Bank Zachodni WBK

Eyeopener – Eurogroup's meeting today

11 February 2013

- **Calm end of the week in the global markets**
- **Today the zloty slightly firmer, EURUSD stable after Thursday's drop**
- **Calm interest rate market at the end of the week, today details of supply for Wednesday's auction**
- **Today, meeting of euro zone's finance ministers**

Better than expected data on Chinese exports had positive impact on the global market sentiment since the beginning of the Friday's session. However, the optimism was reflected only in rising prices of equities. Single currency remained under pressure of Thursday's comments of Draghi, and was not strengthened even by information from the ECB that this week 21 banks will take advantage of third possible opportunity to pay back cash borrowed in 3Y LTRO. They will repay €5bn versus €3bn expected by the market. All in all, this week banks will have already repaid €146bn out of €489bn borrowed in first LTRO. Only much better than expected data on US trade balance had slight positive impact on the euro in the afternoon.

Fitch rating agency confirmed Spain's rating at "BBB" with negative outlook. The statement says the decision reflects expectations that public debt will remain under 100% of GDP. Moody's agency confirmed rating of Hungary at "Ba1" with negative outlook.

President of the European Council, Herman Van Rompuy announced at the end of the Friday's session that EU leaders reached an agreement on long term budget of the European Union. He added that this is the budget of balance and of economic growth, focused on the future, but moderate. Head of the European Commission, Jose Barroso commented the agreement on 2014-2020 budget that this is the fundamental for negotiations with the European Parliament. He expressed hope that despite talks are likely to be difficult, but will end with success. According to Barroso, the condition under which the Parliament will agree on this budget is its maximal elasticity reflected among others by the possibility of shifts of funds from one year to another.

Since the start of the session the EURUSD was fluctuating near Thursday's minima (ca. 1.338). The amplitude of fluctuations was clearly lower after a sharp drop seen in the previous day. Overnight the rate dropped temporarily even further to ca. 1.332, but in the following hours the euro was trimming losses and at the opening the EURUSD was close to 1.338. No data releases in the agenda today may cause that investors will focus today on comments from the Eurogroup meeting. From the technical analysis' point of view the rate bounced this night from the important support on the daily chart, which causes that upward trend is still valid.

The EURPLN was descending gently since the start of the day due to improvement of moods in the global markets. At the end of the session it was near 4.145. Zloty strengthened slightly also versus dollar. Today in the morning the EURPLN is close to 4.15, where it rebounded after temporary drop to almost 4.14. Friday's session showed that the zloty reacted to some extent to improvement of global moods. Potential for further and more significant strengthening is in our view limited due to possible more interest rate cuts by the MPC. If the EURUSD will continue departing from the support at 1.33, then the domestic currency may firm against dollar. Important levels for today for EURPLN are 4.14 and 4.17 (next resistance is at 4.21).

Domestic bond yields did not change considerably during the last session of the week. Still, it is worth noting that trade volumes were quite high. IRS market also stabilized. On Friday all money market rates, apart from 1Y rate, fell by 2bps. FRA stabilized after two days of considerable increases. Today the Ministry of Finance will show details of Wednesday's bond auction. Taking into account earlier comments of Ministry representatives, we are expecting that offer may include new 2Y OK0715 and WZ0124 floaters (Ministry is choosing from basket consisting of OK0715, DS1023, WS0429 and WZ0124). Lack of papers from the longer end should be supportive for the long-term bonds. We do not rule out that the ministry may slightly limit its planned offer of PLN2.0-6.0bn.

The Ministry of Labour said it estimates the unemployment rate increased in January to 14.2% from 13.4%. This is in line with our forecast.

Worries over the euro zone's peripheries and the outlook for economic growth may play main role on the global market at the beginning of the week due to meetings of European minsters of finance. Additionally, investors may start to pay more attention to possible outcome of Italian elections. Swings of global market sentiment may have an impact on the zloty already since the beginning of the week, but for the interest rate market Friday seems to be crucial. We estimate that the annual CPI declined below 2% and this may strengthen expectations for a rate cut in March. Thus, the short end of the IRS and bond curve may recover slightly after the increase initiated after the MPC meeting.

