Bank Zachodni WBK

Eyeopener – Inflation's downward trend started

15 November 2012

- **Calm Wednesday after turbulent Tuesday**
- **Inflation returned to tolerance band after 21 months**
- **Zloty trimming part of losses, no reaction of EURUSD to macro data**
- **Domestic bonds little changed after CPI data**
- **Today, flash Q3 GDP in the euro zone, Philadelphia Fed index in the US**

Yesterday's session did not bring any considerable changes on the market. Italy raised the planned sum of €5bn at auction of 3-, 11- and 17Y bonds. Yields of the short-term papers fell as compared to earlier auction, but the bid-cover ratio decreased due to stronger worries about the euro zone. Spokesperson for German finance ministry said that everyone in the euro zone is working to keep Greece in the single currency area. The upcoming Eurogroup meeting will be a perfect opportunity to prove these words (the meeting was called due to differences between the IMF and EU regarding whether Greece should be given more time for debt reduction). Data from the USA were close to expectations and did not affect the trade. The Fed minutes, released in the evening, also did not have a long-lasting impact on the investors' moods. They showed that FOMC members think that launch of QE3 has improved credit conditions in the US economy and supported revival on the US housing market. Some of them think that additional purchases of assets may also be adequate in the upcoming years, when the twist operation comes to an end, in order to see a considerable improvement of the labour market conditions. However, some FOMC members doubted whether assets purchases are effective. Stock markets in the USA and in Asia recorded significant price drops, mainly due to rising concerns about risk of fiscal cliff in the USA, which overshadowed better-than-expected companies' financial results.

Yesterday EURUSD ranged around 1.274, and did not react significantly to the emerging comments and data. In response to the publication of the minutes of the last Fed meeting the rate rose sharply from 1.275 to almost 1.278, but it was only a temporary move and this morning EURUSD is hoveing near 1.273. The exchange did not react significantly to the Q3 GDP data for Germany and France published this morning and is waiting for further impulses. For the course of the session reading of GDP for the euro area and data from US may be important.

EURPLN and USDPLN retreated somewhat from the local peaks. The zloty did not react to the publication of CPI data. Overnight there were no significant changes in the behaviour of the domestic currency, this morning EURPLN oscillates around 4.175. The exchange was not able to stay above 4.18, so this is still the current level of resistance. Today zloty will be mainly affected by the data from the abroad. Weak sentiment at the beginning of the session (following the publication of disappointing data on German GDP) limits the potential for zloty appreciation.

On the domestic debt market yields of 5Y and 10Y bonds remained stable while short end of the curve strengthened quite visibly (yield of 2Y bond plunged from 3.71% to 3.65% - this move occurred before the data on CPI). IRS did not change and there was no reaction on CPI data. This may suggest that the downward momentum has ran out of fuel for the time being and perhaps only more dovish signals from the MPC will drag rates further down. WIBOR rates remained stable, while FRA rates increased slightly. The market reaction on the CPI data was muted, it is worth to remember, however, that in recent weeks the yields have already plunged quite visibly.

In line with expectations CPI inflation fell to 3.4%YoY in October. While our forecast amounted to 3.5%, the monthly change in prices was at 0.4%, exactly as we predicted. As we already suggested, the significant decrease from 3.8% in September starts the downward trend, which will be continued in the following months. After reaching the upper end of tolerance band around the target (for the first time since December 2010), we see 12M CPI below 3% in November and close to the target in the first quarter of 2013. After yesterday's release we do not change our estimate for core inflation figure for October (1.9% against market consensus at 1.8%). A forecast in line with our expectations was presented yesterday by the Finance Ministry.

After the release of CPI data MPC member, Anna Zielińska-Głębocka, said that one of interest rate cuts may reach 50bps. On Tuesday she said that there should be no pause in December and this suggests that in her opinion as soon as next month the NBP rate could be reduced by 50bps. Interestingly, not so long ago Zielińska-Głębocka was against sudden changes in monetary policy. Our base scenario assumes the MPC will not cut rates by 50bps in one move and will continue to move in small steps by 25bps.

