

Eyeopener – Manufacturing PMI data today

2 November 2010

- Zloty weaker at the end of month, EURUSD hovering around 1.40 after data and before Fed meeting
- Core debt markets awaiting FOMC decision
- Today, manufacturing PMI in Poland, Germany and in the euro zone

The prospect of US GDP data publication constrained investors' activity during the Friday's session. The data released before the GDP did not influence the market. The unemployment rate in the euro zone reached 10.1% in September versus 10.0% a month earlier after the revision. Slightly higher than expected was the flash estimate of the HICP inflation in the euro zone in October, 1.9%YoY versus market consensus at 1.8%YoY. First estimates of the US GDP growth in the Q3 were just below market expectations. What is interesting, the increase of 2.0%QoQ was mainly due to far lower negative contribution of the net exports (although there was a lower positive contribution of exports, the negative contribution of imports dropped much more). In Q3 investments increased at a visibly slower pace than in Q2 (the increase was recorded mainly due to higher inventories). The growth of consumption was slightly higher than in Q2. After the data release, the EURUSD gained steam, the yields on the core fixed income markets plunged and the zloty appreciated a bit. The better than expected was Chicago PMI index that increased in October to 60.6pts versus market expectations at 58.1. Slightly lower than anticipated was final reading of Michigan consumer confidence index that reached 67.7pts versus market consensus at 68.0 and 67.9 a month ago.

Vast majority of PMI indices for developing countries released on Monday recorded an increase. The Chinese manufacturing PMI advanced to 54.7pts, the highest for 6 months. In the afternoon the set of US data was published. The consumption increased in September by 0.2%MoM, that was the weakest gain in Q3. The personal income declined by 0.1%MoM, for the first time since July 2009. The consumption determines 70% of US GDP. The core PCE price index, perceived by the Fed as the best gauge of inflation, did not change in September versus August. The annual growth at 1.2% was the lowest since September 2001. At the end of the day the ISM index for US manufacturing was published. The index reached the highest level for 5 months 56.9pts versus 54.4 in September. The manufacturing constitutes for 11% of US GDP. The overall picture of the data published was mixed, as it was the manufacturing that pulled the US economy out of recession, but weak private consumption may be not enough to keep the pace of recovery. The market reaction also was not too expressive, as investors are awaiting the communiqué after tomorrow's Fed meeting and US elections results. Today in the morning the central bank of Australia unexpectedly increased the interest rate by 25bps to 4.75% among worries that stronger economic growth will cause higher inflation. Also the central bank of India increased the interest rate (by 25bps to 6.25%).

The EURPLN was volatile on Friday, initially weakening to almost 4.0, but later in the day - thanks to US data, among others - regaining some losses. After a drop to 3.96 during yesterday's session, the zloty entered a horizontal trend around 3.965. This morning the zloty strengthened to 3.952 and it may continue the ride towards 3.94 during the session.

The EURUSD was rising since the beginning of the Friday from 1.38 to ca. 1.39 after the US GDP data. On Monday, after starting the day slightly above 1.40, the rate dived to 1.387 supported by strong data from the US manufacturing. Another relatively quiet day is ahead, as investors are awaiting tomorrow's Fed statement.

On the domestic debt market yields at the short end of the curve increased slightly, as investors began price-in a rate hike at the November MPC meeting. Yields of long-term bonds were stable, but 10-year IRS rates have increased.

On Friday, yields in the core debt markets have fallen, mainly due to slightly poorer GDP data in the US. On Monday, amid low volumes, the bonds initially strengthened but then a correction took place, and at the end of the day yields on 10-year Bunds and Treasuries were 2.49% and 2.63%, respectively.

According to the MPC's opinion to the 2011 budget, the government's draft is a step in the right direction to reduce the deficit, yet it is not enough. The Council said that the budget assumptions are realistic, however, the mechanism of the expenditure rule was problematic. It was stressed that neither the draft nor the multi-year financial plan do not offer measures that might ensure persistent stabilisation of public finances.

On Friday, Piotr Marczak, director of the debt department in the Ministry of Finance said that by October as much as 92% of the borrowing needs has been secured. He added that the foreign investors' holdings of Polish bonds increased by PLN1.9bn in September and PLN44.7bn since the start of the year, and reached PLN126.5bn, which is the highest level in history. In November the Ministry plans only the auction of 10-year bond (17.11) and switching auction (10.11). No treasury bills auctions are in the agenda.

