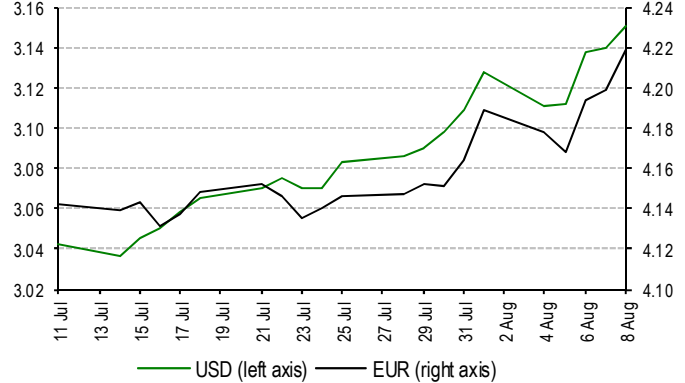
TERM	%	Daily change (bp)
1x2	2.43	-5
1x4	2.52	0
3x6	2.32	0
6x9	2.23	-3
9x12	2.24	-3
3x9	2.32	-2
6x12	2.25	-1

Measures of fiscal risk

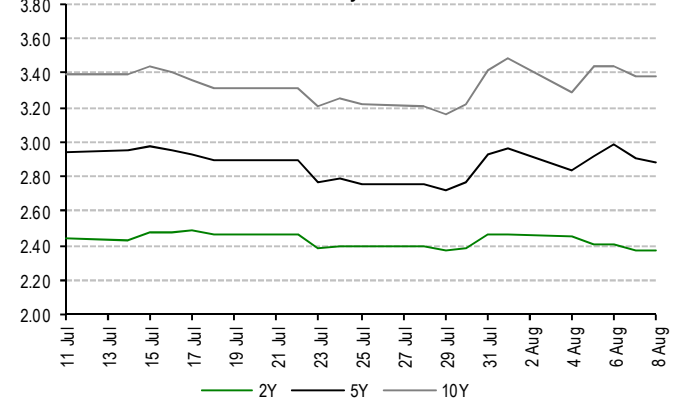
Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	63.2	3	2.34	7
Czech Republic	47.0	1	0.40	2
Hungary	185.0	0	4.03	0
Greece	37030.5	0	5.41	1
Spain	84.1	0	152	3
Italy	120.2	1	177	5
Portugal	226.1	1	2.78	6
Ireland	58.3	-1	1.19	2
Germany	22.0	-1	--	--

* 10Y treasury bonds over 10Y Bunds

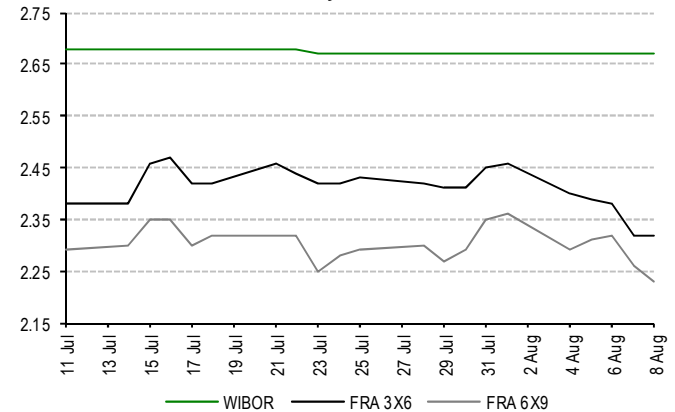
Zloty exchange rate (fixing)



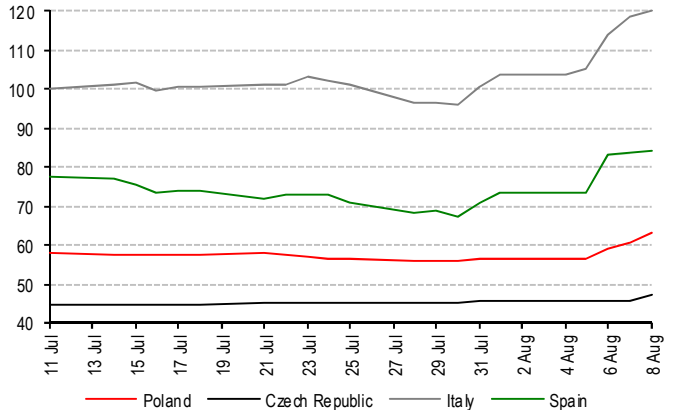
T-bonds yields



3-month money market rates



CDS 5Y



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

Source: Reuters

Economic calendar

CET TIME	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	BZWBK		
FRIDAY (8 August)								
8:00	DE	Exports	Jun	%MoM	0.8	-	0.9	-1.1
MONDAY (11 August)								
9:00	CZ	CPI	Jul	%YoY	0.3	-	0.5	0.0
TUESDAY (12 August)								
9:00	HU	CPI	Aug	%YoY	-0.1	-		-0.3
11:00	DE	ZEW index	Aug	pts	57.0	-		61.8
WEDNESDAY (13 August)								
11:00	EZ	Industrial output	Jun	%MoM	0.4	-		-1.1
14:00	PL	CPI	Jul	%YoY	-0.2	-0.2		0.3
14:00	PL	Exports	Jun	€m	13 751	13 933		13 642
14:00	PL	Imports	Jun	€m	13 387	13 332		13 467
14:00	PL	Current account	Jun	€m	-249	-157		280
14:30	US	Retail sales ex autos	Jul	%MoM	0.4	-		0.4
THURSDAY (14 August)								
8:00	DE	Flash GDP	Q2	%YoY	1.4	-		2.5
9:00	HU	Flash GDP	Q2	%YoY	3.4	-		3.5
9:00	CZ	Flash GDP	Q2	%YoY	3.0	-		2.9
10:00	PL	Flash GDP	Q2	%YoY	3.2	3.1		3.4
11:00	EZ	Flash GDP	Q2	%YoY	0.6	-		0.9
11:00	EZ	HICP	Jul	%YoY	0.4	-		0.5
14:00	PL	Core inflation	Jul	%YoY	0.4	0.2		1.0
14:00	PL	Money supply	Jul	%YoY	5.5	5.7		5.2
14:30	US	Initial jobless claims	week	k	-	-		289
FRIDAY (15 August)								
	PL	Market holiday						
15:15	US	Industrial output	Jul	%MoM	0.3	-		0.2
15:55	US	Flash Michigan	Aug	pts	82.5	-		81.8

Source: BZ WBK, Reuters, Bloomberg

* in case of the revision, the data is updated

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