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F/X rates (today's opening)

EURUSD	1.2737	CADPLN	3.2716
USDPLN	3.2795	DKKPLN	0.5600
EURPLN	4.1763	NOKPLN	0.5688
CHFPLN	3.4706	SEKPLN	0.4828
JPYPLN*	4.0573	CZKPLN	0.1643
GBPPLN	5.1974	HUFPLN*	1.4617

*for 100JPY/100HUF

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.1640	4.1818	4.1758	4.1756	4.1754
USDPLN	3.2652	3.2884	3.2847	3.2804	3.2750
EURUSD	1.2704	1.2757	1.2713	1.2730	-

T-bonds

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0714 (2Y)	3.66	-6	23.10	3.856
PS0417 (5Y)	3.70	-2	4.10	4.224
DS1023 (10Y)	4.16	1	23.10	4.496

IRS rates (Mid)

TERM	PL %	PL Change (bp)	US %	US Change (bp)	EA %	EA Change (bp)
1L	3.96	3	0.33	0	0.34	0
2L	3.89	1	0.37	0	0.39	0
3L	3.82	1	0.45	0	0.50	1
4L	3.79	-1	0.58	0	0.66	1
5L	3.82	0	0.76	0	0.85	1
8L	3.92	1	1.33	1	1.39	0
10L	3.95	-1	1.64	2	1.66	0

WIBOR rates

TERM	%	Daily change (bp)
O/N	4.67	-1
T/N	4.67	-1
SW	4.65	0
2W	4.65	0
1M	4.65	0
3M	4.64	0
6M	4.64	0
9M	4.63	0
1Y	4.63	0

FRA rates (Mid)

TERM	%	Daily change (bp)
1x2	4.33	-8
1x4	4.38	3
3x6	3.93	0
6x9	3.59	2
9x12	3.50	5
3x9	3.95	1
6X12	3.60	5

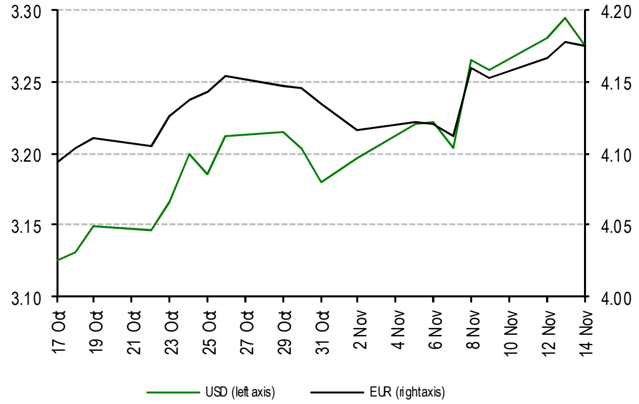
Measures of fiscal risk

Country	CDS 5Y Value	CDS 5Y Change (bp)	Spread 10Y* Value	Spread 10Y* Change (bp)
Poland	88.2	0	2.80	-2
Czech Republic	77.5	0	0.48	-10
Hungary	291.6	0	5.60	-8
Greece	37030.5	0	16.31	-10
Spain	338.3	1	4.54	-8
Italy	298.5	0	3.60	-8
Portugal	620.9	17	7.47	-4
Ireland	201.2	3	3.43	-6
Germany	31.1	0	--	--

