Bank Zachodni WBK

Eyeopener – Higher risk aversion

26 November 2009

- **Zloty depreciated against majors on higher risk aversion in the international markets**
- **Domestic debt market slightly weaker**
- **Today euro zone economic indices**

The zloty, like other currencies in the region, lost yesterday against major currencies due to rising risk aversion in global markets associated with concerns about situation in Dubai, where one of the state conglomerates (Dubai World) has announced the postponement of debt repayment. Attitude towards the region was deteriorated further by information yesterday that Hungary may have problems with reaching fiscal targets for the next year. Some impact on the weakening of the zloty could also have the fact that PZU insurer paid yesterday, as agreed at the beginning of October, a dividend of PLN12.75bn, with over PLN4bn to a Dutch company Eureko, thus formally ending the dispute over control over the Polish insurer between Eureko and the Ministry of the Treasury. It is not known what proportion of the transaction Eureko has already hedged, so how important could be the impact of its realisation on the market today.

After strengthening at the beginning of the session, later in the day the domestic currency was stable for some time (EURPLN near 4.13), but towards the end of the day there was another wave of weakness. At the end of session EURPLN was over 4.16, and USDPLN exceeded 2.77. The zloty exchange rate was changing along with movements of the EURUSD rate on the international markets. On Thursday the dollar strengthened against other major currencies, rebounding from 14-year minimum against the yen and the lowest level against the basket of six currencies in a year time reached the previous day. Recovery of the dollar resulted from growing risk aversion, causing severe declines in stock markets in Asia and Europe. At the start of the European session, EURUSD was slightly below 1.51 and for some time remained near that level, but at the end of the day there was a clear downward move and the close of the Polish session it fell below the level of 1.50. Liquidity in the markets was low due to Thanksgiving holiday in the US, which has led many market participants, also in London, to go on holiday on Thursday and Friday.

In the domestic interest rate market there was weakening along with the zloty depreciation. The bond yield curve raised parallel by ca. 2 bp. The upward move of the IRS curve was of similar scale and thus the asset swap spread, a measure of credit risk of Poland, did not change yesterday. At the switch auction the Finance Ministry sold bonds worth PLN3.4bn, repurchasing bonds maturing in 2010. OK0712 bonds were sold for PLN1.12bn with yield of 5.093-5.095%, and PS0414 bonds were sold for PLN2.24bn with yield of 5.646-5.649%.

The increase in risk aversion has translated into strengthening of the core debt markets. Yield of the 10Y Bunds fell yesterday below the lower limit of the range of fluctuations seen in the past five months, and at the end of the session it was at 3.17%. There was also an increase in spread between yields of Bunds and yields of bonds of other countries in the euro area.

Thursday brought a few pieces of information (still unofficial) about the candidates for the new MPC. According to several PO politicians (including deputy chairmen of the parliamentary caucus Sławomir Nowak and Janusz Palikot), the likely candidate for the Council is former Prime Minister Jan Krzysztof Bielecki, as he quits from the post of CEO of Pekao SA on 11 January 2010. In addition, anonymous government source said yesterday, citing the findings of the coalition that among the candidates of PO and PSL there are Andrzej Bratkowski and Jan Winiecki (in line with earlier unofficial information). Source associated with the choice of a new MPC also said yesterday that proposal to join the MPC was also made to the deputy finance minister Elżbieta Chojna-Duch, and it was approved.

Finance minister Jacek Rostowski said yesterday that the government intends to continue working on changing the pension system. In his opinion the public debt in Poland in the years 2013-2014 would be only at about 35% of GDP if there were no transfers to the open pension funds (OFE).

After a small increase of prices in the Europe stock markets, there was a significant weakening in Asia in response to information from Dubai and gaining yen. During the Asian session there was also further strengthening of the dollar in world markets amid reduced liquidity in the absence of investors from the United States. As a result, this morning the zloty breached quite an important support level 4.18 against the euro. Today the zloty may be loosing value a little bit more. Another important support levels are around 4.22 and 4.28. In our opinion, even in the event of a worsening debt situation of Dubai, it would not have such an impact on the zloty, as was observed in the past during intensification of problems in Latvia and Ukraine.

Today the activity in the international markets may be still limited, as after yesterday market holiday in the US investors may be still away for long weekend. In the euro zone there will be not many important events. The market's focus may be attracted by release of euro zone economic sentiment index scheduled for 11:00 CET. The market consensus points to an increase to 88.0 pts from 86.2 pts in October.

