

Eyeopener – Deal with Eureko supports the zloty

5 October 2009

- **Zloty recovers after agreement between Poland and Eureko and upgrade of Hungary rating outlook by S&P**
- **Today buyback auction of T-Bills, activity indices (PMI, ISM)**
- **This week ECB decision and Q3 financial results of enterprises**

Friday's opening was not good for the domestic currency, which, after a strong decline in the equity markets in the US and Asia, clearly lost its value. EURPLN rate rose at the opening above 4.29. In the remainder of the session there was a sizeable rebound in the zloty despite the foreign data, which again disappointed investors and led to further declines in equity markets. Support for currencies in the region was the upgrade of Hungarian rating outlook from negative to stable made by the S&P and the final clarification on the payment of funds for Eureko. At the end of the Friday session zloty regained much of the loss of the week. EURPLN rate fell at the end of the day to ca. 4.23, USDPLN to 2.90 for. During Friday's session, there was a slight increase in EURUSD to 1.46 from 1.454 at the opening, despite the statements of EU Commissioner J. Almunia, who expressed his satisfaction with the support of the US strong dollar policy at a meeting of finance ministers before the G7 summit. On the other hand, the IMF said that it saw no large deviations from the equilibrium level of the euro. G7 finance ministers reiterated, similarly as in April, that the volatility in currency markets negatively affects economic and financial stability, but have not decided on action to stop the weakening dollar, which contributed to its further depreciation. In turn, Japan's Finance Minister announced that his country is ready for FX intervention. In the absence of major domestic events, zloty exchange rate will depend primarily on changes in sentiment in global markets. Today, in the Asian session, there were further decreases in most of the stock indices in response to Friday's data from the US and Nouriel Roubini's comment that share prices have increased too fast and too strongly. This may contribute to the weakening of the zloty in the initial phase of today's session. We believe that in the coming days the EURPLN may still rise to 4.30 or even beat that level. Today, at the opening EURUSD exchange rate was slightly above Friday's close, and the zloty is slightly stronger.

Treasury Minister Aleksander Grad said that under the agreement with Eureko, the Treasury will regain control over PZU and Eureko will receive PLN4.8bn in two tranches, and additional PLN4bn in dividends, which proved to be far below the amount that could receive Eureko in the case of a win at the Arbitration Court. Eureko's representatives informed that they have entered into hedging transactions prior to the purchase of currencies. Thus, all Eureko's transactions in the currency market should have limited impact on the zloty.

On the domestic debt market after a weak opening there was a rebound after information about settlement of the conflict with Eureko, in conjunction with the information that PZU obtaining funds for the dividend for Eureko instead of selling large packages of bonds from its portfolio decided to credit on their pledge. Bonds strengthening was also supported by a zloty rebound. Nevertheless, at the end of the day yields were still above the Thursday close. This week's activity on the debt market can be just as limited in recent days and it remains under the influence of changes in sentiment in the world and the zloty exchange rate. An important test for market will be auction 2-year bonds.

In the core debt markets there was a strengthening due to weaker than expected data from the US. Employment outside the farming sector fell 263k in September against expected drop by 175k. In turn, factory orders dropped 0.8% while no change was predicted. As a result, yields of 10Y Treasuries and Bunds fell to 3.19% and 3.13% from 3.16% and 3.22%, respectively. Along with a rebound in the core debt markets, which was related to increased risk aversion, there was also fall in the stock markets during the European session. After a weak opening in the US, further part of the day was marked by a rise in stock markets, although they finished the day in the red.

Deputy finance minister Elżbieta Suchocka-Roguska said on Monday that the budget deficit after September will be similar to the level planned in the schedule, i.e. PLN12.8bn against PLN15.7bn in August and the full-year plan of ca. PLN27bn.

Today, the Ministry of Finance will try to buy-back T-bills worth PLN12.5bn maturing until the end of this year. Besides, at 9:58 CET we will get the euro zone's PMI services for September. The market expects a slight increase to 50.6 from 49.9. At 11:00 CET the euro zone's retail sales figures for August will be published and according to market expectations they will show a drop of 2.6%YoY after 1.8% decrease in July. At 16:00 CET the ISM services for September will be revealed with market consensus pointing to a rise to 49.9 from 48.4 in August.

In the week after the MPC meeting, one can also expect interviews with Council members, but before the publication of a new set of monthly data, rather you should not expect groundbreaking declarations on monetary policy outlook. In the face of the few domestic factors, the events abroad gain importance. We expect the ECB to leave rates unchanged, make a careful assessment of the economic situation and indicate that monetary policy can remain accommodative for some time. In addition, this week we will see the first major publication of financial results of foreign companies in the Q3 earnings season that is just about to open.

