Bank Zachodni WBK

Eyeopener – Merry Christmas!

24 December 2012

- **End of the week in bad moods because fiscal cliff worries, despite good data from the USA**
- **Slight weakening of the zloty, EURUSD lower**
- **Yields of Polish bonds at new record low levels**
- **We wish a Merry Christmas and a Happy New Year to all our readers!**

Lack of progress in talks between Republicans and Democrats on the issue on how to avoid a fiscal cliff in the US caused that on Friday sentiment on the global market was weak. Stock indexes fell and the euro was losing strength versus the dollar. US data were better than expected, but failed to change the picture of the session. At the end of the day there was even a further increase in risk aversion, as hopes for a conclusion of budget talks in the US before the end of this year decreased sharply.

EURUSD for a long time hovered near 1.32, but soon after the start of the session in the US has fallen to around 1.316 and slightly below this level ended the session. After a slight rebound during the weekend, the exchange rate this morning is close to 1.319.

EURPLN and USDPLN were rising since the beginning of the day, and this trend has intensified with the deepening of the euro losses versus the dollar. As a result, EURPLN reached 4.08 and USDPLN increased above 3.10. This morning, the zloty is still close to these levels: 4.08 to the euro and 3.09 to the dollar.

On the domestic debt market, bond yields continued to decline (again to record lows), but the turnover was very low. Further strengthening of the bonds contributed to a deepening of declines by FRA. Decreases by 1-3 bps have been recorded by money market rates.

Retail sales growth slowed in November to 2.4%YoY, while the unemployment rate rose to 12.9%. Once again November's data were worse than forecasts, indicating that the economic slowdown in Q4 may be deeper than anticipated by the market. The weakness in consumer demand and further deterioration of the situation on the labour market will not be conducive for "inflation persistence", of which the MPC is still afraid. However, we still doubt that the Council will decide to cut rates deeper than by 25 bps at the next meeting in January (though cut seems to be prejudged).

In the nearest days investors' activity will be low due to Holiday period, which may result in greater volatility in financial markets. Investors will be still waiting for news from the US concerning talks on avoiding "fiscal cliff", however chances for reaching agreement before 31 December seem to have diminished. Just after the New Year a number of activity indicators will be released, which may affect market expectations concerning pace of global economic recovery. In the domestic debt market attention will be focused on supply plans for Q1-2013. Situation in core markets may affect the long end of the yield curve.

Please be informed that the next Eyeopener will be released on 2 January, 2013.

ECONOMIC ANALYSIS DEPARTMENT

ul. Marszałkowska 142. 00-061 Warszawa
email: ekonomia@bzwbk.pl
fax +48 22 586 83 40
Web site: http://www.bzwbk.pl

Maciej Reluga (Chief Economist)	+48 22 586 83 63
Piotr Bielski	+48 22 586 83 33
Agnieszka Decewicz	+48 22 586 83 41
Marcin Sulewski	+48 22 586 83 42
Marcin Luziński	+48 22 586 83 62

TREASURY SERVICES

Poznań	+48 61 856 5814/30
Warszawa	+48 22 586 8320/38
Wrocław	+48 71 369 9400

F/X rates (today's opening)

EURUSD	1.3193	CADPLN	3.1151
USDPLN	3.0939	DKKPLN	0.5471
EURPLN	4.0815	NOKPLN	0.5558
CHFPLN	3.3778	SEKPLN	0.4725
JPYPLN*	3.6675	CZKPLN	0.1623
GBPPLN	5.0045	HUFPLN*	1.4100

*for 100JPY/100HUF

Financial market review - 21.12.2012

The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.0538	4.0817	4.0609	4.0804	4.0643
USDPLN	3.0645	3.0984	3.0754	3.0972	3.0791
EURUSD	1.3164	1.3231	1.3205	1.3175	-

T-bonds

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0714 (2Y)	3.13	-11	23.10	3.856
PS0418 (5Y)	3.19	-8	4.10	4.224
DS1023 (10Y)	3.73	-5	21.11	4.220

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	3.45	-2	0.34	1	0.32	0
2L	3.35	-4	0.39	0	0.38	0
3L	3.31	-3	0.49	0	0.48	-1
4L	3.33	-2	0.64	-1	0.63	-1
5L	3.35	-5	0.85	-1	0.81	-1
8L	3.48	-4	1.46	-2	1.34	-1
10L	3.56	-3	1.78	-2	1.62	-1

