

Eyeopener – Central banks in focus

4 February 2013

- **PMI in Europe surprise on the upside, ISM in the USA beats the consensus**
- **Zloty gains after PM Tusk's announcement of debate on euro adoption, high volatility of EURUSD**
- **Slight strengthening of domestic 10Y bonds**
- **Today data from the euro zone and from the USA, in Poland auction of T-bills**

Business climate in euro zone manufacturing (as measured by the PMI indices) at the beginning of 2013 was even better than suggested by the flash estimates, released at the start of the previous week. Monthly data from the US labour market were positively interpreted by the investors, but some more persistent reaction was observed only on the capital market. Only the better-than-expected January's ISM (which has climbed to the highest level since April 2012) caused that the end of the week passed in good moods. Sessions in the USA and in Asia concluded with gains on stock markets.

Prime Minister Donald Tusk announced on Friday that the debate on accession to the euro zone will begin on 19 February. In reaction to this comment the zloty began to strengthen against the single currency. Tusk added also that 1Q2013 will be the most difficult for the domestic economy in years. Finance Minister Jacek Rostowski said that his ministry will organize debate on accessing EMU on 18 February. He added that "Poland should declare when more or less it will adopt the euro and what preparations are necessary".

The EURUSD resumed the upward momentum after final PMI data and tested quite aggressively resistance pointed by us at 1.365 (the exchange rate reached nearly 1.368). After payrolls data some profit-taking was recorded, the EURUSD plunged below 1.36 for a while. Still, after the ISM release the euro started again to appreciate. At the end of the domestic session the exchange rate was close to 1.368 and during the US trading hours the EURUSD reached ca. 1.371. However, due to the downward correction, today in the morning the EURUSD is close to 1.362. Latest data improved the outlook for the global economy. Additionally, the euro is supported by banks paying back loans from LTRO to the ECB and this is perceived by the market as a signal of better situation in the financial system. Today in the morning market sentiment is quite good, first vital support is at 1.36.

The EURPLN plunged after stabilization from the beginning of the session due to comment of PM Tusk. Consequently, the exchange rate reached ca. 4.165 and the USDPLN around 3.045. After the close of the domestic session no major changes occurred (the zloty pared some gains versus the dollar due to lower EURUSD). Today in the morning the EURPLN is testing short-term support at 4.16. If

it is broken, then the exchange rate may decline to 4.14. Clearly, the zloty is still under impact of Friday's announcement on the debate on implementing the single currency. On the other hand, the outlook for Wednesday's NBP rate cut may limit the potential for any more persistent appreciation of the zloty.

Domestic 10Y bond yields declined by 3bps following stronger Bunds. Trade volume concentrated in this sector, no major changes took place in the remaining sectors of the curve. IRS again remained stable. WIBOR rates declined by further 1-2bps. Today the Ministry of Finance will offer 20-week T-bills for PLN1-2bn.

PMI index for Polish manufacturing posted in January a slight, lower than expected, increase to 48.6pts. Its value still runs below 50pts, which is indicating that activity in manufacturing is still declining, but at a slightly slower pace. It is worth noting that output and new export orders indicators improved (both are close to neutral level of 50pts). Still, declines of domestic orders deepened. This result seems to support our forecast, assuming that industrial output growth remained negative in January, but not as low as in December. Scale of employment reductions declared by firms increased in January.

This week the decisions of central banks will come to the fore. According to the Parkiet Daily survey, market analysts are unanimously expecting a cut by 25bps by the Monetary Policy Council, and most of them are predicting the same move to be implemented in March. Hence, the rate cut should not affect the market reaction, while statement and press conference will be crucial. We are expecting the MPC to ease its rhetoric given recent weak data and to leave door for further cuts open. The NBP governor Marek Belka, who was very clear while announcing a pause in cutting cycle at the last meeting, said during last week's testimony before the Senate that we are currently "In monetary policy easing, and it will be continued".

Apart from the MPC, decisions on rates will be taken by the Czech central bank, the ECB and the Bank of England. Decisions on these key monetary policy parameters should not surprise, so, similarly as in case of the MPC, post-meeting statements will be of highest importance. The Czech bank may again suggest a possibility of FX intervention aimed at weakening the koruna, while the ECB may acknowledge the improvement of the European market and in economy, similarly as one month ago. That comment has positively affected the global moods in January. If this is the case this time, then potential of domestic bonds from the middle and the longer end of the curve to strengthen in reaction to MPC statement may be limited by rising core debt yields. PLN's potential for appreciation against the euro is still limited and tone of the MPC statement may negatively affect the domestic currency.

