Bank Zachodni WBK

Eyeopener – Today CPI and BGK bonds

14 October 2009

- **Zloty weakens influenced by news in region and falling risk appetite, while bonds strengthened**
- **Today auction of BGK bonds and CPI data, abroad JP Morgan results, retail sales data and Fed minutes**

Yesterday's session began with the strengthening of the zloty, but the rest of the day was marked by a weakening of national currency. At the beginning of the session EURPLN fell below 4.21, but at the end of the day it was above 4.23 with a daily maximum of just over 4.24. USDPLN ended the day at 2.855. A negative factor for the zloty was still uncertainty about future developments in Latvia. The European Commissioner for Economic and Monetary Affairs, Joaquin Almunia, visiting Latvia yesterday, said he sees no other possibilities for Latvian crisis, than the fulfilment of the requirements of international institutions. When asked about the possibility of lat devaluation Almunia said that this is a hypothesis, which he does not want to consider. Another negative regional factor was also a collapse of the government in Romania. Adverse effect on the zloty and other currencies in the region came also from deterioration of sentiment on global markets. Domestic data on the balance of payments had no visible impact on the zloty.

Good sentiment on global markets in the first part of the day led to an increase in EURUSD to 1.487, which is the highest level for 14 months. With the subsequent reduction of risk appetite, however, the dollar began trimming losses and at the end of the day EURUSD has fallen to 1.482.

Current account deficit in August proved to be very small (€69m versus our estimate of -€248m and market consensus -€162m), amid high influx of EU funds and foreign direct investment, which has a positive effect on the assessment of external balance of Polish economy. Turnover of exports and imports were still very low and do not show a clear signals of recovery, suggesting weakness in domestic and external demand. Annual growth of exports and imports have improved in comparison with July, but it was a slight upturn in both cases, while turnover is still substantially lower than in the previous year: -22.3%YoY in the case of exports (expressed in euros) and -27.9%YoY in the case of imports. Although the data did not have a substantial effect on yesterday's zloty performance, in our opinion they were slightly positive for the currency. More details on the balance of payments for August was presented in yesterday's Instant comment note.

Activity on the domestic debt market yesterday was quite limited in anticipation of today's auction of infrastructure bonds issued by BGK for the National Road Fund. BGK offers 5Y fixed-coupon bonds IPS1014 worth PLN0.5-0.8bn. Despite the weakening of the zloty, there has been the strengthening of national bonds and yields decreased by a few basis points along the curve. FRA and IRS rates declined slightly less than bonds.

Core debt markets strengthened yesterday due to the fall of stock indices after opening in the US market and purchase of bonds with maturities of 7-10 years by the Fed. At the end of the session yields of 10Y Treasuries and Bunds were at 3.32% and 3.17% versus 3.35% and 3.18% at the beginning of the day. Decline in the Bund yields was fostered by the publication of lower-than-forecast German ZEW index for October. Instead of the expected increase to 58.3 from 57.7 in September, the index recorded a decline to 56.0.

US indices ended the day at levels similar to Monday's close. After declines in share prices in Europe, the US market was adversely affected by, among others, weak data on Johnson & Johnson's revenues. In Asia (excluding Japan) markets were on the rise, due to a slower decline in exports of China in September, the growth of the consumers' moods in Australia and Intel's revenues that exceeded analysts' expectations. Bank of Japan has decided unanimously to leave interest rates unchanged (the main rate of 0.1%), and noticed signal of recovery in the Japanese economy. Today, zloty is a bit stronger against the euro over the previous day's closing at a much higher rate of EURUSD.

Today at 14:00 the CSO will release CPI data, which should confirm that the local peak in inflation is behind us and a moderate downward tendency started. We expect, similar as the market consensus and the Ministry of Finance, the decrease of inflation to 3.5%YoY in September amid slight seasonal increase in food prices and continuation of drops of fuel prices. This figure may slightly support the interest rate market. At the same time the NBP will release the monetary statistics. We forecast a decline in money supply growth to 9.0%YoY from 9.2% (market expects 8.8%YoY).

When it comes to foreign events there will be macroeconomic data from the euro zone and the US, next Q3 earnings results and minutes from September Fed meeting. The market expects the data on euro zone industrial production in August to be released at 11:00 CET will show a slight slowdown of annual growth rate 15.5% z 15.9% in July. The most important figure for the markets during the day will be US retail sales for September to be released 14:30 CET. The market expects a decline of sales by 2.1%MoM after an increase by 2.7% in August. Sales excluding cars figure is expected to slow down to 0.2% from 1.1% in August. At the same time data on US import prices in September will be released. The market expects increase by 0.2% after by 2.0% a month before. Among the portion of today's Q3 earnings reports the most important will be one of JP Morgan, which will be released at 13:00 CET.

