Bank Zachodni WBK

Eyeopener – Stabilisation package of EU and IMF

10 May 2010

- **Zloty recovered after heavy sell-off, relatively stable bond market**
- **Positive moods from the US labour market, German parliament accepted support for Greece, EU with IMF approved a stabilisation mechanism (worth €720bn), and ECB announced bond purchases for euro zone countries, which clearly improved global moods**
- **Today auction of T-Bills, Bank of England meeting**

After strong sell-off of risky assets on Thursday and on Friday at the Asian session, in Europe concerns still remained about fiscal problems of Greece. Equity markets have seen further declines, with the big slump in banks' share prices. Global sentiment was supported by news from Germany. On Friday, both chambers of the German parliament agreed to aid package for Greece (with Germany's contribution €22.4bn out of €80bn in total). In addition, the end of the week saw good data from the German industrial sector, where production increased by 4%MoM (8.6%YoY) versus expected increase of 1.5%MoM (6.4%YoY). US data were also a support for investors' sentiments. Non-farm employment increased in April by 290,000 from 230,000 after correction in March, exceeding market expectations of 190,000. The data for the previous two months were revised upward by a total of 120,000. It is worth noting that as many as 231,000 jobs were created in the private sector and only 59,000 in government sector, under the influence of census hiring. Unemployment rate was a negative surprise and rose to 9.9% from 9.7% in April amid expected stabilisation, although the increase in the labour force was a positive fact indicating that more and more people are looking for work.

Euro was recovering from losses against the dollar on Friday to ca. 1.274 with improved moods and information from Germany on a package for Greece, which proved to be more important than declines in the stock markets. But the second part of the day again saw a drop in EURUSD to ca. 1.264 due to better-than-forecast data from the US labour market. Zloty rebounded on Friday against the euro to ca. 4.12 during the day from 4.20 at the opening and 4.26 at session in Asia, but the end of the session again brought the weakening to 4.16 against the euro.

In Asia, there was a significant rebound of the euro against the dollar to around 1.298 this morning, thanks to approval of the stabilisation package during the weekend worth €720bn by the European Union with the support of the IMF, in order to control the spread of the crisis of government debt in the euro area. On Sunday, the IMF approved aid package for Greece worth €30bn (the first tranche of €5.5bn is to be forwarded on Wednesday). Furthermore, the ECB announced that it will take steps to reduce concerns associated with Greece and said it would buy the government and private debt. Moreover, the Fed announced that it renewed with other central banks swap lines to ease pressure on European markets and supply markets in US dollars. EURPLN fell this morning to ca. 4.02.

MPC member Andrzej Bratkowski said on Friday that the zloty weakening means that interest rates should be raised in autumn. In his opinion one may quite effectively constrain exchange rate movements through interventions and he would decide for an intervention (aimed at preventing the zloty depreciation) with EURPLN at 4.80. In Bratkowski's opinion, the optimal range for EURPLN is 3.9-4.0. He believes that if the zloty is in a range of 4.2-4.3 for 2-3 months, this will not have influence on inflation.

The local debt market followed the zloty on Friday. After a weak opening, there was rebound later during the day, although at the end of the session brought weakening of Polish bonds again. IRS curve moved up by a few basis points.

In the core debt markets, after a considerable drop in yields on Thursday/Friday overnight, in the first part of the European session on Friday there was a correction, although later in the day there was strengthening again. At the end of the day yields of 10Y Treasuries and Bunds rose to 3.40% and 2.78% against 3.43% and 2.78%, respectively. Today in the morning they were much higher at 3.57% and 2.97% due to establishment of the EU stabilisation package.

According to FinMin, the budget deficit after April reached PLN22.7bn against the full-year plan of PLN52.2bn. The result is much lower than announced a week earlier (PLN26.5-28bn).

According to the Ministry of Labour, the registered unemployment rate fell to 12.3% at the end of April.

The SAMAR data on new car sales released on Friday showed a fall of 13.7%MoM and 11.9%YoY. After a significant rebound in new car sales in March, when demand cumulated from the first two months of the year (severe weather conditions), in April there was clear drop in sales due to national mourning and Easter holidays. Such a weak result poses a downward risk to our forecast of retail sales in April (3.5%YoY versus 8.7%YoY in March), which is below the market consensus (3.8%YoY).

At today's tender the FinMin will offer 52-week T-bills worth PLN400-500m. Abroad there will be announcement of the BoE decision (widely expected no change in rates). The stabilization package established by the EU and the IMF should improve sentiment in the markets this week, which could lead to strengthening of the zloty and local bonds. We will get next macro data from abroad, out of which the key indicators will be the euro zone's preliminary GDP for Q1 on Wednesday and the US retail sales figures for April on Friday. Domestic data should recede to the background, especially that as regards crucial indicators we will get only the CPI for April (on Friday). Earlier, an important test for the Polish debt market will be auction of 5Y bonds on Wednesday.

