Bank Zachodni WBK

Eyeopener – US elections in focus

6 November 2012

- **Weak start of the week due to concerns about Greece and uncertainty regarding US elections**
- **Zloty weaker against euro and dollar, affected by risk aversion and looming interest rate cuts**
- **Continuation of strengthening in domestic debt market**
- **Today, elections in the US and a number of data releases in Europe**

Investors' worries about Greece and uncertainty due to presidential election in the USA have contributed to a weak beginning of the week. On Wednesday the Greek parliament is to vote over plan of reforms (bringing €13.5bn austerity) presented yesterday by the government. Approval of these measures is an important condition to disburse another tranche of bailout. Rising yields of the euro zone peripheries were reflecting the investors' moods, similarly as considerable drops on European stock markets and strengthening of 10Y German bonds to levels seen at the end of September (yields of 2Y debt fell temporarily below 0, for the first time since early September). The euro was losing against the dollar. At the end of session in Europe a rumour emerged saying that the decision about further help for Greece will rather not be taken by nearest Monday (when the euro zone finance ministers' meeting is scheduled), but still it should be expected in November. According to comments of the Greek PM, without disbursement of new external help, the country will lose financial liquidity and will be unable to meet its liabilities already this month. During session in Asia the main stock indices were fluctuating between slight gains and losses due to uncertainty about election in the USA. Bank of Australia left the interest rates unchanged (while a cut was expected), noting signals of stabilization in global economy and a slight inflation pickup.

The EURUSD after sudden plunge at the beginning of the session from 1.284 to 1.278, in the following hours deepened the decline to 1.276, but the pace of drop was clearly not that immense and volatility was limited as market awaits results of US elections. Over the night the EURUSD remained stable and today in the morning is close to 1.278. Just like yesterday, during the European session the situation shall not change much. The reaction of the exchange rate to releases of data from the euro zone should be rather moderate. Vital levels for today are 1.274 and 1.282.

The EURPLN and USDPLN surged at the beginning of the session amid clear deterioration of global market sentiment. Additionally, negative pressure on the zloty was put by anticipated interest rate cut by the MPC. The EURPLN reached nearly 4.126 while the USDPLN increased slightly above 3.23. After morning's depreciation, the zloty was stable in the following hours. Over the night the domestic currency pared some losses and today in the morning the EURPLN is close to 4.115. Just like global players await results of US elections (and this stabilizes the EURUSD), the volatility of the EURPLN is limited as investors are waiting for the decision and the statement of the MPC. We do not expect any breaking changes during today's session.

Yesterday domestic debt market saw a continuation of downward move of bond yields and IRS rates, changes on FRA market were less considerable. Bond curve flattened thanks to a further strengthening of 5- and 10Y papers. The former securities' yield recorded another all-time low (3.93%). 2-10Y spread fell from 65bps to 59bps (the lowest level since mid-October). Polish bonds were supported by falling yields on the core markets. Market trade volumes were rather low. IRS rates fell by 3bps for 2Y to 5bps for 10Y. Since early October IRS curve declined by16-18bps in 2-10Y segment and by 25bps for 1Y. FRA and WIBOR rates fell slightly due to expectations for tomorrow's MPC interest rate cut.

Today the Ministry of Finance will announce final supply of new 5Y bond PS0418 for Thursday's auction. We do not expect a change of initial target of PLN2-4bn.

The NBP survey among loan officers showed that after banks tightened credit policies in all segments in Q3 (at smaller scale in case of consumption loans) they intend to tighten them further in Q4. In case of corporate loans, the tightening was implemented mainly for small and medium enterprises. Banks expect higher demand for loans in Q4 (in case of companies the demand is predicted mainly from the bigger ones).

