

Eyeopener – Volatile sentiment in global markets

16 April 2010

- Yesterday the zloty stronger, despite comments suggesting further interventions are possible; local debt gained
- Domestic CPI inflation dropped to 2.6% in March, as expected; Poland's budget deficit after March below plan
- Today deteriorated sentiment in global markets after disappointing earnings report from Google and intensified concerns about Greece
- Today the euro zone's HICP and the US data from the housing market and Michigan index as well as next earnings reports

Zloty strengthened on Thursday, despite mixed investors' sentiment and the uncertainty about possibility of renewed FX intervention by the NBP. After start of the day with optimistic moods in global markets and a decrease of EURPLN in the morning to ca. 3.854, there was quite a sudden correction to slightly above 3.87, while the euro weakened against the dollar and the deterioration in global risk appetite under the influence of recurrent worries about the situation in Greece and Portugal. In the afternoon, however, the demand for the zloty returned, and EURPLN rate decreased to ca. 3.853. At this level zloty appreciation has stopped, possibly influenced, among others, by statement of Deputy Finance Minister Ludwik Kotecki, who recalled that the likelihood of NBP intervention has not changed, and "the gun is still loaded".

EURUSD rate fell quite clearly (to 1.3525 around noon), due to growing fears that Greece would have to tap aid from the EU, while in several EU countries (e.g. Germany, France) parliamentary approval will be needed before the aid package worth €30bn will be implemented. In the afternoon, these fears have weakened after the statements of EU leaders, that there is political support for launching the aid package, and the EURUSD slightly increased to 1.358 at the end of the day. Additional support for the risk appetite was good macro data from the US.

New jobless claims in the US rose last week to 484,000, against forecasts of 440,000. NY Fed activity index rose in April to 31.86 from 22.86 points in March (expected 24.0). Philadelphia Fed index rose in April to 20.2 from 18.9 in March, against forecasts of 20.0. Data on industrial production in the US were weaker than forecast, and increased in March by 0.1%MoM versus 0.7% expected. But it was mainly the result of a strong decline in output of utilities after significant weather improvement, while in manufacturing there was a solid growth by 0.9%MoM, above forecasts.

On the domestic debt market, bond yields and IRS rates fell slightly at the end of the day, and money market rates were stable. On the core debt markets, after the initial strengthening due to lower appetite for risk, there was a correction, as the data from the US confirmed that the economic recovery is continuing. At the end of the day yields of 10Y Treasuries and Bunds were at 3.85% and 3.13%.

CPI inflation fell in March to 2.6%YoY from 2.9% a month ago. This was in line with our forecast, market consensus and the estimate

presented by the Ministry of Finance. Therefore, the release had no impact on the market. In CPI breakdown there were a few surprises, but our estimate of key core inflation measure (CPI excluding food and energy prices) remains at 2.0%. Overall, today's data has not changed the inflation prospects for the remainder of this year nor for the medium-term. We expect CPI inflation to fall below 2% in summer and then to rise moderately to ca. 2.5% at year-end. Also, we stick to our view that rate hikes by the MPC will start in 4Q 2010, being preceded by the change in monetary policy bias (in June at the earliest).

Yesterday our expectations were confirmed by an MPC member Adam Glapiński, who said after the data release that after a few months of inflation decline the trend will be reversed, and if the scenario was in line with the forecasts of the Economic Institute of the NBP „one should have to consider a change in monetary policy”. In his opinion „one or two upward moves in rates by 25 bp at the end of this year are possible, though not determined”. In the opinion of another MPC member Andrzej Kaźmierczak one should maintain neutral bias in the coming months, which would stabilise the functioning of the financial market. Both comments does not seem to be contradictory and suggest that the MPC may consider a change in the bias only after holidays. Kaźmierczak reminded that the NBP interventions are possible in order to smooth excessive fluctuations of the exchange rate.

The central budget deficit in March was at PLN23.5bn and was by PLN2.7bn lower than in the FinMin's schedule, which resulted from slightly smaller than assumed spending and higher revenues. There was a significant increase in indirect taxes revenues, which points to continuation of improvement of economic activity.

Although there were slight declines in the first part of the session, investors were purchasing stock in the second part of the day and the session close slightly in the black. During the Asian session there were deterioration in the moods after the release worse than expected earnings of Google and news about measures taken by China to cool the housing market. Consequently, the today at the opening the zloty was trading at slightly weaker levels as compared to yesterday close.