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F/X rates (today's opening)

EURUSD	13629	CADPLN	3.0572
USDPLN	3.0485	DKKPLN	0.5569
EURPLN	4.1548	NOKPLN	0.5573
CHFPLN	3.3534	SEKPLN	0.4824
JPYPLN*	3.2885	CZKPLN	0.1619
GBPPLN	4.7879	HUFPLN*	14237

*for 100JPY/100HUF

Financial market review - 01.02.2013
The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.1630	4.2073	4.1985	4.1655	4.2028
USDPLN	3.0414	3.0870	3.0809	3.0414	3.0744
EURUSD	13586	13696	13629	13696	-

T-bonds

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0714 (2Y)	3.22	3	23.10.12	3.856
PS0418 (5Y)	3.39	0	23.01.13	3.437
DS1023 (10Y)	3.89	-2	3.01.13	3.847

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	3.51	-1	0.33	-1	0.49	-2
2L	3.42	-2	0.41	-3	0.65	-5
3L	3.39	-2	0.54	-3	0.80	-7
4L	3.40	-2	0.73	-4	0.96	-7
5L	3.43	-2	0.97	-6	1.13	-7
8L	3.61	-1	1.65	-6	1.62	-5
10L	3.71	0	2.00	-6	1.87	-4

WIBOR rates

TERM	%	Daily change (bp)
O/N	4.10	0
T/N	4.10	-1
SW	4.03	-2
2W	4.02	-2
1M	4.01	-2
3M	3.94	-1
6M	3.90	-1
9M	3.85	-1
1Y	3.80	-1

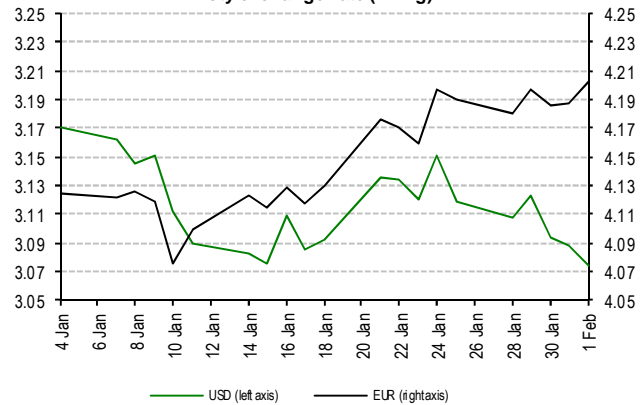
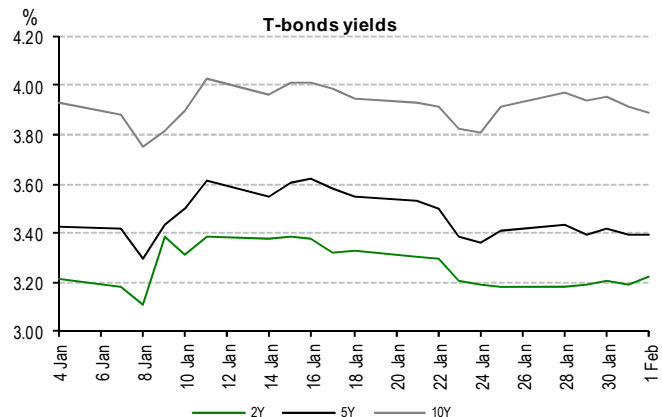
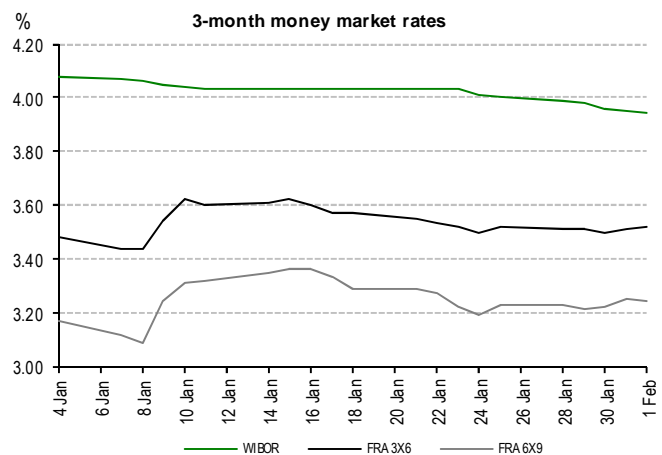
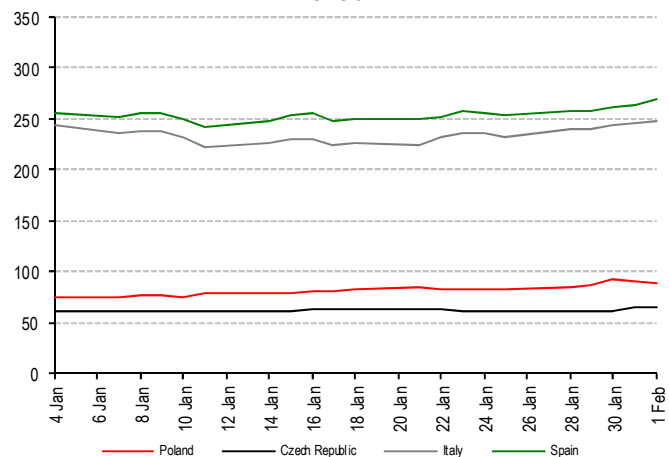
FRA rates (Mid)