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F/X rates (today's opening)

EURUSD	1.4872	CADPLN	2.6326
USDPLN	2.8156	DKKPLN	0.5627
EURPLN	4.1860	NOKPLN	0.4905
CHFPLN	2.7756	SEKPLN	0.3986
JPYPLN*	3.2738	CZKPLN	0.1580
GBPPLN	4.5970	HUFPLN	1.5277

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.1062	4.1610	4.1140	4.1610	4.1341
USDPLN	2.7214	2.7722	2.7277	2.7722	2.7422
EURUSD	1.5005	1.4992	1.5082	1.4992	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2Y	**4.91**	**2**	7.10	5.028
5Y	**5.65**	**2**	9.09	5.736
10Y	**6.15**	**2**	20.05	6.335

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	4.40	2	0.44	3	1.24	-5
2Y	**4.91**	**1**	1.03	1	1.71	-7
3Y	5.27	1	1.58	1	2.16	-8
4Y	5.48	4	2.02	-2	2.42	-9
5Y	**5.57**	**3**	2.38	0	2.67	-9
8Y	5.60	3	3.08	2	3.19	-7
10Y	**5.60**	**3**	3.34	0	3.41	-6

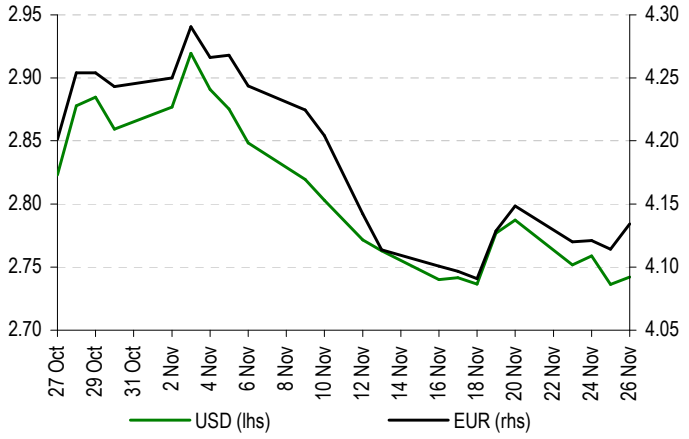
WIBOR rates

TERM	%	Daily change (bp)
O/N	2.27	1
T/N	2.30	3
SW	3.29	34
2W	3.40	4
1M	3.53	1
3M	4.20	1
6M	4.30	0
9M	4.41	0
1Y	4.48	0

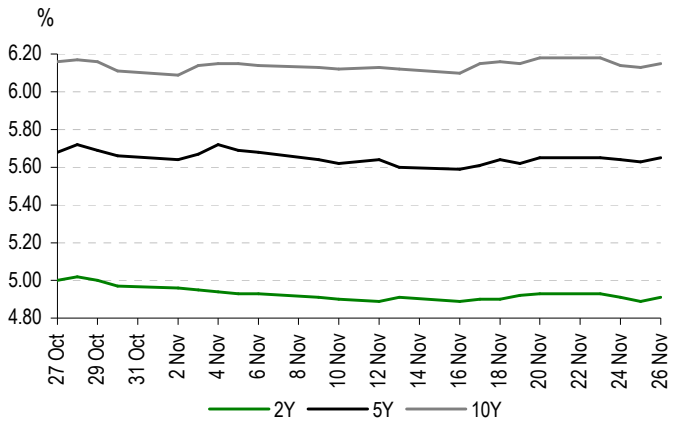
FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.58	4
3X6	4.23	1
6X9	4.35	0
9X12	4.57	1
3X9	4.38	1
6X12	4.55	0

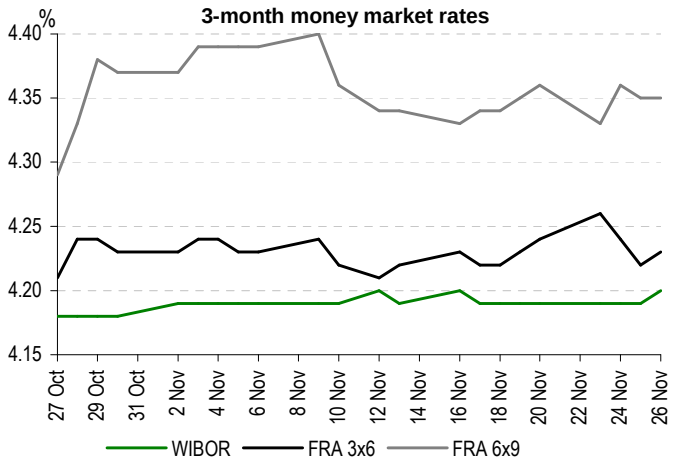
Zloty exchange rate (fixing)



T-bonds yields



3-month money market rates



* for 100 JPY

Source: Reuters

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