Bank Zachodni WBK

Eyeopener – Lower forecasts of global growth

9 October 2012

- **Higher concerns about world economic growth negatively affecting market moods**
- **Zloty following global moods, EURUSD lower**
- **Domestic yields unchanged with low turnover amid market holiday in the US**
- **Today, Merkel visits Greece, start of Q3 earnings season in the US**

The week began rather unfavourably for risky assets. Downward revision of World Bank's forecasts for Asia raised investors' worries about prospects for the global economy. As a result, European stock markets were in red, while the euro was losing against the dollar for the better part of the session. Some effect of Friday's US labour market data was still visible, as they caused some correction of expectations about scale and timing of QE3. The euro zone finance ministers have officially launched the ESM rescue fund yesterday. Its president, Klaus Regling, said that the fund disposes of capitals worth €200bn and AAA rating granted by the Fitch. Additionally, after the Eurogroup meeting ministers expressed their acknowledgment of Greek determination in implementing reforms and, at the same time, showed a list of 89 further actions, which the Greek government has to commit to prior to the EU summit scheduled for 18-19 October in order to be able to disburse another bailout tranche (€31bn). Greece still wants two more years to reach its fiscal targets. Overnight the global sentiments improved slightly, as the IMF's downward revision of forecasts was overshadowed by hopes for Chinese central bank's economic stimulus.

The IMF in its newest World Economic Outlook revised the global economic growth forecasts downwards (3.3% in 2012 versus 3.5% in earlier edition of the report), stressing the "alarmingly high" risk of deeper global slump. Forecasts for Poland were also cut and now show a deceleration of GDP growth to 2.4% in 2012 (versus 2.6% expected in April) and to 2.1% (from 3.2%) in 2013. Predictions of general government deficit were raised to 3.4% of GDP in 2012 (from 3.2%) and to 3.1% (from 2.8%) in 2013.

The EURUSD was falling since the beginning of the session amid pretty sudden deterioration of global market sentiment. During the day the exchange rate reached nearly 1.293, but at the end of the day it rebounded to 1.296. Over the night the EURUSD continued to increase and today in the morning is just below 1.30. During the European session comments related to Merkel's visit to Greece may have some impact on the market while later in the day investors will focus on quarterly financial results presented by US companies. Support and resistance for today is at 1.29 and 1.307.

The EURPLN increased at the beginning of the session nearly to resistance pointed yesterday (4.09) while the USDPLN approached 3.16. Yesterday's comments of MPC members had only temporary negative impact on the zloty as in the following hours the domestic currency recovered slightly amid some stabilization of global market moods. Today in the morning the EURPLN is just above 4.06 and only slightly above vital support area at 4.046-4.06. Some information regarding Greece and quarterly financial results of US companies will likely be most important today for the zloty.

On the domestic debt market hardly any changes occurred. Due to market holiday in the US perhaps only today we will see how much yesterday's comments of the MPC members influenced market expectations regarding changes of the NBP interest rates in coming months.

Adam Glapiński – who belongs to hawkish camp in the MPC – said yesterday in the morning he would conditionally support a motion for a rate cut in November. A bit later, Anna Zielińska-Głębocka – who in late September did not exclude voting for a rate cut in coming months – warned that a rate cut in November is not prejudged. In her opinion the MPC should wait to assess how strong is the "anti-inflationary impulse" and monetary policy decisions should be "deliberate" and there should be "no radical or sudden changes". For Zielińska-Głębocka November's projection of the NBP will be more important than macro data for September. Meanwhile, Jan Winiecki (another hawk) stated yesterday that GDP growth at ca. 2% in 2012 and 2013 should not cause any intervention of the MPC and he would be persuaded to support a rate cut only by a scenario with GDP growth "approaching zero, i.e. 0.5-1.0%". He also noted that monetary policy easing should be implemented as a cycle, not as a one-off decision. Elżbieta Chojna-Duch (known for her dovish views) said that the NBP interest rates can be cut by 100bps until the end of 2013. These comments did not actually shed much light on prospect of monetary policy in the upcoming months. However, taking into account the strong declaration expressed in the last post-meeting communiqué and the fact that conditions for a cut stated in this document will probably be fulfilled, we stick to our forecast of a 25bps cut in November with total easing by 75bps until the end of 1Q2013.

