

Eyeopener – Belka more dovish

6 August 2010

- **Zloty still in horizontal trend**
- **Interest rates in euro zone unchanged, ECB president more optimistic about economic outlook**
- **Belka getting more dovish, not afraid of inflation**
- **Today, key data from the US labour market**

Yesterday's session was marked by the positive information from the euro zone and some negative signals from the USA. The factory orders in Germany advanced in June by 3.2%MoM versus market expectations at 1.5% and a 0.5% decline in May. After the ECB meeting (the main interest rate remained unchanged at a record low 1%), the Bank governor, Jean-Claude Trichet claimed that the macro data that will be released in the Q3 will show that the euro zone's economy is expanding faster, than it has been previously anticipated. Nevertheless, his comments continued to give the strong impression that rates will not be increased any time soon. The IMF announced yesterday that Greece will receive the second tranche of the financial aid, due to broad fiscal saving plan it has implemented. The IMF stressed, that next task for Greece are reforms that shall put the national economy back on the track. Spain sold yesterday 3Y bonds worth €3.5bn with lower yields than on the previous auction in June. There were lower-than-expected data from the US labour market. It was announced that in the previous week the number of new unemployed reached 479.0k versus 455.0 anticipated by the market and 460.0 after the revision two weeks ago. The market sentiment further deteriorated on data that showed, that the sales in the retail chains covered by the Reuters survey advanced by 2.9%, which was below market expectations.

The EURPLN advanced at the beginning of the session, but soon later the zloty appreciated and the level of support at 3.98 was (unsuccessfully) tested. As there are no clear drivers for the zloty's appreciation neither depreciation, the EURPLN still remains in the horizontal trend. Additionally, the impulses from the abroad have limited impact on the exchange rate. The prospect of the publication of very important data from the US (considered in the context of yesterday's lower-than-expected reading) may put some negative pressure on the zloty during yesterday's session.

EURUSD exchange rate, in line with our expectations, was increasing since the beginning of yesterday's session, but resistance at 1.32 proved to be too strong. At the start of the US session the rate fell to ca. 1.315, but it rebounded relatively soon. At today's opening, the rate is slightly below 1.32. Given the expectation for the US data, until their publication we expect to see a stabilisation around current levels.

The Polish debt market showed some decrease in yields with two-year segment stable. Yesterday's movements were mainly caused by demand from abroad. At the same time, markets seem to be more and more convinced that the room for further gains in Polish bond market is rather limited. Today dovish comments by NBP President (see below) may be positive for Polish curve. Though on the other hand, in global markets we saw negative information regarding inflation expectations – record rise in wheat prices after Russian export ban raised global food fears.

During the first part of the European session yields of Bunds and Treasuries were stable and the market awaited the communiqué after the ECB decision. After weaker than expected data from the US, we saw strengthening in fixed income markets. Yields of ten-year Bunds and Treasuries were at 2.56% and 2.90%, respectively.

According to estimates by the Labour Ministry, in July the registered unemployment rate fell to 11.4% from 11.6% in June. This shows that positive tendencies in the Polish labour market are being continued.

The NBP governor Marek Belka said yesterday that the impact of a proposed increase in VAT on inflation would be very limited and could be around 0.3pp, which is "quite bearable". In his opinion, the increase in VAT is the "best of the worst ways", although it would be better to find savings in the budget and reduce spending. Belka stated that the latest factors, including appreciation of the zloty and the lack of wage tension on the labour market "increased dovish bias in his heart". Moreover, he mentioned that MPC will cut rates if it will be possible. Belka admitted that tightening of monetary policy cannot be excluded and will depend on the final budget plan for the next year. The statements of the NBP chairman are quite dovish as compared to the comments of the "presidential" members of the MPC (yesterday Zyta Gilowska criticised the government's proposals and underlined that it complicates the MPC actions), which could weaken the market expectations about interest rate hikes and could have a positive impact on market interest rates.

Today at 12:00 CET the growth of industrial production in Germany will be announced. Market consensus indicates an increase in June by 0.7%MoM, while in May it was 2.6%. Later, at 14:30 CET important data from the US labour market will be given. It is expected that non-farm payrolls fell in July by 75k, while in the previous month a drop of 125k was recorded. At the same time the unemployment rate will be released, which is expected to rise in July to 9.6% from 9.5% in June. Earning reports are to be announced by companies such as the RBS.

