Bank Zachodni WBK

Eyeopener – Zloty driven by global sentiment

23 March 2010

- **Continued correction in the markets due to concerns about fiscal problems of Greece**
- **Despite deteriorated moods in the global markets, successful issue of Poland's eurobonds**
- **Core inflation down, clear improvement in business climate indicators, good financial results of firm in 2009**
- **Today focus on the US data: housing market statistics and the Richmond Fed index**

On Monday, the zloty resumed a correction that started at the end of last week, triggered by concerns that Greece may fail to obtain financial help from the EU and to cope with the growing debt. Under the influence of increasing risk aversion, the better part of the day saw a decrease in commodity prices, fall in the European stock markets, while the dollar strengthened against the euro. After a decline in EURUSD exchange rate to the daily low of 1.3464 (the lowest level for three weeks), in the afternoon there was a rebound and profit taking, and the euro erased some of the losses, returning at the end of the day above the level of 1.35. The rebound was supported by improvement of sentiment on the US stock market, led by pharmaceutical companies, after approval of the healthcare reform by the US Congress, and statements of Jean-Claude Juncker, chairman of the Eurogroup, who said, inter alia, that the euro area will certainly not leave Greece alone. Exchange rates in the region followed the behaviour of the euro, weakening in the first part of the session and recovering in the afternoon. EURPLN approached 3.93 in the middle of the day, but failed to break through that level and in the afternoon, on a wave of improved sentiment, returned to close to 3.896, slightly above Friday's close. Remaining mainly under the influence of changes in global sentiment, the zloty did not react significantly to the publication of domestic data nor to issuance of or Eurobonds.

All measures of core inflation recorded a decline in February after all but one fell in January. Core inflation excluding food and energy prices reached 2.2%YoY in February, the lowest level for more than a year, and was in line with our estimate after the CPI data. In the coming months we expect a further drop in core inflation.

CSO survey showed a significant increase in business climate indicators in March, in almost all sectors analyzed. The value of indices in industry, construction and trade has increased both in relation to the previous month and year on year. Although it must be remembered that it was helped by seasonal effect, and the extremely low base from last year, but the results seem to confirm that the increase in economic activity in Polish enterprises is continuing.

CSO also published yesterday financial results of non-financial enterprises for 2009. In the entire year, Polish companies have seen an improvement in the gross financial result of ca. 20% and net result of ca. 25%, as compared with 2008. The last quarter was weaker than the previous two, but much better than the fourth quarter of 2008, when the effects of the crisis in financial markets left the biggest mark on the results of companies. There has been significant growth in the fourth quarter in firms' revenues and a decrease in costs.

Poland issued yesterday 7-year eurobonds worth over €1.25bn, valued 100bp above the average swap rate. The demand amounted to at least €1.8bn. MinFin representative announced that the department would not give up plans to issue debt in dollars of the value of $1-1.5bn, which may, however, come a little later than originally planned (April). The Ministry also sold Treasury bills yesterday: 39-week worth PLN1.15bn with average yield of 3.755% and demand PLN2.65bn and 52-week worth PLN1.5bn with yield 3.941% and demand PLN2.86bn.

Yields in the secondary debt market followed the zloty, initially strengthening, and at the end of the day returning to opening levels. IRS rates increased slightly. On the core debt markets, yields dropped, under influence of increased risk aversion. At the end of the session yields of 10-year Treasuries and Bunds were respectively at 3.66% and 3.07%. Today they were unchanged.

MPC member Jerzy Hausner said yesterday in an interview with Reuters that he believes that monetary policy will be "boring" for some time, and the inflation projection was not a strong argument for change in rates. Hausner believes that the gradual appreciation of the zloty is not dangerous for the economy, but too rapid strengthening of the exchange rate and its large fluctuations would be dangerous. In his view a joint, coordinated activities of the NBP and the government could neutralize the excessive FX fluctuations.

Indices of US stock markets rose yesterday, continuing last week's rise as approval of law reforming the healthcare system in the US reduced the uncertainty among investors. After reaching the two-month peak last week, the Nikkei index in Tokyo fell today at the close of the session by 0.5% due to strong drop in prices of All Nippon Airways as the company said its annual loss will be twice as much as earlier estimated. However, majority of Asian stock markets gained today. The zloty was traded at today's opening at similar levels as at yesterday's close while EURUSD was still slightly above 1.35.

Today there are no domestic data releases. The key focus of attention in the global markets will be still on any news regarding a concrete deal of the euro zone countries to provide support for Greece. Besides, markets will watch the US data due for release at 15:00 CET. We will get the home sales for February (expected drop to 5m from 5.05 in January), home prices for February and the Richmond Fed index for March.

