

Eyeopener – Official data on deficit and debt

22 April 2010

- **Mixed sentiment in the global markets – better than forecasted results of enterprises offset by increasing concerns over fiscal situation in Greece and over increased regulation of financial sector in the US**
- **Zloty slightly stronger; domestic debt market stronger amid good results of 5Y bonds**
- **Today data on fiscal deficit and public debt for 2009, MPC minutes and core inflation measures for March, and abroad preliminary PMI in the euro zone, US labour and housing market data and next Q1 earnings reports**

The zloty strengthened slightly yesterday, despite deterioration in sentiment in global financial markets, reflected in declines in equity markets in Europe and lower EURUSD. Positive impact on risk appetite, associated with a series of better-than-forecast Q1 results of companies in the US (yesterday Morgan Stanley and Wells Fargo), was outweighed by increasing credit risk of southern countries of the euro area. Yields of 10Y Greek bonds rose yesterday to 8.4%, more than 500 bp higher than the corresponding Bund yields. CDS rates for Greece increased by 25 bp yesterday, reaching a record high 488 bp. At the same time there was also increase in CDS rates for Portugal (up 18 bp to 219 bp) and Spain (up 6 bp to 151 bp). EURUSD fell at the end of the day to 1.34 from 1.344 at the opening. Zloty exchange rate at the end of the day amounted to 3.867 versus the euro and 2.887 against the dollar.

On the domestic debt market there was a fall in yields along the entire curve, more significant at the long end. It was triggered by growing interest in debt securities in the region (successful bond auctions in Poland, Czech Republic, Russia). MinFin sold bonds PS0415 worth PLN3bn amid demand of PLN6.6bn and average yield 4.987%, lower than in the secondary market prior to the tender – yield of 5Y bonds fell below 5% for the first time since January 2009. After the auction, director of MinFin's public debt department, Piotr Marczak, said that a high degree of realisation of the borrowing needs, next foreign issues, and the successful domestic bond auctions allow for deeper debt relief in the Treasury bills in the coming months. At the same time he confirmed that the supply of bonds on the domestic market will be limited later in Q2, in line with the plan. Positive assessment of bond auction was not spoiled by the fact that at supplementary auction the Ministry's offer of PLN600m met with zero investors' demand.

In the core debt markets there was strengthening yesterday, as investors were exchanging bonds of Greece and other southern states of the euro area for safer bonds of US and Germany. At the end of the yields of 10Y Treasuries and Bunds were respectively at 3.77% and 3.08%.

MPC member, Elzbieta Chojna-Duch said yesterday that the NBP Management Board and the MPC will certainly reach an agreement on the NBP financial result for 2009, and the financial report will be

forwarded to the government in accordance with the statutory deadline of 30 April. Another member of the Council, Andrzej Kaźmierczak, said in turn that there is no consensus in the MPC on the NBP report for 2009. He said, however, that the majority of the Council members (to which he does not belong) found that the NBP Management Board estimated the size of the reserve for foreign exchange risk at too high level, demanding its re-calculation (reduction), which would increase payments to the state budget.

According to Dziennik Gazeta Prawna, in a draft of its opinion the ECB criticizes the resolution of the MPC. The ECB is of the opinion that the NBP should be cautious in adopting changes that may reduce the financial buffers. In view of the ECB, the MPC should wait with adoption of a resolution until the ECB's opinion. The ECB also pointed out that previous resolutions had not been consulted with it. If the MPC's resolution was used for the NBP financial report for 2009, it could raise 'concern about the correctness and transparency of the process'. According to the Dziennik Gazeta Prawna, an auditor participating in the MPC meeting on Tuesday used similar arguments.

Weak sentiment was maintained during the Asian session, which was reflected in a drop of major stock indices driven by concerns about tightening supervision on the financial sector in the US and the separation of trading in derivatives from the basic banking activities (a draft legislation approved yesterday by the US Senate). The regulation of the financial sector may be addressed in today's speech of Barack Obama. Despite the deterioration in market sentiment, the zloty was unchanged at the opening today.

Today at 11:00 CET the stats office will publish official data on general government deficit and debt as well as revised data on GDP in 2009. In addition, at 14:00 CET (rather than yesterday as we indicated incorrectly in yesterday's Eyeopener) the NBP will publish core inflation measures. The most important measure of core inflation, CPI excluding food and energy prices, dropped according to our forecasts to 2.0%YoY (market consensus of 2.1%YoY) from 2.2%YoY in February. At the same time we will get minutes of the MPC meeting in March, which will indicate what the new MPC focuses on.

Many important events today take place abroad. At 9:58 CET we will get the flash PMIs for manufacturing and services for the euro area in April. The market expects an increase respectively to 56.8 from 56.3 and an increase to 54.3 from 53.7. At 14:30 CET in the US there will be publication of weekly statistics from the labour market (expected decline in initial jobless claims to 455k from 484k), PPI figures for March (expected increase of 0.4%MoM after a decline of 0.6%MoM in February) and data on home sales in March (expected increase to 5.28m from 5.02m in February). In addition, another portion of earnings reports will be revealed today, among others from ABB, Air China, Credit Suisse, Microsoft, Pepsico and Phillip Morris.