WIBOR rates

TERM	%	Daily change (bp)
O/N	4.33	0
T/N	4.33	-1
SW	4.30	0
2W	4.30	-1
1M	4.27	-1
3M	4.16	-1
6M	4.12	-2
9M	4.06	-2
1Y	4.02	-3

FRA rates (Mid)

TERM	%	Daily change (bp)
1x2	4.06	-1
1x4	3.88	-2
3x6	3.48	-2
6x9	3.07	-4
9x12	2.95	-4
3x9	3.46	-3
6X12	3.08	-5

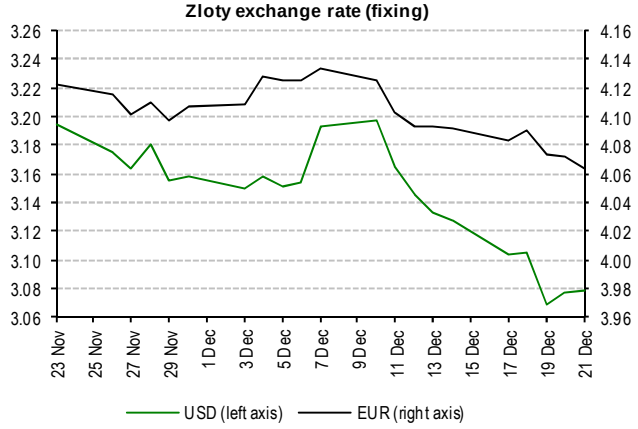
Measures of fiscal risk

Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	77.4	0	2.34	-1
Czech Republic	63.0	-1	0.57	5
Hungary	269.1	-6	4.83	-4
Greece	37030.5	0	10.43	22
Spain	282.6	4	3.90	10
Italy	262.7	5	3.11	12
Portugal	424.8	3	5.66	2
Ireland	213.3	1	3.19	3
Germany	37.9	0	--	--

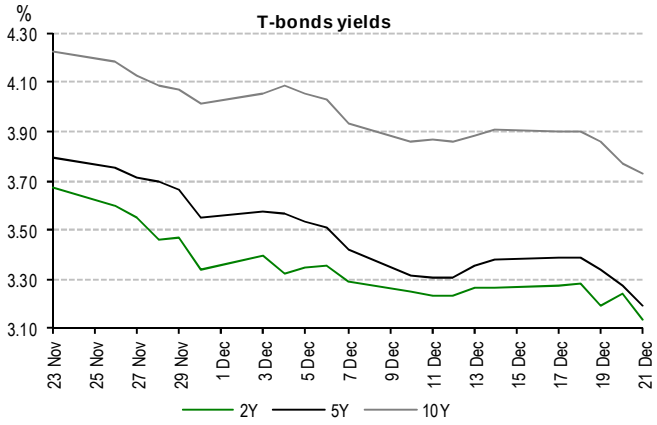
*10Y treasury bonds over 10Y Bunds

Source: Reuters

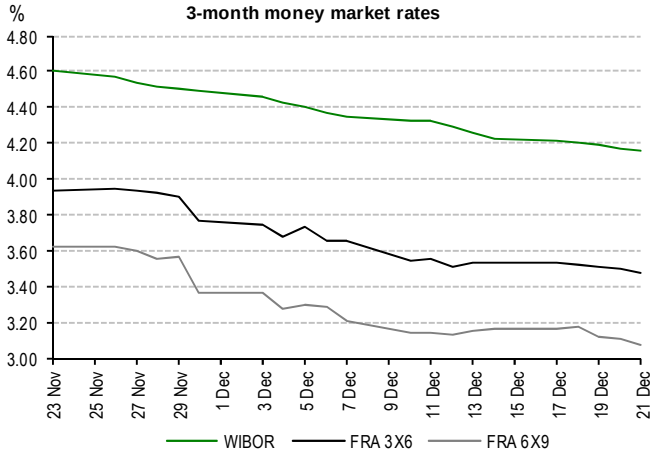
Zloty exchange rate (fixing)



