Bank Zachodni WBK

Eyeopener – Markets still in good mood

28 July 2009

- **Zloty slightly stronger, fluctuating in narrow range below 4.20 versus euro; small activity in bond market**
- **Today in the US, Case/Shiller index of house prices and index of consumer confidence**

The zloty strengthened slightly at yesterday session. The EURPLN rate exchange rate fell at the opening to ca. 4.16. Later on it held in a narrow range of 4.16-4.19. The zloty appreciated against the euro during the day by ca. 0.6%, the Czech crown by ca. 0.3% and the Hungarian forint marginally weakened. The decision of the Hungarian central bank had negative influence on the forint, as the MNB cut interest rates for the first time in 6 months and the reduction was by 100 bp, while the market expected a move by 50 bp. The main interest rate in Hungary was cut to 8.5%. In the evening, already after close of the European session the zloty strengthened again, going to 4.155 vs. the euro, and today at the opening the EURPLN rate was slightly above 4.16.

In the international equity markets after strong opening the indices went down, though majority of all stock markets in Europe finished in the black. The US equity indices marginally increased, though the change was large enough to set new this year's maximum levels. In Asia the stock price increases also dominated. The dollar initially weakened against the euro to 1.429 from 1.424 at the opening due to improved moods in the international markets. In the afternoon there was a correction to ca. 1.422, which was accompanied by deterioration of global moods after releases of financial results of inter alia Aetna, Verizon and RadioShack. However, this move was temporary and overnight the dollar depreciated again. Today in the morning the EURUSD rate was close to 1.429.

In the local debt market investors' activity was limited. The FRA rates did not change significantly, while the IRS rate rose by a few basis points. Bond yields rose to much smaller extent.

The Ministry of Finance sold PLN1.45bn of 52-week Treasury Bills with average yield at 4.28% and investors' demand of PLN2.3bn

In the core debt markets there was a slight weakening due to maintained low appetite for safe-haven assets and large supply of bonds at this week's auctions in the US (with supply of $115bn including $42bn of 2Y bonds to be offered today). Yields of 10Y Treasuries and Bunds rose to 3.76% and 3.51%. from 3.70% and 3.50% at the opening.

New home sales in the US increased in June by 11% (the strongest in 8 years) to 384k from 346k against expected 352k. The GfK index released earlier reflecting sentiment of consumers in Germany was also higher than predicted and rose from 3.0 pts to 3.5 pts against a forecast of 2.9 pts.

According to the NBP report about business climate in enterprises sector released yesterday, symptoms of approaching economic recovery observed in Q2 have strengthened in Q3, although current assessment of economic climate is still weak. The report says that there was improvement in assessment of economic situation, demand, employment, wages, and to smaller extent in investments and credit availability. The report shows that price cuts have stopped and companies' margins are not shrinking any more in the domestic market. Ability to pay dues on time has deteriorated somehow, margins from sales in foreign market have stopped growing, and a period of predicted economic slowdown has lengthened. According to survey results, the main problem of enterprises sector is still (despite clear improvement) a weak demand, and then fluctuations in exchange rate, delayed payments, and problems with getting loans.

Deputy finance minister Ludwik Kotecki said yesterday that good economic data are symptoms of economic recovery and in the next 1-2 months we will see confirmation of positive trends in data. In today's Puls Biznesu daily Kotecki warned that there is a risk that relation of public debt to GDP may exceed 55% (the second safety threshold) in 2010.

PM Donald Tusk said yesterday that PO-PSL coalition is not under threat and premature election, which were mentioned earlier by deputy PM Pawlak in Newsweek's interview, are not too likely.

No important data were scheduled for today. Meanwhile, the MPC is going to start its two-day meeting. Abroad at 15:00 the Case/Shiller report for May on home prices in the largest US cities will be released. According to market forecasts it recorded a drop by 17.9%YoY after a decline of 18.1%YoY in April. At 16:00 the US consumer confidence data will be released for July. The market consensus points to decline of the index to 48.8 pts from 49.3 pts.

The release of next Q2 financial results of companies was scheduled for today, including BP, Canon, Deutsche Bank.