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F/X rates (today's opening)

EURUSD	1.3505	CADPLN	2.8244
USDPLN	2.8827	DKKPLN	0.5232
EURPLN	3.8930	NOKPLN	0.4840
CHFPLN	2.7149	SEKPLN	0.3989
JPYPLN*	3.1927	CZKPLN	0.1531
GBPPLN	4.3408	HUFPLN	1.4755

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.8890	3.9296	3.8925	3.8960	3.9136
USDPLN	2.8785	2.9156	2.8792	2.8807	2.8953
EURUSD	1.3464	1.3548	1.3514	1.3522	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2Y	**4.73**	**0**	10.03	4.895
5Y	**5.24**	**-1**	2.12	5.778
10Y	**5.60**	**0**	17.02	6.103

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	4.35	3	0.55	-2	1.12	2
2Y	**4.82**	**2**	1.15	2	1.48	0
3Y	5.12	3	1.73	4	1.88	6
4Y	5.29	2	2.22	1	2.14	0
5Y	**5.39**	**3**	2.62	2	2.41	0
8Y	5.53	2	3.38	1	3.02	0
10Y	**5.55**	**3**	3.67	1	3.28	0

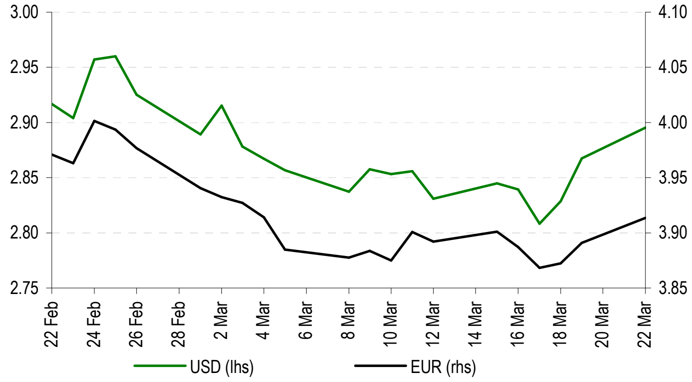
WIBOR rates

TERM	%	Daily change (bp)
O/N	2.53	-80
T/N	2.67	-72
SW	3.30	-7
2W	3.40	-3
1M	3.62	-1
3M	4.13	1
6M	4.24	1
9M	4.34	0
1Y	4.43	-1

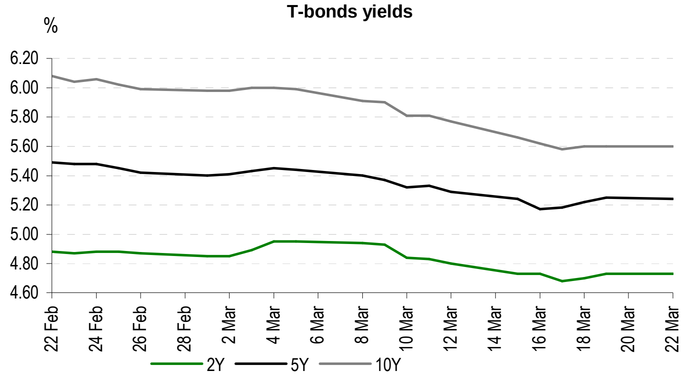
FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.62	0
3X6	4.18	1
6X9	4.28	2
9X12	4.54	0
3X9	4.30	0
6X12	4.47	0

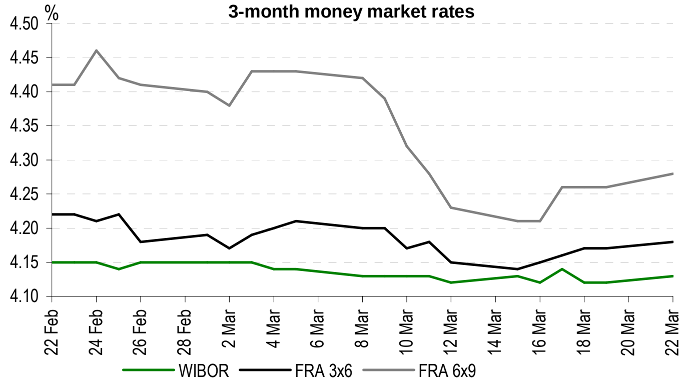
Zloty exchange rate (fixing)



T-bonds yields



3-month money market rates



* for 100 JPY

Source: Reuters

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