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F/X rates (today's opening)

EURUSD	1.2773	CADPLN	3.2385
USDPLN	3.2247	DKKPLN	0.5523
EURPLN	4.1192	NOKPLN	0.5623
CHFPLN	3.4126	SEKPLN	0.4817
JPYPLN*	4.0291	CZKPLN	0.1632
GBPPLN	5.1565	HUFPLN*	1.4550

*for 100JPY/100HUF

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.1058	4.1259	4.1123	4.1202	4.1213
USDPLN	3.1958	3.2301	3.2039	3.2235	3.2211
EURUSD	1.2765	1.2842	1.2836	1.2783	-

T-bonds

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0714 (2Y)	3.82	0	23.10	3.856
PS0417 (5Y)	3.93	-7	4.10	4.224
DS1023 (10Y)	4.41	-7	23.10	4.496

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	4.10	-3	0.32	-1	0.38	-1
2L	4.05	-2	0.37	-2	0.44	-2
3L	4.01	-3	0.45	-3	0.56	-2
4L	4.03	-3	0.59	-4	0.73	-2
5L	4.07	-2	0.78	-5	0.93	-1
8L	4.16	-5	1.38	-7	1.48	-1
10L	4.19	-5	1.69	-7	1.75	-2

WIBOR rates

TERM	%	Daily change (bp)
O/N	4.84	-5
T/N	4.84	-5
SW	4.77	-3
2W	4.77	-2
1M	4.75	-1
3M	4.71	-1
6M	4.71	-1
9M	4.70	-1
1Y	4.70	-1

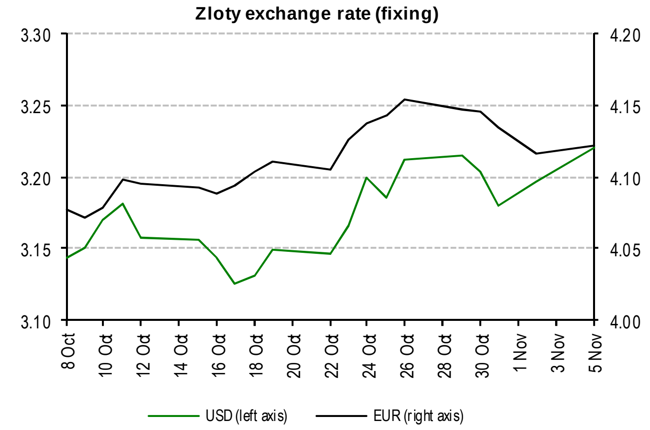
FRA rates (Mid)

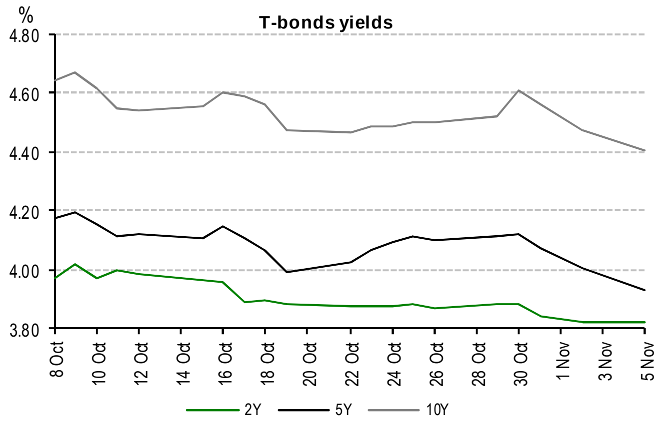
TERM	%	Daily change (bp)
1x2	4.52	0
1x4	4.47	0
3x6	4.10	-3
6x9	3.76	-3
9x12	3.66	-1
3x9	4.11	-5
6X12	3.77	-2

