

Eyeopener – PMI data today

3 September 2012

- **Bernanke suggests that Fed may keep stimulating economy if needed, but points to risks of continuing QE3**
- **Zloty little changed, EURUSD volatile**
- **Domestic bonds stronger thanks to good sentiment abroad, WIBOR keeps falling**
- **Today, manufacturing PMI for August, market holiday in the US**

Trade was stable at the beginning of the last session of the previous week. Stock markets were also relatively stable, but global FX market was quite volatile. However, this time the domestic currency did not record considerable changes. The euro was trimming losses suffered against the dollar on Thursday. This was up to a certain extent due to comment of the ECB executive board member. Benoît Cœuré said that the central bank is working on a possibility to intervene on short-term debt market. However, he stressed that such actions will be under strict rules. Cœuré added that the plan outlines EFSF and ESM activity. The Fed president said during his speech in Jackson Hole that the improvement on the labour market is too slow and the central bank may employ further tools supporting the economy if necessary. Ben Bernanke added also that the Fed is aware of risks due to non-standard policy measures. The first market reaction to these words was negative, as Bernanke did not suggest launch of QE3 in the nearest time and pointed risks of such actions. Still, in Bernanke's view these risks can be controlled. View of further economic stimulus quickly prevailed, so following hours of the session passed in sanguine moods supported by hopes for QE3. Increases on Asian bourses today were additionally underpinned by weak data (e.g. PMI), enhancing market hopes for further monetary stimulus.

The EURUSD was clearly rising since the beginning of the session due to recovery after Thursday's plunge. Additional support for the euro was provided by member of ECB board. Consequently, before the Bernanke's speech the EURUSD was testing 1.26. Lack of clear-cut declaration on plans of launching QE3 quickly has disappointed slightly the market and the exchange rate started to fall. Still, the situation stabilized soon and at the end of the day the EURUSD was close to 1.26. During the US session there was a correction to 1.256 while this night the exchange rate was stable. Today market attention will focus of final PMI for Germany and the euro zone, in the afternoon the volatility may be lower due to market holiday in the US. For the EURUSD the resistance at ca. 1.258 remains vital as the exchange rate did not manage to stay above this level for longer period of time.

The EURPLN and USDPLN were falling since the beginning of the session, the trend was more visible in case of the latter exchange

rate. The zloty was backed by relatively good market mood persisting on the global market (amid expectations ECB action) and strong surge of the EURUSD. The EURPLN reached 4.17 while USDPLN 3.31. Higher volatility of the EURUSD triggered only slight depreciation of the zloty. Optimism prevailing on the global market during the US session had positive impact on the domestic currency, the EURPLN declined to 4.165. Today in the morning the zloty is weakening slightly versus the euro. Final PMI will be important for the market. Expectations for rate cuts in Poland limit the room for zloty's appreciation.

On the domestic debt market bonds gained along the curve, but the trade volume was still rather low. It is worth to notice that spread of 5Y bonds versus German debt is close to local peak (400bps) while in case of 10Y it rebounded from resistance at 360bps. The downward trend was also continued on the IRS market. 10Y IRS reached lowest level since December 2008 and 2Y since March 2009. WIBOR and FRA declined further. 3M WIBOR is already 12bps lower than before the release of GDP data, for longer rates the scale of decline is only slightly smaller (10-11bps).

Inflation expectations increased in August to 4.4%, up from 3.5% in July. Though an increase was expected taking into account higher inflation rate employed in calculation (June's CPI at 4.3% vs 3.6% in May), one should notice that the structure of responses worsened. A share of respondents expecting prices to rise at the same pace or faster increased from 70.8% to 77.5%.

NBP president Marek Belka said in an interview with Bloomberg television during Jackson Hole conference that he sees some room for rate cut if necessary. Belka confirmed that the economy is slowing and added that current zloty volatility is not a problem and the level of exchange rate is appropriate for exporters. This comment does not change our expectations about the Council's decision. We expect that the MPC will not change interest rates in September, but will ease its tone considerably and may suggest a rate cut at the next meeting. Recently Marek Belka said that the Council will not surprise with its decision, so the MPC may want to signal a cut in its statement (as it happened prior to May's hike). This week the investors will focus on European central banks' (Bank of England, ECB) meetings. In our view, the ECB will not present its full version of new programme of euro zone peripheries' yields stabilization, but may show further details to buy more time. Also a row of important macro data is due for release, including PMI indices, payrolls and unemployment in the USA, German exports.