Today there will be no releases of the domestic data. In the euro zone there will be final HICP data scheduled at 11:00 CET, which should show the confirmation of the flash reading in March at 1.5%YoY from 0.9% in February. At 14:30 in the US house starts figure and building permits data for March will be released. The market consensus forecasts increase of house starts increase to 590k and a slight drop of building permits to 620k. At 15:55 we will know the preliminary Michigan index, measuring optimism of the US consumer. According to market recorded a slight increase in April to 74 pts, against 73.6 in March. The Bank of America and General Electric will release the Q1 financial results today.

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	1.3531	CADPLN	2.8465
USDPLN	2.8575	DKKPLN	0.5195
EURPLN	3.8662	NOKPLN	0.4865
CHFPLN	2.6969	SEKPLN	0.3985
JPYPLN*	3.0853	CZKPLN	0.1536
GBPPLN	4.4016	HUFPLN	1.4664

Financial market review - 15 Apr 10

The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.8528	3.8729	3.8605	3.8575	3.8641
USDPLN	2.8273	2.8604	2.8305	2.8413	2.8491
EURUSD	1.3523	1.3646	1.3642	1.3579	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2Y	4.39	-2	7.04	4.541
5Y	5.03	-4	2.12	5.778
10Y	5.52	-3	14.04	5.586

IRS rates (Mid)

TERM	PL	US	EA
	%	%	%
	Change (bp)	Change (bp)	Change (bp)
1Y	4.01	0.55	1.13
2Y	4.42	1.15	1.48
3Y	4.66	1.76	1.82
4Y	4.85	2.27	2.13
5Y	4.98	2.69	2.40
8Y	5.21	3.48	3.01
10Y	5.26	3.79	3.28

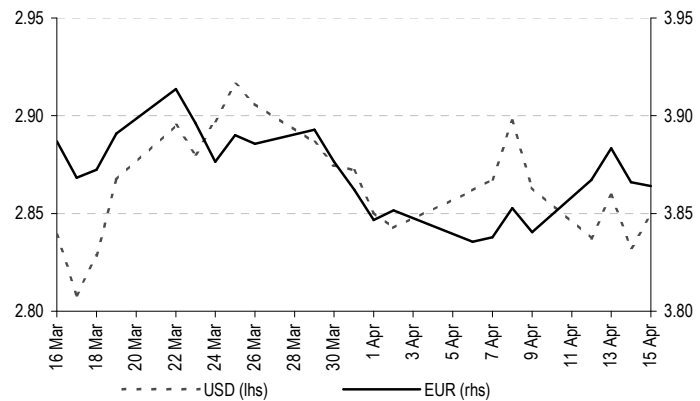
WIBOR rates

TERM	%	Daily change (bp)
O/N	3.00	-14
T/N	3.23	2
SW	3.35	1
2W	3.41	0
1M	3.61	1
3M	3.89	-1
6M	4.08	-1
9M	4.20	-1
1Y	4.30	-1

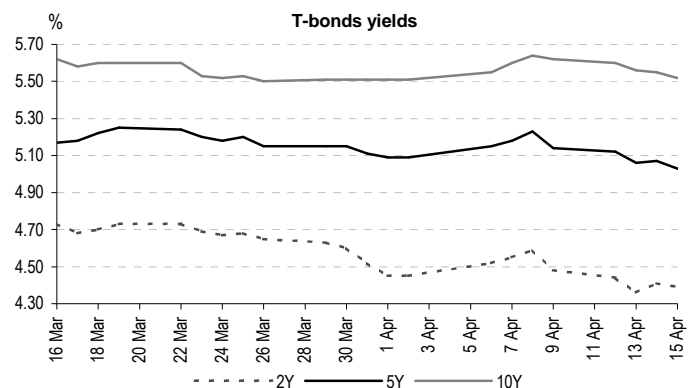
FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.61	2
3X6	3.86	-3
6X9	3.98	0
9X12	4.18	0
3X9	4.07	4
6X12	4.17	0

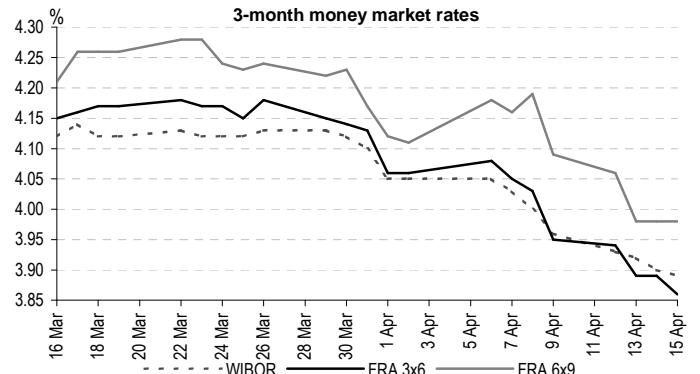
Zloty exchange rate (fixing)



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