Bank Zachodni WBK

Eyeopener – Markets in good mood

23 November 2012

- **Hopes for quick help for Greece persisting**
- **Zloty gaining thanks to higher demand for risky assets, EURUSD keeps rising**
- **Slight weakening in domestic debt market, turnover still very low**
- **Today, German Ifo index**

Flash PMI for Chinese manufacturing for November showed that this sector stopped contracting after 13 months. The reading has mitigated investors' worries about the global economy and has positively affected risky assets. Flash PMI indices for Germany and the euro zone were also better than expected. Moreover, hopes that the issue of Greece will be solved on Monday and will no longer generate market uncertainty were supported by comment of Olli Rehn, who said that he sees no reason why there should be no agreement between the European policymakers as regards help for Greece. Yesterday yields of 10Y Greek bonds fell to ca. 16.1%, the lowest level since March debt restructuring. Additionally, Spain sold yesterday bonds worth €3.9bn as compared to plan at €3.5bn. Medium- and long-term bonds recorded lower yields than at the previous auction. Yesterday's tender was a first step in pre-financing of 2013 borrowing needs.

EURUSD continued upward trend thanks to data from China and hopes for a quick, positive decision on Greece. As a result, during the day EURUSD reached the level of 1.29, which was indicated by us. Overnight there was a correction to about 1.286, but this morning exchange is close to 1.29 again. Hopes for a favorable decision on Greece will probably even today support the euro versus the dollar. If the exchange rate beats 1.29, the next resistance is 1.295. Today's trading may be affected by the Ifo index.

EURPLN fell throughout the day and at the end of the trading hours set a session minimum at around 4.102. Thus, the exchange rate approached the indicated by us level of support at 4.10. The domestic currency gained thanks to rising hopes for a positive outcome of the case of Greece and better-than-expected preliminary German and the euro area's manufacturing PMI. Overnight the domestic currency was stable. If the EURUSD will continue to grow and Ifo confirms the signal given by the PMI, EURPLN could test support at 4.10, and the USDPLN may continue to approach the 3.17 support.

On the domestic debt market yields of bonds increased slightly (by 2bps along the curve) amid very low trade volume. Somewhat more visible upward move was recorded on the IRS market. These rates (in 2-10Y segment) have already increased by 7-8bps since all-time lows. WIBOR rates moved in line with scenario seen in past months (some rates remained stable, some declined by 1-2bps). FRA rates increased slightly further. The market did not react to very dovish comments of MPC's Bratkowski (please see more below). Yet at the beginning of the past week the FRA market was pricing in that in 9-month time 3M WIBOR will be lower by ca. 120bps. Now is predicts a decline by only slightly more than 100bps.

The MPC's Andrzej Bratkowski said yesterday in the morning that "due to confirmed negative trends in the economy (…) our rates are by ca. 1.5pp too high and main reference rate should be quickly cut to 3.0%". Bratkowski announced he will file a motion of more than 50bps cut in December if next week's data on GDP in Q3 will confirm NBP projection (1.8%YoY). Bratkowski suggested such a move earlier, but at the end of October he said that reduction 75bps may be seen as "extravagant". Still, it seems that the last NBP projection made him return to the idea of 75bps cut. According to the MPC member, risk of recession in Poland is rising, among others because of falling real wages which can lead even to a fall in consumption, justifying a rapid monetary policy easing. Bratkowski's view on scale and pace of cuts is in our view isolated. That is why we do not expect the MPC to cut rates by more than 25bps in one move. We also think that the reference rate will not fall to 3%. Our forecasts are closer to view of Anna Zielińska-Głębocka, who said that rates should be reduced by 50-75bps in quick moves (month after month). We assume that the MPC will cut rates in December and January, by 25bps each.

Minutest of the last MPC meeting showed that recent data from Polish economy lead to a change of Council's assessment of outlook for domestic growth (now the MPC expects the slowdown to be deeper than anticipated). In our view, further macro data, in particular next week's release of Q3 GDP growth will strengthen this opinion and will support more NBP rate cuts.

Data released yesterday by the CSO showed that the current month is the weakest November in the past 10 years for manufacturing sector in Poland. The survey showed that despite the assessment of situation improved compared to October, the forecasts of further developments are more pessimistic than at the beginning of 4Q.

Net financial result of Polish non-financial corporations in Q3 reached PLN21.03bn, falling by 0.9%YoY. That was the weakest Q3 since 2008 (when companies earned net PLN19.4bn).