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F/X rates (today's opening)

EURUSD	12574	CADPLN	3.3720
USDPLN	3.3250	DKKPLN	0.5610
EURPLN	4.4810	NOKPLN	0.5731
CHFPLN	3.4811	SEKPLN	0.5016
JPYPLN*	4.2465	CZKPLN	0.1681
GBPPLN	5.2766	HUFPLN*	14712

*for 100JPY/100HUF

Financial market review - 31.08.2012

The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.1700	4.2023	4.2021	4.1805	4.1838
USDPLN	3.3048	3.3640	3.3613	3.3176	3.3353
EURUSD	12491	12636	12502	12606	-

T-bonds

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0714 (2Y)	4.06	-4	19.07	4.361
PS0417 (5Y)	4.35	-4	10.8	4.361
DS1021 (10Y)	4.86	-4	10.05	5.349

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	4.53	-7	0.38	-2	0.50	0
2L	4.35	-6	0.41	-3	0.51	1
3L	4.29	-5	0.48	-2	0.60	1
4L	4.26	-7	0.63	-2	0.77	2
5L	4.26	-7	0.82	-2	0.96	3
8L	4.34	-5	1.42	0	1.49	3
10L	4.37	-6	1.71	1	1.73	3

WIBOR rates

TERM	%	Daily change (bp)
O/N	4.88	-18
T/N	4.88	-8
SW	4.84	-1
2W	4.85	-1
1M	4.90	-1
3M	4.99	-5
6M	5.01	-5
9M	5.02	-5
1Y	5.02	-5

FRA rates (Mid)

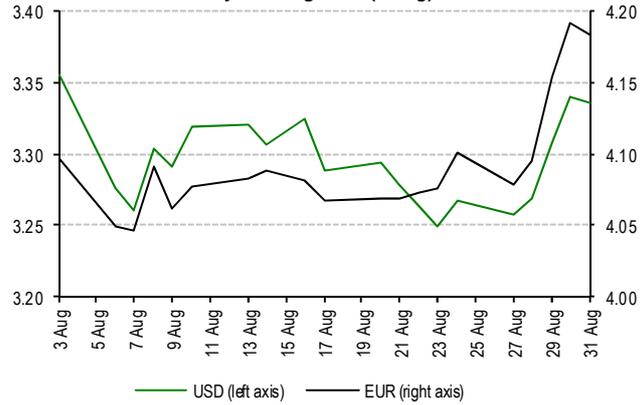
TERM	%	Daily change (bp)
1x2	4.83	-7
1x4	4.89	-6
3x6	4.59	-4
6x9	4.25	-3
9x12	4.05	0
3x9	4.63	-6
6X12	4.26	-2

Measures of fiscal risk

Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	155.3	-1	3.49	-8
Czech Republic	114.0	0	0.94	-12
Hungary	436.1	4	6.00	-19
Greece	37030.5	0	2196	-58
Spain	510.5	10	5.37	9
Italy	460.7	101	4.43	-2
Portugal	638.9	0	8.03	-11
Ireland	437.6	-2	4.64	-4
Germany	61.9	1	-	-

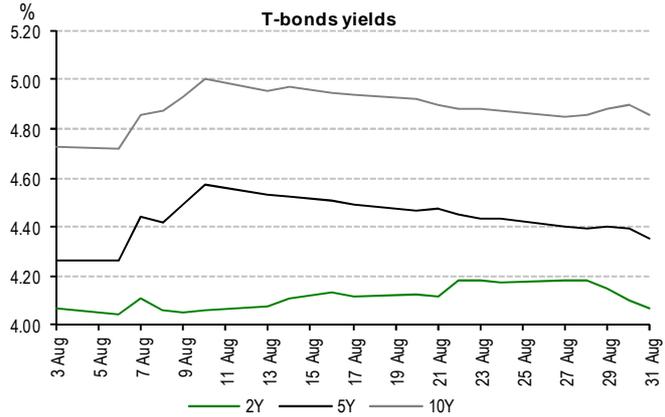
* 10Y treasury bonds over 10Y Bunds

Zloty exchange rate (fixing)



