

Eyeopener – Next important data today

21 January 2010

- **Zloty weakening under influence of deteriorating moods in international financial markets**
- **Big demand in auction of long-term bonds**
- **Today, data on industrial production, PPI, core inflation; abroad flash PMI indicators in the euro zone, jobless claims and Philly Fed index in the US**

Moods in the international financial markets significantly deteriorated on Wednesday. The source of the pessimism initially was the decision of the supervisory authorities in China forcing banks to limit credit activity, which was followed by disappointment of financial results of the US banks (Bank of America and Morgan Stanley). Ambiguous data from the US housing market were not able to reverse the declines in the stock markets. The house starts in the US fell in December to 557k from 580k after correction, against market expectations at 572k. Meanwhile the building permits rose more than expected to 653k from 589k.

The euro fell to the weakest level in five months against the dollar and the pound, which apart from the higher global risk aversion was fuelled by concerns connected with credit problems of Greece. The EURUSD rate was at 1.411 at the end of the day. The zloty after quite strong opening (EURPLN rate below 4.01) gradually depreciated. In the final hours of trading the correction has intensified and at the close the EURPLN rate was near 4.05 and USDPLN rate was near 2.87. As compared with Tuesday close the zloty weakened by more than 1% against the euro, similar to forint and Czech crown. After the close of the Polish market the EURPLN rate temporarily exceeded 4.05, however today in the morning it strengthened (below 4.04) on improvement in moods in Japan and China, which was influenced by among others data from China on GDP growth, which accelerated in Q4 to 10.7%YoY, the highest level since 2007. It is hard to say how durable will be the increase in optimism, as at the same time the data showed faster rise in inflation in China, which boosts concerns over further tightening of monetary policy and this was one of the main sources of drops in the equity markets in the previous day.

Yesterday before noon the domestic debt market was expecting the results of the long-term bond auction. The results were optimistic, which triggered strengthening at the long end of the curve. The Ministry of Finance sold DS1019 bonds worth PLN2bn amid demand of PLN6.15bn and average yield of 6.046% and WS0429 bonds worth PLN491m amid demand of PLN1.7bn and average yield of 6.17%. At the supplementary auction the FinMin sold DS1019 bonds worth PLN400m amid demand of PLN445m and WS0429 worth PLN100m amid demand of PLN125m. Nevertheless at the end of the day the weakening in the FX market resulted in a correction also in the debt market, especially at the short end of the curve and in the middle segment of the yield curve. IRS and FRA rates rose by 2-4 bp.

The correction in global stock markets and increased risk aversion triggered a decline in yields in the core debt markets. Yields of 10Y Treasuries and Bunds decreased at the end of the day to 3.64% and 3.22%, respectively.

The Sejm's Public Finance Committee issued a positive opinion on three candidates for the MPC: Anna Zielińska-Głębocka (from PO), Andrzej Kaźmierczak (PiS) and Krzysztof Jajuga (SLD). The Sejm, which earlier elected Elżbieta Chojna-Duch and Andrzej Bartkowski, will vote on the selection of the third member on Friday. The majority of the PO-PSL coalition will most likely choose its own candidate.

Two newly elected members of the MPC, Andrzej Rzońca and Elżbieta Chojna-Duch, did not exclude support for the proposal of the NBP President to publish the path of future interest rates. In turn, Anna Zielińska-Głębocka was quite sceptical about this proposal, similarly as earlier Andrzej Bratkowski. President Skrzypek announced he would try to persuade the council to this new idea at the beginning of term.

Another newly elected member of the Council, Jerzy Hausner, said yesterday that he saw no reasons to change monetary policy now.

Today, the CSO will publish data on production in industry and construction and PPI inflation. After a very good data for November, in December industrial production data will show further acceleration, with the annual growth rate in double digits (12.1%YoY in our view). Samar data on car production supported our predictions. Also, stabilisation of PMI in manufacturing at very high November's level (52.4) speaks in favour of maintaining rapid growth of the seasonally adjusted production in December. The market consensus is slightly lower (11.8%), and the MinFin assumes a growth of 10-11%. In the case of construction-assembly production we expect slower growth of 6.9%YoY (consensus 7.9%). PPI growth in our opinion slightly accelerated in December to 2.2%YoY. However, as in the case of the CPI, in subsequent months we expect a sharp fall in annual growth of producer prices. NBP will publish today core inflation measures. After the publication of the CPI we reduced our estimate of inflation excluding energy and food prices to 2.5%YoY.

