

# Eyeopener – Ratings still frighten

10 December 2009

- **Risk aversion still heightened due to news from rating agencies; zloty and local bonds weakened**
- **Today decisions of SNB and BoE as well as US data on trade balance, initial jobless claims and federal budget**

In the first part of the session on Wednesday, the zloty and other currencies in the region remained fairly stable, despite increased risk aversion. Currencies in the region were supported by data on GDP from Hungary and the Czech Republic (which showed respectively smaller than expected decrease of 7.1%YoY and consistent with forecasts decrease of 4.1%YoY). Zloty exchange rate moved in the range of 4.12-4.14 versus the euro and 2.79-2.81 against the dollar. However, in the afternoon there came another wave of weakness, triggered by new negative news from rating agencies, including primarily the reduction of S&P's rating outlook for Spain to negative due to the mounting fiscal problems. Also, the negative factor was Moody's news about the start of rating analysis of the United Arab Emirates with the chance of their reduction. As a result, EURPLN temporarily broke the level of 4.17 in the afternoon, and then after a slight rebound returned to around 4.15.

The euro initially erased part of the losses against the US dollar after considerable weakening on Tuesday, but at the end of the day a rise in risk aversion led to renewed fall of the EURUSD, which was close to 1.474.

NBP deputy governor Witold Koziński said yesterday that he sees no direct connection between the weakening of the zloty and the rating downgrade for Greece, because "Greece is not in the region of Central and Eastern Europe". Well, he seems to ignore the fact behaviour of currencies in our region is closely linked to EURUSD movements and moods in global financial markets, for which the Tuesday's Fitch decision to cut rating of Greece and yesterday's S&P's move to reduce rating outlook of Spain were very important factors triggering negative trends for the zloty.

On the domestic debt market, there was quite a marked increase in bond yields (up to 7 bp), which - like in the currency market - has intensified in the second half of the session, after the information about reduction in rating outlook for Spain. In addition to increasing risk aversion, also the BGK bonds tender could also contribute to this weakening (investors who bought bonds at the auction at relatively low prices could get rid of government bonds). IRS curve shifted upward slightly, about 1bp. BGK sold 9Y bonds IDS1018 worth PLN1.8bn, while investor demand reached PLN4bn and average yield 6.583%. At the supplementary auction the bank sold bonds worth PLN113m with demand of PLN260m.

In the core debt markets initially the correction of earlier gains took place, but in the afternoon there was again a strengthening in response to information from rating agencies. As a result, yields on

10Y Treasuries and Bunds were at the end of the European session near the Tuesday's closing levels, respectively at 3.38% and 3.13%.

US data were a factor, which moderated the risk aversion at the end of yesterday session, as they showed wholesale inventories unexpectedly rose in October by 0.3%MoM, while analysts expected a decline by 0.5% after a 0.8%MoM decline in the previous month. They were received as a signal that enterprises started to rebuild their inventories, preparing for recovery, which should support GDP growth in the US.

Candidate to the MPC from Civic Platform Anna Zielińska-Głębocka said yesterday in an interview with Reuters that the new Council will have to „vigilantly watch inflation” and act pre-emptively, though in her view there is no need to take radical steps, and an interest rate hike by 25 bp could come in 2H 2010. In her view a new Council will not be more hawkish than the current one. Another candidate to the MPC, Andrzej Bratkowski, said in an interview with ISB, that the previous Council had too „dovish” bias in the period of sound economic growth and slightly overslept. He also added that he favours running tight monetary policy and he thinks of himself as a „hawk”, in such sense that he is not afraid too much that inflation declines below the target. He also declared that is an advocate of using – if it is possible - „small steps” in the monetary policy.

In the first hours of trading in Wall Street there were stock prices declines recorded after S&P downgraded Spain's rating outlook. However, later on the optimism prevailed in the market, supported by weakening dollar resulting in rise of commodity prices and thus share prices of fuel and mining companies. Moreover, investors' optimism was supported by a news from US Treasury Secretary Timothy Geithner that the authorities will prolong the \$700bn programme stimulating the financial sector till 2010. The news from Moody's agency about maintaining the highest rating for Spain with stable outlook somewhat calmed the markets as well. In Asia most of the equity indices fell, though clearly better than expected data on employment from Australia worked toward improvement in moods. Today at the opening the zloty exchange rate and the EURUSD rate were almost unchanged as compared to yesterday's close. Bond yields in the core debt market rose by a few bps.

Today the Swiss National Bank left rates unchanged with target 3M LIBOR for CHF at 0.25%. At 13:00 CET the Bank of England will take decision on interest rates. No change in rates is expected. Apart from this, at 14:30 CET there will be new data from the US on foreign trade in October, as analysts expect an increase in trade deficit to \$38.6bn from \$36.5bn in September, and weekly data on new jobless claims (expected stabilisation at 457k). In the evening at 20:00 CET the results of US federal budget for November will be released (forecasted increase of the deficit to \$135bn from \$125.2bn).