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F/X rates (today's opening)

EURUSD	1.4275	CADPLN	2.7056
USDPLN	2.9148	DKKPLN	0.5589
EURPLN	4.1610	NOKPLN	0.4746
CHFPLN	2.7287	SEKPLN	0.3972
JPYPLN*	3.0643	CZKPLN	0.1634
GBPPLN	4.8168	HUFPLN	1.5592

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.1595	4.1951	4.1698	4.1800	4.1626
USDPLN	2.9163	2.9450	2.9252	2.9395	2.923
EURUSD	1.4219	1.4293	1.4255	1.4223	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2Y	**4.81**	**1**	13.05	5.669
5Y	**5.48**	**4**	3.06	5.783
10Y	**6.17**	**2**	20.05	6.335

IRS rates (Mid)

TERM	PL %	PL Change (bp)	US %	US Change (bp)	EA %	EA Change (bp)
1Y	4.15	0	0.78	-1	1.29	1
2Y	**4.64**	**5**	1.48	5	1.81	3
3Y	4.95	6	2.12	5	2.30	3
4Y	5.14	6	2.61	2	2.66	2
5Y	**5.26**	**7**	3.01	5	2.94	2
8Y	5.44	8	3.69	6	3.49	1
10Y	**5.46**	**3**	3.96	9	3.73	1

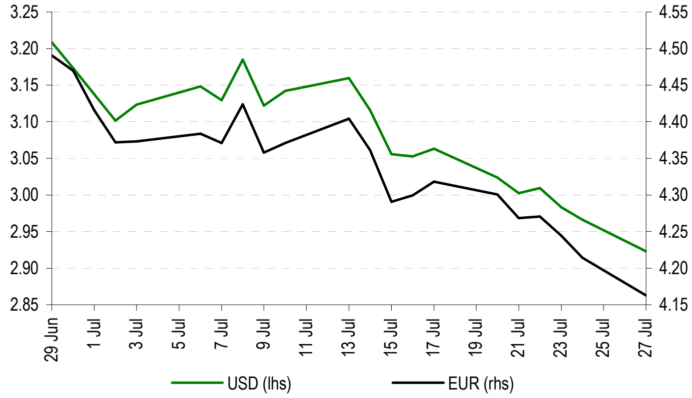
WIBOR rates

TERM	%	Daily change (bp)
O/N	2.35	-5
T/N	2.43	-20
SW	3.15	-2
2W	3.41	-2
1M	3.53	-1
3M	4.17	-1
6M	4.36	-1
9M	4.45	0
1Y	4.53	-1

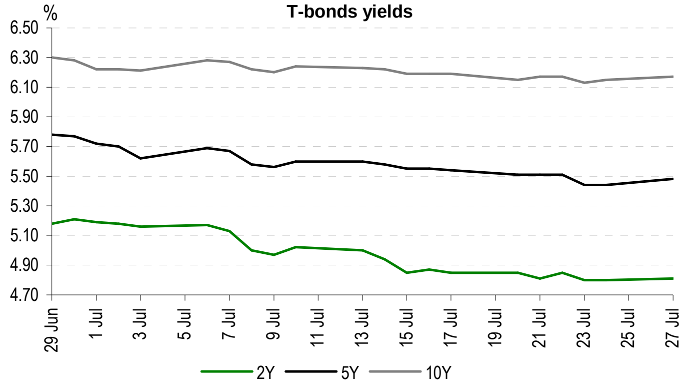
FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.56	3
3X6	4.02	1
6X9	4.02	1
9X12	4.15	1
3X9	4.19	1
6X12	4.23	0

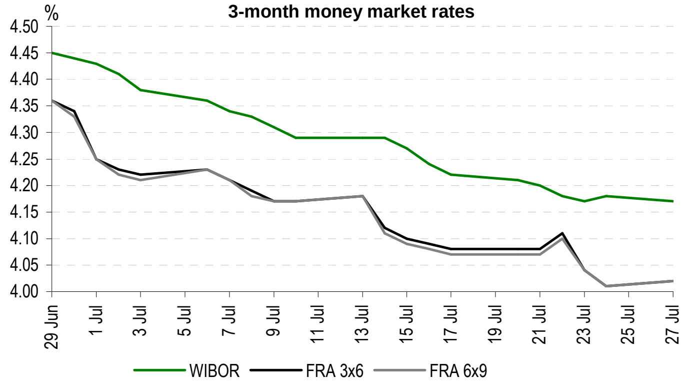
Zloty exchange rate (fixing)



T-bonds yields



3-month money market rates



* for 100 JPY

Source: Reuters

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