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F/X rates (today's opening)

EURUSD	1.2980	CADPLN	3.0189
USDPLN	3.1018	DKKPLN	0.5409
EURPLN	4.0255	NOKPLN	0.5100
CHFPLN	2.8241	SEKPLN	0.4156
JPYPLN*	3.3395	CZKPLN	0.1572
GBPPLN	4.6132	HUFPLN	1.4653

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.0036	4.2414	4.2005	4.1605	4.1770
USDPLN	3.2281	3.3397	3.3155	3.2901	3.2808
EURUSD	1.2621	1.2740	1.2669	1.2639	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2Y	**4.69**	**1**	7.04	4.541
5Y	**5.45**	**4**	21.04	4.987
10Y	**5.86**	**2**	14.04	5.586

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	4.07	-1	0.75	2	1.12	1
2Y	**4.65**	**3**	1.16	-1	1.29	-7
3Y	4.99	5	1.62	-5	1.57	-9
4Y	5.22	6	2.07	-9	1.89	-9
5Y	**5.37**	**7**	2.44	-7	2.19	-9
8Y	5.58	8	3.17	-8	2.81	-3
10Y	**5.65**	**9**	3.47	-9	3.07	-1

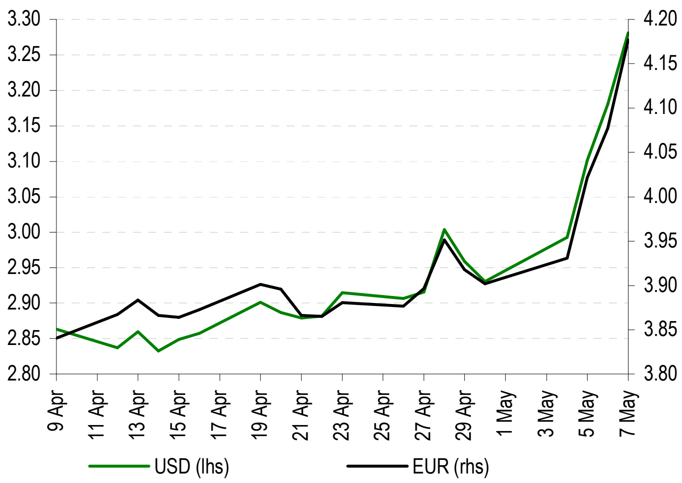
WIBOR rates

TERM	%	Daily change (bp)
O/N	3.48	0
T/N	3.50	1
SW	3.41	0
2W	3.44	1
1M	3.62	0
3M	3.87	0
6M	4.02	0
9M	4.19	0
1Y	4.28	1

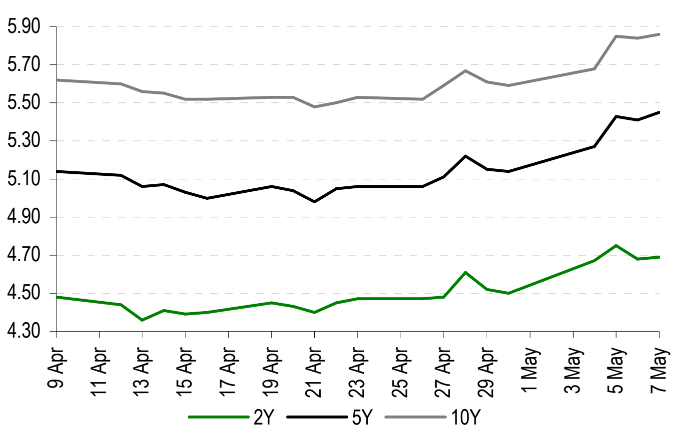
FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.60	-1
3X6	3.92	3
6X9	4.05	0
9X12	4.35	4
3X9	4.09	1
6X12	4.32	4

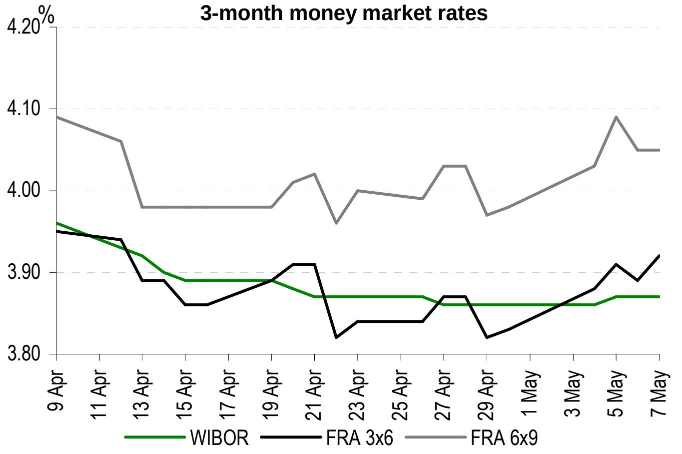
Zloty exchange rate (fixing)



T-bonds yields



3-month money market rates



* for 100 JPY

Source: Reuters

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