Bank Zachodni WBK

Eyeopener – Higher yields after auction

12 April 2013

- **Successful auction of Italian bonds supports positive market mood**
- **Profit taking after zloty strengthening, euro gained due to Italian auction**
- **Weak demand at auction of Polish bonds pushed up bond yields and IRS rates**
- **Today, money supply data in Poland, meeting of euro area's finance ministers, important data in USA**

Yesterday's session did not differ much from the previous ones. European stock market were posting gains, while German debt was weakening. A considerable impact on the euro versus the dollar was exerted by Italian bond auction. This country sold debt worth €5.7bn (slightly below upper border of offer at €6bn), but yields were very low. New Italian 3Y benchmark met a high demand, and this caused that auction results were positively interpreted by the market. US initial jobless claims were slightly better than expected, which, together with hawkish minutes of the last Fed meeting (released on Wednesday) helped to dollar to pare some losses against the single currency.

This morning market sentiments are less optimistic. Asian stock markets recorded drops in reaction to the strengthening yen. Investors will focus on today's meeting of euro zone finance ministers, where it will be discussed if to extend rescue-loan maturities for Ireland and Portugal by 7 years in order to support their financial credibility. According to the *Financial Times*, Portugal may need another bailout even if their current loan maturities are extended.

The EURUSD was rising since the beginning of the yesterday's session and this trend was gaining steam with every consecutive hour. The euro was supported by results of Italian bond auction and thus the EURUSD reached temporarily 1.314. US jobless claims initiated downward correction to 1.308. Still, this was not the end of high volatility during the day. At the end of the session the exchange rate started to rise again and approached daily peak. During the night the range trading narrowed, today in the morning the EURUSD is close to 1.31. In the afternoon more US data is due for release. If they also prove to be better than expected, then come correction after recent surge may be recorded at the end of the week. The EURUSD has tested vital daily resistance at 1.311 already three times, with no success so far.

The EURPLN increased quite visibly amid profit taking after recent clear strengthening of the domestic currency. The impulse for depreciation was also provided by plunge of the EURUSD. The zloty depreciated to over 4.12 per euro and nearly 3.15 per dollar. Just like in case of the EURUSD, at the very end of the session some correction occurred and the zloty pared whole losses vs. the dollar. During the night the EURPLN was stable around 4.11. At the beginning of the session the market sentiment is clearly weaker than yesterday and this may depreciate the zloty again to ca. 4.12 per euro. We do not expect the EURPLN to return to ca. 4.09 today.

On the domestic interest rate market a correction of recent plunge of yields was recorded. Next to morning's weakening of German bonds, yields of bonds and IRS were pushed up, as Polish bond auction was not interpreted as successful (see details in the next paragraph). IRS rates increased from 4bps in case of 2Y to 6bps for 10Y. On the bond curve the 5Y sector clearly underperformed, yields increased by nearly 10bps. Stable 2Y benchmark and 5bps increase of 10Y yield led to some correction of recent flattening of the curve (2-10 spread rebounded to 54bps from 50bps). 1-12M WIBOR rates declined by 1bps to 3.35%. Longer FRA rates inched up by 4bps and now the market is less aggressive in pricing-in rate cuts. However, this is still 50bps rate cut in next 9 months that the market expects.

Poland's Ministry of Finance sold T-bonds DS1023 worth PLN3.05bn (demand at PLN3.9bn) and WZ0124 worth nearly PLN2bn (demand at PLN3.2bn). Auction yield of 10Y benchmark DS1023 (3.515%) was slightly lower than on the secondary market. However, as regards investors' reaction, the demand for Polish assets was relatively low. Taking into account the latest circumstances on global markets, starting with Bank of Japan action (rally on the European debt markets, but also on Polish), recorded demand seems to be – as market shows – disappointing. After yesterday's auction the government's gross borrowing needs are covered in ca. 63%. Deputy finance minister Wojciech Kowalczyk said in an interview for PAP that this number may climb to 70% at the end of April and to 80% at the end of Q2. Kowalczyk addressed the issue of budget bill amendment, and said that decision in this matter may be taken after assessment of budget revenues in April and May. He added that the ministry is considering whether to revise GDP growth down to ca. 1.5% as compared to 2.2% assumed in the budget bill. Kowalczyk said also that the ministry does not like to see too strong zloty strengthening as this would be harmful for the economy.

