

Eyeopener – Rebuilding risk appetite

16 June 2010

- **Zloty stronger thanks to higher risk appetite, local bonds stable**
- **CPI inflation in May fell more than expected; budget performance in line with tentative estimates**
- **Today locally balance of payments and auction of 10Y bonds while abroad important data in the US**

Although the beginning of yesterday's session was negatively affected by downgrade of the rating for Greece (from A1 to Ba1 – four levels lower) by Moody's, later in the day the market sentiment improved and led to rise in stock prices, upward move in the EURUSD rate and strengthening of the zloty. The markets were positively affected among others by news that debt auctions in Belgium, Ireland and Spain were well-bided. High demand trimmed concerns about spill-over of Greek problems to other euro zone countries. The auctions results (despite high yields) offset negative effect of lower than expected reading of German ZEW index. Pretty good data from the US further supported the market sentiment.

The euro temporary depreciated versus the dollar to 1.217, but managed to finish the trading day at 1.23, i.e. near the level seen at the end of the previous session. The EURPLN declined below 4.07 and the USDPLN dropped to 3.30. Other CEE currencies also appreciated (but on lower scale) paring losses after Greek rating cut.

Domestic debt market was influenced neither by sentiment swings on the global market nor local CPI inflation figures. Bond yields and IRS rates were stable.

Poland's CPI inflation was at 2.2% in May i.e. below our forecast of 2.3%, not to mention market consensus at 2.4%. The FinMin's estimate was at 2.1% and the range of market forecasts was very wide, from 2.1% to 2.6%. Food prices development was a big unknown and they showed rise by 0.7%, which was moderately below our forecast. On the other hand, fuel prices rose by almost 2.5%. According to our estimation core inflation fell to ca. 1.6% in May, showing no demand-side pressure on inflation. In the next months the CPI inflation is likely to drop below 2%, which should be followed by a rebound to ca. 2.5% towards the year-end. Similar scenario is predicted by the FinMin and presented yesterday by MPC members Anna Zielińska-Głębocka.

According to preliminary domestic data the budget deficit after five months reached PLN32,1bn, i.e. 61.6% of the full-year plan. The reading was in line with the MinFin's estimates. The indirect tax revenues considerably raised suggesting continuation of improvement in domestic economic activity.

Yields on the core fixed income markets declined on the back of lower risk aversion. In the US, however, in the afternoon, bonds pared losses on speculation of smaller chances for any interest rate

hike in the foreseeable future. 10-year Treasuries and Bunds closed at 3.25% and 2.69%, respectively.

The ZEW sentiment index plunged to 28.7pts in June from 45.8pts in May and versus 42.0pts expected. The data only temporary weakened the euro, mainly because the weakening of companies expectations (among others due to fears of fiscal crisis spreading) was accompanied by clear improvement in assessment of current economic conditions, reflected in rising production and employment in the largest European economy. The NY Fed Index advanced in June to 19.57pts (lower than expected) from 19.11pts in May. The reading confirmed recovery in the industry sector. Capital inflow to the US reached \$83.0bn in April versus \$70.0bn expected. The EU trade surplus in April was at €1.8bn (€4.5bn in March) against €2.8bn expected.

Yesterday, NBP governor Marek Belka and finance minister Jacek Rostowski signed a motion to extend access to the FCL from the IMF. The IMF said in a statement at its website that the motion is likely to be approved by the Fund's Executive Board in early July.

After close of the domestic session we have observed continued rise in global risk appetite. Rise in the New York Fed index strengthened markets' hopes that debt problems in Europe will stem the global economic recovery. As a result, there was strong rise in major stock indices on Wall Street yesterday. S&P is now in the positive territory on a year-to-date basis and for the first time in a month rose to above 200-day moving average, which is an important positive technical signal. Stock markets in Asia during today's session also gained. At opening of the Polish market EURUSD was at 1.233 and EURPLN dropped below 4.06.

Today (and not on Monday as we informed earlier) the NBP will release balance of payments data for April. We expect widening of the C/A gap to €670m (market consensus at €625m) with strong rise in exports (22.3%YoY) and imports (24.1%YoY). At today's auction the Ministry of Finance will offer 10Y bonds at which DS1020 papers worth PLN1.5-3.0bn. A lot of important economic indicators will be also released abroad. Before noon final HICP inflation will be published for the euro zone and it is expected that it remained in April at the level observed in the previous month of 1.6%YoY. In the afternoon the series of publication in the US may affect market sentiment. Firstly, as regards data from the housing market for May, the figure of building permits is expected at 630 thousands (610k in April) and house starts is forecasted at 650k (as compared to 672 a month ago). Market consensus for data in industrial sector are at -0.6%MoM (0.1% in April) for PPI and at 0.8%MoM for production (the same as in April). Capacity utilisation is forecasted at 74.5%, slightly higher than in the previous month.