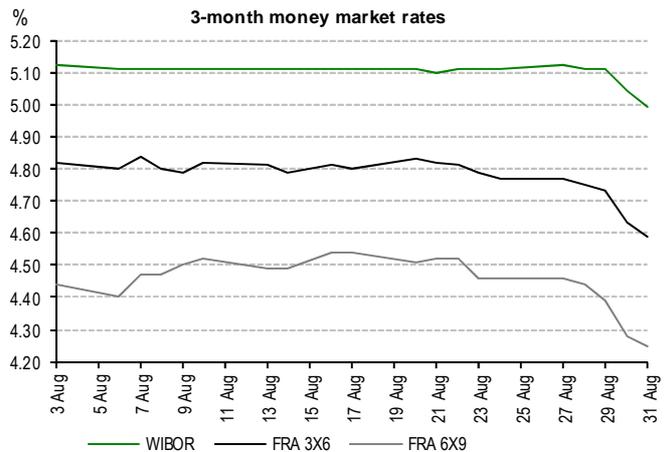
— USD (left axis) — EUR (right axis)

T-bonds yields



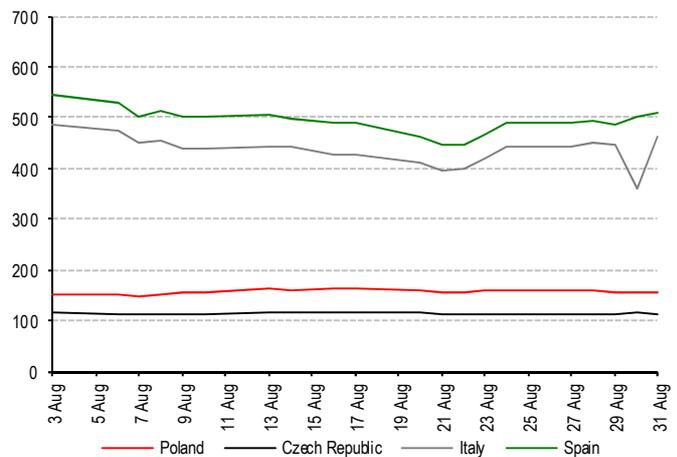
— 2Y — 5Y — 10Y

3-month money market rates



— WIBOR — FRA 3X6 — FRA 6X9

CDS 5Y



— Poland — Czech Republic — Italy — Spain

Source: Reuters

Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	BZWBK			
FRIDAY (30 August)								
11:00	EZ	Flash HICP	Aug	%YoY	2.5	-	2.6	2.4
14:00	PL	Inflation expectations	Aug	%YoY	-	-	4.4	3.5
15:45	US	Chicago PMI index	Aug	pts	53.5	-	53.0	53.7
15:55	US	Michigan index	Aug	pts	73.6	-	74.3	72.3
16:00	US	Industrial orders	Jul	%MoM	1.2	-	2.8	-0.5
MONDAY (3 September)								
	US	Market holiday						
4:30	CN	PMI – manufacturing	Aug	pts	-	-	47.6	49.3
9:00	PL	PMI – manufacturing	Aug	pts	49.0	49,0		49.7
9:53	DE	PMI – manufacturing	Aug	pts	45.1	-		43.0
9:58	EZ	PMI – manufacturing	Aug	pts	45.3	-		44.0
TUESDAY (4 September)								
16:00	US	ISM – manufacturing	Aug	pts	50.0	-		49.8
WEDNESDAY (5 September)								
	PL	MPC decision		%	4.75	4,75		4.75
9:53	DE	PMI – services	Aug	pts	48.3	-		50.3
9:58	EZ	PMI – services	Aug	pts	47.5	-		47.9
11:00	EZ	Retail sales	Jul	%MoM	-0.2	-		0.1
THURSDAY (6 September)								
11:00	PL	Bond switch auction						
11:00	EZ	GDP revision	Q2	%YoY	-0.4	-		0.0
13:00	GB	BoE decision		%	0.50	-		0.50
13:45	EZ	EBC decision		%	0.75	-		0.75
14:15	US	ADP report	Aug	k	150	-		163
14:30	US	Initial jobless claims	week	k	370	-		374
FRIDAY (7 September)								
8:00	DE	Exports	Jul	%MoM	-0.5	-		-1.5
12:00	DE	Industrial output	Jul	%MoM	0.0	-		-0.9
14:30	US	Non-farm payrolls	Aug	k	135	-		163
14:30	US	Unemployment rate	Aug	%	8.2	-		8.3

Source: BZ WBK, Reuters, Dow Jones

* in case of the revision, the data is updated

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