

# Eyeopener – Car industry boosted production?

19 October 2010

- **Zloty slightly weaker, euro partly recovering**
- **Domestic yields higher, strengthening in the US debt market**
- **Today, data on Polish industrial output and PPI, abroad German ZEW index and US housing market data**

Uncertainty regarding the scale of monetary stimulus to be implemented by the Fed prevailed since the beginning of the Monday's session. Ben Bernanke announced on Friday that the expansionary monetary policy is justified, but did not elaborate on the intensity of the stimulus, which disappointed the investors. Yesterday for the first time since July 2009 the 3M EURIBOR reached the level of ECB main interest rate: 1%. It is worth to remember, that the interbank cost of cash higher than the central bank main interest rate is a normal situation and the latest exceptional low rates in the interbank market were the result of expansionary monetary policy, and huge supply of liquidity from the ECB. The data from the US showing capacity utilization at 74.7% in September were just below market expectations. That ratio hovers at slightly below 75% for five months, but there is still a room to catch up to pre-crisis 80%. The data on the industrial output occurred to be pretty disappointing, as in September it declined by 0.2%MoM. That was the first monthly decline since over a year. The Hungarian plan of reforms that did not diminish the uncertainty regarding the economic outlook and no-confidence motion for the Romanian government put a negative pressure on the CEE region currencies.

Already in the first hours of the European session the EURPLN clearly rose from 3.90 to 3.93. Later in the day the zloty was gradually erasing losses and at the end of the Polish session it strengthened to 3.92 per euro. This morning the EURPLN fluctuates slightly above 3.92, and we expect testing this level.

The EURUSD in the first part of the session fell to 1.384. The strengthening of the dollar can be attributed to investors' uncertainty about the scale of the expected quantitative easing. After a weak industrial output data the rate began climbing towards 1.40, but overnight the US dollar strengthened and this morning the rate fluctuates slightly above 1.39 and the euro may erase part of the losses incurred during the night.

On the domestic debt market the week began with yields higher than on Friday, as the upward trend seen last week

continued. Later in the day the yields declined, but at the end of the day they still remained above Friday's close.

FinMin sold yesterday 52-week T-bills worth PLN546m with demand of PLN977m and average yield of 3.974% (against 3.918% at the previous tender on September 27).

In the core debt markets yields of 10Y Bunds were relatively stable around level at the Friday's close. Yields 10Y Treasuries were slightly falling and after publication of output figures there was further drop in yields. At the end of 10Y Bunds and Treasuries reached 2.39% and 2.53%, respectively.

Domestic labour market data for September were mixed – average wages disappointed (annual growth slowed down to 3.7% from 4.2%) while employment was a positive surprise (annual growth accelerated to 1.8% from 1.6%). Strong employment rise without intensified wage pressure is an argument for dovish faction in the MPC. However, it is noteworthy that although Q3 saw a weakening of annual growth in average wage, an acceleration in employment growth led to improvement in wage bill growth, which bodes well for consumption demand and may be seen by the MPC as a threat to the inflation target in the medium-term. Still, as for now it seems that the Council will not deliver the first rate hike in October. The data had no impact on the market. Please see more details on the data in our *Instant comment* released yesterday.

MPC member, Zyta Gilowska, said yesterday that budget revenues target for 2011 is not realistic, as predicted revenue growth rate is three times larger than GDP growth rate. Gilowska also noticed that large dividend payments may constrain investment activity. This, in turn, could weaken economic growth, especially with possible slowdown in consumption growth related to price increase. She added that Poland might have a problem with rolling its debt and pointed to high cost of currently issued debt.

According to Samar data, production of cars in September increased 142%MoM after clear drop in August. This is quite optimistic hint as regards industrial output data for September due for release today at 14:00 CET, suggesting that output growth could be stronger than indicated by our forecast and market consensus of ca. 11%YoY. The Ministry of Economy estimate that industrial output rose around 10%YoY, mainly due to export-oriented branches.