## ECONOMIC ANALYSIS

ul. Marszałkowska 142, 00-061  
email: [ekonomia@bzwbk.pl](mailto:ekonomia@bzwbk.pl)

Maciej Reluga (Chief Economist)  
Piotr Bielski  
Piotr Bujak  
Cezary Chrapek

fax +48 022 586 83 40  
Web site: <http://www.bzwbk.pl>  
+48 (0) 22 586 83 63  
+48 (0) 22 586 83 33  
+48 (0) 22 586 83 41  
+48 (0) 22 586 83 42

## TREASURY SERVICES

Gdańsk  
Kraków  
Poznań  
Warszawa  
Wrocław

+48 (0) 58 326 2630-32  
+48 (0) 12 424 9501-02  
+48 (0) 61 856 5814/25  
+48 (0) 22 586 8320  
+48 (0) 71 370 2587

**F/X rates (today's opening)**

EURUSD	1.4729	CADPLN	2.6706
USDPLN	2.8162	DKKPLN	0.5574
EURPLN	4.1480	NOKPLN	0.4889
CHFPLN	2.7427	SEKPLN	0.3972
JPYPLN*	3.2015	CZKPLN	0.1609
GBPPLN	4.5769	HUFPLN	1.5104

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**The zloty trading ranges**

	min	max	open	close	fixing
EURPLN	4.1180	4.1710	4.1318	4.1500	4.1266
USDPLN	2.7886	2.8373	2.8074	2.8155	2.7966
EURUSD	1.4703	1.4815	1.4723	1.4738	-

**T-bonds**

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2Y	4.95	7	2.12	5.099
5Y	5.72	7	2.12	5.778
10Y	6.24	1	20.05	6.335

**IRS rates (Mid)**

TERM	PL	US	EA			
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	4.42	0	0.51	-1	1.24	0
2Y	4.95	2	1.08	0	1.71	-2
3Y	5.30	1	1.64	0	2.15	-1
4Y	5.50	1	2.11	1	2.39	-1
5Y	5.60	1	2.49	1	2.63	-1
8Y	5.62	1	3.24	2	3.19	2
10Y	5.63	2	3.54	1	3.42	3

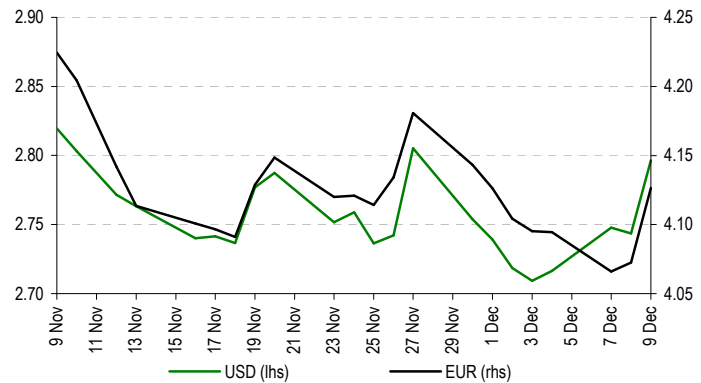
**WIBOR rates**

TERM	%	Daily change (bp)
O/N	2.28	0
T/N	2.29	-1
SW	3.11	-1
2W	3.29	0
1M	3.59	1
3M	4.20	0
6M	4.29	0
9M	4.40	0
1Y	4.48	0

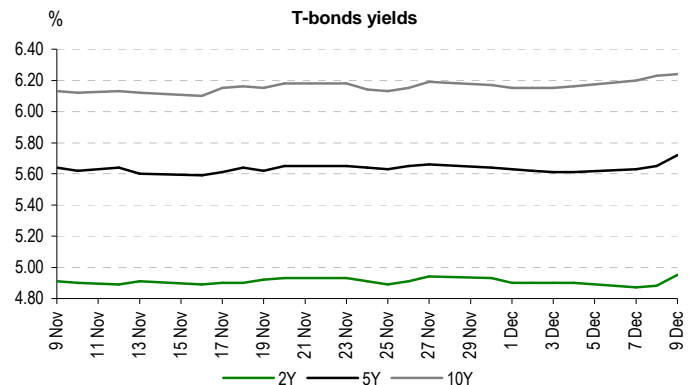
**FRA rates (Mid)**

TERM	%	Daily change (bp)
1X2	3.58	-1
3X6	4.24	1
6X9	4.35	-1
9X12	4.58	2
3X9	4.39	1
6X12	4.51	-4

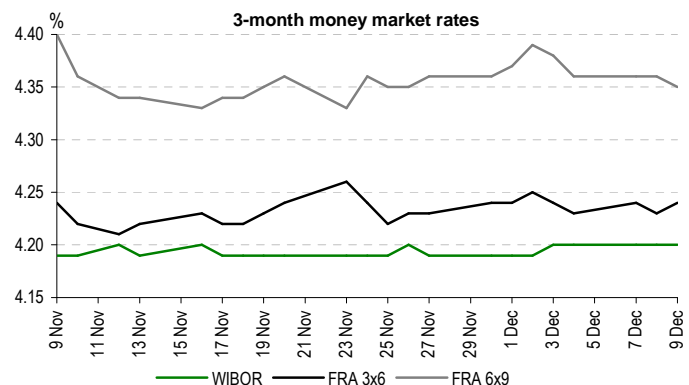
**Zloty exchange rate (fixing)**



**T-bonds yields**



**3-month money market rates**



\* for 100 JPY

Source: Reuters

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Additional information is available on request. Please contact Bank Zachodni WBK S.A. Treasury Division. Economic Analysis Unit. ul. Marszałkowska 142. 00-061 Warsaw, Poland. phone (+48 22) 586 83 63. email ekonomia@bzwbk.pl. <http://www.bzwbk.pl>



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