

Eyeopener – Room for cuts becomes larger

16 April 2013

- **Data from China support risk aversion**
- **March's inflation at 1.0%YoY, no surprises**
- **MPC's A. Zielińska-Głębocka thinks that room for further cuts becomes larger**
- **Zloty stable despite weak market sentiment, no breakthrough in EURUSD**
- **Domestic yields fell while awaiting the data**
- **Today domestic core inflation, important data from Germany and USA**

Chinese data had the biggest impact on the global market sentiment during the yesterday's session due to lack of any fresh data from Europe and the US. Weaker than expected GDP growth in 1Q and disappointing March industrial output triggered a strong plunge of commodities (copper, silver, gold). This dragged prices of stocks of commodity-related companies down and the majority of stock indexes as well. The retreat from risky assets supported Bunds. Moody's maintained Chinese rating at Aa3, but revised the outlook to stable from positive.

The EURUSD was falling in the first part of the session amid clear deterioration of global market sentiment. Consequently, the exchange rate reached support indicated by us yesterday at 1.305 and only then the euro's depreciation halted. At the end of the domestic session the exchange rate rebounded to ca. 1.31 but during the night the dollar continued to gain due to persisting high risk aversion (the EURUSD reached 1.302). After strong increase recorded after the decision of Bank of Japan, the exchange rate stays currently in the horizontal trend. Today vital German data is due (ZEW index) and this may initiate higher volatility. Today in the morning the euro is recovering after overnight weakening, the EURUSD is close to 1.308. Support and resistance for today are at 1.302 and 1.313, respectively.

The EURPLN was hovering since the beginning of the session around daily peak established early in the morning and the USDPLN was rising due to lower EURUSD. The release of domestic inflation data did not trigger depreciation of the zloty and in the following hours the Polish currency managed to pare some overnight losses suffered vs. the euro and the dollar. To some extent this was driven by rebound of the EURUSD and clearly lower current account deficit. Forint and Czech koruna also started to appreciate. At the end of the day the EURPLN reached 4.104 and the USDPLN 3.135. During the night the zloty remained stable. Despite strong plunge of stock prices recorded yesterday and falling futures at today's opening the domestic currency did not depreciate. The zloty may be supported by situation on Polish debt market – domestic bonds

gain following Bunds amid higher risk aversion. Since the last week, the range trading of the EURPLN narrows and this suggest a bigger move may occur soon. Vital levels for today are at 4.10 and 4.13.

Domestic IRS and bond yields fell already prior to the data release. Market was worried that reading might be below expectations (after comments of the NBP governor during last week's post-meeting conference). The reading itself did not cause a major market reaction. Eventually, only IRS fell by 4bps for 2Y (to 3.03% - only 2bps above all-time low) and by 3bps for 5- and 10Y (to 3.13% and 3.37%, respectively). Another impulse for strengthening was provided by falling yields of 10Y Bunds. WIBORs 1-12M were stable at 3.35% for the second session in a row. As FRA fell by 3-5bps, this means that the market again expects more cuts from the MPC. We are expecting that prior to Thursday's data on output the potential for rise in bond yields (at least on the front end) is limited. This is because the market may be worried that upcoming data will be supportive for further NBP's interest rate cut expectations.

In line with our expectations, inflation declined to 1%YoY in March. Given comments of NBP governor after the April's MPC meeting, these data should be neutral for the perspective of monetary policy decisions. Publications on industrial output, retail sales and labour market will be most important and not necessarily only for March, but also for next month(s). It is worth to notice that currently CPI inflation is falling mainly due to statistical effect of high base, but in second half of the year the situation may reverse. The current account deficit reached only €854m in February despite deep negative balance in income and current transfers accounts. This was due to an all-time high surplus in foreign trade (€0.6bn), which resulted from very low imports (annual decline by 8.8%).

The MPC's Anna Zielińska-Głębocka said after the inflation figures that „if it turns out that inflation runs considerably below inflation target, or even below 1.0% in the medium term – which can be the case – then room for further cuts will become larger”. She added that the Council should remain in “wait-and-see” mode in May, while further decisions may be taken in June-July (there is no rate-setting meeting in August). According to Zielińska-Głębocka, rates may be cut by 25 or even 50bps. Recent comments of the MPC members (E. Chojna-Duch, A. Glapiński, A. Zielińska-Głębocka) show that consensus for more easing is slowly building up. Still, some members will probably be eager to wait with decisions until next CPI and GDP projection in July.

