

# Eyeopener – Markets influenced by EU summit

26 March 2010

- After quite peaceful session, large market fluctuations overnight under impact of EU summit decisions
- Euro zone countries agreed on help package for Greece, assuming a cooperation with the IMF
- Today, final GDP data for Q4 in the US, final Michigan index, market attention still focused on the result of EU summit

Yesterday, financial markets were quite calm during the European session, as investors were awaiting for an outcome of the EU summit and there were scant number of data releases. After initial euro weakening early in the morning (EURUSD temporarily below 1.33), later in the day the single currency partly recovered from losses, which was driven, among others, by information about convergence of positions within the EU as regards the form of aid package to Greece, as among leaders of the EU countries there was increased support for the proposal of Germany to involve the IMF. Uncertainty as to whether the EU summit ends with an agreement, and in what form, was still maintained, which restrained the market from the sudden movements. However, risk appetite in global markets increased during the day, supporting gains in equity prices, which in addition to news from Brussels was also driven by information on guarantees for the Dubai World from the government of Dubai as well as by better-than-expected data from the labour market in the US and increase in the profit forecast by Best Buy and Qualcomm. The market sentiment was also positively affected by comments from Ben Bernanke in Congress that the US economy still needs low interest rates and weak labour market conditions may require that the monetary policy remains accommodative for prolonged time.

The initial jobless claims fell by 14k last week and reached 442k, the least in 6 weeks, while the market had expected a drop to 450k. Four-week moving average decreased to 453.75k, the lowest level since September 2008, indicating that the continuation of the recovery in the economy prompts companies to reduce the pace of lay-offs.

At the end of the European session EURUSD rose to about 1.335. The zloty for the better part of the session was stable and at the end of the day slightly strengthened along with solid growth of main indices at the WSE (WIG20 rose at the close of the session by more than 2%). At close of the Polish session EURPLN was 3.88 and USDPLN at 2.91.

Activity in the domestic debt market again was low. After a slight weakening during the day, in the afternoon yields returned to level seen at the previous close. IRS rates slightly decreased.

On the core the debt markets there was continued strong rise in yields yesterday, driven by higher risk appetite and concerns about a very large supply of securities at the auction of 7Y bonds in the US. At the close of the European session yields of 10Y Treasuries and Bunds were 3.87% and 3.13%, respectively.

Late in the evening there was a clear deterioration in sentiment in the markets, which was triggered by poor results of bond auction in the US (yield of 10-year Treasuries up to 3.93%), as well as information about the agreement reached by EU countries on aid plan for Greece, which was accompanied by statement of ECB president Jean-Claude Trichet, that if the IMF or any other authority exercises any responsibility instead of the euro group, instead of the governments, this would clearly be "very, very bad". Meanwhile, the aid plan for Greece agreed by the eurozone countries implies involvement of both bilateral loans from the EU states, as well as financing from the IMF. As a result, US stock markets erased earlier gains, and euro sunk against the dollar to the new local minimum of 1.327. Overnight, however, there has been a gradual rebound, as far as investors reconsider the effects of the agreement of the EU, Trichet corrected his earlier criticism, praising the agreed plan of assistance, and stock markets in Asia rose under the influence of optimistic expectations of the exporters results. The zloty, which weakened late in the evening under the influence of deterioration in sentiment over 3.90 per euro, also rebounded during the night and at today's opening EURPLN rate was at 3.888, and USDPLN at 2.91.

Czech Bank yesterday left interest rates unchanged (the main interest of 1%), as expected.

Deputy Finance Minister Louis Kotecki said yesterday that according to current estimates, the Ministry of GDP growth in first quarter 2010 is expected to be 2.5% -2.8%, although this estimate "may be quite significant change after the March data."

Today, investors' attention will be turned again on the information from Brussels. Although main framework of help package for Greece has been established, investors will be awaiting more details and more comments. Number of data publications in the core markets will be limited. At 13:30 CET the final data on GDP for the Q4 2009 will be published in the US (the market expects a slight downward revision of GDP growth to 5.7% against the earlier estimate of 5.9%). At 14:55 the final Michigan index will be revealed (the market expects 72.5 against earlier indicated 73.6).