TERM	%	Daily change (bp)
1x2	3.93	1
1x4	3.79	-2
3x6	3.52	1
6x9	3.24	-1
9x12	3.17	0
3x9	3.52	2
6x12	3.28	1

Measures of fiscal risk

Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	89.4	0	2.24	2
Czech Republic	64.6	0	0.36	-2
Hungary	291.2	3	4.82	6
Greece	37030.5	0	9.14	0
Spain	269.6	5	3.57	3
Italy	248.8	2	2.69	8
Portugal	390.2	8	4.57	3
Ireland	196.0	5	2.48	4
Germany	42.6	1	--	--

* 10Y treasury bonds over 10Y Bunds

Zloty exchange rate (fixing)

T-bonds yields

3-month money market rates

CDS 5Y


Source: Reuters

Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	BZWBK			
		FRIDAY (1 February)						
2:45	CN	PMI – manufacturing	Jan	pts	52.0	-	52.3	51.5
9:00	PL	PMI – manufacturing	Jan	pts	48.6	48.9	48.6	48.5
9:53	DE	PMI – manufacturing	Jan	pts	48.8	-	49.8	46.0
9:58	EZ	PMI – manufacturing	Jan	pts	47.5	-	47.9	46.1
11:00	EZ	Flash HICP	Jan	%YoY	2.2	-	2.0	2.2
14:30	US	Non-farm payrolls	Jan	k	160	-	157	196
14:30	US	Unemployment rate	Jan	%	7.8	-	7.9	7.8
16:00	US	ISM – manufacturing	Jan	pts	50.6	-	53.1	50.2
MONDAY (4 February)								
10:30	EZ	Sentix index	Feb	pts	-3.0	-		-7.0
16:00	US	Industrial orders	Dec	%MoM	2.2	-		0.0
TUESDAY (5 February)								
9:53	DE	PMI – services	Jan	pts	55.3	-		52.0
9:58	EZ	PMI – services	Jan	pts	48.3	-		47.8
11:00	EZ	Retail sales	Dec	%YoY	-1.3	-		-2.6
16:00	US	ISM – services	Jan	pts	55.2	-		56.1
WEDNESDAY (6 February)								
	PL	MPC decision		%	3.75	3.75		4.0
12:00	DE	Industrial orders	Dec	%MoM	0.9	-		-1.8
THURSDAY (7 February)								
11:00	PL	Auction of PS0418/WZ0117 bonds						
12:00	DE	Industrial output	Dec	%MoM	0.2	-		0.2
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	360	-		368
FRIDAY (8 February)								
6:30	CN	CPI	Jan	%YoY	2.0	-		2.5
8:00	DE	Exports	Dec	%MoM	1.3	-		-3.4
14:30	US	Trade balance	Dec	\$bn	-46.0	-		-48.7

Source: BZ WBK, Reuters, Bloomberg

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

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