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	1.3379	CADPLN	3.0884
USDPLN	3.1031	DKKPLN	0.5564
EURPLN	4.1517	NOKPLN	0.5614
CHFPLN	3.3823	SEKPLN	0.4821
JPYPLN*	3.3533	CZKPLN	0.1645
GBPPLN	4.8972	HUFPLN*	1.4275

*for 100JPY/100HUF

Financial market review - 08.02.2013

The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.1483	4.1722	4.1660	4.1498	4.1670
USDPLN	3.0962	3.1160	3.1110	3.1013	3.1056
EURUSD	1.3359	1.3429	1.3392	1.3380	-

T-bonds

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0714 (2Y)	3.35	0	23.10.12	3.856
PS0418 (5Y)	3.55	2	7.02.13	3.521
DS1023 (10Y)	3.98	1	3.01.13	3.847

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	3.52	-2	0.33	0	0.45	-1
2L	3.49	0	0.41	-1	0.59	-2
3L	3.49	1	0.54	1	0.73	-1
4L	3.51	1	0.74	0	0.90	-1
5L	3.53	-1	0.99	1	1.08	-2
8L	3.72	-1	1.69	2	1.60	-1
10L	3.83	1	2.05	3	1.85	-1

WIBOR rates

TERM	%	Daily change (bp)
O/N	3.90	-2
T/N	3.90	-2
SW	3.88	-2
2W	3.88	-1
1M	3.88	-2
3M	3.82	-2
6M	3.78	-2
9M	3.75	-2
1Y	3.69	-1

FRA rates (Mid)

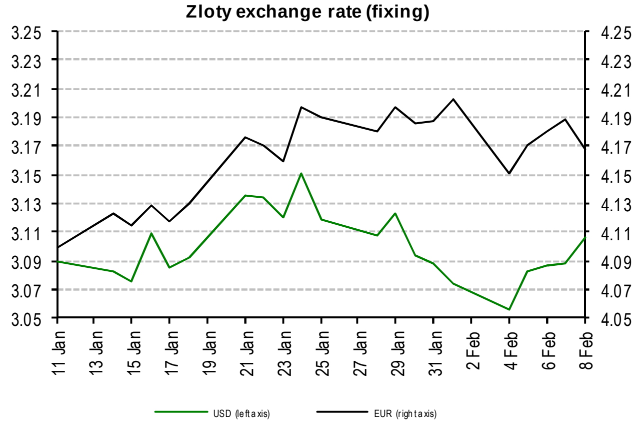
TERM	%	Daily change (bp)
1x2	3.79	1
1x4	3.72	0
3x6	3.52	0
6x9	3.34	-2
9x12	3.27	-1
3x9	3.54	1
6X12	3.39	0

