

Eyeopener – Erosion of optimism

8 December 2009

- **Correction of the zloty gains after the US non-farm payrolls report; domestic debt market still stable**
- **Today light data calendar, an attention may be paid to output figures from Germany and the UK**

The start of the first session this week was positive for the zloty, which at the opening was again below 4.05 vs. the euro. Already before noon there was a correction of the exchange rates in the emerging markets amid drop in stock indices in most of the European markets and continued strengthening of the dollar and the yen in the international FX markets. On Monday the dollar the strongest in five weeks with the EURUSD rate below 1.477. The US currency was strengthened much better than expected data from the US labour market released on Friday and expectations that interest rate hikes by Fed may come sooner than changes in monetary policy in the euro zone, and additionally a decline of the EURUSD rate was supported by erosion of optimism in the markets aroused by US data on Friday. Investors were considering whether the world economy expands fast enough to absorb the monetary policy tightening; additional concerns were connected with economic situation of Greece, which was put by the S&P at the observation list signalling possible rating downgrade. Besides, concerns over Dubai debt problems increased again. Consequently, there was a decline in the global appetite for risk, which was pushing down the equity prices and currencies in the region. As a result of the dollar's gain, gold prices in the commodity markets recorded a deepest fall in 14 months. The EURPLN rate rose at the end of the day to above 4.07, by ca. 0.4% against Friday close.

The US indices slightly declined at the yesterday session as comments from Fed's chairman Ben Bernanke aroused concerns about the pace of economic recovery. The Japanese Nikkei index fell on Tuesday breaking a six-day increase, as investors were taking profits and a stronger yen weakened export companies. Overall, there was no significant change in moods on the global markets overnight. As a result, at today's opening the zloty exchange rate was at similar level to yesterday's close.

Activity in the domestic debt market was still limited yesterday amid lack of important factors, which could have set a direction of changes. Bond yields marginally declined at the short end of the curve and increased at the longer end.

Yesterday in the core debt markets there was a moderate recovery of a deep weakening which occurred on Friday after the release of much better than forecasted data from the US labour market. Yields of 10Y Treasuries and Bunds gradually declined during the day going down to 3.45% and 3.19% at the end of the session (vs. 3.51% and 3.25% on Friday).

The number of publications abroad was very small yesterday. Industrial orders in Germany have seen an unexpected decline in October, the first in 8 months, by 2.1%MoM, while analysts had expected growth of 0.8%. On the other hand, the Sentix index of investor confidence in the euro zone rose to -5.5 pts in December, the highest level in 18 months, from -7.0 pts in November. However, the expectations index fell to 9.5 pts from its highest level since June 2007 at 12 pts.

Wojciech Roszkowski, mentioned as a likely President's candidate for MPC member, said yesterday in an interview with PAP, that there was no need to make changes in the parameters of monetary policy in Poland, and the new Council has to be extra cautious because of the large uncertainty of the future. He also stated that one may wonder whether "the regulatory mechanism in the form of the real interest rate, which will rise next year under the influence of declining inflation, will at some point be too strong", which is a suggestion that monetary policy easing may be considered. This confirms expectation that if professor Roszkowski enters the new Council, he will be among the group of "dove" members.

Elżbieta Chojna-Duch, candidate for the MPC on behalf of the PSL, also shared the opinion that the Council should exercise caution when making decisions, "having regard to the inflation criterion and on the other hand also the fact that level of interest rates should not inhibit growth". Thus, she confirmed that, like the other candidates put forward by the party in the past, she may represent a rather "dovish" views on monetary policy. It should be noted, however, that she is an advocate of possibly quick euro zone entry, but under favourable conditions for the Polish economy.

According to the Business Center Club survey carried out among its member companies, up to 66% of companies surveyed expect to increase investment in 2010, and approximately 40% announced increase in employment. In turn, according to research by Randstad / TNS OBOP 72% of employers are planning to leave employment at current levels over the next 6 months, and 14% plan an increase (in September it was 65% and 19%, correspondingly). A group of companies planning wage hikes is also growing (in November 23% versus 13% in September). The results of these studies suggest that the downward trends in the labour market are coming to an end, and may soon be reversed.

Today, likewise on Monday, there are not many publications of relevant indicators in the agenda. Investors' attention may be focused on industrial production data in Germany and UK. In the case of German data, the market expects a slowdown of production growth in October to 1%MoM from 2.7% last month. In the UK, analysts expect production growth of 0.4%MoM after an increase of 1.6% in September.