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FX market

Today's opening

EURUSD	1.3105	CADPLN	3.1062
USDPLN	3.1399	DKKPLN	0.5519
EURPLN	4.1149	NOKPLN	0.5503
CHFPLN	3.3753	SEKPLN	0.4947
JPYPLN*	3.1592	CZKPLN	0.1590
GBPPLN	4.8318	HUFPLN*	1.3889

*for 100JPY/100HUF

Last session 11.04.2013

	min	max	open	close	fixing
EURPLN	4.0917	4.1231	4.0977	4.1110	4.1061
USDPLN	3.1226	3.1492	3.1346	3.1323	3.1382
EURUSD	1.3062	1.3138	1.3074	1.3127	-

Interest rate market 11.04.2013

T-bonds**

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0715 (2Y)	3.02	1	20.03.13	3.17
PS0418 (5Y)	3.14	8	20.03.13	3.432
DS1023 (10Y)	3.56	4	11.04.13	3.515

IRS rates**

TERM	PL %	PL Change (bp)	US %	US Change (bp)	EA %	EA Change (bp)
1L	3.08	0	0.31	-1	0.37	0
2L	3.05	4	0.36	-1	0.46	-1
3L	3.07	4	0.48	0	0.56	-1
4L	3.11	5	0.66	-1	0.71	-1
5L	3.14	4	0.88	-1	0.87	-1
8L	3.28	4	1.58	-1	1.36	0
10L	3.39	6	1.93	0	1.63	0

WIBOR rates

TERM	%	Daily change (bp)
O/N	3.39	-3
T/N	3.41	-1
SW	3.35	-1
2W	3.35	-1
1M	3.35	-1
3M	3.35	-1
6M	3.35	-1
9M	3.35	-1
1Y	3.35	-1

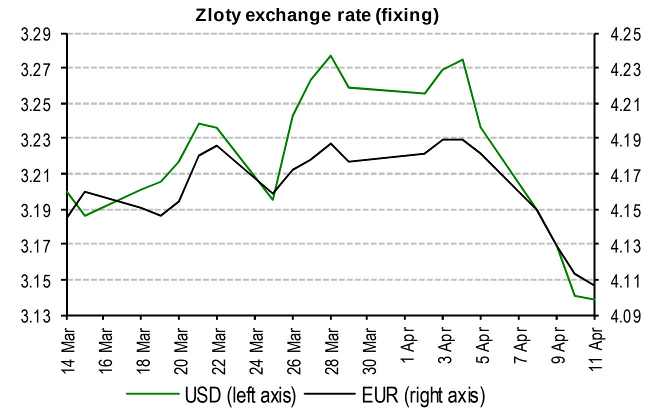
FRA rates**

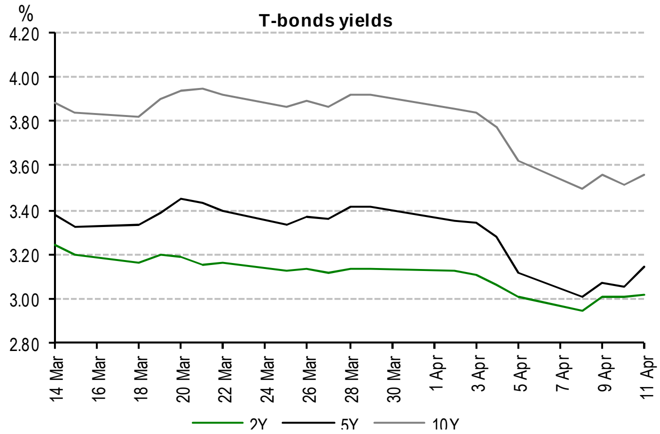
TERM	%	Daily change (bp)
1x2	3.23	0
1x4	3.22	1
3x6	3.06	1
6x9	2.89	4
9x12	2.86	4
3x9	3.06	1
6X12	2.89	1

