Bank Zachodni WBK

Eyeopener – Awaiting central banks' decisions

7 January 2013

- **Calm end of the week, US data slightly better than expected**
- **Zloty slightly weaker versus euro and dollar, EURUSD slightly up thanks to US data**
- **Domestic bonds still weakening but slower than in previous days**
- **Today, first domestic auction of T-bills since April 2012, Sentix index in the euro zone**

Information that at the last Fed meeting some of FOMC members were considering termination of the quantitative easing program already in 2013 limited demand for risky assets during the Friday's session. On the other hand – apart from the stock markets and the euro – also US bonds got under pressure due to possible reduction of size of debt purchases by the Fed. Increase of yields of Treasuries pushed yields of 10Y Bunds up for the third day in a row. PMI index for German services sector advanced above 50pts for the first time in four months and reached highest level since April 2012. Services PMI index for the euro zone increased to the highest level in nine months, but remained below 50pts. This data did not have much impact on the market as investors awaited US labour market data. The release of non-farm payrolls was only slightly above forecasts and initiated only temporary improvement of global market sentiment.

The EURUSD plunged at the beginning of the session to nearly 1.30 and until the release of US data remained slightly above this level. Slightly better than expected non-farm payrolls data triggered an increase to 1.306, but at the end of the day the exchange rate pulled back to 1.304. Today in the morning, after the overnight increase to 1.308, the EURUSD is again close to this level. There are no important data due at the beginning of the week thus the today's session shall not bring any breakthrough changes. The EURUSD is likely to remain in the range of 1.30-1.31.

The EURPLN and USDPLN increased in the first part of the session due to hawkish tone of minutes of December's FOMC meeting. Consequently, the EURPLN approached 4.13 and USDPLN broke 3.17. Only US labour market data halted depreciation of the zloty, higher EURUSD supported the domestic currency in the following hours. At the end of the session the EURPLN was close to 4.11. Today in the morning the exchange rate is close to 4.12. Moderately positive market sentiment at the beginning of the today's session gives some hope that resistance at 4.14 will not be tested today.

Increases of Polish yields slowed down on Friday. Yields climbed by 4bps for 2Y and 2-3bps for 5 and 10Y. Trade volumes were decent, but not as high as in previous days. A similar move was posted by the IRS curve. All the FRA rates except for 1x4 recorded further increases by a couple basis points, while money market rates declined by 1bps across the board. After the Friday's session FRAs are pricing-in a decline of WIBOR3M by less than 100bps in 9 months' time (with peak at 130bps decline, in mid-December).

This week market attention will be focused on central banks in Europe. Third rate cut in a row from the Polish Monetary Policy Council seems to be a deal done. We assume it will be again a (too) cautious move by 25bps, although chance for a bolder move have increased due to more disappointing data and growing likelihood of fast inflation drop in nearest months. As shown by the NBP, already in November there was only one vote missing to pass the motion to cut rates by 50bps. On the other hand, the MPC was unable to pass rate cut deeper than 25bps also in December, even though a motion to cut by as more as 150bps was submitted. We expect that in the MPC's statement a door to more monetary easing will be left open, although a pause in rate cuts in February is still possible, as the Council could wait for the results of new inflation and GDP projections prepared by the NBP. The ECB and the Bank of England are expected to keep their policies on hold.

Today's Financial Times is quoting comments of the NBP governor Marek Belka from the interview given in December. He said that he sees some change in approach of some MPC members and a deepening conviction that there is room for more rate cuts. He added that the Council would like to maintain conventional monetary policy and avoid "ultra-low interest rates". Belka added, that slowing pace of fiscal consolidation may help the economy to get some "breathing room" and he would not encourage the minister of finance to tighten fiscal policy excessively fast.