At the end of the annual visit to Poland, the IMF said that the MPC must be vigilant against the possible emergence of inflationary pressure. According to the IMF, GDP growth will reach 3.5% this year and 3.75-4.0% in 2011. The Fund estimates (like the government) that in 2011 general government deficit will fall to 6.5% -6.7% of GDP. The IMF supported the Polish banking supervision's plans to introduce restrictions on foreign currency loans.

Polish manufacturing PMI index released today was much higher than expected, rising to 55.6, the six-year high, signalling that industrial output growth in October probably maintained a very rapid pace of growth.

ECONOMIC ANALYSIS

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

Maciej Reluga (Chief Economist)
Piotr Bielski
Piotr Bujak
Marcin Sulewski

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	1.3839	CADPLN	2.7831
USDPLN	2.8570	DKKPLN	0.5301
EURPLN	3.9543	NOKPLN	0.4871
CHFPLN	2.8942	SEKPLN	0.4249
JPYPLN*	3.5062	CZKPLN	0.1604
GBPPLN	4.5199	HUFPLN*	1.4378

*for 100JPY/100HUF

Financial market review - 29.10.2010

The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.9582	3.9990	3.9819	3.9677	3.9944
USDPLN	2.8434	2.8940	2.8697	2.8547	2.8873
EURUSD	1.3803	1.3932	1.3879	1.3896	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2L	4.78	-8	6/10	4.595
5L	5.17	-1	12/10	5.137
10L	5.45	3	15/09	5.456

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	4.38	3	0.37	1	1.43	-3
2L	4.78	3	0.51	1	1.61	-5
3L	4.99	3	0.75	5	1.86	-8
4L	5.10	1	1.11	1	2.01	-8
5L	5.16	-1	1.46	1	2.20	-11
8L	5.22	0	2.35	-1	2.65	-8
10L	5.21	1	2.72	-1	2.85	-6

WIBOR rates

TERM	%	Daily change (bp)
O/N	3.39	-8
T/N	3.41	-6
SW	3.45	-1
2W	3.50	0
1M	3.62	0
3M	3.85	0
6M	4.05	0
9M	4.22	-1
1Y	4.26	-1

FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.81	2
3X6	4.19	3
6X9	4.49	3
9X12	4.70	5
3X9	4.41	3
6X12	4.64	1

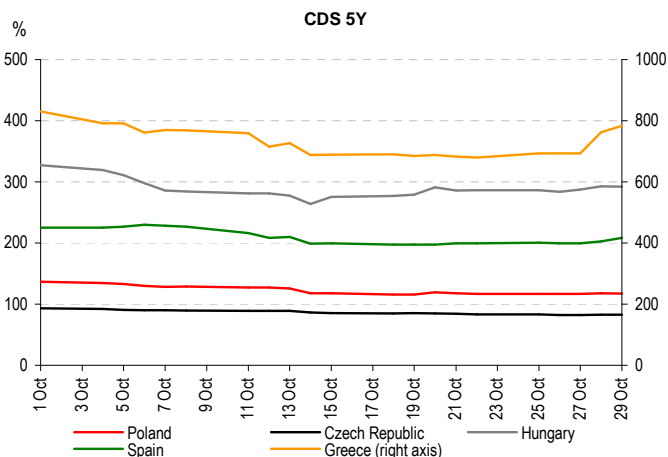
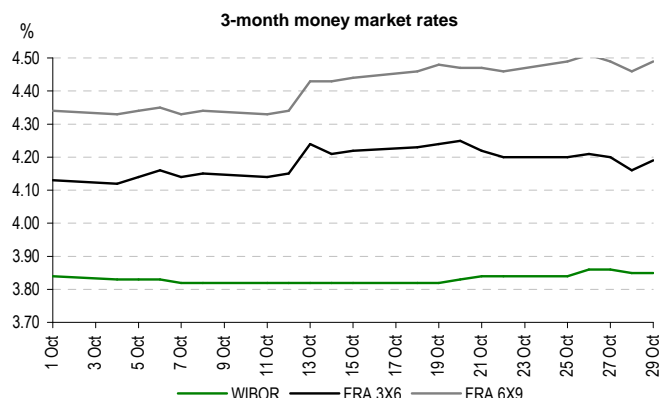
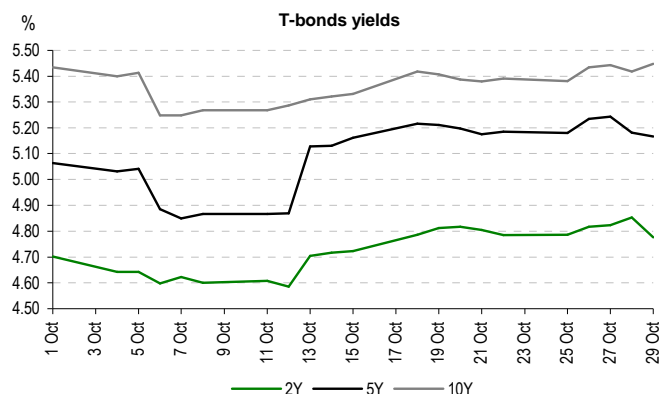
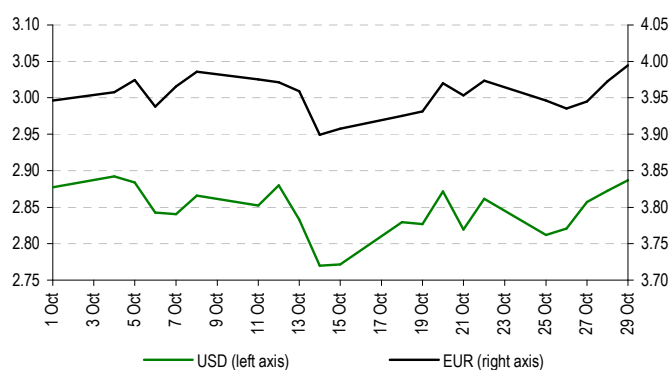
Measures of fiscal risk

Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	117.2	0	2.90	2
Czech Republic	82.5	0	1.20	7
Hungary	292.2	-1	4.66	-2
Greece	783.7	22	8.15	20
Spain	208.7	6	1.69	6
Italy	172.1	3	1.38	4
Portugal	368.7	14	3.48	3
Germany	34.4	0	--	--

* 10Y treasury bonds over 10Y Bunds

Source: Reuters

Zloty exchange rate (fixing)



Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE *
					MARKET	BZWBK		
		MONDAY (1 November)						
	PL	All Saints Day						
3:30	CN	PMI – manufacturing	Oct	pts	53.8	-	54.7	52.9
13:30	US	Consumption	Sep	%MoM	0.4	-	0.2	0.4
13:30	US	Personal consumption	Sep	%MoM	0.3	-	-0.1	0.5
13:30	US	Core PCE	Sep	%MoM	0.1	-	0.0	0.1
15:00	US	ISM – manufacturing	Oct	pts	53.8	-	56.9	54.4
		TUESDAY (2 November)						
9:00	PL	PMI – manufacturing	Oct	pts	54.2	54.5		54.7
9:53	DE	PMI - manufacturing	Oct	pts	56.1	-		55.1
9:58	EZ	PMI - manufacturing	Sep	pts	54.1	-		53.7
		WEDNESDAY (3 November)						
13:15	US	ADP raport	Oct	k	20.0	-		-39.0
15:00	US	ISM – services	Oct	pts	53.3	-		53.2
15:00	US	Industrial orders	Sep	%MoM	1.5	-		-0.5
19:15	US	Fed decision		%	0.0-0.25	-		0.0-0.25
		THURSDAY (4 November)						
9:58	EZ	PMI – services	Oct	pts	53.2	-		54.1
11:00	EZ	PPI	Sep	%YoY	4.2	-		3.6
13:45	EZ	EBC decision		%	1.0	-		1.0
14:30	US	Initial unemployment claims	week	k	440.0	-		434.0
		FRIDAY (29 October)						
11:00	EZ	Retail sales	Sep	%YoY	1.3	-		0.6
13:30	US	Non-farm payrolls	Oct	k	55.0	-		-95.0
13:30	US	Unemployment rate	Oct	%	9.6	-		9.6
15:00	US	Pending home sales	Sep	%MoM	3.0	-		4.3

Source: BZ WBK, Parkiet, Reuters

* in case of the revision, the data is updated

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