

Eyeopener – Fed improved market moods

28 January 2010

- **Zloty weakening and bond yield curve steepening amid deterioration of global sentiment**
- **Fed and Obama positively influence the global moods and the dollar**
- **Today domestic data on GDP and next figures and earnings reports abroad**

Exchange rates of the zloty and other currencies suffered yesterday due to increased risk aversion in global financial markets amid reviving concerns about the situation in Greece and the increase in investors' caution ahead of the Fed meeting Barack Obama's speech. Worse than expected US macro data had also adverse impact on market sentiment. New home sales in the US fell in December by 7.6% to 342,000 from revised 370,000 in November, and the expected increase to 370,000 from 355,000 before the correction. Volatility of the zloty rose yesterday as compared to the previous session (wider fluctuation bands against major currencies), and at the end of the day both EURPLN and USDPLN were higher than on Tuesday. The end of the session was particularly unsuccessful for our currency under the influence of a weak start of the US equity market. Some support for currencies in the region came from the IMF decision to grant the next tranche of funding for Romania. Increased risk aversion in international financial markets translated into a decline in EURUSD exchange rate (daily minimum of 1.402, the lowest in 6 months, and the close of the domestic session at 1.404) and falls in the major indices in Europe and at the start of the session in the US. At the same time the core debt markets strengthened slightly. At the end of the day the yields of 10Y Treasuries and Bunds were at 3.59% and 3.21%. After the Fed statement they increased to 3.67% and 3.23% respectively.

On the domestic debt market yesterday there was slight steepening of the yield curve with a slight drop in yields in the segment of 2 years and increase in yields of bonds of longer maturity. The scale of change was not large. The market is waiting for the domestic information to be released by the end of the week (today's GDP data and tomorrow's presentation of a plan of public finance consolidation).

MPC member of the new term, Elzbieta Chojna-Duch said yesterday in an interview with Reuters that in 2010 inflation will gradually slow down, and at the turn of Q3 and Q4 it may temporarily fall to 1.5%. In her view, the key to a decision on rates will be, inter alia, February inflation projection. Chojna-Duch also said that the presentation of the path of interest rates proposed by the President of the NBP should not be implemented hastily. In total, her comments did not change our expectations for the new policy of the MPC.

As widely expected, the Fed left interest rates unchanged yesterday. At the same time the Federal Reserve reiterated its view that interest rates should remain at very low levels for an extended period, although one member of the Fed stated that the time had come to change the promises of low interest. Members of the FOMC saw further improvement of the economic situation, including the labor market. The Fed acknowledged the end of the redemption of mortgage-backed securities since March. The Fed's statement positively affected the stock markets so that the indices in the US ended the day in the positive territory, and strengthened the dollar, with EURUSD temporarily below 1.40. Sentiment in the global markets and the dollar were also supported by announcement of good results by Canon.

In Asia the downward trend lasting for a few days was broken in response to positive behavior of the US stock market. The market sentiment was supported by words of US President Barack Obama that the worst in the current crisis is behind us. In the annual speech delivered yesterday, Barack Obama spoke about the reforms, including steps aimed at curbing the growing budget deficit. Obama proposed a freeze of some government spending for three years. US President also announced the withdrawal of all troops from Iraq by August.

Today locally at 10:00 the CSO will publish preliminary GDP data for the whole 2009, which will be important to assess the prospects for the Polish economy. Our estimate of GDP growth by 1.7% in 2009 as a whole is based on an estimate that in the fourth quarter of 2009 the GDP growth was slightly above 3%YoY. For assessment of economic growth prospects, not only the level of overall GDP growth will be important, but also the structure of economic growth, particularly growth in private consumption and gross fixed capital formation. At 11:00 at the conference on the Warsaw Stock Exchange, Prime Minister Donald Tusk will discuss the economic results, announce the economic reform package and issue a statement regarding the presidential election.

As to events abroad, at 11:00 CET the European Commission will publish the euro zone's economic sentiment indicators for January. The market expects a rise to 92.4 from 91.3. Later in the day, at 14:30 CET we will get macro figures from the US – weekly statistics from the labour market (initial jobless claims expected to have fallen to 450k from 482k the previous week) and data on durable goods orders for December (expected 2.0%MoM rise after 0.2%MoM month earlier). Besides, many companies in the US will publish financial results for the fourth quarter, including 3M, Altria, Amazon, AT & T, Eli Lilly, Ford, Nokia, Colgate Palmolive, Lockheed Martin, Motorola, Microsoft, Procter & Gamble.