## ECONOMIC ANALYSIS

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F/X rates (today's opening)

EURUSD	1.3911	CADPLN	2.7698
USDPLN	2.8215	DKKPLN	0.5263
EURPLN	3.9253	NOKPLN	0.4809
CHFPLN	2.9337	SEKPLN	0.4230
JPYPLN*	3.4652	CZKPLN	0.1601
GBPPLN	4.4752	HUFPLN*	1.4236

\*for 100JPY/100HUF

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.9007	3.9315	3.9079	3.9220	3.9254
USDPLN	2.8005	2.8415	2.8147	2.8073	2.8297
EURUSD	1.3829	1.3967	1.3884	1.3966	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2L	4.79	6	6/10	4.595
5L	5.22	6	12/10	5.137
10L	5.42	9	15/09	5.456

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	4.33	0	0.39	1	1.32	1
2L	4.77	6	0.54	3	1.46	0
3L	4.96	8	0.79	4	1.62	0
4L	5.06	8	1.09	5	1.82	0
5L	5.12	10	1.43	7	2.02	0
8L	5.17	10	2.26	7	2.48	3
10L	5.13	11	2.61	5	2.70	4

WIBOR rates

TERM	%	Daily change (bp)
O/N	2.99	-36
T/N	3.09	-29
SW	3.40	-3
2W	3.47	-1
1M	3.61	0
3M	3.82	0
6M	4.04	0
9M	4.21	0
1Y	4.26	1

FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.77	0
3X6	4.23	1
6X9	4.46	2
9X12	4.65	1
3X9	4.40	2
6X12	4.61	3

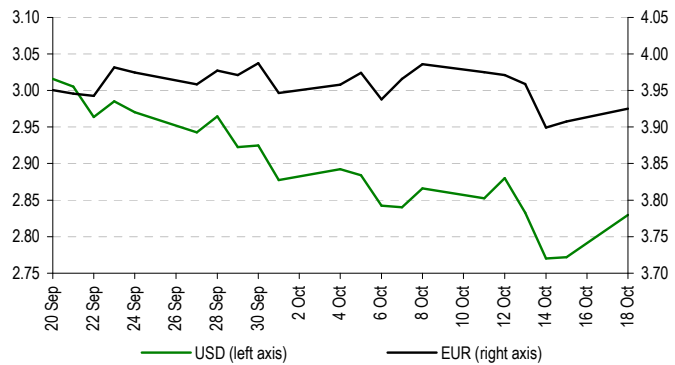
Measures of fiscal risk

Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	115.5	-2	3.03	3
Czech Republic	84.5	-1	1.05	-6
Hungary	276.8	2	4.71	-6
Greece	690.0	1	6.56	-5
Spain	196.9	-2	1.62	-4
Italy	168.2	2	1.32	-5
Portugal	359.2	-13	3.18	-29
Germany	32.0	0	--	--

