

# Eyeopener – Better moods after US data

6 September 2010

- **Zloty stronger, bonds weaker after publication of US labour market data**
- **Correction in bond markets continues**
- **Government approved budget draft for 2011**
- **Today no key publications, market holiday in the US**

On Friday the market sentiment obviously improved, as better than expected data from the US supported the hopes that the US will avoid a double-dip scenario. The data from the euro zone did not influence the market. The PMI index for the services sector in the euro zone advanced in August to 55.9pts from 55.8pts a month before and versus 55.6pts initially published and expected by the market. The retail sales grew in July by 1.1%YoY and 0.1%MoM versus 1.2%YoY and 0.2%MoM in June after the revision. The monthly growth was the lowest since April 2010. Still, the most important publication was the data from the US labour market. The far better than expected data showed, that in August the US economy lost only 54.0k jobs in the non-farm sector versus market consensus at -100.0k and -131.0k in July. Just as it was expected, the unemployment rate increased in August to 9.6% from 9.5% in July. The market mood deteriorated a bit after the publication of the services ISM index, that declined in August to 51.5pts versus market expectations at 53.2pts.

At the beginning of the session the EURPLN was stable at around 3.96, but next few hours brought the zloty's gradual appreciation. After the much better US data the EURPLN plunged from 3.95 to just above to 3.93, where it hovers today in the morning. Due to market holiday in the US, we expect that today the volatility shall be limited and the EURPLN will be stable at ca. 3.93.

The EURUSD continued the upward trend since the beginning of the session, supported by the good data from the euro zone. Still, the euro's appreciation was limited, as the investors awaited the data from the US. After the publication of the payrolls data the volatility suddenly increased, and finally, the euro appreciated versus the greenback. Today in the morning the EURUSD hovers just above the 1.29 and we do not expect any major changes during today's session.

On the domestic debt market yields were still growing. The biggest increase took place in the morning, before US macro data were published.

On the core debt markets yields were slightly increasing since the beginning of the sessions. Following the publication of very good data from the US labour market trend accelerated clearly, which was primarily evident in Treasuries. At the end of the day,

yields of 10Y Bunds and Treasuries were at 2.34% and 2.71%, correspondingly.

On Friday in the evening the government approved the tentative 2011 budget draft with budget deficit at PLN40.2bn. Main assumptions of the budget have not changed, while there was a slight increase in the forecast of income and spending. Deputy finance minister Ludwik Kotecki said in an interview with PAP that the net borrowing needs were assumed at PLN57.1 against PLN79.1bn expected this year. According to information of the *Rzeczpospolita* daily, the government predicts the MPC to start monetary tightening already this year (the reference rate at the year-end was assumed at 3.75% - in line with our prediction) and "in the next years interest rates will be rising so that reach an average level of 4.7-4.8% in 2012-2014". The 2011 budget draft also assumes the zloty appreciation – average EURPLN assumed for the next year is 3.75 and USDPLN is 2.88 (our forecasts 3.81 and 2.91).

NBP governor Marek Belka said on Saturday that currently there are no clear signals that inflationary pressures are strengthening and the MPC is in a wait-and-see mode. He also reiterated that in his view the impact of planned VAT hike on inflation will not be large.

This week is much less crucial than the previous one in terms of new data publications locally and abroad. Besides, there is market holiday in the US on Monday, which means that the start of the week will be particularly peaceful. Domestic balance of payments data for July due for release on Friday should show, according to our forecasts, lower C/A deficit than a month earlier thanks to improvement in the balances of income and transfers. At the same time, we predict only a minor deceleration in growth of exports and imports. Following tentative adoption of the 2011 budget draft, this week we may see more details regarding fiscal policy next year, out of which the key will be information helpful to assess the size of general government deficit and viability of assumptions regarding the state's borrowing needs. We think that the nearest days will see continuation of trends seen last week, i.e. strengthening of the zloty and rise in bond yields. We believe that this week the zloty may temporarily strengthen to ca. 3.90-3.92, but then a correction should be expected to around 3.96-3.98. A better prospect for the US economy has already been taken into account after publication of a non-farm payrolls data on Friday, while no releases of important data this week will lead to stabilisation of EURUSD. We anticipate the horizontal trend in the range of 1.26-1.30.

## ECONOMIC ANALYSIS

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F/X rates (today's opening)

EURUSD	1.2824	CADPLN	2.9351
USDPLN	3.0906	DKKPLN	0.5323
EURPLN	3.9632	NOKPLN	0.5031
CHFPLN	3.0494	SEKPLN	0.4263
JPYPLN*	3.6679	CZKPLN	0.1605
GBPPLN	4.7676	HUFPLN*	1.3915

\*for 100JPY/100HUF

Financial market review - 03.09.2010

The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.9285	3.9684	3.9632	3.9425	3.9635
USDPLN	3.0530	3.0988	3.0906	3.0657	3.0895
EURUSD	1.2807	1.2888	1.2824	1.2862	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2L	4.75	4	1.09	4.672
5L	5.30	6	4.08	5.43
10L	5.55	7	16.06	5.79

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	4.24	4	0.44	1	1.18	-1
2L	4.63	3	0.68	2	1.28	0
3L	4.86	5	0.99	4	1.45	1
4L	4.98	6	1.31	6	1.65	3
5L	5.04	6	1.62	7	1.84	1
8L	5.09	9	2.32	10	2.32	4
10L	5.06	9	2.60	6	2.49	5

WIBOR rates

TERM	%	Daily change (bp)
O/N	3.42	4
T/N	3.43	3
SW	3.45	0
2W	3.49	0
1M	3.61	0
3M	3.81	0
6M	4.00	0
9M	4.19	0
1Y	4.24	0

FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.67	1
3X6	4.07	4
6X9	4.30	6
9X12	4.51	5
3X9	4.26	5
6X12	4.50	8

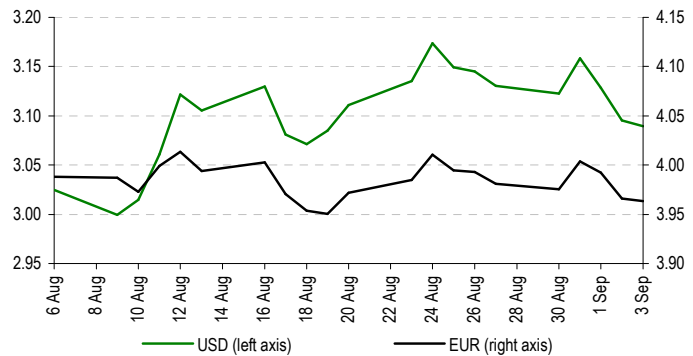
Measures of fiscal risk

Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	138.8	-8	3.22	5
Czech Republic	95.2	-1	0.98	-3
Hungary	356.8	-2	5.16	-7
Greece	920.6	-28	9.21	4
Spain	210.0	-15	1.67	-7
Italy	199.4	-10	1.40	-7
Portugal	300.0	-25	3.31	1
Germany	36.9	-4	--	--

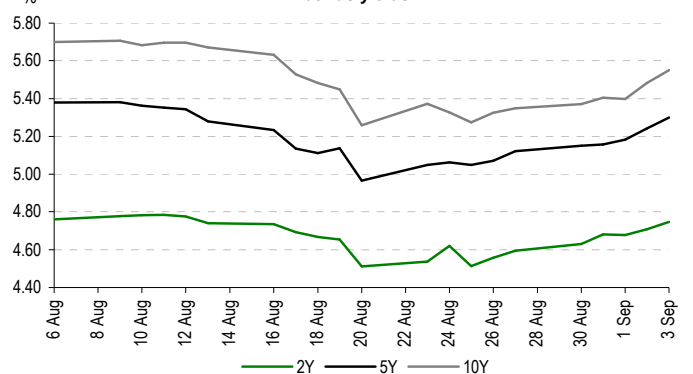
\* 10Y treasury bonds over 10Y Bunds

Source: Reuters

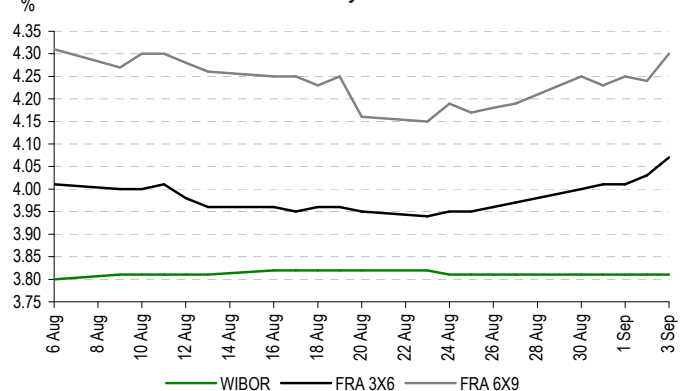
Zloty exchange rate (fixing)



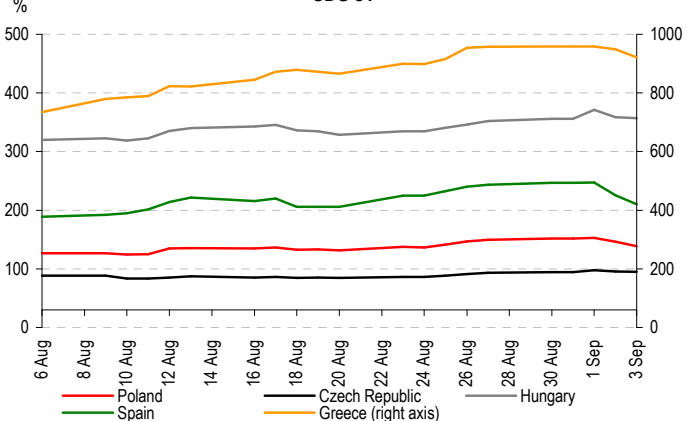
T-bonds yields



3-month money market rates



CDS 5Y



## Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		REALIZACJA	LAST VALUE *
					MARKET	BZWBK		
MONDAY (6 September)								
	US	Market holiday						
TUESDAY (7 September)								
12:00	DE	Industrial orders	Jul	%MoM	0.5	-	-	3.2
WEDNESDAY (8 September)								
11:00	PL	Auction of 5Y bonds worth PLN1.5-3.5bn					-	
12:00	DE	Industrial output	Jul	%MoM	1.0	-	-	-0.6
20:00	US	Fed' Beige book	Sep				-	
THURSDAY (9 September)								
8:00	DE	CPI	Aug	%MoM	0,0	-	-	0.3
14:30	US	Jobless claims	week	k	470.0	-	-	472.0
16:00	US	Trade balance	Jul	\$ bn	-47.0	-	-	-49.9
FRIDAY (10 September)								
14:00	PL	Current account balance	Jul	€m	-783.0	-630.0	-	-1 004
14:00	PL	Exports	Jul	€m	10 250	10 720	-	10 656
14:00	PL	Imports	Jul	€m	10 800	11 000	-	10 943
16:00	PL	Wholesale inventories	Jul	%MoM	0.4	-	-	0,1

Source: BZ WBK, Parkiet, Reuters

\* in case of the revision, the data is updated

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