ECONOMIC ANALYSIS

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F/X rates (today's opening)

EURUSD	1.3403	CADPLN	2.8919
USDPLN	2.8836	DKKPLN	0.5194
EURPLN	3.8654	NOKPLN	0.4888
CHFPLN	2.6981	SEKPLN	0.4015
JPYPLN*	3.0994	CZKPLN	0.1530
GBPPLN	4.4578	HUFPLN	1.4641

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.8610	3.8835	3.8706	3.8670	3.8662
USDPLN	2.8722	2.9017	2.8811	2.8872	2.879
EURUSD	1.3359	1.3455	1.3435	1.3398	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2Y	4.40	-3	7.04	4.541
5Y	4.98	-6	21.04	4.987
10Y	5.48	-5	14.04	5.586

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	4.03	-2	0.57	-1	1.12	0
2Y	4.45	-1	1.15	3	1.43	1
3Y	4.69	-1	1.72	3	1.82	3
4Y	4.85	-3	2.22	3	2.09	3
5Y	4.98	-1	2.63	1	2.36	3
8Y	5.18	-1	3.41	1	2.98	2
10Y	5.24	-3	3.71	1	3.24	2

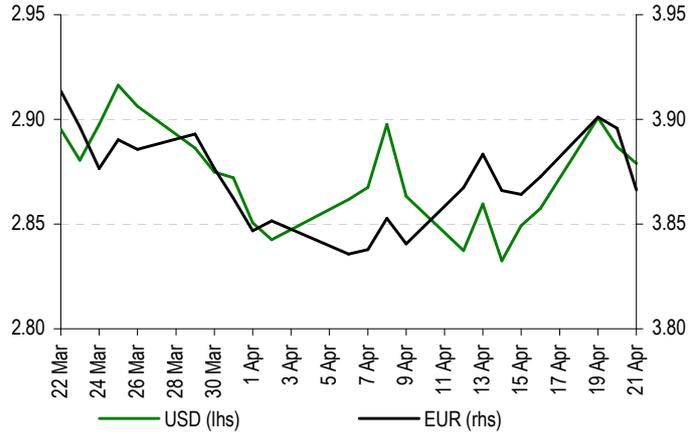
WIBOR rates

TERM	%	Daily change (bp)
O/N	3.00	-1
T/N	3.05	-2
SW	3.35	1
2W	3.40	0
1M	3.60	0
3M	3.87	-1
6M	4.05	0
9M	4.19	0
1Y	4.28	0

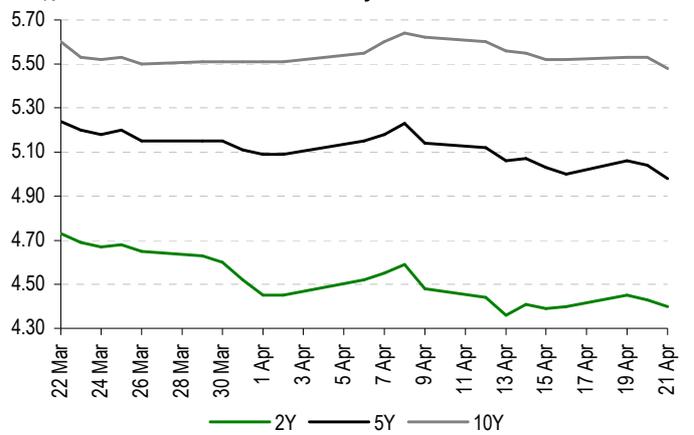
FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.61	1
3X6	3.91	0
6X9	4.02	1
9X12	4.19	-3
3X9	4.08	0
6X12	4.21	0

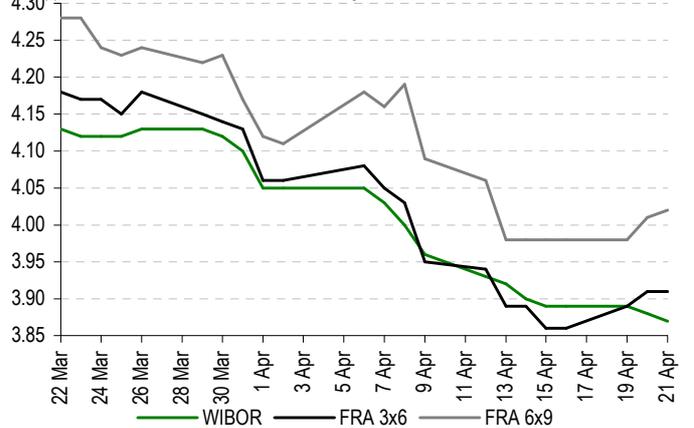
Zloty exchange rate (fixing)



T-bonds yields



3-month money market rates



* for 100 JPY
Source: Reuters

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