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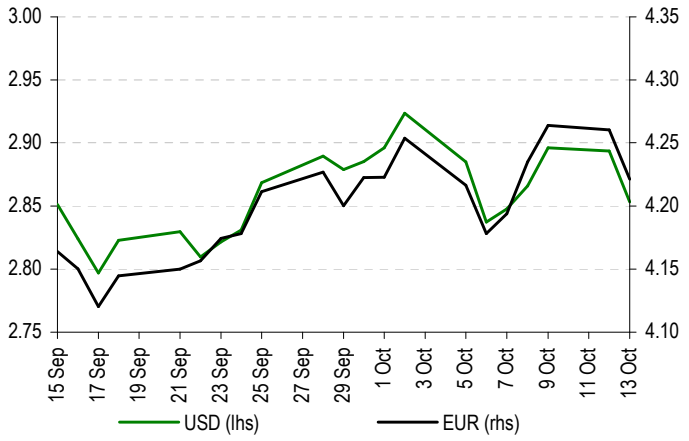
F/X rates (today's opening)

EURUSD	1.4897	CADPLN	2.7559
USDPLN	2.8308	DKKPLN	0.5665
EURPLN	4.2167	NOKPLN	0.5080
CHFPLN	2.7793	SEKPLN	0.4086
JPYPLN*	3.1815	CZKPLN	0.1629
GBPPLN	4.5259	HUFPLN	1.5727

Zloty exchange rate (fixing)



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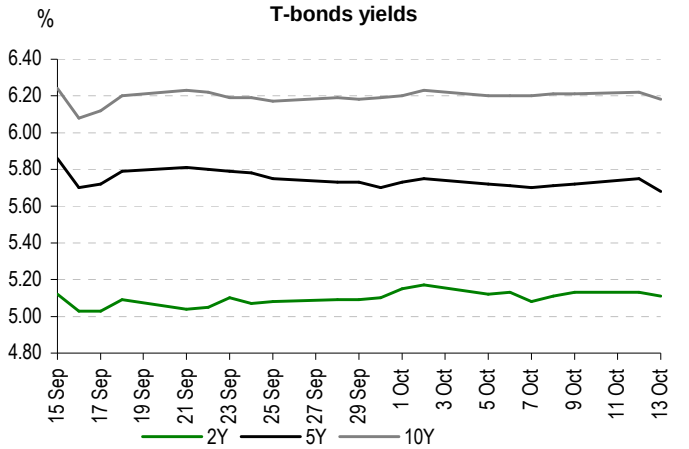
The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.2070	4.2408	4.2212	4.2328	4.2215
USDPLN	2.8465	2.8637	2.8549	2.8552	2.8534
EURUSD	1.4764	1.4869	1.4786	1.4824	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2Y	**5.11**	**-2**	7.10	5.115
5Y	**5.68**	**-7**	9.09	5.736
10Y	**6.18**	**-4**	20.05	6.335

T-bonds yields



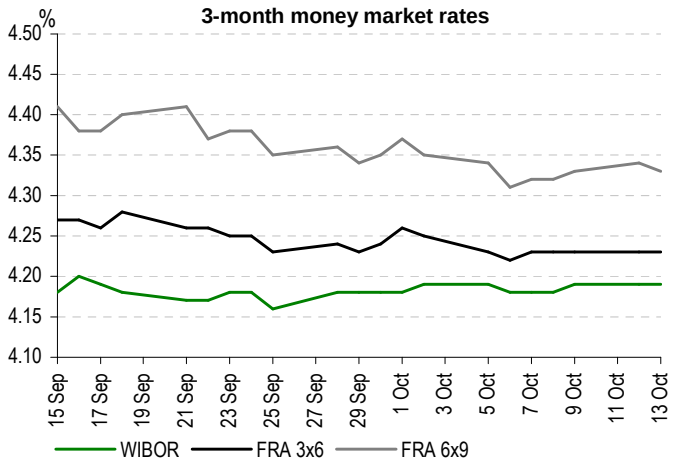
IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	4.37	-1	0.61	-1	1.26	-1
2Y	**4.94**	**-3**	1.27	-5	1.72	-3
3Y	5.26	-2	1.85	-6	2.18	-3
4Y	5.43	-1	2.30	-5	2.43	-4
5Y	**5.50**	**-1**	2.64	-5	2.67	-3
8Y	5.53	-1	3.26	-5	3.18	-3
10Y	**5.52**	**-1**	3.50	-4	3.40	-2

WIBOR rates

TERM	%	Daily change (bp)
O/N	2.92	2
T/N	3.10	1
SW	3.35	1
2W	3.43	2
1M	3.53	1
3M	4.19	0
6M	4.34	1
9M	4.45	1
1Y	4.49	-1

3-month money market rates



FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.57	-1
3X6	4.23	0
6X9	4.33	-1
9X12	4.50	-5
3X9	4.41	-1
6X12	4.55	-1

* for 100 JPY

Source: Reuters

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