Bank Zachodni WBK

Eyeopener – Improvement of sentiment

22 February 2010

- **End of the last week without clear trend in markets**
- **MPC minutes with no impact on the assessment of monetary policy perspectives**
- **Sentiment in financial market clearly better after the weekend**
- **Today, T-bill auction in Poland, quarterly financial results of companies abroad**

At the end of the Friday's session the zloty was slightly stronger against the euro, which in turn was regaining ground after morning losses against the dollar caused by the Fed decision on Thursday. At the beginning of the session the dollar reached the strongest level in 8 months against the basket most commonly traded currencies. However, the euro managed to erase almost all the losses seen overnight and this was possible among others thanks to data showing lower than expected inflation in the US in January (CPI inflation down to 2.6%YoY from 2.7% against an expected rise to 2.8%). Moderate inflation in the US may in fact support the view that Fed interest rates will remain unchanged for a longer time. The euro zone's PMIs for February released shortly after the opening of the Friday's session (in industry growth to 54.1 from 52.4 versus 52.7 expected, while in services fall to 52.0 from 52.5 versus expected stabilisation) had no effect on the markets. At the end of the day EURPLN was 4.00 and USDPLN at 2.96 with EURUSD at 1.353.

As to the domestic debt market, on Friday morning bond prices fell slightly in response to the Fed's decision, which weakened the zloty, but later in the day yields were stable. All in all, during the Friday's session, as well as throughout the week, activity on the domestic debt market was limited and it seems that the market is waiting for a stronger impulse that would indicate direction of change in yields in the near future. Minutes of the January meeting of the MPC, published on Friday, did not bring anything new to assessment of prospects for domestic monetary policy.

In core debt markets, there was slight weakening on Friday, due to a rise in expectations for Fed's interest rate hikes, and at the same time quite positive session in stock markets (rebound after Thursday's fall in reaction to Fed decision). At the end of the day, yields of 10Y Treasuries and Bunds reached 3.81% and 3.28%.

Today at foreign markets there are no important releases of macroeconomic data. Next quarterly results will be published by, among others, Audi, Fannie Mae, SEB and Tesco. In Poland, the Ministry of Finance will offer at auction 52-week bills worth PLN1.3-1.8bn.

Amid lack of events and important domestic and foreign data releases, the situation in the domestic financial markets will depend on global moods. During the weekend the sentiment in the world markets significantly improved, as investors after digesting Fed's discount rate hike assumed that it is a proof of improvement of situation in the economy and normalisation of the situation in the financial markets. Consequently, the stocks in the US and Asia recorded clear increase and the zloty strengthened over the weekend, falling below 3.96, which seemed to us an important technical resistance. If the risk appetite holds, then the EURPLN rate may stay this week below 4.0.

Later during the week there will be much more potentially important events, both domestically and abroad. The last week of February will pass on the Polish financial market under the sign of waiting for the MPC meeting and the publication of a new *Inflation Report*, containing updated projection for inflation and GDP. The first meeting of the MPC in a completely new line-up will end most likely with no change in interest rates, but comments of Council members and the communiqué after the meeting may be important hints for the market about the prospects for monetary policy. Publication of the full *Inflation Report* will probably take place at the end of the week, though its main elements will be released in the Wednesday's MPC communiqué. One may presume that NBP's projection is likely to show more optimistic economic growth than the previous one. The question is whether this also implies higher (and how much?) medium-term inflation path. Data on retail sales and unemployment, published a little earlier, should not have a key impact on the behaviour of investors. In our opinion data on retail sales will be weaker than consensus, but should not significantly affect the market. Significant increase in unemployment in January, also should not affect the mood, because it was signalled by the Ministry of Labour. More important will be events abroad, including Bernanke's semi-annual address to Congress, and publication of many key economic data including consumer sentiment, figures from housing market as next financial reports of companies for Q4.

This week, players on the debt market will be waiting for the outcome of the MPC meeting and the new projections of inflation and GDP by the NBP. However, we do not expect a significant rise in expectations for faster interest rate hikes this year. Thus, bond yields should remain stable in the nearest week.