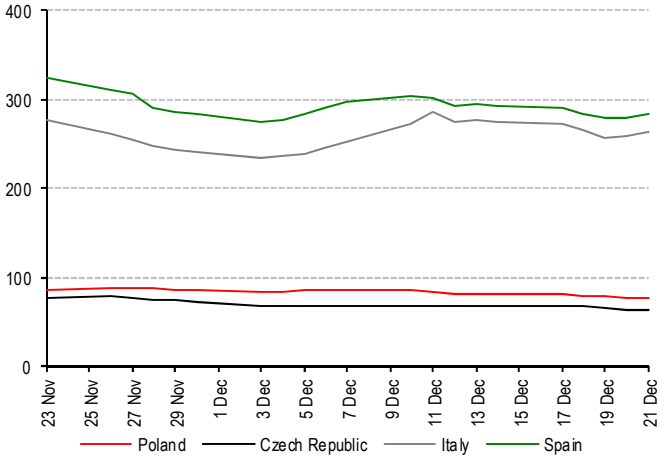
T-bonds yields



3-month money market rates



CDS 5Y



Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	BZWBK		
		FRIDAY (21 December)						
10:00	**PL**	**Retail sales**	**Nov**	**%YoY**	**2.8**	**2.9**	**2.4**	**3.3**
10:00	**PL**	**Unemployment rate**	**Nov**	**%YoY**	**12.8**	**12.8**	**12.9**	**12.5**
10:30	GB	GDP	Q3	%QoQ	1.0	-	0.9	-0.5
14:30	US	Personal income	Nov	%MoM	0.3	-	0.6	0.1
14:30	US	Consumer spending	Nov	%MoM	0.3	-	0.6	-0.2
14:30	US	Core PCE	Nov	%MoM	0.1	-	0.0	0.1
15:55	US	Michigan index	Dec	pts	74.7	-	72.9	82.7
		TUESDAY (26 December)						
15:00	US	S&P/Case-Shiller home price index	Oct	%MoM	0.4	-		0.4
		THURSDAY (27 December)						
14:30	US	Initial jobless claims	week	k	361	-		361
16:00	US	Consumer confidence index	Dec	pts	70.9	-		73.7
16:00	US	New home sales	Nov	m	380	-		368
		FRIDAY (28 December)						
16:00	US	Pending home sales	Nov	%MoM	1.1	-		5.2
		MONDAY (31 December)						
3:45	CN	PMI – manufacturing	Dec	pts	-	-		50.5
14:00	**PL**	**Inflation expectations**	**Dec**	**%YoY**				**3.8**
		WEDNESDAY (2 January)						
9:00	**PL**	**PMI – manufacturing**	**Dec**	**pts**	**48.1**	**48,0**		**48.2**
9:53	DE	PMI – manufacturing	Dec	pts	46.3	-		46.8
9:58	EZ	PMI – manufacturing	Dec	pts	46.3	-		46.2
14:00	**PL**	**Current account**	**Q3**	**€m**	**-**	**-2 457**		**-1 641**
14:00	**PL**	**Exports**	**Q3**	**€m**	**-**	**36 781**		**35 731**
14:00	**PL**	**Imports**	**Q3**	**€m**	**-**	**36 991**		**37 372**
16:00	US	ISM – manufacturing	Dec	pts	50.2			49.5
		THURSDAY (3 January)						
11:00	**PL**	**Bond auction**						
14:15	US	ADP report	Dec	k	130	-		118
20:00	US	Minutes Fed						
		FRIDAY (4 January)						
9:53	DE	PMI – services	Dec	pts	52.1	-		49.7
9:58	EZ	PMI – services	Dec	pts	47.8	-		46.7
11:00	EZ	Flash HICP	Dec	%YoY	2.2	-		2.2
14:30	US	Non-farm payrolls	Dec	k	140	-		146
14:30	US	Unemployment rate	Dec	%	7.8	-		7.7
16:00	US	ISM – services	Dec	pts	54.5	-		54.7

Source: BZ WBK, Bloomberg, Reuters

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

Additional information is available on request. Please contact Bank Zachodni WBK S.A. Treasury Division. Economic Analysis Unit. ul. Marszałkowska 142. 00-061 Warsaw. Poland. phone (+48 22) 586 83 63. email ekonomia@bzwbk.pl. http://www.bzwbk.pl