

Eyeopener – Further moods improvement

8 March 2010

- **Zloty the strongest in 15 months, stable bond market**
- **Better than expected data from the US labour market improved optimism in the markets**
- **Few key data releases in the first part of the week; today data on industrial output in Germany and domestic auction of 52-week T-Bills**

Friday's session was the eight in a row, when the zloty gained versus major currencies. The domestic currency was supported by higher risk appetite, rise in global stock markets and echoes of earlier hawkish comments from MPC members. One cannot exclude that appreciation of the zloty was also driven by results of a survey carried out by Reuters, which showed that analysts expect further zloty gains in the next months, on a larger scale than in case of other currencies in the region (median forecast of EURPLN in 12 months was 3.75). On Friday EURPLN opened near 3.89 and then was gradually lowering, falling below 3.87 in the afternoon, to the lowest level in 15 months. After a slight rebound in the last hours of the session, later on the zloty strengthened again to 3.87 to the euro and 2.85 to the dollar.

The zloty's appreciation, similar as a day earlier, was not interrupted by drop in EURUSD, which was observed for the better part of the day. The dollar's gains to the euro and the yen took place after publication of better than expected data from the US labour market. However, in late afternoon there was clear recovery of the euro and EURUSD rose from 1.355 to 1.36 at close. This took place comments from Eurogroup's leader Jean-Claude Juncker which said after meeting in Greek PM that Greece did not ask for financial aid and stressed that the euro zone had suitable tools to help countries in crisis in case of such a need.

Employment outside farming in the US fell 36k in February after a fall of 26k in January. Market had expected drop of 50k. The unemployment rate reached 9.7% and was unchanged from the previous month, despite severe weather conditions, which negatively affected activity in many enterprises and raised concerns about rise in unemployment. The data supported view that economic recovery in the US gains strength. According to some analysts, if not the weather conditions, there could have been employment rise in February.

Industrial orders for Germany rose in January by 4.3%MoM and 19.6%YoY, well above forecasts at 1.3% and 15.4%. This was another signal confirming the revival of economic activity beyond our western border, which should be supportive for Polish exports.

On the domestic bond market, there were no significant changes on Friday. Yields of 10-year bonds slightly decreased, while IRS curve moved down by 1-2 bp.

Better than forecast data from the US and an increase in optimism in the equity markets led to a clear rise in bond yields in the US, which also negatively affected the debt in the euro area. At the end of the day yields of 10Y Treasuries and Bunds were at 3.69% and 3.17% versus 3.62% and 3.11% correspondingly a week earlier.

After growth in the stock market indices at the US session, the upward trend was also maintained during the Asian session today. In addition to better data from the labour market in the US, this was triggered also by statements of President of France Nicolas Sarkozy that the euro zone is ready to help Greece in case of problems with financing the budget deficit. In effect, the euro strengthened further against the dollar to around 1.369 this morning and the EURPLN temporarily fell again below 3.87.

At today's auction the Ministry of Finance will offer 52-week T-bills worth PLN0.7-1.0bn. In Germany, at 12:00 CET the data on industrial production for January will be released. Analysts expect growth of 1%MoM after a decline of 2.6% in the previous month.

At the end of the week there will be new set of data from the Polish economy. In our view data on balance of payments for January (due on Friday) will show decline of current account deficit to ca. €230m. This will result from significant improvement in trade balance (slight surplus) amid significant increase in exports (15%YoY), which is suggested by the industrial output figures in January, and quite large rebound in annual imports growth rate (to ca. 8%YoY). Moreover, we expect slight surpluses in transfer and income account. We forecast further deceleration of money supply growth due to high base effect from the last year resulting from exit from stock markets and locating cash at bank accounts by households, which was accompanied by deposit war among banks.

Abroad the investors focus will be dominated by news on conditions of consumer sector in the US and industrial output in the biggest economies in the euro zone. Overall, the number of key data releases this week will be relatively limited.

We expect that although the beginning of the week may be under positive influence of strong data from the US labour market released in the past week, later in the week we may see correction in the markets due to expectations for rather weak data regarding the US consumer sector to be published on the last day of the week. Possible next hawkish comments from the MPC and weaker zloty could negatively affect the interest rate market.