ECONOMIC ANALYSIS

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F/X rates (today's opening)

EURUSD	1.4825	CADPLN	2.6163
USDPLN	2.7529	DKKPLN	0.5484
EURPLN	4.0787	NOKPLN	0.4804
CHFPLN	2.7004	SEKPLN	0.3892
JPYPLN*	3.0916	CZKPLN	0.1591
GBPPLN	4.5090	HUFPLN	1.5093

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.0457	4.0807	4.0561	4.0704	4.0660
USDPLN	2.7229	2.7620	2.7266	2.7473	2.7479
EURUSD	1.4759	1.4879	1.4875	1.4817	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2Y	4.87	-3	2.12	5.099
5Y	5.63	2	2.12	5.778
10Y	6.20	4	20.05	6.335

IRS rates (Mid)

TERM	PL	US	EA
	%	%	%
	Change (bp)	Change (bp)	Change (bp)
1Y	4.40	0.53	1.28
2Y	4.93	1.12	1.80
3Y	5.29	1.70	2.24
4Y	5.47	2.16	2.46
5Y	5.57	2.54	2.69
8Y	5.60	3.28	3.21
10Y	5.61	3.56	3.43

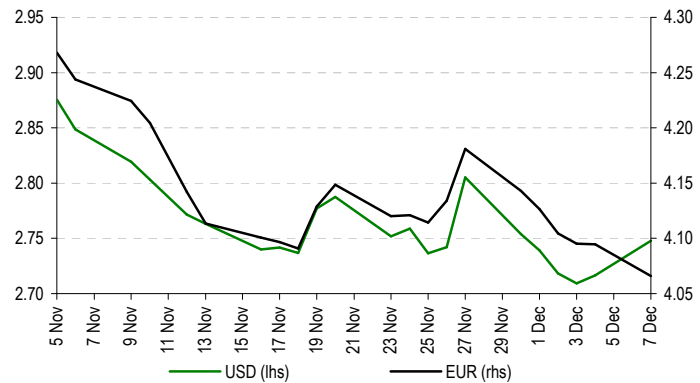
WIBOR rates

TERM	%	Daily change (bp)
O/N	2.29	-37
T/N	2.31	-47
SW	3.13	-12
2W	3.31	-7
1M	3.58	3
3M	4.20	0
6M	4.30	0
9M	4.41	0
1Y	4.48	0

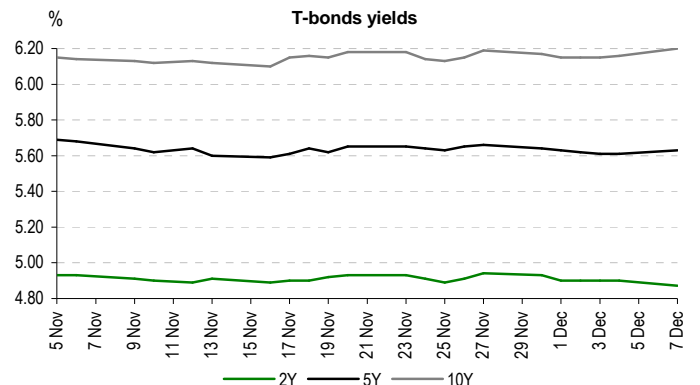
FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.58	1
3X6	4.24	1
6X9	4.36	0
9X12	4.57	-1
3X9	4.38	0
6X12	4.50	-5

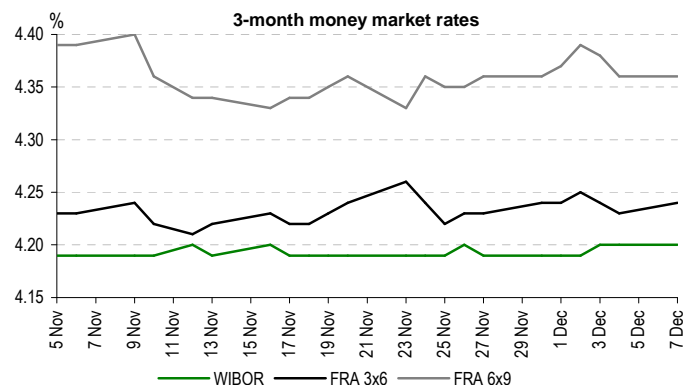
Zloty exchange rate (fixing)



T-bonds yields



3-month money market rates



* for 100 JPY

Source: Reuters

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