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

Poznań
Warszawa
Wrocław

+48 (0) 61 856 5814/25
+48 (0) 22 586 8320
+48 (0) 71 370 2587

F/X rates (today's opening)

EURUSD	1.2330	CADPLN	3.2103
USDPLN	3.2917	DKKPLN	0.5457
EURPLN	4.0586	NOKPLN	0.5171
CHFPLN	2.9118	SEKPLN	0.4246
JPYPLN*	3.5963	CZKPLN	0.1583
GBPPLN	4.8755	HUFPLN	1.4544

Financial market review - 15 Jun 10

The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.0640	4.0890	4.0898	4.0680	4.0765
USDPLN	3.3041	3.3595	3.3584	3.3045	3.3397
EURUSD	1.2165	1.2310	1.2177	1.2307	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2Y	4.54	-2	5.05	4.802
5Y	5.22	0	12.05	5.144
10Y	5.74	1	14.04	5.586

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	4.05	3	0.76	-2	1.13	3
2Y	4.43	1	1.11	0	1.31	4
3Y	4.69	-1	1.55	0	1.62	9
4Y	4.90	-2	1.97	1	1.85	5
5Y	5.07	0	2.34	3	2.11	5
8Y	5.29	0	3.08	4	2.70	6
10Y	5.35	1	3.36	2	2.95	6

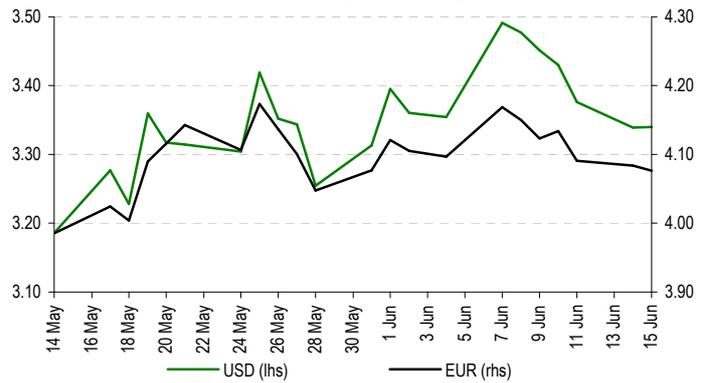
WIBOR rates

TERM	%	Daily change (bp)
O/N	3.30	-6
T/N	3.37	-4
SW	3.46	-1
2W	3.48	0
1M	3.63	0
3M	3.86	0
6M	4.01	0
9M	4.18	0
1Y	4.24	0

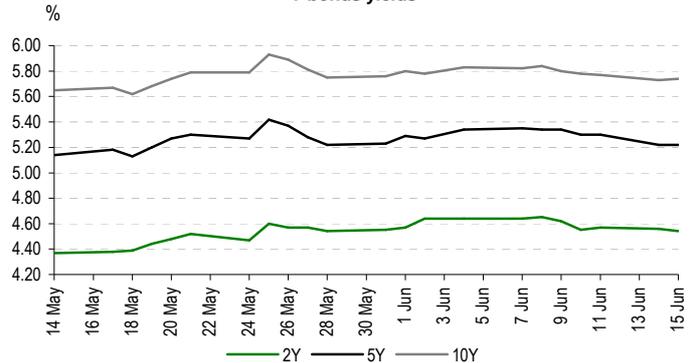
FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.62	0
3X6	3.88	0
6X9	4.00	-2
9X12	4.20	-1
3X9	4.04	-1
6X12	4.19	-2

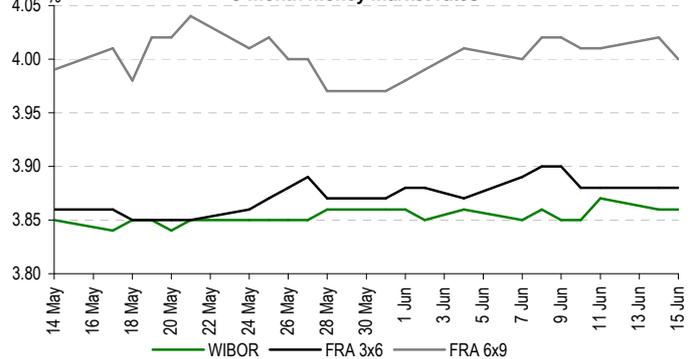
Zloty exchange rate (fixing)



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