

Eyeopener – Market still illiquid

18 November 2008

- **Zloty depreciated significantly, local bonds slightly stronger amid lack of liquidity, FRA and IRS lower**
- **Results of G20 summit disappointed**
- **Today, local data about wages and employment and US data about PPI and capital flows**

Zloty depreciated yesterday substantially against both euro and dollar. It took place amid limited market liquidity. Local currency remains under influence of changing moods in international markets and changes in stock market indices, reflecting level of risk aversion. G20 summit held last weekend did not bring any new clear-cut solutions against global crisis. Conclusions were quite general and close to earlier declarations of finance ministers and central bankers that met in the previous week. Therefore, the result of the summit was a disappointment for markets. Stock markets in Europe fell significantly yesterday. Elevated risk aversion had negative effect not only on the zloty but also on other currencies in the region.

Negative information for the region was Standard and Poor's decision about rating downgrade for Hungary (foreign currency debt to BBB with negative outlook), even though it was expected after recently the S&P put the county on the watch list and suggested possible downgrade. According to explanation, deterioration in Hungary rating was a reflection of negative impact on deteriorating international environment – financial and economic – on Hungarian economy. The S&P underscored that large dependency on external financing and high public debt caused that Hungary was particularly exposed to rating downgrade. Moreover, S&P suggested that rating of Hungary may be reduced further due to changes in the economy, which may be more damaging than currently predicted. At this point one should recall that in case of Poland the S&P only changed rating outlook from positive to stable while other rating services confirmed their ratings. We presented more detailed discussion of differences between economic fundamentals in Poland, Hungary and Czech Republic in the latest monthly report, released last week.

Zloty was gradually losing strength for the better part of the day and only at the end of the session local currency started erasing losses. At the end of day, EURPLN reached 3.78 versus 3.709 at opening, and USDPLN ended the session at 2.98 versus almost 2.95 at the opening. This time, zloty weakening amid growing risk aversion went in line with rise in EURUSD. At the end of Polish session, the rate was at 1.269 versus 1.258 at the opening. Yesterday's rise in EURUSD seems to have a corrective nature, as the euro, apart from higher risk aversion, was not supported by quite dovish comments of ECB Board members. Nout Wellink said yesterday that the euro zone's economy rapidly slows down and

inflation is not a serious problem any more. In turn, Axel Weber said the ECB may further cut rates, as the economic growth weakens and prospects for the bloc's economy become gloomy. The comments had positive impact on Bunds. The core debt markets were also positively affected by increase in risk aversion. At the end of the day, yields of 10Y Treasuries and Bunds were at 3.68% and 3.65%, respectively, versus 3.72% and 3.68% at the opening.

Today in the morning, after falling stocks in Asia, the Polish market opened in negative moods and the zloty lost to above 3.80 versus the euro and to 3.01 against the dollar.

In the domestic debt market there is still scarce liquidity. Yields fell a few basis points across the curve. There was also fall in IRS and FRA rates (strengthening of expectations for rate cuts by the MPC), and in WIBOR rates (effects of NBP operations and excess liquidity for short-term). Falling rates in the domestic money market result from regular operations of the NBP, providing banks with liquidity in zlotys. Yesterday, in line with earlier announcement, the NBP also carried out the first FX swap operation in Swiss francs with a standard maturity of 7 days. Besides, the NBP announced that tomorrow there will be FX swap operation in Swiss francs for 84-days.

Yesterday, the stats office released foreign trade data for 9 months of this year, but the numbers did not bring much new to the picture of situation in Poland's foreign trade as compared to what the NBP balance of payments figures for September showed last week. The data had no impact on the market.

Finance minister Jacek Rostowski said yesterday that the update of Poland's convergence program will not include revision to the earlier planned path of the fiscal deficit reduction. Minister does not see a need for saving increasing the deficit, as this could lower the country's credibility and lead to increase in public debt servicing costs. In turn, according to NBP governor Sławomir Skrzypek, Poland's entry to the ERM2 in current conditions may be costly. However, he denied to indicate desired date of euro zone entry.

Today at 13:00 GMT we will get domestic figures on average wage and employment in the enterprise sector for October. Our forecast points to growth rates of 8.8%YoY and 3.7%YoY, respectively versus the market consensus at 9.6%YoY and 3.7%YoY. Also, we will get next macro data from the US. At 13:30 the PPI numbers for October will be released with expectations of a 2%MoM drop after fall of 0.4%MoM the previous months. At 14:00 the TICS capital flows data for September will be published with expectations for \$50bn inflow after \$14bn inflow in August.

