Bank Zachodni WBK

Eyeopener – Volatile market sentiment

9 June 2010

- **Yesterday the zloty broadly stable, the Hungarian reform plan improved sentiment in the region**
- **Today the zloty stronger after positive session in the US and despite deterioration in sentiment during the Asian session**
- **Today locally auction of BGK bonds while abroad the US data on wholesale inventories and the Fed's Beige Book**

At yesterday's session amid small number of important events the zloty was relatively stable. The start of the day was quite positive for the domestic currency. The zloty was supported by the forint recovery, which was positively influenced by presentation of the rescue plan by the Hungarian Prime Minister. The plan assumes tax rate cuts for companies, introduction of tax for banks and insurance companies as well as reduction of public spending.

After a small increase of stock indices in Asia, the European stock markets weakened after Fitch agency said the British fiscal deficit is "formidable". The US session opening was positive after Monday's comments from Ben Bernanke that the economic recovery in the US remains intact. The euro depreciated against the dollar in the first part of the day below 1.19 and later on there was a rebound of the EURUSD rate to 1.195 at the end of the day. The euro recovery was supported by data from Germany, which positively surprised. German industrial output rose in April by 0.9%MoM (13.3%YoY) after increase of 4.3%MoM (9.0%YoY) after correction. Analysts were expecting increase of 0.7%MoM. The euro was supported by Monday's final agreements of finance ministers of the euro zone regarding the support for euro zone countries having difficulties with debt servicing. During the day the euro depreciated vs. the Swiss franc to the record low level, below 1.38.

Deputy Prime Minister Waldemar Pawlak said he was pleased with zloty weakening to 4.15 vs. the euro, as this was favourable for the competitiveness of the economy.

In the domestic debt market there were few changes again. Yields remained close to Monday levels. Marginal changes were recorded in the FRA and IRS rates.

In the core debt markets initially there was weakening ahead of $70bn worth bond offer at this week's auctions in the US and after positive results of bond auction in Austria. At the end of the day there was a recovery. Yields of 10Y Treasuries and Bunds fell at the end of the day to 3.16% and 2.51% from 3.19% and 2.57%.

Yesterday the finance ministers of the European Union countries came to an agreement that in future the general objectives of the national budget drafts will be assessed at EU level in early spring of each year. The legal framework of strengthening fiscal discipline and economic governance in the EU are to be presented by October. Finance ministers also agreed to the introduction of sanctions to reinforce the Stability and Growth Pact. Greater emphasis would be placed on the debt to GDP threshold at 60%. The excessive deficit procedure would be activated if the debt to GDP ratio is not reduced.

Deputy finance minister Ludwik Kotecki said yesterday that the multi-year financial plan of the state (called WPFP) with deficits for the next four years will be approved by July 21. The plan will be a mandatory tool for strategic planning when constructing the budget law. At the municipal level, the similar instrument will be long-term financial forecasts covering the period of the current year and the next three years.

PO representative said yesterday that the consultations with other political parties in Sejm are still ongoing and the PO still wants to vote on the nomination of Marek Belka for the NBP president at this Sejm meeting, despite reluctance of PiS and PSL. Yesterday, after the meeting of Sejm Presidium, there appeared information on the Sejm's website that a vote on Belka's nomination has been scheduled for Thursday at ca. 16:00-18:00 CET. Today Marek Belka will be examined by the parliamentary Public Finance Commission. Yesterday Belka met with SLD leader Grzegorz Napieralski to seek support for his candidacy.

Referring to the PiS call to amend this year's budget due to floods, the minister of finance did not rule out the revision, if needed. Jacek Rostowski stipulated that the whole process takes at least a month and top government priority is to provide help using the budget reserve. Finance minister also said that as a result of floods, inflation may be somewhat higher than previously estimated.

Yesterday's session in the US was successful and resulted in growth of the major equity indexes. At today's session in Asia the equity markets have weakened after the reiterated concern about the consequences of debt crisis in Europe, but today at the opening the zloty gained, with EURPLN falling to 4.11, and USDPLN below 3.44.

Today there are no data releases in Poland. At 11:00 CET the BGK will offer bonds for the Road Fund worth PLN1-2.5bn. Abroad, data from the US economy will be released. At 16:00 CET there will be publication of wholesale inventories data for April. The market expects an increase of 0.6%MoM after 0.4% in March. In the evening, at 19:00 CET the Fed's Beige Book will be published.

