Bank Zachodni WBK

Eyeopener – Local CPI figures due today

15 June 2010

- **Zloty and local bonds stronger thanks to improved sentiment in the global markets**
- **Domestic money supply rose stronger than expected**
- **Today local CPI figures, the German ZEW index while in the US data on import prices, NY Fed index and capital flows report**

On Monday the market sentiment improved on positive data from the Eurozone, which strengthened expectations for economic recovery. The industrial production in the Eurozone rose in April to 9.5%YoY and 0.8%MoM (higher than expected 0.5%MoM) against 1.5%MoM in March. The surge was fuelled by demand for intermediate goods, mainly those exported. This tamed fears of economic slowdown in the euro zone. Positive market sentiment resulted in rising prices of commodities, stocks (to highest levels in four weeks) and gains of CEE currencies (apart form Romania where investors await non-confidence vote). Positive data from the euro zone's industrial sector supported the single currency. The EURUSD climbed intraday 1.227 and closed at 1.225. The EURPLN and the USDPLN declined towards 4.07 and 3.32 intraday respectively. At close EURPLN was at 4.075 and USDPLN at ca. 3.32.

The domestic fixed income market gained yesterday, mainly at the long end of the curve where the yields lost 4-8 bps. There was slightly lower drop of IRS rates. Activity on the market was relatively low.

At yesterday's tender the MinFin sold 52-week treasuries worth PLN1.175bn with average yield at 3.946%. Demand was at PLN3.06. MinFin announced Wednesday's auction of DS1020 bonds for about PLN1.5-3.0bn.

Yields on the core fixed income markets gained on lower demand for safer assets. Belgium bonds posed considerable decline in reaction to the victory of the Flamand national party in elections.

The European Commission has strongly denied the rumours, which appeared in German media, that the EU countries are preparing for the aid to Spain, which may face similar problems as Greece. Also, comments of the St. Louis Fed president James Bullard had positive impact on the global risk appetite, as he said that the US economy is in recovery phase and this process will not be interrupted by the European debt crisis.

Money supply rose in May by 7.2%YoY, more than forecast (ca. 6%YoY). Compared to April, the money supply increased by 2.4%, driven mainly by the increase in corporate deposits (4.2%MoM, and 3.1%MoM after eliminating the impact of zloty depreciation). Household loans increased (after eliminating the exchange rate effect) by 1.2%MoM, twice as much as in April, and business loans by 0.2%MoM (after two months of declines.) Data had no impact on the financial market.

Moody's Investors Service downgraded ratings of Greece yesterday afternoon by four degrees to the level of Ba1, which is considered as junk status, with a stable outlook. Greece downgrade trimmed earlier gains in equity markets in the US, so that the main indices finished Monday's session slightly below zero. Markets remain sensitive to information related to the debt problems and therefore Moody's decision affected the markets, although it was following similar decisions of the S&P's and Fitch Ratings. During the Asian session, the moods had improved and the major equity indices rose slightly. This was triggered by the Conference Board's data showing an increase in leading indicator for the Chinese economy and the decision of the Bank of Japan on the additional support of credit market (a program worth more than $30bn).

NBP President Marek Belka said in interviews with *Parkiet* and *Rzeczpospolita* dailies published today that the zloty exchange rate should be appreciating, and stated that "in the near future, and even in the long horizon" there are no significant risks to inflation. Moreover, Belka again emphasized that "when it comes to the basic outlines of monetary policy, I do not foresee any changes".

Today the CPI inflation for May is the key data release for the Polish market. We expect that CPI inflation fell in May slightly to 2.3%YoY (according to MinFin even to 2.1%), while market consensus assumes stabilisation at 2.4%. The main risk concerns food prices (possible negative effect of flood) and fuel prices (weaker zloty). We assume that rise in food prices in May was nearly 1%MoM, which is in line with the report published yesterday by the institute of agriculture economy. Our forecast of fuel prices is at 1.2%MoM.

As regards economic data abroad, at 11:00 CET the German ZEW index will be released, which will show business climate among entrepreneurs in this country. The market expects the index fell in June to 42 pct from 45.8 in May. In the afternoon US import prices will be published (1.3% expected) as well as New York Fed index (market consensus at 20.5) and US capital flows for April.

Today market sentiment in CEE region may be also under influence of motion of no confidence against the government in Romania.

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F/X rates (today's opening)

EURUSD	1.2177	CADPLN	3.2418
USDPLN	3.3584	DKKPLN	0.5499
EURPLN	4.0898	NOKPLN	0.5193
CHFPLN	2.9334	SEKPLN	0.4244
JPYPLN*	3.6834	CZKPLN	0.1593
GBPPLN	4.9400	HUFPLN	1.4592

Zloty exchange rate (fixing)

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.0698	4.0990	4.0923	4.0766	4.0838
USDPLN	3.3185	3.3687	3.3573	3.3194	3.339
EURUSD	1.2165	1.2280	1.2193	1.2280	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2Y	**4.56**	**-1**	5.05	4.802
5Y	**5.22**	**-8**	12.05	5.144
10Y	**5.73**	**-4**	14.04	5.586

T-bonds yields

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	4.02	-4	0.75	-3	1.10	2
2Y	**4.42**	**-1**	1.10	-1	1.27	2
3Y	4.70	-2	1.55	0	1.53	1
4Y	4.92	-2	1.96	-1	1.80	1
5Y	**5.07**	**-3**	2.32	-2	2.06	0
8Y	5.29	-2	3.04	0	2.64	1
10Y	**5.34**	**-3**	3.34	2	2.89	1

WIBOR rates

TERM	%	Daily change (bp)
O/N	3.36	6
T/N	3.41	6
SW	3.47	3
2W	3.48	2
1M	3.63	0
3M	3.86	-1
6M	4.01	0
9M	4.18	0
1Y	4.24	0

3-month money market rates

FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.62	-1
3X6	3.88	0
6X9	4.02	1
9X12	4.21	0
3X9	4.05	-1
6X12	4.21	0

* for 100 JPY

Source: Reuters

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