ECONOMIC ANALYSIS

ul. Marszałkowska 142, 00-061
email: 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	1.4017	CADPLN	2.7395
USDPLN	2.9071	DKKPLN	0.5473
EURPLN	4.0753	NOKPLN	0.4968
CHFPLN	2.7682	SEKPLN	0.3987
JPYPLN*	3.2211	CZKPLN	0.1557
GBPPLN	4.7103	HUFPLN	1.4971

Financial market review - 27 Jan 10
The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.0745	4.1115	4.0858	4.1030	4.0878
USDPLN	2.8945	2.9289	2.9069	2.9230	2.9082
EURUSD	1.4024	1.4090	1.4052	1.4038	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2Y	4.96	-2	13.01	5.052
5Y	5.61	1	2.12	5.778
10Y	6.11	1	20.01	6.046

IRS rates (Mid)

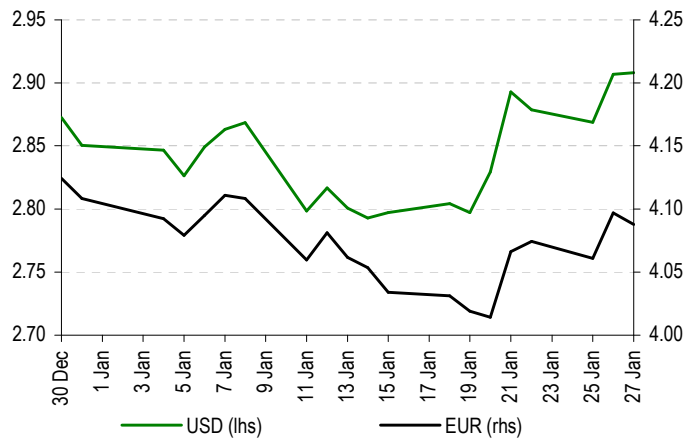
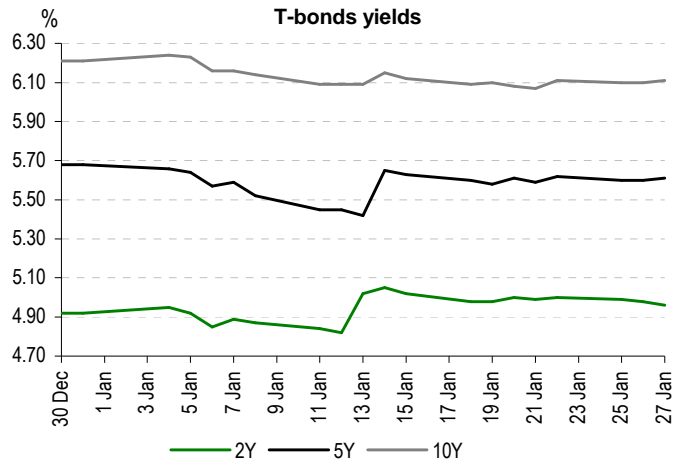
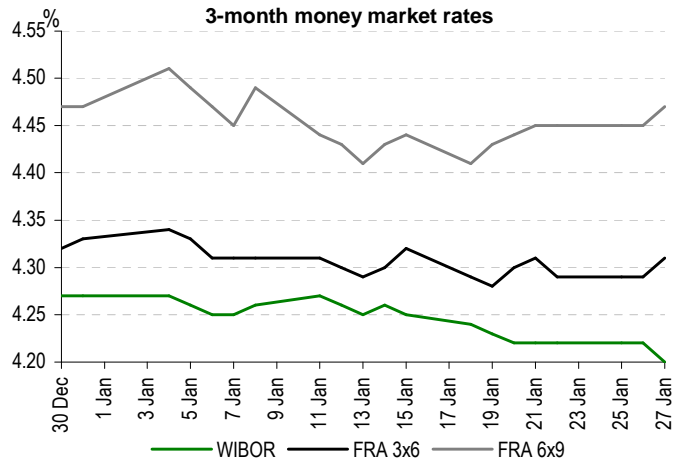
TERM	PL %	Change (bp)	US %	Change (bp)	EA %	Change (bp)
1Y	4.47	-3	0.50	0	1.21	2
2Y	4.98	0	1.13	3	1.67	2
3Y	5.28	-2	1.73	4	2.05	2
4Y	5.47	-2	2.25	3	2.36	2
5Y	5.57	-2	2.68	5	2.62	2
8Y	5.65	-1	3.46	5	3.19	2
10Y	5.66	0	3.75	4	3.44	2

WIBOR rates

TERM	%	Daily change (bp)
O/N	2.99	4
T/N	3.02	1
SW	3.26	0
2W	3.37	0
1M	3.62	0
3M	4.20	-2
6M	4.31	-1
9M	4.43	0
1Y	4.51	0

FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.65	3
3X6	4.31	2
6X9	4.47	2
9X12	4.72	0
3X9	4.44	2
6X12	4.63	0

Zloty exchange rate (fixing)

T-bonds yields

3-month money market rates


* for 100 JPY

Source: Reuters

This publication has been prepared by Bank Zachodni WBK S.A. (a member of AIB Group) for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Bank Zachodni WBK S.A., its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Bank Zachodni WBK S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Bank Zachodni WBK S.A. entity or an AIB Group entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

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>



Bank Zachodni WBK is a member of Allied Irish Banks Group