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F/X rates (today's opening)

EURUSD	1.3047	CADPLN	3.1985
USDPLN	3.1577	DKKPLN	0.5523
EURPLN	4.1197	NOKPLN	0.5631
CHFPLN	3.4084	SEKPLN	0.4820
JPYPLN*	3.5948	CZKPLN	0.1623
GBPPLN	5.0684	HUFPLN*	1.4166

*for 100JPY/100HUF

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.0873	4.1279	4.1080	4.1208	4.1248
USDPLN	3.1311	3.1739	3.1564	3.1588	3.1700
EURUSD	1.2997	1.3064	1.3015	1.3044	-

T-bonds

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0714 (2Y)	3.21	4	23.10.12	3.856
PS0418 (5Y)	3.42	2	4.10.12	4.224
DS1023 (10Y)	3.93	3	3.01.13	3.847

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	3.50	1	0.32	1	0.36	3
2L	3.48	0	0.39	2	0.44	4
3L	3.47	2	0.51	3	0.56	5
4L	3.51	4	0.69	4	0.72	5
5L	3.56	3	0.92	6	0.91	6
8L	3.67	1	1.59	8	1.46	6
10L	3.76	3	1.94	8	1.75	7

WIBOR rates

TERM	%	Daily change (bp)
O/N	4.25	10
T/N	4.25	0
SW	4.22	-1
2W	4.21	-1
1M	4.18	-1
3M	4.08	-1
6M	4.04	-1
9M	3.99	-1
1Y	3.94	-1

FRA rates (Mid)

TERM	%	Daily change (bp)
1x2	3.95	-1
1x4	3.83	-3
3x6	3.48	2
6x9	3.17	6
9x12	3.12	3
3x9	3.46	0
6X12	3.21	6

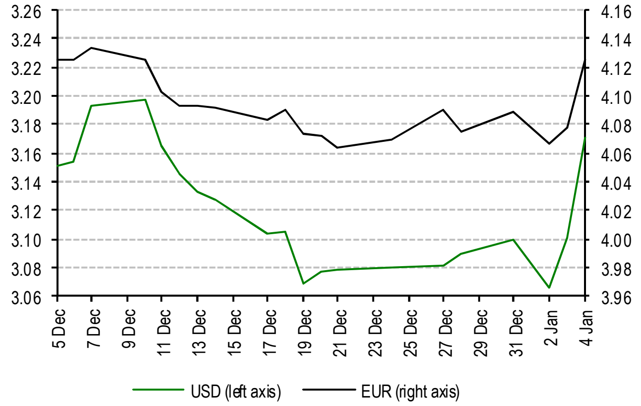
Measures of fiscal risk

Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	74.4	1	2.39	-5
Czech Republic	60.2	0	0.51	5
Hungary	255.7	-2	4.92	33
Greece	37030.5	0	9.70	-21
Spain	256.2	-8	3.53	-6
Italy	243.1	-4	2.74	-9
Portugal	370.5	-19	4.89	-7
Ireland	200.0	-1	2.89	-13
Germany	40.9	1	--	--