ECONOMIC ANALYSIS UNIT

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

Maciej Reluga (Chief Economist)
Piotr Bielski
Piotr Bujak
Cezary Chrapek

fax +48 022 586 83 40
Web site: <http://www.bzwbk.pl>
+48 (0) 22 586 83 63
+48 (0) 22 586 83 33
+48 (0) 22 586 83 41
+48 (0) 22 586 83 42

New business queries:

Treasury - Frank O'Connor

Corporate Banking – Rashid Khan

Branch/ Mortgages - Carl Coates

+48 (0) 22 586 8402
frank.o'connor@bzwbk.pl
+48 (0) 22 586 8050
rashid.khan@bzwbk.pl
+48 (0) 22 586 8059
carl.coates@bzwbk.pl

F/X rates (today's opening)

EURUSD	1.2626	CADPLN	2.4547
USDPLN	3.0135	DKKPLN	0.5108
EURPLN	3.8037	NOKPLN	0.4282
CHFPLN	2.5139	SEKPLN	0.3758
JPYPLN*	3.1196	CZKPLN	0.1496
GBPPLN	4.5297	HUFPLN	1.4164

Financial market review - 17 Nov 08

The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.6987	3.7850	3.7090	3.7800	3.7277
USDPLN	2.9311	2.9959	2.9483	2.9796	2.9426
EURUSD	1.2581	1.2691	1.2584	1.2690	-

T-bonds

TERM	BOND	Yield (%)	Change (bp)	Last auction	Average yield
2Y	OK0710	6.36	-2	6.08	6.471
5Y	PS0413	6.23	-2	1.10	5.926
10Y	DS1017	6.34	-1	8.10	5.859

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	5.75	-11	2.08	-12	3.57	-8
2Y	5.55	-8	2.26	-7	3.33	-6
3Y	5.47	-8	2.66	-7	3.56	-6
4Y	5.46	-7	3.03	-9	3.59	-2
5Y	5.46	-8	3.33	-3	3.71	12
8Y	5.40	-3	3.83	-6	4.02	-2
10Y	5.34	-3	3.97	-6	4.19	0

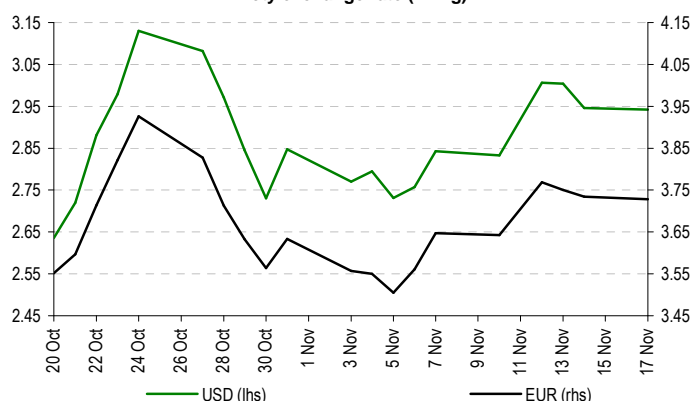
WIBOR rates

TERM	%	Daily change (bp)
O/N	5.40	-83
T/N	5.72	-57
SW	6.17	-14
2W	6.23	-14
1M	6.47	-4
3M	6.73	-3
6M	6.81	-1
9M	6.83	-1
1Y	6.84	-1

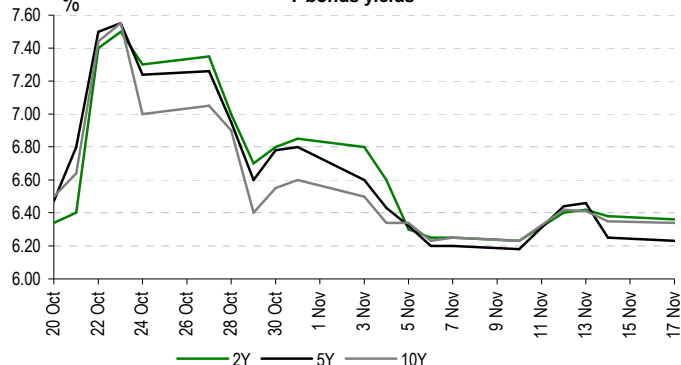
FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	6.48	1
3X6	5.84	-6
6X9	5.05	-18
9X12	4.95	-15
3X9	5.62	-5
6X12	5.14	-8

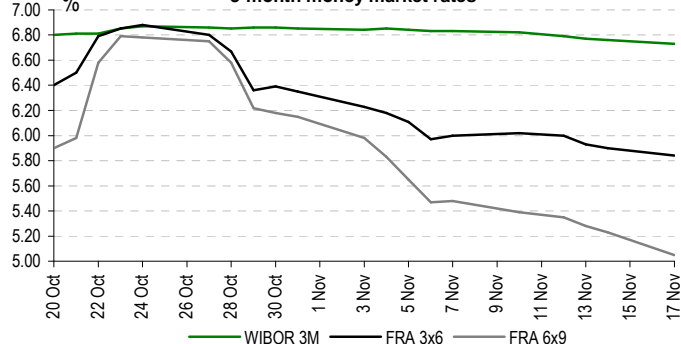
Zloty exchange rate (fixing)



T-bonds yields



3-month money market rates



* for 100 JPY

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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>



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