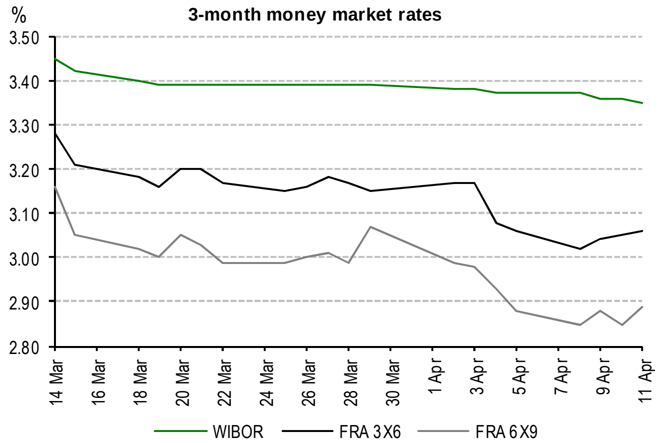
Measures of fiscal risk

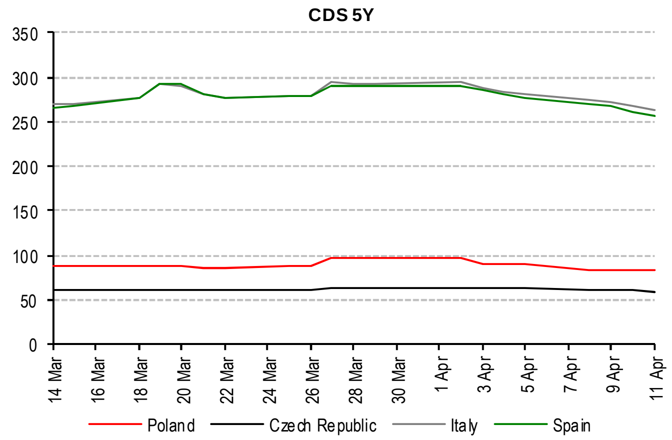
Country	CDS 5Y Value	CDS 5Y Change (bp)	Spread 10Y* Value	Spread 10Y* Change (bp)
Poland	83.1	0	2.26	5
Czech Republic	57.9	-2	0.50	-1
Hungary	313.1	0	4.57	-4
Greece	37030.5	0	10.11	12
Spain	256.9	-5	3.37	4
Italy	262.4	-5	3.05	4
Portugal	406.6	-5	5.07	-5
Ireland	175.9	-1	2.61	-3
Germany	33.2	0	--	--

* 10Y treasury bonds over 10Y Bunds









*Information shows mid levels on the interbank market

Source: Reuters

Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE*
		FRIDAY (5 April)						
12:00	DE	Industrial orders	Feb	%MoM	1.1	-	0.0	-2.1
14:30	US	Non-farm payrolls	Mar	k	195	-	88	268
14:30	US	Unemployment rate	Mar	%	7.7	-	7.6	7.7
		MONDAY (8 April)						
9:00	CZ	Industrial output	Feb	%YoY	-5.0	-	-5.7	-4.4
10:30	EZ	Sentix index	Apr	pts	-14.1	-	-17.3	-10.6
12:00	DE	Industrial output	Feb	%MoM	0.1	-	0.5	-0.6
		TUESDAY (9 April)						
8:00	DE	Exports	Feb	%MoM	-0.3	-	-1.5	1.3
		WEDNESDAY (10 April)						
	PL	**MPC decision**		**%**	**3.25**	**3.25**	**3.25**	**3.25**
15:00	US	Minutes Fed						
		THURSDAY (11 April)						
11:00	**PL**	**Bond auction**						
14:30	US	Initial jobless claims	week	k	360	-	346	388
		FRIDAY (12 April)						
		Meeting of euro zone ministers of finance						
11:00	EZ	Industrial output	Feb	%MoM	0.2	-		-0.4
14:00	**PL**	**Money supply**	**Mar**	**%YoY**	**5.8**	**5.7**		**5.6**
14:30	US	Retail sales ex autos	Mar	%MoM	0.0	-		1.0
15:55	US	Flash Michigan	Apr	pts	78.5	-		78.6

Source: BZ WBK, Reuters, Bloomberg

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

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