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F/X rates (today's opening)

EURUSD	1.4638	CADPLN	2.6831
USDPLN	2.8845	DKKPLN	0.5672
EURPLN	4.2210	NOKPLN	0.5008
CHFPLN	2.7945	SEKPLN	0.4113
JPYPLN*	3.2089	CZKPLN	0.1659
GBPPLN	4.6106	HUFPLN	1.5806

Financial market review - 2 Oct 09
The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.2226	4.2915	4.2805	4.2309	4.2540
USDPLN	2.8857	2.9557	2.9435	2.8973	2.9237
EURUSD	1.4497	1.4640	1.4550	1.4604	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2Y	5.17	2	2.09	5.13
5Y	5.75	2	9.09	5.736
10Y	6.23	3	20.05	6.335

IRS rates (Mid)

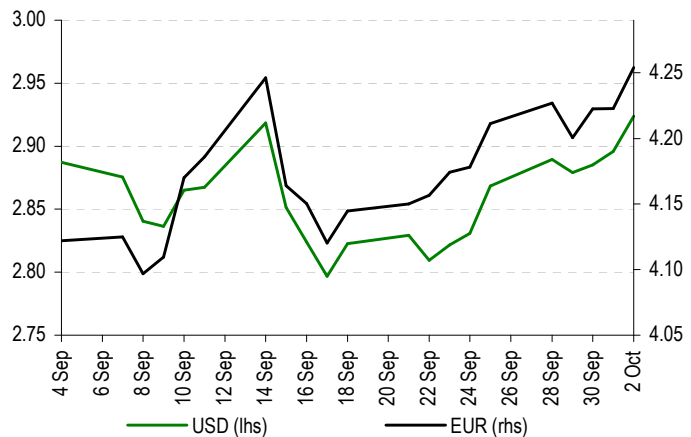
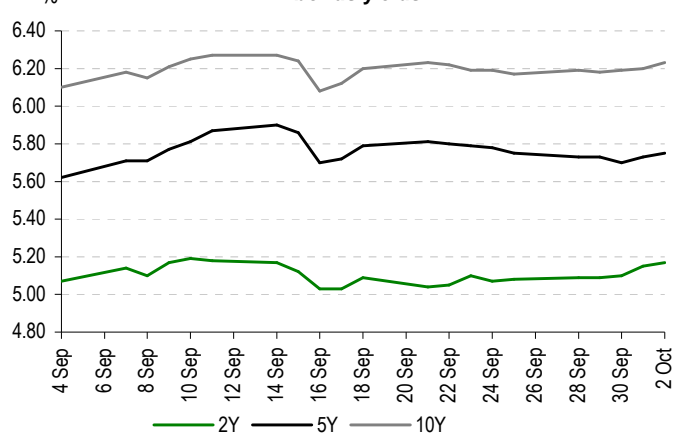
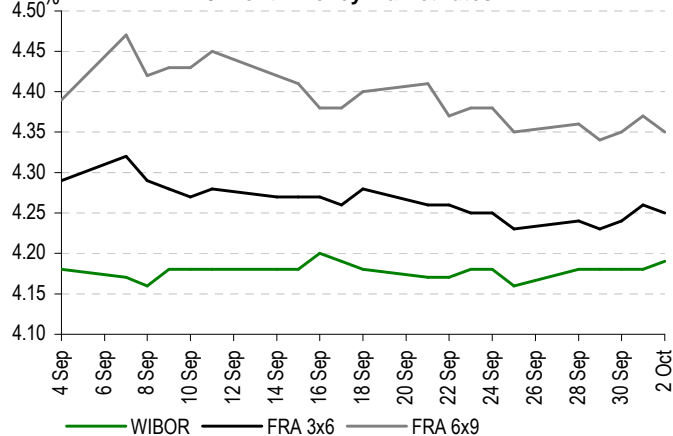
TERM	PL %	Change (bp)	US %	Change (bp)	EA %	Change (bp)
1Y	4.42	1	0.58	-4	1.20	0
2Y	4.96	-1	1.22	2	1.65	0
3Y	5.25	-2	1.79	3	2.12	-6
4Y	5.40	-2	2.23	3	2.39	0
5Y	5.48	-1	2.55	4	2.65	0
8Y	5.52	-1	3.15	6	3.17	-1
10Y	5.51	-1	3.36	4	3.39	-1

WIBOR rates

TERM	%	Daily change (bp)
O/N	3.51	0
T/N	3.52	1
SW	3.45	2
2W	3.47	1
1M	3.54	0
3M	4.19	1
6M	4.35	0
9M	4.45	1
1Y	4.50	1

FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.61	-1
3X6	4.25	-1
6X9	4.35	-2
9X12	4.57	-1
3X9	4.41	-1
6X12	4.59	-1

Zloty exchange rate (fixing)

T-bonds yields

3-month money market rates


* for 100 JPY

Source: Reuters

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