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F/X rates (today's opening)

EURUSD	1.2985	CADPLN	3.2117
USDPLN	3.1326	DKKPLN	0.5454
EURPLN	4.0674	NOKPLN	0.5490
CHFPLN	3.3534	SEKPLN	0.4729
JPYPLN*	3.9976	CZKPLN	0.1633
GBPPLN	5.0246	HUFPLN*	1.4353

*for 100JPY/100HUF

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.0635	4.0884	4.0720	4.0718	4.0770
USDPLN	3.1270	3.1590	3.1382	3.1398	3.1430
EURUSD	1.2935	1.2992	1.2978	1.2969	-

T-bonds

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0714 (2Y)	3.97	-4	19.07	4.361
PS0417 (5Y)	4.17	2	4.10	4.224
DS1021(10Y)	4.65	-3	19.09	4.944

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	4.37	0	0.36	1	0.40	-1
2L	4.24	-1	0.40	1	0.46	-2
3L	4.20	-1	0.47	0	0.57	-3
4L	4.22	0	0.61	0	0.73	-4
5L	4.24	-1	0.81	1	0.93	-4
8L	4.35	1	1.45	1	1.49	-5
10L	4.37	0	1.78	0	1.76	-5

WIBOR rates

TERM	%	Daily change (bp)
O/N	4.86	2
T/N	4.86	1
SW	4.83	0
2W	4.84	0
1M	4.87	-1
3M	4.91	1
6M	4.92	0
9M	4.92	-1
1Y	4.92	-1

FRA rates (Mid)

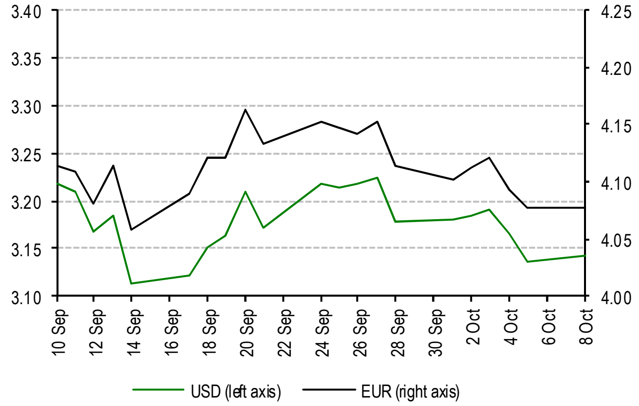
TERM	%	Daily change (bp)
1x2	4.62	-15
1x4	4.70	-14
3x6	4.48	-1
6x9	4.03	1
9x12	3.84	0
3x9	4.49	-2
6X12	4.02	0

Measures of fiscal risk

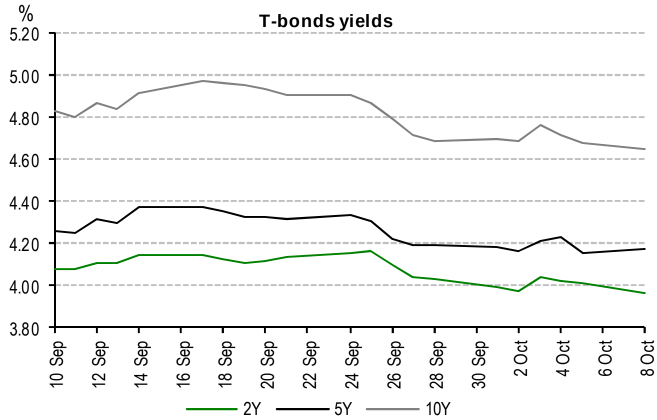
Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	103.1	0	3.19	4
Czech Republic	84.8	0	0.88	8
Hungary	344.3	0	5.84	-2
Greece	37030.5	0	16.81	6
Spain	344.8	1	4.28	8
Italy	302.6	-4	3.61	10
Portugal	473.6	-3	6.73	-12
Ireland	288.9	-3	3.60	2
Germany	49.5	0	--	--