ECONOMIC ANALYSIS

ul. Marszałkowska 142, 00-061
email: ekonomia@bzwbk.pl

Maciej Reluga (Chief Economist)
Piotr Bielski
Piotr Bujak

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	1.3197	CADPLN	2.9747
USDPLN	3.0210	DKKPLN	0.5350
EURPLN	3.9860	NOKPLN	0.5058
CHFPLN	2.8807	SEKPLN	0.4245
JPYPLN*	3.5071	CZKPLN	0.1613
GBPPLN	4.8055	HUFPLN	1.4269

Financial market review - 5 Aug 10

The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.9725	3.9953	3.9870	3.9900	3.9860
USDPLN	3.0025	3.0363	3.0310	3.0326	3.0268
EURUSD	1.3186	1.3117	1.3159	1.3154	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2Y	4.76	1	7.07	4.74
5Y	5.38	-4	12.05	5.144
10Y	5.70	-3	16.06	5.791

IRS rates (Mid)

TERM	PL	US	EA
	%	%	%
	Change (bp)	Change (bp)	Change (bp)
1Y	4.18	0.47	1.24
2Y	4.68	0.70	1.39
3Y	4.93	1.03	1.60
4Y	5.07	1.39	1.84
5Y	5.17	1.73	2.06
8Y	5.23	2.54	2.60
10Y	5.16	2.87	2.84

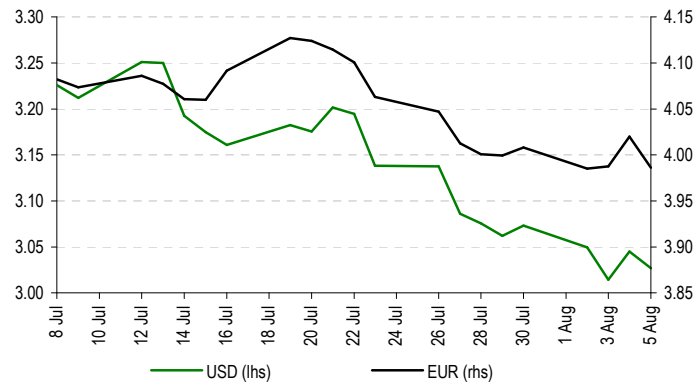
WIBOR rates

TERM	%	Daily change (bp)
O/N	3.29	2
T/N	3.34	6
SW	3.35	1
2W	3.44	0
1M	3.60	0
3M	3.81	0
6M	3.99	0
9M	4.19	0
1Y	4.23	0

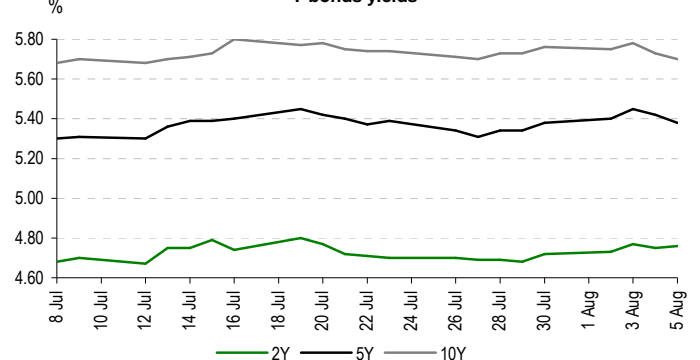
FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.62	-1
3X6	3.99	-1
6X9	4.27	0
9X12	4.49	-2
3X9	4.20	2
6X12	4.45	-1

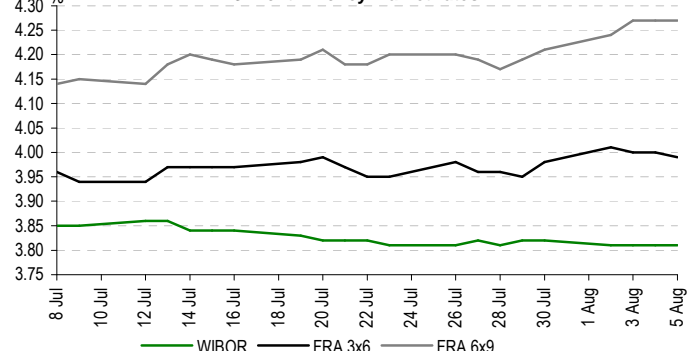
Zloty exchange rate (fixing)



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