ECONOMIC ANALYSIS DEPARTMENT

ul. Marszałkowska 142, 00-061 Warszawa
email: ekonomia@bzwbk.pl

Maciej Reluga (Chief Economist)

Piotr Bielski

Agnieszka Decewicz

Marcin Sulewski

Marcin Luziński

fax +48 22 586 83 40

Web site: <http://www.bzwbk.pl>

+48 22 586 83 63

+48 22 586 83 33

+48 22 586 83 41

+48 22 586 83 42

+48 22 586 83 62

TREASURY SERVICES

Poznań

Warszawa

Wrocław

+48 61 856 5814/30

+48 22 586 8320/38

+48 71 369 9400

FX market

Today's opening

EURUSD	1.3072	CADPLN	3.0904
USDPLN	3.1498	DKKPLN	0.5522
EURPLN	4.1173	NOKPLN	0.5486
CHFPLN	3.3830	SEKPLN	0.4924
JPYPLN*	3.2108	CZKPLN	0.1590
GBPPLN	4.8262	HUFPLN*	1.3906

*for 100JPY/100HUF

Last session

12.04.2013

	min	max	open	close	fixing
EURPLN	4.0930	4.1225	4.1149	4.1020	4.1200
USDPLN	3.1290	3.1581	3.1399	3.1327	3.1537
EURUSD	1.3036	1.3119	1.3105	1.3097	-

Interest rate market

12.04.2013

T-bonds**

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0715 (2Y)	3.02	0	20.03.13	3.17
PS0418 (5Y)	3.15	1	20.03.13	3.432
DS1023 (10Y)	3.57	2	11.04.13	3.515

IRS rates**

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	3.10	2	0.31	1	0.37	0
2L	3.07	2	0.37	0	0.45	-1
3L	3.09	2	0.47	-1	0.54	-2
4L	3.12	1	0.65	-2	0.68	-3
5L	3.16	2	0.87	-2	0.84	-3
8L	3.31	3	1.55	-3	1.33	-3
10L	3.40	1	1.90	-3	1.60	-3

WIBOR rates

TERM	%	Daily change (bp)
O/N	3.41	2
T/N	3.41	0
SW	3.35	0
2W	3.35	0
1M	3.35	0
3M	3.35	0
6M	3.35	0
9M	3.35	0
1Y	3.35	0

FRA rates**

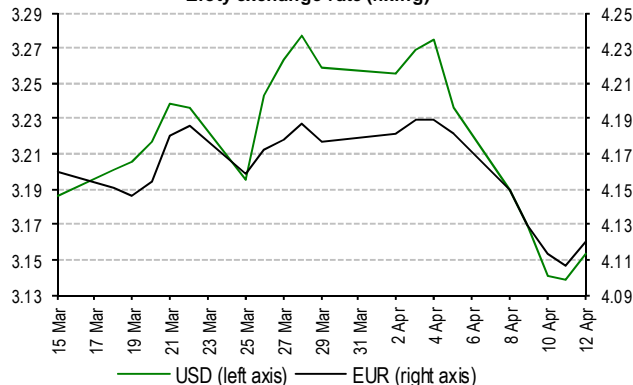
TERM	%	Daily change (bp)
1x2	3.23	0
1x4	3.21	-1
3x6	3.06	0
6x9	2.90	1
9x12	2.87	1
3x9	3.07	1
6X12	2.90	1

Measures of fiscal risk

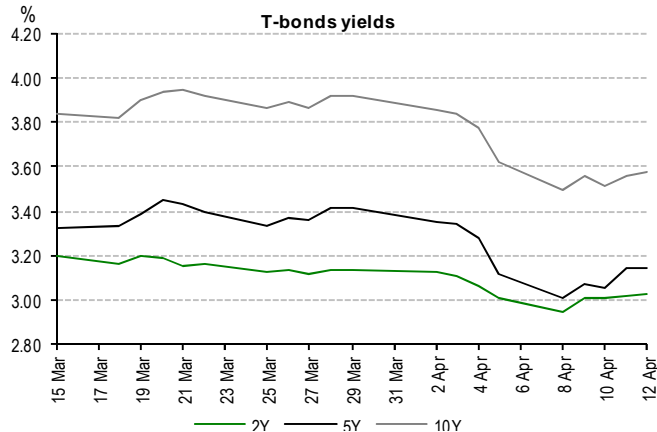
Country		CDS 5Y	Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	818	-1	2.31	5
Czech Republic	57.9	0	0.48	-1
Hungary	304.7	-8	4.53	-4
Greece	37030.5	0	10.15	3
Spain	260.5	4	3.44	7
Italy	267.0	5	3.08	3
Portugal	406.1	-1	5.08	1
Ireland	175.2	-1	2.65	4
Germany	33.7	1	--	--