## ECONOMIC ANALYSIS

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**F/X rates (today's opening)**

EURUSD	1.3336	CADPLN	2.8515
USDPLN	2.9145	DKKPLN	0.5223
EURPLN	3.8884	NOKPLN	0.4804
CHFPLN	2.7217	SEKPLN	0.4025
JPYPLN*	3.1467	CZKPLN	0.1534
GBPPLN	4.3202	HUFPLN	1.4727

**Financial market review - 25 Mar 10**
**The zloty trading ranges**

	min	max	open	close	fixing
EURPLN	3.8780	3.8940	3.8902	3.8807	3.8902
USDPLN	2.9037	2.9233	2.9165	2.9076	2.9163
EURUSD	1.3318	1.3370	1.3338	1.3344	-

**T-bonds**

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2Y	4.68	1	10.03	4.895
5Y	5.20	2	2.12	5.778
10Y	5.53	1	17.02	6.103

**IRS rates (Mid)**

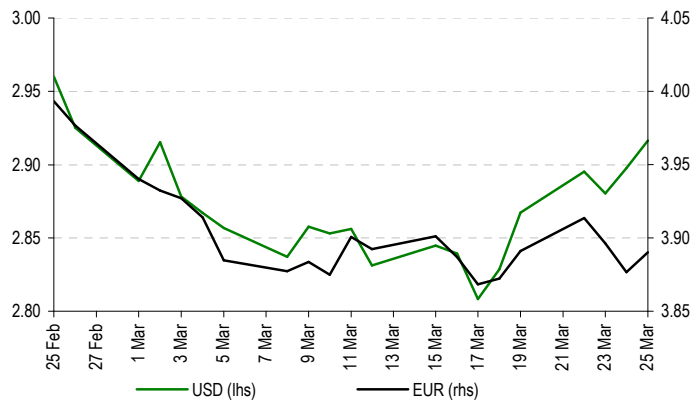
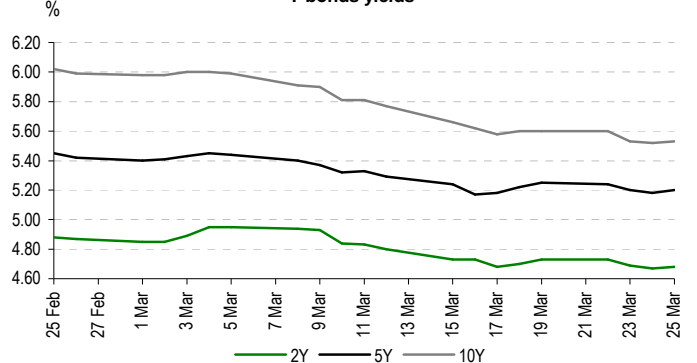
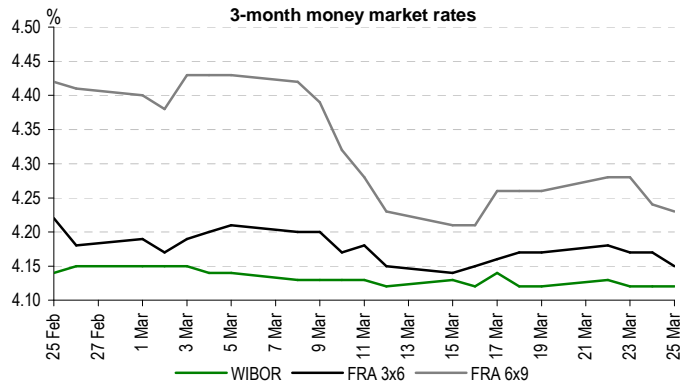
TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	4.29	-3	0.57	2	1.11	0
2Y	4.72	-1	1.20	3	1.48	1
3Y	5.01	-1	1.81	1	1.91	1
4Y	5.19	-1	2.31	2	2.17	2
5Y	5.29	-2	2.71	4	2.45	2
8Y	5.43	-2	3.48	3	3.06	3
10Y	5.44	-3	3.79	4	3.32	3

**WIBOR rates**

TERM	%	Daily change (bp)
O/N	2.30	-10
T/N	2.70	18
SW	3.30	0
2W	3.40	0
1M	3.62	0
3M	4.12	0
6M	4.22	-1
9M	4.34	0
1Y	4.43	0

**FRA rates (Mid)**

TERM	%	Daily change (bp)
1X2	3.64	1
3X6	4.15	-2
6X9	4.23	-1
9X12	4.50	1
3X9	4.29	1
6X12	4.44	0

**Zloty exchange rate (fixing)**

**T-bonds yields**

**3-month money market rates**


\* for 100 JPY

Source: Reuters

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