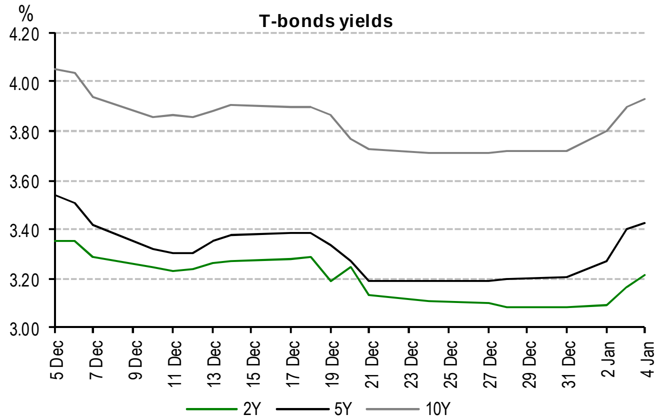
* 10Y treasury bonds over 10Y Bunds

Source: Reuters

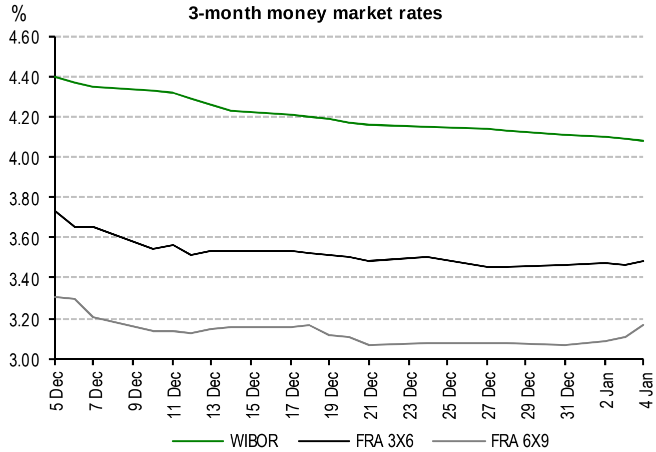
Zloty exchange rate (fixing)



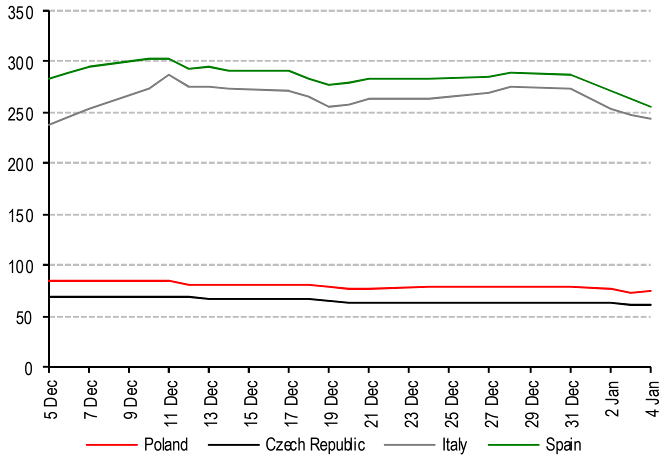
T-bonds yields



3-month money market rates



CDS 5Y



Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE*
		FRIDAY (4 January)						
9:53	DE	PMI – services	Dec	pts	52.1	-	52.0	49.7
9:58	EZ	PMI – services	Dec	pts	47.8	-	47.8	46.7
11:00	EZ	Flash HICP	Dec	%YoY	2.1	-	2.2	2.2
14:30	US	Non-farm payrolls	Dec	k	150	-	155	161
14:30	US	Unemployment rate	Dec	%	7.7	-	7.8	7.7
16:00	US	ISM – services	Dec	pts	54.2	-	56.1	54.7
		MONDAY (7 January)						
10:30	EZ	Sentix index	Jan	pts	-15.0	-		-16.8
11:00	**PL**	**Tender of 20-week T-bills**						
		TUESDAY (8 January)						
8:00	DE	Exports	Nov	%MoM	-0.5	-		0.3
11:00	EZ	Retail sales	Nov	%MoM	0.3	-		-1.2
12:00	DE	Industrial orders	Nov	%MoM	-1.4	-		3.9
		WEDNESDAY (9 January)						
	PL	**MPC decision**		**%**	**4.0**	**4.0**		**4.25**
12:00	DE	Industrial output	Nov	%MoM	1.0	-		-2.6
		THURSDAY (10 January)						
13:00	GB	BoE decision		%	-	-		0.50
13:45	EZ	ECB decision		%	-	-		0.75
14:30	US	Initial jobless claims	week	k	365	-		372
		FRIDAY (11 January)						
4:00	CN	CPI	Dec	%YoY	-	-		2.0
14:30	US	Trade balance	Nov	$bn	-41.5	-		-42.2

Source: BZ WBK, Reuters

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

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