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F/X rates (today's opening)

EURUSD	1.1966	CADPLN	3.2814
USDPLN	3.4372	DKKPLN	0.5529
EURPLN	4.1125	NOKPLN	0.5168
CHFPLN	2.9847	SEKPLN	0.4267
JPYPLN*	3.7587	CZKPLN	0.1586
GBPPLN	4.9708	HUFPLN	1.4617

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.1236	4.1619	4.1545	4.1455	4.1502
USDPLN	3.4520	3.4964	3.4741	3.4696	3.4772
EURUSD	1.1905	1.1974	1.1959	1.1949	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2Y	**4.65**	**1**	5.05	4.802
5Y	**5.34**	**-1**	12.05	5.144
10Y	**5.84**	**2**	14.04	5.586

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	4.05	0	0.79	-4	1.07	1
2Y	**4.44**	**0**	1.15	-1	1.25	-2
3Y	4.73	1	1.57	-4	1.52	3
4Y	4.94	-1	1.98	-5	1.80	-2
5Y	**5.10**	**0**	2.32	-6	2.07	-2
8Y	5.35	2	3.01	-6	2.64	-2
10Y	**5.41**	**0**	3.27	-4	2.90	-2

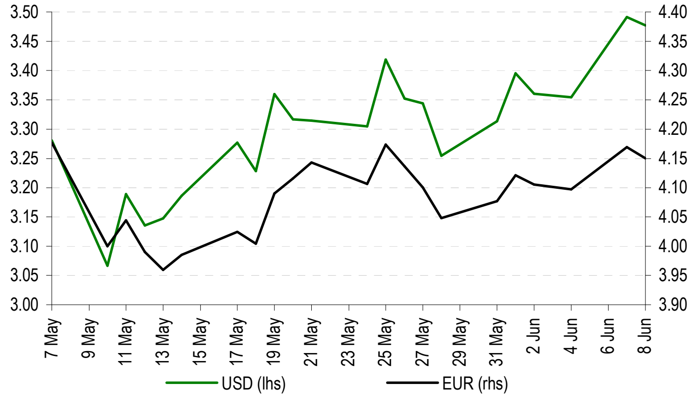
WIBOR rates

TERM	%	Daily change (bp)
O/N	3.19	-6
T/N	3.24	-5
SW	3.43	-1
2W	3.46	0
1M	3.63	0
3M	3.86	1
6M	4.01	1
9M	4.18	0
1Y	4.25	1

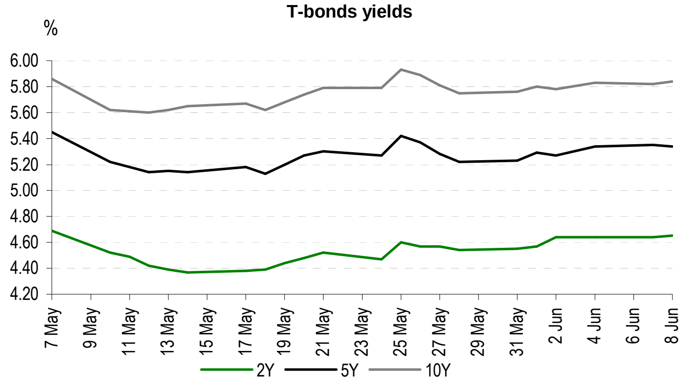
FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.60	1
3X6	3.90	1
6X9	4.02	2
9X12	4.20	1
3X9	4.06	2
6X12	4.21	2

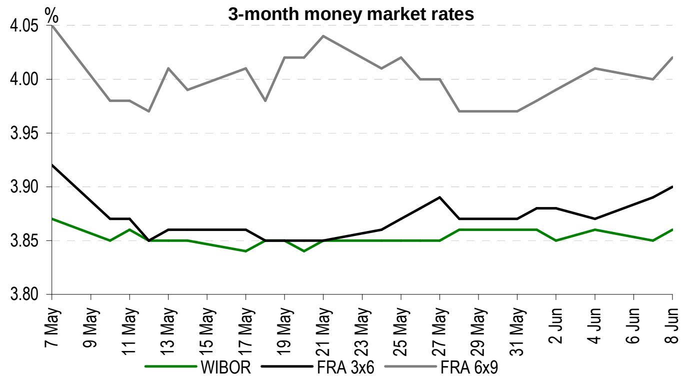
Zloty exchange rate (fixing)



T-bonds yields



3-month money market rates



* for 100 JPY

Source: Reuters

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