ECONOMIC ANALYSIS

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F/X rates (today's opening)

EURUSD	1.3690	CADPLN	2.7510
USDPLN	2.8275	DKKPLN	0.5201
EURPLN	3.8713	NOKPLN	0.4822
CHFPLN	2.6462	SEKPLN	0.3997
JPYPLN*	3.1264	CZKPLN	0.1511
GBPPLN	4.2912	HUFPLN	1.4575

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.8700	3.8915	3.8915	3.8749	3.8848
USDPLN	2.8459	2.8668	2.8655	2.8481	2.8568
EURUSD	1.3531	1.3610	1.3582	1.3606	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2Y	4.95	0	10.02	4.972
5Y	5.44	-1	2.12	5.778
10Y	5.99	-1	20.01	6.046

IRS rates (Mid)

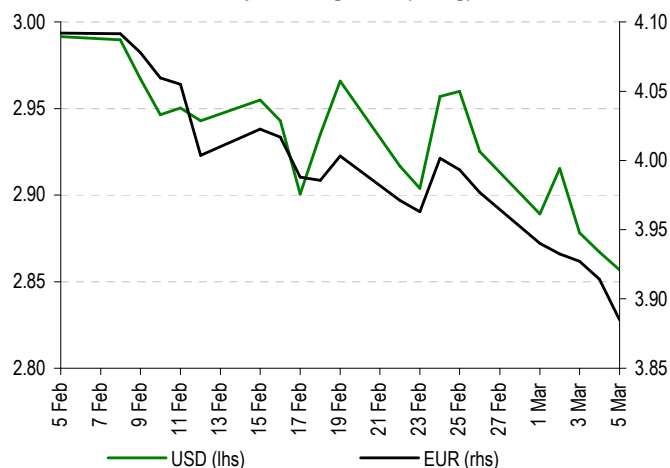
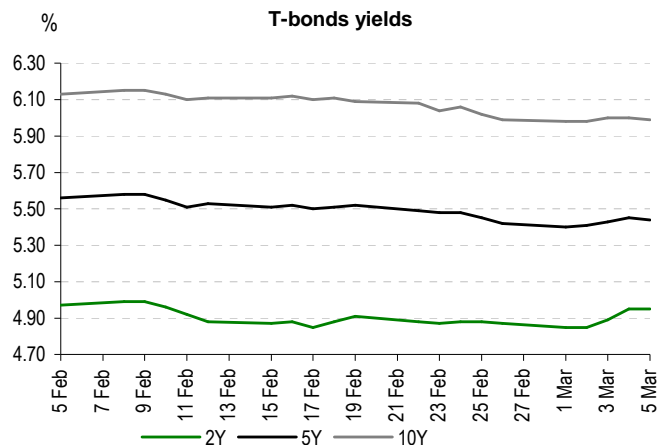
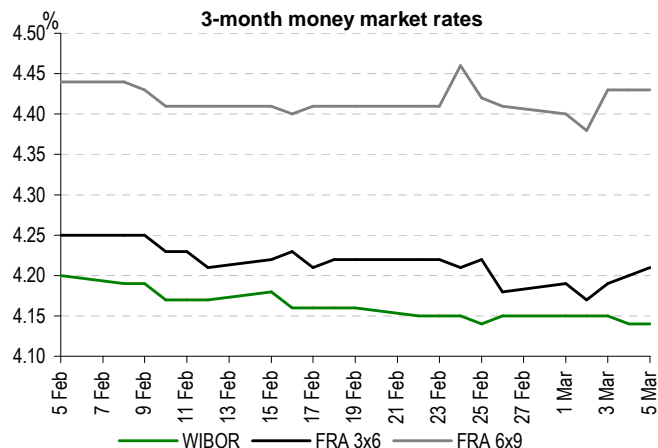
TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	4.45	3	0.51	0	1.13	0
2Y	4.98	0	1.11	4	1.51	1
3Y	5.31	-1	1.69	5	1.88	-4
4Y	5.50	-1	2.18	6	2.19	2
5Y	5.60	-2	2.59	7	2.46	1
8Y	5.72	-2	3.39	9	3.08	0
10Y	5.75	-2	3.71	10	3.34	0

WIBOR rates

TERM	%	Daily change (bp)
O/N	3.20	11
T/N	3.23	4
SW	3.35	1
2W	3.44	1
1M	3.63	1
3M	4.14	0
6M	4.24	1
9M	4.36	1
1Y	4.45	1

FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.64	1
3X6	4.21	1
6X9	4.43	0
9X12	4.73	0
3X9	4.37	0
6X12	4.64	0

Zloty exchange rate (fixing)

T-bonds yields

3-month money market rates


* for 100 JPY

Source: Reuters

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