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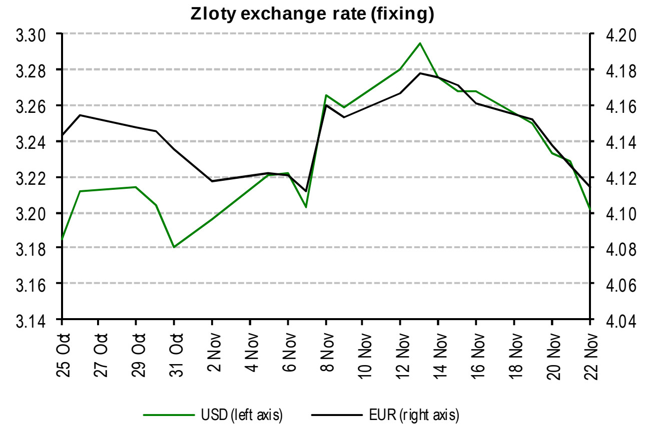
F/X rates (today's opening)

EURUSD	1.2893	CADPLN	3.1970
USDPLN	3.1875	DKKPLN	0.5510
EURPLN	4.1093	NOKPLN	0.5609
CHFPLN	3.4110	SEKPLN	0.4774
JPYPLN*	3.8708	CZKPLN	0.1615
GBPPLN	5.0851	HUFPLN*	1.4700

*for 100JPY/100HUF



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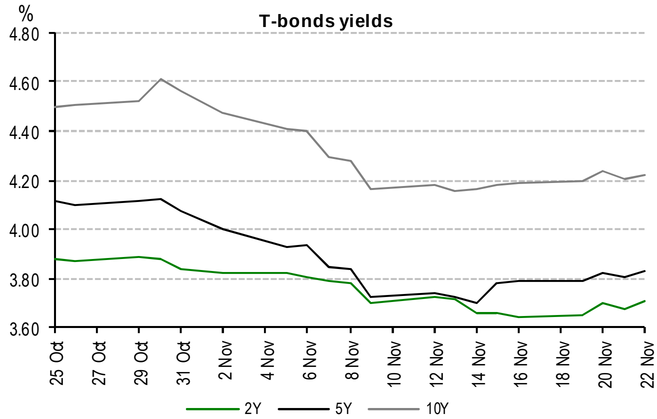
The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.1028	4.1199	4.1163	4.1060	4.1142
USDPLN	3.1800	3.2070	3.2039	3.1860	3.2021
EURUSD	1.2835	1.2900	1.2851	1.2887	-

T-bonds

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0714 (2Y)	3.70	3	23.10	3.856
PS0417 (5Y)	3.83	2	4.10	4.224
DS1023 (10Y)	4.22	2	21.11	4.220

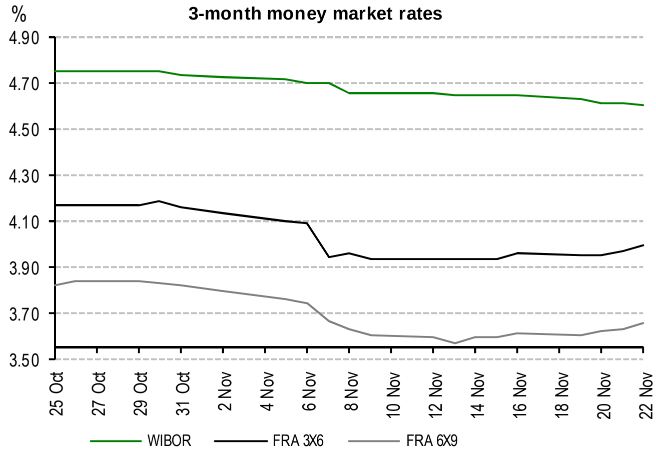


IRS rates (Mid)

TERM	PL %	PL Change (bp)	US %	US Change (bp)	EA %	EA Change (bp)
1L	3.99	2	0.34	0	0.36	0
2L	3.95	2	0.38	-2	0.42	0
3L	3.88	2	0.47	0	0.55	0
4L	3.87	3	0.61	-1	0.71	-1
5L	3.89	4	0.80	-1	0.91	0
8L	3.98	3	1.39	-1	1.47	0
10L	4.05	3	1.70	-1	1.75	0