* 10Y treasury bonds over 10Y Bunds

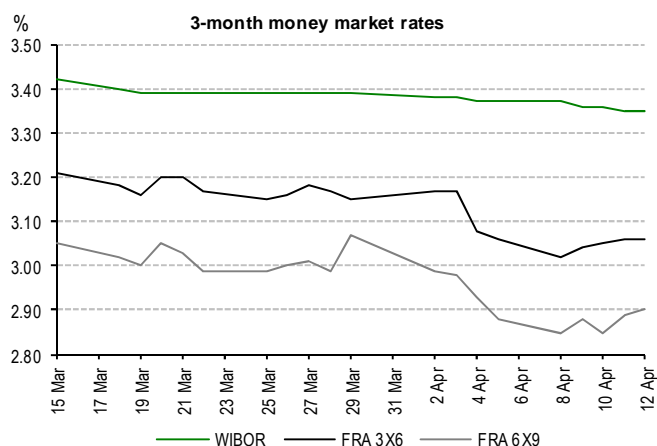
Zloty exchange rate (fixing)



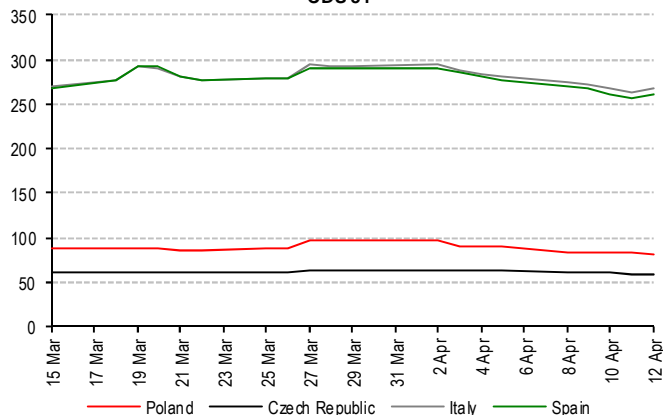
T-bonds yields



3-month money market rates



CDS 5Y



*Information shows mid levels on the interbank market

Source: Reuters

Economic calendar

Time CET	Country	Indicator	Period	Forecast		Actual Value	Last Value*	
				Market	BZWBK			
		FRIDAY (12 April)						
		Meeting of euro zone ministers of finance						
11:00	EZ	Industrial output	Feb	%MoM	0.2	-	0.4	-0.4
14:00	PL	Money supply	Mar	%YoY	5.8	5.7	6.6	5.6
14:30	US	Retail sales ex autos	Mar	%MoM	0.0	-	-0.4	1.0
15:55	US	Flash Michigan	Apr	pts	78.5	-	72.3	78.6
		MONDAY (15 April)						
14:00	PL	CPI	Mar	%YoY	1.1	1.0	1.0	1.3
14:00	PL	Exports	Mar	€m	11 901	12 067	12 090	12 153
14:00	PL	Imports	Mar	€m	12 105	12 024	11 488	12 161
14:00	PL	Current account	Feb	€m	-1 507	-1 488	-854	-1 688
		TUESDAY (16 April)						
11:00	EZ	HICP	Mar	%YoY	1.7	-		1.7
11:00	DE	ZEW index	Apr	pts	41.0	-		48.5
14:00	PL	Core inflation	Mar	%YoY	1.0	1.0		1.1
14:30	US	Core CPI	Mar	%MoM	0.2	-		0.2
14:30	US	House starts	Mar	k	930	-		917
14:30	US	Building permits	Mar	k	943	-		946
15:15	US	Industrial output	Mar	%MoM	0.2	-		0.7
		WEDNESDAY (17 April)						
14:00	PL	Wages in corporate sector	Mar	%YoY	2.8	2.1		4.0
14:00	PL	Employment in corporate sector	Mar	%YoY	-0.9	-0.9		-0.8
20:00	US	Fed Beige Book						
		THURSDAY (18 April)						
14:00	PL	Industrial output	Mar	%YoY	-2.5	-1.4		-2.1
14:00	PL	Construction and assembly output	Mar	%YoY	-14.5	-17.8		-11.4
14:00	PL	PPI	Mar	%YoY	-0.5	-0.7		-0.4
14:30	US	Initial jobless claims	week	k		-		346
16:00	US	Philly Fed index	Aar	pts	3.0	-		2.0
		FRIDAY (19 April)						
		No important data releases						

Source: BZ WBK, Reuters, Bloomberg

* in case of the revision, the data is updated

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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>