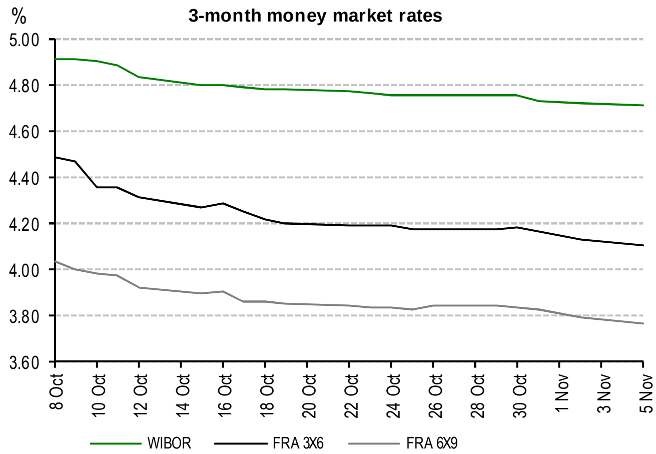
Measures of fiscal risk

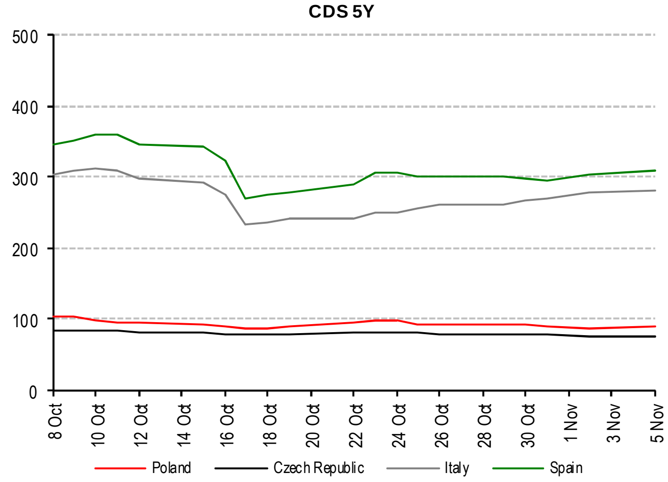
Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	88.7	1	3.00	-3
Czech Republic	77.4	0	0.53	3
Hungary	274.5	8	5.57	2
Greece	37030.5	0	16.58	-19
Spain	309.4	6	4.35	13
Italy	281.1	3	3.59	9
Portugal	528.2	25	7.13	2
Ireland	196.4	3	3.40	4
Germany	30.8	0	--	--

* 10Y treasury bonds over 10Y Bunds









Source: Reuters

Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE*
		FRIDAY (2 November)						
9:53	DE	PMI – manufacturing	Oct	pts	45.7	-	46.0	47.4
9:58	EZ	PMI – manufacturing	Oct	pts	45.3	-	45.4	46.1
13:30	US	Non-farm payrolls	Oct	k	123	-	171	148
13:30	US	Unemployment rate	Oct	%	7.9	-	7.9	7.8
15:00	US	Industrial orders	Sep	%MoM	4.2	-	4.8	-5.1
		MONDAY (5 November)						
10:30	EZ	Sentix index	Nov	pts	-20.0	-	-18.8	-22.2
16:00	US	ISM – services	Oct	pts	54.5	-	54.2	55.1
		TUESDAY (6 November)						
	US	Elections						
9:53	DE	PMI – services	Oct	pts	49.3	-		49.7
9:58	EZ	PMI – services	Oct	pts	46.2	-		46.1
12:00	DE	Industrial orders	Sep	%MoM	-0.5	-		-1.3
		WEDNESDAY (7 November)						
	PL	**MPC decision**		**%**	**4.50**	**4.50**		**4.50**
11:00	EZ	Retail sales	Sep	%MoM	-0.1	-		0.1
12:00	DE	Industrial output	Sep	%MoM	-0.5	-		-0.5
		THURSDAY (8 November)						
8:00	DE	Exports	Sep	%MoM	-1.5	-		2.4
11:00	**PL**	**Bond auction (PS0418), planned supply PLN2-4bn**						
13:00	GB	BoE decision		%	0.50	-		0.50
13:45	EZ	ECB decision		%	0.75	-		0.75
14:30	US	Initial jobless claims	week	k	370	-		
14:30	US	Trade balance	Sep	$bn	-45.3	-		-44.2
		FRIDAY (9 November)						
4:30	CN	CPI	Oct	%YoY	1.9	-		1.9
4:30	CN	Industrial output	Oct	%YoY	9.4	-		9.2
15:55	US	Flash Michigan	Nov	pts	82.8	-		82.6

Source: BZ WBK, Reuters

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

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