ECONOMIC ANALYSIS

ul. Marszałkowska 142, 00-061
email: ekonomia@bzwbk.pl
fax +48 022 586 83 40
Web site: http://www.bzwbk.pl

Maciej Reluga (Chief Economist)	+48 (0) 22 586 83 63
Piotr Bielski	+48 (0) 22 586 83 33
Piotr Bujak	+48 (0) 22 586 83 41
Cezary Chrapek	+48 (0) 22 586 83 42

TREASURY SERVICES

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

F/X rates (today's opening)

EURUSD	1.3626	CADPLN	2.7945
USDPLN	2.9038	DKKPLN	0.5316
EURPLN	3.9587	NOKPLN	0.4898
CHFPLN	2.7004	SEKPLN	0.4030
JPYPLN*	3.1690	CZKPLN	0.1542
GBPPLN	4.4943	HUFPLN	1.4655

Financial market review - 19 Feb 10

The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.9919	4.0108	4.0073	4.0027	4.0031
USDPLN	2.9527	2.9774	2.9739	2.9601	2.9658
EURUSD	1.3461	1.3545	1.3473	1.3525	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2Y	**4.91**	**3**	10.02	4.972
5Y	**5.52**	**1**	2.12	5.778
10Y	**6.09**	**-2**	20.01	6.046

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	4.41	1	0.55	-2	1.16	1
2Y	**4.95**	**2**	1.20	6	1.56	4
3Y	5.29	2	1.84	5	1.95	-2
4Y	5.45	-1	2.36	4	2.29	4
5Y	**5.57**	**0**	2.78	2	2.57	4
8Y	5.70	-1	3.57	0	3.20	5
10Y	**5.72**	**-1**	3.87	-1	3.46	5

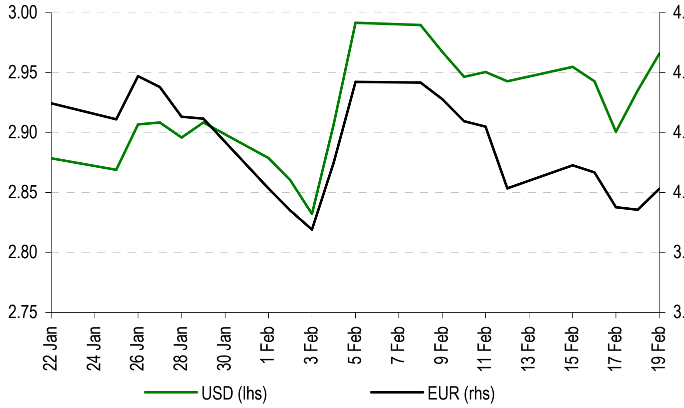
WIBOR rates

TERM	%	Daily change (bp)
O/N	3.21	0
T/N	3.28	2
SW	3.32	1
2W	3.40	0
1M	3.62	0
3M	4.16	0
6M	4.25	0
9M	4.38	0
1Y	4.46	0

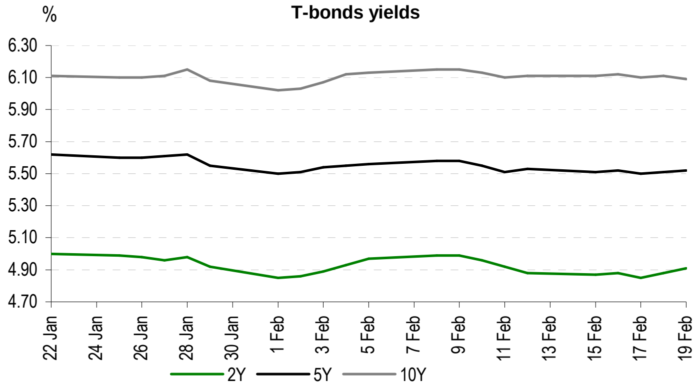
FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.63	0
3X6	4.22	0
6X9	4.41	0
9X12	4.65	0
3X9	4.37	1
6X12	4.60	2

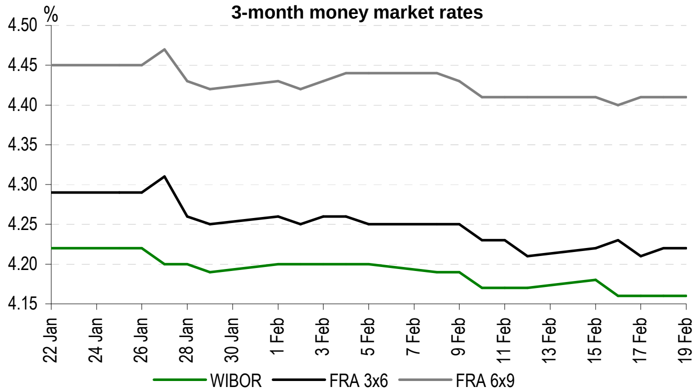
Zloty exchange rate (fixing)



T-bonds yields



3-month money market rates



* for 100 JPY

Source: Reuters

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