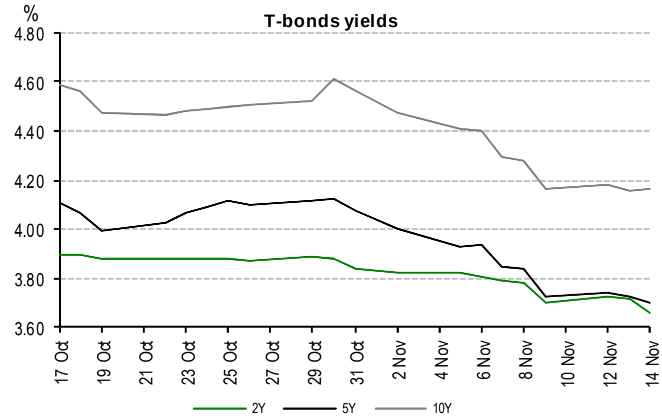
* 10Y treasury bonds over 10Y Bunds

Source: Reuters

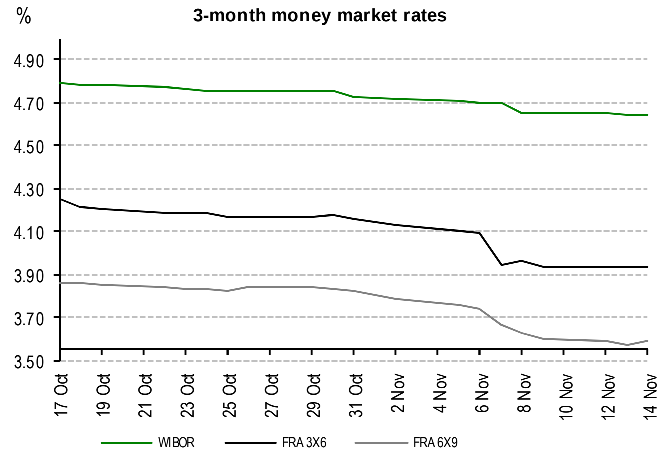
Zloty exchange rate (fixing)



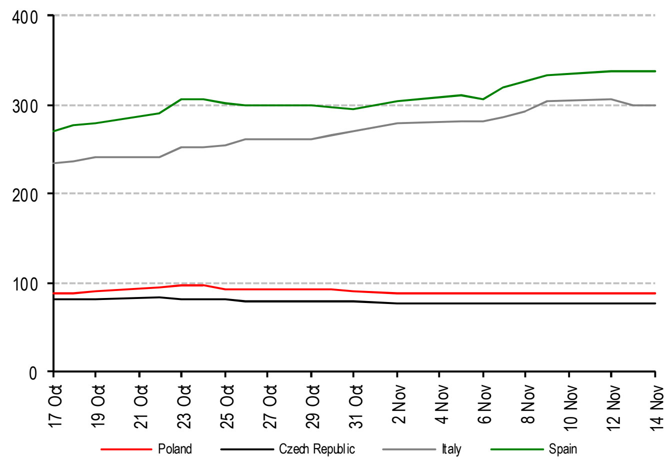
T-bonds yields



3-month money market rates



CDS 5Y



Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE*
		FRIDAY (9 November)						
4:30	CN	CPI	Oct	%YoY	1.9	-	1.7	1.9
4:30	CN	Industrial output	Oct	%YoY	9.4	-	9.6	9.2
10:00	**PL**	**Inflation report**						
15:55	US	Flash Michigan	Nov	pts	83.0	-	84.9	82.6
		MONDAY (12 November)						
14:00	**PL**	**Exports**	**Sep**	**€m**	**12 770**	**12 971**	**12 578**	**12 030**
14:00	**PL**	**Imports**	**Sep**	**€m**	**12 498**	**12 900**	**12 494**	**12 078**
14:00	**PL**	**Current account**	**Sep**	**€m**	**-931**	**-969**	**-1137**	**-633**
		TUESDAY (13 November)						
11:00	DE	ZEW index	Nov	pts	-9.8	-	-15.7	-11.5
		WEDNESDAY (14 November)						
11:00	EZ	Industrial output	Sep	%MoM	-1.9	-	-2.5	0.9
14:00	**PL**	**CPI**	**Oct**	**%YoY**	**3.4**	**3.5**	**3.4**	**3.8**
14:00	**PL**	**Money supply**	**Oct**	**%YoY**	**7.4**	**7.5**	**8.0**	**7.6**
14:30	US	Retail sales ex autos	Oct	%MoM	0.2	-	0.0	1.2
20:00	US	Minutes Fed						
		THURSDAY (15 November)						
8:00	DE	Flash GDP	Q3	%QoQ	0.2	-	0.2	0.3
11:00	EZ	Flash GDP	Q3	%QoQ	-0.2	-		-0.2
11:00	EZ	HICP	Oct	%YoY	2.5	-		2.5
14:30	US	Initial jobless claims	week	k	375	-		355
14:30	US	Core CPI	Oct	%MoM	0.1	-		0.1
16:00	US	Philly Fed index	Nov	pts	2.0	-		5.7
		FRIDAY (16 November)						
15:15	US	Industrial output	Oct	%MoM	0.2	-		0.4

Source: BZ WBK, Reuters, Parkiet

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

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