In the euro zone at 9:58 there will be publication of flash PMI indices for January. The market expects a slight increase of the manufacturing index to 51.8 pts and in services to 53.9. At 14:30 there will be weekly data on new jobless claims in the US (440k expected), at 16:00 there will be Philadelphia Fed index for January (market consensus assumes slight decline to 18 pts). Financial results for Q4 will be published today among others by American Express, Goldman Sachs, Google, Xerox.

ECONOMIC ANALYSIS

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F/X rates (today's opening)

EURUSD	1.4103	CADPLN	2.7378
USDPLN	2.8646	DKKPLN	0.5428
EURPLN	4.0398	NOKPLN	0.4959
CHFPLN	2.7423	SEKPLN	0.3977
JPYPLN*	3.1295	CZKPLN	0.1556
GBPPLN	4.6581	HUFPLN	1.4913

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.0096	4.0488	4.0201	4.0480	4.0143
USDPLN	2.8200	2.8687	2.8305	2.8687	2.8296
EURUSD	1.4110	1.4215	1.4204	1.4110	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2Y	5.00	2	13.01	5.052
5Y	5.61	3	2.12	5.778
10Y	6.08	-2	20.01	6.046

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	4.50	2	0.50	-2	1.20	-1
2Y	4.98	4	1.15	2	1.67	-2
3Y	5.27	3	1.76	-1	2.05	-4
4Y	5.44	2	2.27	-2	2.36	-4
5Y	5.54	3	2.69	-2	2.62	-3
8Y	5.62	3	3.45	-4	3.19	-4
10Y	5.62	3	3.74	-4	3.43	-4

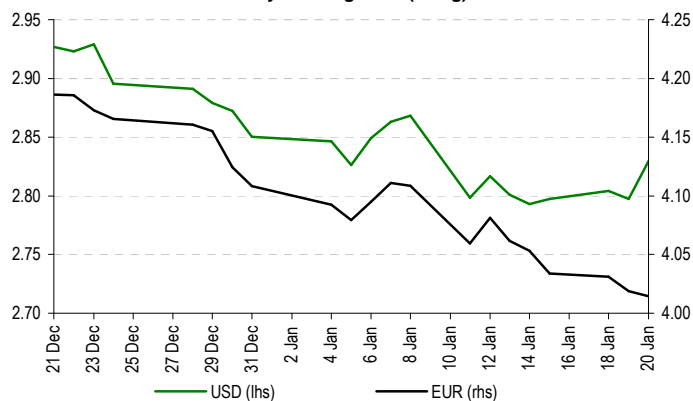
WIBOR rates

TERM	%	Daily change (bp)
O/N	3.01	1
T/N	3.01	-1
SW	3.25	0
2W	3.37	0
1M	3.63	0
3M	4.22	-1
6M	4.35	-1
9M	4.46	0
1Y	4.51	-1

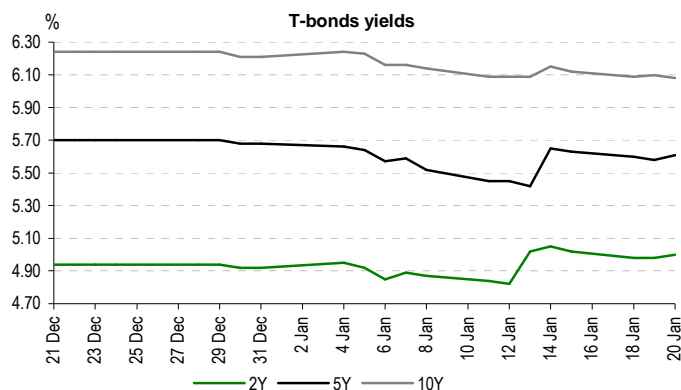
FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.63	0
3X6	4.30	2
6X9	4.44	1
9X12	4.70	4
3X9	4.44	1
6X12	4.63	2

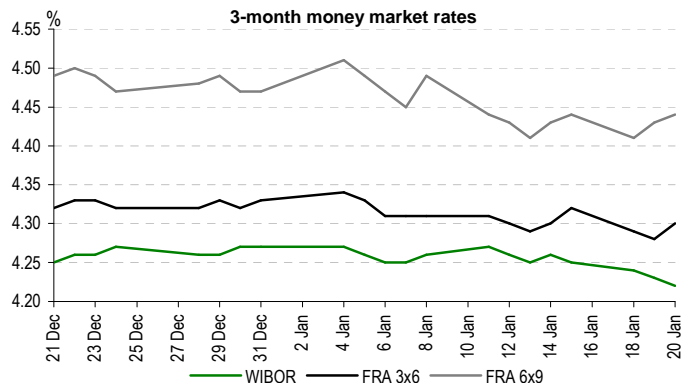
Zloty exchange rate (fixing)



T-bonds yields



3-month money market rates



* for 100 JPY

Source: Reuters

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