Bank Zachodni WBK

Eyeopener – Retail sales data today

24 June 2010

- **Markets still cautious; zloty staying close to the upper end of consolidation range; slight steepening of the domestic yield curve**
- **Today, data on retail sales and unemployment, markets abroad focused on US data on durable goods orders and new jobless claims**

On Wednesday market participants were still very cautious as fears of the euro zone's economy performance prevail. The Great Britain approved yesterday the spending-cut plan being the next European country that takes such radical steps. Common fiscal belt-tightening rises concerns about the economic growth in Europe. Additionally, capital shortage of European banks is worrying investors. Only this week there were some rumours about problems of Credit Agricole (precisely with its Greek subsidiary), BNP Paribas' rating was cut and Moody's expressed some concerns about Spanish banks. The surge of optimism after China's decision has faded, just as fears of Russia-Belarus gas-row consequences. Till afternoon the volatility on bond and currency market was low as investors awaited evening's Fed comment.

The euro firmed against the dollar early in the morning. However, during all day long the EURUSD ranged 1.228-1.23. After poor data from the US the dollar temporarily advanced to 1.22.

Facing low investors' activity and higher risk aversion the zloty till afternoon hovered somewhere above crucial levels of resistance (4.06 for the EURPLN and 3.30 for the USDPLN). Far lower than expected data from the US triggered zloty's depreciation to 4.085 and 3.345 versus two main currencies, though the upward trend has not been continued.

During yesterday's tender the FinMin sold PS0415 and WS0429 bonds for total value of PLN1.6bn. The auction did not influence the fixed income market. Short-term bonds were stable during Wednesday's session. Long-term bonds' prices declined as investors retreated form emerging markets.

Core fixed income markets were stable. On yesterday's opening yields of 10Y Bunds and Treasuries were slightly lower versus previous day's closing and ranged around that level till afternoon (Bunds: 2.68%, Treasuries: 3.17%). Poor data from the US caused yields' drop.

The data on US real estate market occurred to be the worst in all history. In May new home sales reached 300k (on annual basis) versus 446k in April (after revision). The analysts from the Wall Street expected 410k.

Given the low volatility of exchange rates, declines in the stock markets, a relatively stable price of gold and an increase in bond prices, one may hypothesize that investors (especially banks) have recently shortened positions in risky assets, at the same time buying secure bonds of Germany and USA. The reason for such action may be approaching 1 July, when the banks will have to pay to the ECB loans taken a year ago for a total amount of ca. €442bn. The consequence of this may be continuation of relative calm in the markets, at least until early July (as the risky assets, which were to be sold, have been largely sold). On the other hand, lower liquidity and smaller activity of market participants means possibility of random fluctuations in asset prices due to settlement of major orders.

As widely expected, the Fed did not change interest rates yesterday. In the post-meeting statement there was again a phrase that interest rates should stay at the record low level for a prolonged time, because pace of economic recovery in the US weakens. Little optimism in the FOMC statement negatively affected the market sentiment, leading to drop in the US stock market and weakening of the dollar (today in the morning EURUSD at 1.234). However, during the Asian session the stock markets gained. The zloty strengthened overnight, recovering from the yesterday's correction that took place after poor data from the US (today at the opening EURPLN at 4.056 and USDPLN at 3.287).

The euro zone's flash PMI manufacturing for June showed a drop to 55.6 from 55.8 in May, beating market expectations of 55.3) while flash PMI services for June dropped to 55.4 from 56.2 against expected 55.9. As the data were close to market expectations, they had no visible impact on the markets.

Deputy finance minister, Dominik Radziwiłł, commented Fitch warnings regarding Polish fiscal policy saying that he was not afraid of a rating's downgrade. In his opinion the central budget deficit in 2011 will be "surely lower" than the PLN52.2bn planned for 2010. According to deputy FinMin, Ludwik Kotecki, the actual deficit of the central budget this year may be around PLN40bn.

The Czech central bank, as expected, left interest rates unchanged yesterday. The main rate is still at record low 0.75%.

Today we will get important macro figures locally and abroad. At 10:00 the CSO will reveal data on retail sales for May (our forecast 2.2%YoY against market consensus of 3.1%YoY) and registered unemployment for May (our forecast 11.9% against consensus of 12.0%). At 14:00 the NBP will publish minutes of the MPC meeting in May. As to events abroad, at 14:30 we will get the US data on durable goods orders for May (the market expect rise of 0.9%MoM) and weekly statistics on initial jobless claims (expected drop to 460k).

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F/X rates (today's opening)

EURUSD	1.2344	CADPLN	3.1985
USDPLN	3.2877	DKKPLN	0.5488
EURPLN	4.0585	NOKPLN	0.5122
CHFPLN	3.0069	SEKPLN	0.4278
JPYPLN*	3.7092	CZKPLN	0.1590
GBPPLN	4.9805	HUFPLN	1.4492

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.0357	4.0635	4.0465	4.0570	4.0587
USDPLN	3.2728	3.3143	3.2863	3.3042	3.3054
EURUSD	1.2248	1.2328	1.2312	1.2279	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2Y	**0.00**	**-472**	5.05	4.802
5Y	**0.00**	**-542**	12.05	5.144
10Y	**0.00**	**-586**	14.04	5.586

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	4.10	-5	0.76	0	1.18	2
2Y	**4.63**	**3**	1.02	-1	1.33	0
3Y	4.91	3	1.40	1	1.63	4
4Y	5.09	3	1.81	-1	1.84	-1
5Y	**5.23**	**1**	2.17	-1	2.10	-1
8Y	5.40	1	2.88	-3	2.68	-1
10Y	**5.43**	**-2**	3.16	-2	2.92	-1

WIBOR rates

TERM	%	Daily change (bp)
O/N	3.39	0
T/N	3.40	-2
SW	3.47	0
2W	3.50	0
1M	3.63	0
3M	3.86	1
6M	3.99	0
9M	4.18	0
1Y	4.24	0

FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.63	-1
3X6	3.90	-2
6X9	4.16	0
9X12	4.40	1
3X9	4.11	-1
6X12	4.35	2

Zloty exchange rate (fixing)

T-bonds yields

3-month money market rates

* for 100 JPY

Source: Reuters

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