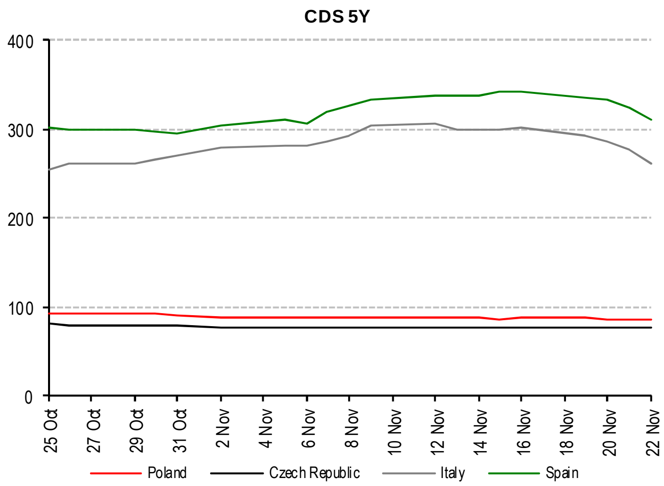
WIBOR rates

TERM	%	Daily change (bp)
O/N	4.65	0
T/N	4.65	0
SW	4.63	-1
2W	4.63	-1
1M	4.62	0
3M	4.60	-1
6M	4.60	0
9M	4.59	-1
1Y	4.58	-2



FRA rates (Mid)

TERM	%	Daily change (bp)
1x2	4.34	1
1x4	4.34	2
3x6	3.99	2
6x9	3.65	2
9x12	3.55	2
3x9	3.98	0
6X12	3.64	-1



Measures of fiscal risk

Country	CDS 5Y Value	CDS 5Y Change (bp)	Spread 10Y* Value	Spread 10Y* Change (bp)
Poland	86.0	0	2.78	1
Czech Republic	77.2	0	0.66	6
Hungary	299.2	0	5.56	-2
Greece	37030.5	0	14.87	-46
Spain	309.8	-13	4.22	-7
Italy	261.8	-16	3.35	-5
Portugal	516.1	-12	6.44	-8
Ireland	186.3	-6	3.08	-2
Germany	30.2	-1	--	--

* 10Y treasury bonds over 10Y Bunds

Source: Reuters

Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE*
		FRIDAY (16 November)						
15:15	US	Industrial output	Oct	%MoM	0.2	-	-0.4	0.2
		MONDAY (19 November)						
14:00	**PL**	**Wages in corporate sector**	**Oct**	**%YoY**	**2.5**	**1.7**	**2.8**	**1.6**
14:00	**PL**	**Employment in corporate sector**	**Oct**	**%YoY**	**-0.1**	**-0.1**	**0.0**	**0.0**
16:00	US	Home sales	Oct	m	4.75	-	4.79	4.69
		TUESDAY (20 November)						
14:00	**PL**	**Industrial output**	**Oct**	**%YoY**	**3.0**	**4.9**	**4.6**	**-5.2**
14:00	**PL**	**Construction and assembly output**	**Oct**	**%YoY**	**-7.0**	**-5.6**	**-3.6**	**-17.8**
14:00	**PL**	**PPI**	**Oct**	**%YoY**	**1.7**	**1.7**	**1.0**	**1.8**
14:30	US	House starts	Oct	k	840	-	849	863
14:30	US	Building permits	Oct	k	865	-	866	890
		WEDNESDAY (21 November)						
11:00	**PL**	**Bond switch auction**						
14:00	**PL**	**Core inflation**	**Oct**	**%YoY**	**1.9**	**1.9**	**1.9**	**1.9**
14:30	US	Initial jobless claims	Week	k	410	-	410	451
15:55	US	Michigan index	Nov	pts	84.5	-	82.7	82.6
16:00	US	Leading indicators	Oct	%MoM	0.2	-	0.2	0.5
		THURSDAY (22 November)						
	US	Market holiday						
4:30	CN	Flash PMI-mfg	Nov	pts	-	-	50.4	49.5
9:28	DE	Flash PMI-mfg	Nov	pts	46.0	-	46.8	46.0
9:58	EZ	Flash PMI-mfg	Nov	pts	45.5	-	46.2	45.4
14:00	**PL**	**MPC minutes**						
16:00	EZ	Consumer confidence index	Nov	pts	-25.7	-	-26.9	-25.7
		FRIDAY (23 November)						
10:00	DE	Ifo index	Nov	pts	99.5	-		100.0

Source: BZ WBK, Reuters, Parkiet, Dow Jones

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

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