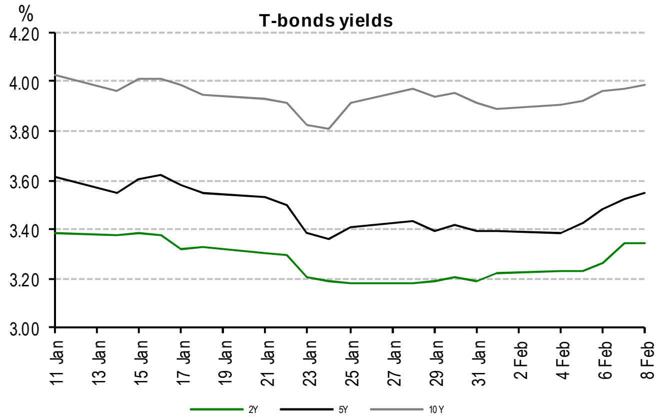
Measures of fiscal risk

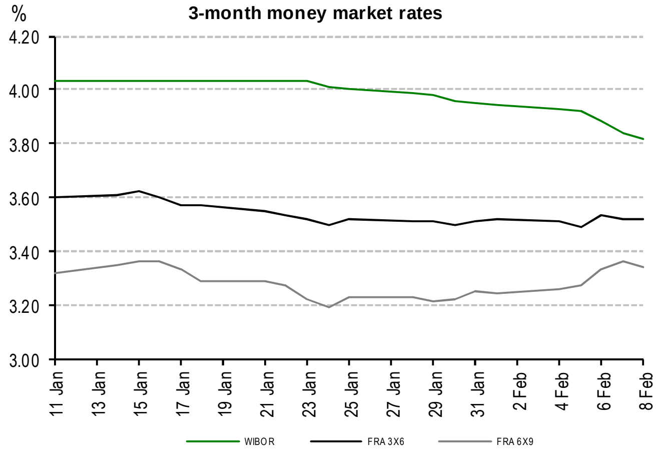
Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	91.1	0	2.36	-1
Czech Republic	61.2	0	0.43	0
Hungary	293.9	-2	4.93	-3
Greece	37030.5	0	9.23	0
Spain	284.2	-4	3.74	-5
Italy	266.7	-3	2.94	5
Portugal	392.0	-1	4.97	-2
Ireland	187.2	-6	2.28	-23
Germany	44.1	0	--	--

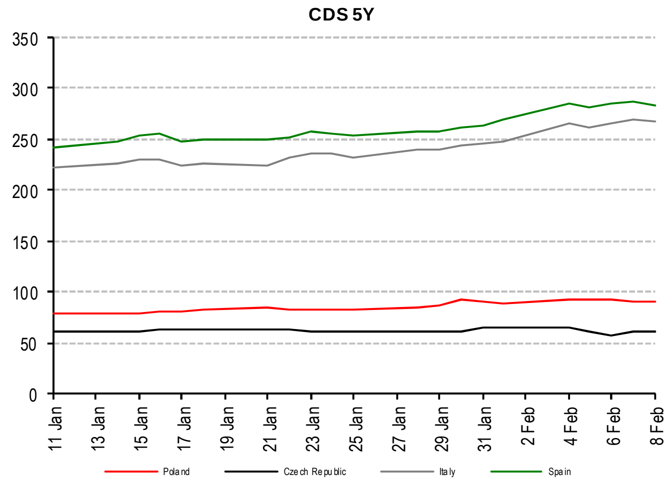
* 10Y treasury bonds over 10Y Bunds

Source: Reuters









Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE*
		FRIDAY (8 February)						
6:30	CN	CPI	Jan	%YoY	2.0	-	2.0	2.5
8:00	DE	Exports	Dec	%MoM	1.3	-	0.3	-2.2
14:30	US	Trade balance	Dec	$bn	-46.0	-	-38.5	-48.6
		MONDAY (11 February)						
		Euro area finance ministers meeting						
		TUESDAY (12 February)						
		EU finance ministers meeting						
14:00	**PL**	**Exports**	**Dec**	**€m**	**10 884**	**10 678**		**13 023**
14:00	**PL**	**Imports**	**Dec**	**€m**	**11 469**	**11 307**		**13 417**
14:00	**PL**	**Current account**	**Dec**	**€m**	**-851**	**-543**		**-1490**
		WEDNESDAY (13 February)						
11:00	**PL**	**Bond auction**						
11:00	EZ	Industrial output	Dec	%MoM	0.2	-		-0.3
14:30	US	Retail sales ex autos	Jan	%MoM	0.3	-		0.3
		THURSDAY (14 February)						
8:00	DE	Flash GDP	Q4	%QoQ	-0.5	-		0.2
11:00	EZ	Flash GDP	Q4	%QoQ	-0.4	-		-0.1
14:00	**PL**	**Money supply**	**Jan**	**%YoY**	**4.3**	**5.4**		**4.6**
14:30	US	Initial jobless claims	week	k	360	-		366
		FRIDAY (15 February)						
14:00	**PL**	**CPI**	**Jan**	**%YoY**	**1.9**	**1.9**		**2.4**
15:15	US	Industrial output	Jan	%MoM	0.2	-		0.3
15:55	US	Flash Michigan	Feb	pts	74.2	-		73.8

Source: BZ WBK, Reuters, Bloomberg

** 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