* 10Y treasury bonds over 10Y Bunds

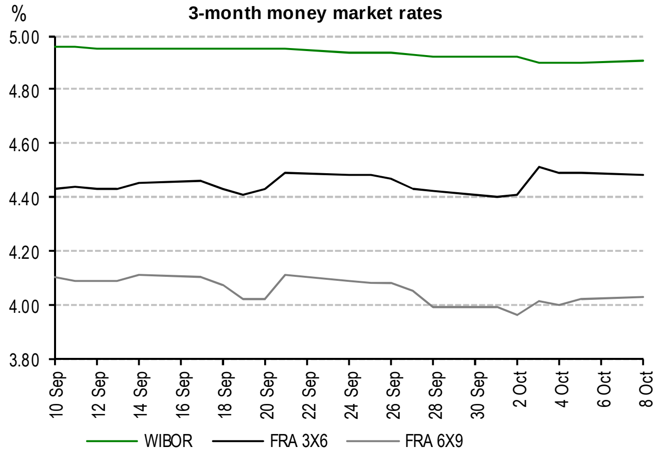
Zloty exchange rate (fixing)



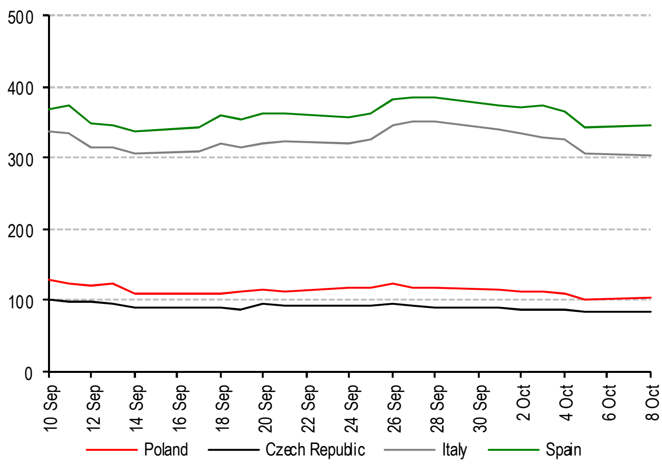
T-bonds yields



3-month money market rates



CDS 5Y



Source: Reuters

Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE*
		FRIDAY (4 October)						
12:00	DE	Industrial orders	Aug	%MoM	-0.6	-	-1.3	0.3
14:30	US	Non-farm payrolls	Sep	k	120	-	114	142
14:30	US	Unemployment rate	Sep	%	8.2	-	7.8	8.1
		MONDAY (8 October)						
8:00	DE	Exports	Aug	%MoM	-0.7	-	2.4	0.5
	US	Market holiday						
	EZ	Meeting of the Eurogroup						
10:30	EZ	Sentix index	Oct	pts	-20.4	-	-22.2	-23.2
12:00	DE	Industrial output	Aug	%MoM	-0.8	-	-0.5	1.2
		TUESDAY (9 October)						
10:30	IT	GDP	Q2	%YoY	-2.5	-		1.0
		WEDNESDAY (10 October)						
		Meeting of the ECOFIN						
16:00	US	Wholesale inventories	Aug	%MoM	0.4	-		0.7
20:00	US	Fed Beige Book						
		THURSDAY (11 October)						
		Meeting of members of G7 group						
14:30	US	Trade balance	Aug	$bn	-43.9	-		-42.0
14:30	US	Initial jobless claims	week	k	-	-		367
14:30	US	Import prices	Sep	%MoM	0.8	-		0.7
		FRIDAY (12 October)						
11:00	EZ	Industrial output	Aug	%YoY	-4.3	-		-2.3
14:00	**PL**	**Money supply**	**Sep**	**%YoY**	**8.5**	**7.9**		**9.5**
15:55	US	Flash Michigan	Oct	pts	-	-		78.3

Source: BZ WBK, Reuters, Parkiet

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

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