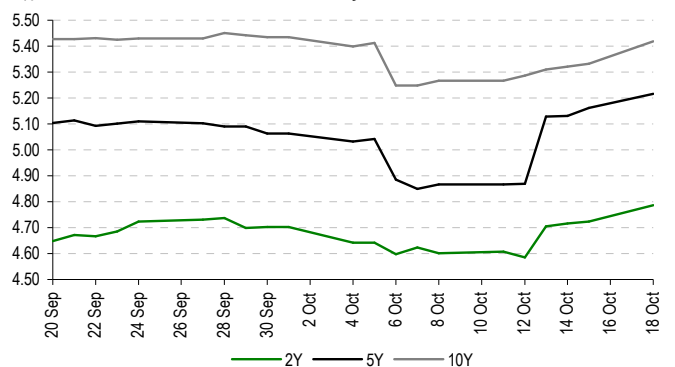
\* 10Y treasury bonds over 10Y Bunds

Source: Reuters

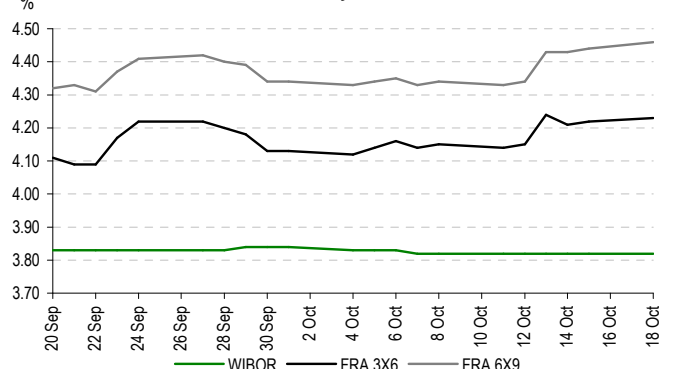
Zloty exchange rate (fixing)



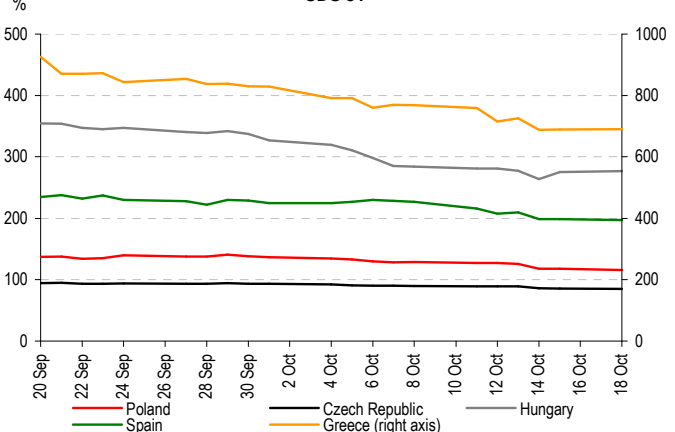
T-bonds yields



3-month money market rates



CDS 5Y



## Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE *
					MARKET	BZWBK		
		MONDAY (18 October)						
11:00	PL	Tender of 52-week T-Bills worth PLN500-600m						
14:00	PL	Wages in enterprises sector	Sep	%YoY	4.0	4.2	3.7	4.2
14:00	PL	Employment in enterprises sector	Sep	%YoY	1.7	1.7	1.8	1.6
15:15	US	Capacity utilization rate	Sep	%	74.8	-	74.7	74.7
15:15	US	Industrial production	Sep	%MoM	0.2	-	-0.2	0.2
TUESDAY (19 October)								
10:00	EZ	Current account balance	Aug	€ bn		-		-3.8
11:00	DE	ZEW index	Oct	pts.	-8.0	-		-4.3
14:00	PL	PPI	Sep	%YoY	4.4	4.3		4.1
14:00	PL	Industrial production	Sep	%YoY	10.9	11.2		13.5
14:30	US	Building permits	Sep	m	0.58	-		0.571
14:30	US	Housing starts	Sep	m	0.58	-		0.598
WEDNESDAY (20 October)								
14:00	PL	Core inflation	Sep	%YoY	1.2	1.2		1.2
20:00	US	Fed's Beige Book						
THURSDAY (21 October)								
9:58	EZ	Flash PMI – manufacturing	Oct	pts.	53.2	-		53.7
9:58	EZ	Flash PMI – services	Oct	pts.	53.7	-		54.1
11:00	PL	Bond switching auction	-	-	-	-		-
14:00	PL	MPC minutes	-	-	-	-		-
14:30	US	New jobless claims	w/e	k	455.0	-		462.0
16:00	EZ	Consumer sentiment	Oct	pts.		-		-11.2
16:00	US	Leading indicators	Sep	pts.	0.2	-		0.3
16:00	US	Philadelphia Fed index	Oct	pts.	1.0	-		-0.7
FRIDAY (22 October)								
10:00	DE	Ifo index	Oct	pts.	106.5	-		106.8
14:00	PL	CSO business climate	Oct	pts.	-	-		-

Source: BZ WBK, Parkiet, Reuters

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

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