

Eyeopener – Clear correction of the strong zloty

12 November 2010

- **Increased concerns about Ireland's debt problems and data from China deteriorated market sentiment**
- **Today zloty clearly weaker after significant gains on Wednesday; EURUSD below 1.36**
- **Polish bonds weaker, yields on core debt markets influenced by changing sentiment and auctions**
- **G20 meeting continues, EU leaders concerned about debt problems of Ireland**
- **Today monetary statistics locally, GDP for Q3 and industrial output in the euro zone, and the Michigan index of consumer sentiment in the US**

Since the beginning of the Wednesday's session the volatility was pretty high. The EURUSD was initially supported by the latest Fed's decision on launching next round of QE, than dragged down by worries over fiscal situation in the peripheral euro zone countries. Finally, the dollar gained versus the euro, as the single currency was negatively affected by growing concerns about debt problems of Ireland. For the next time the record high spread between 10Y Irish and Portuguese bonds versus Bunds was established, at 683bps and 495bps, respectively. The Irish bonds were under the pressure as one of the largest clearing houses raised margin requirements for investors trading Irish debt. On Wednesday, Portugal managed to sell its bonds worth €1.24bn, but with clearly higher yields. The Bank of China confirmed that it raised the reserve requirement ratio by 50bps for all financial institutions that collect deposits. In the afternoon, better than expected data from the US were released. The trade deficit in September reached \$44.0bn. Lower level versus previous month is the result of decline of imports. The exports reached the highest level since August 2008. Presently, the average trade deficit in Q3 is higher than in Q2, which may result in a revision of the low negative impact of the net exports showed in preliminary GDP estimates. The import prices advanced by 0.9%MoM. The average EURUSD exchange rate in September was only slightly higher than in August (1.31 versus 1.29), so the effect of weaker dollar will be visible only in the October's data. In the past week there were 435k of new unemployed registered, the smallest number in 4 months.

Data released yesterday in China showed lower than expected growth in industrial output in October, by 13.1%YoY. At the same time, considerable acceleration was recorded in CPI inflation, to 4.4%YoY, the highest level in 2 years. That fuelled worries over monetary policy tightening by the Bank of China and deteriorated sentiment in the global markets. Additionally, the risk appetite was limited by further rise in concerns about debt problems in Ireland.

The EURPLN in the first part of the Wednesday's session continued the downward trend initiated on Thursday, briefly declining below 3.88. However, towards the end of the European session a correction

occurred and the zloty depreciated to nearly 3.90. The upward trend was continued also yesterday and today in the morning the EURPLN hovered at ca 3.94. We expect that the zloty will remain under the negative pressure today.

The EURUSD was stable at ca. 1.38 in the first part of Wednesday's session, the euro was appreciating slightly. At the end of European session the dollar gained fuel, the EURUSD plunged below 1.37. Also yesterday the greenback was appreciating and today in the morning the EURUSD hovers at ca. 1.36. We expect stabilization with a possibility of further decline of the EURUSD.

On the domestic fixed income market the yields in the middle and the long end of the curve increased. The pressure for the 10Y bonds was the result of awaiting for the next week's bond auction.

On the Wednesday's switch auction of bonds the MinFin sold papers worth total PLN3.83bn (WZ0121 worth PLN1.49bn and IZ0823 worth PLN2.34bn). The MinFin repurchased DS1110 for PLN1.65bn and PS0511 for PLN2.08bn.

In the core debt markets yields initially continued the upward trend seen on Tuesday, but in the afternoon a significant drop took place. This was connected among others with increased concerns about Ireland's debt problems. Yesterday core debt markets were little changed. Today in the morning yields of 10Y Bunds and Treasuries were 2.39% and 2.61%, respectively.

Balance of payments for September, released on Wednesday, showed wider than expected C/A gap of €1.417bn. Foreign trade turnover was still growing fast (confirming positive conclusions from earlier released indicators of economic activity for the same period), but a slowdown in export and import growth was somewhat stronger than we had predicted. Higher current account deficit and slightly lower than expected results of foreign trade are negative for the zloty in the short run (which is probably why the zloty weakened slightly after the data release), but the generally positive picture of economic situation in Poland - including gradually rising, but still small external imbalance - remains unchanged and is favourable for the zloty.

Deputy finance minister, Ludwik Kotecki, said on Wednesday that 'excessive appreciation of the zloty would not be favourable for the Polish economy'. In turn, in an interview with PAP today, deputy head of the NBP, Witold Kozimiński, said 'interventions of central banks in the FX market are not a rare thing nowadays'. Such comments indicate that the recent clear strengthening of the zloty worried Polish central bankers and the government's officials. Possible further zloty strengthening may trigger next verbal interventions. The strong zloty would be also an important argument for MPC members to delay first rate hike until the next year, in line with our current expectations.

ECONOMIC ANALYSIS

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F/X rates (today's opening)

EURUSD	1.3608	CADPLN	2.8763
USDPLN	2.8981	DKKPLN	0.5291
EURPLN	3.9435	NOKPLN	0.4851
CHFPLN	2.9760	SEKPLN	0.4208
JPYPLN*	3.5318	CZKPLN	0.1599
GBPPLN	4.6540	HUFPLN*	1.4179

*for 100JPY/100HUF

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.8765	3.9369	3.8843	3.9309	3.8964
USDPLN	2.8092	2.8782	2.8181	2.8758	2.8220
EURUSD	1.3655	1.3805	1.3785	1.3669	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2L	4.87	0	6/10	4.595
5L	5.27	0	12/10	5.137
10L	5.48	0	15/09	5.456

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	4.46	-3	0.46	1	1.43	2
2L	4.88	-1	0.64	0	1.62	1
3L	5.08	-1	0.88	0	1.80	1
4L	5.19	0	1.18	-1	1.96	1
5L	5.24	0	1.51	-2	2.12	0
8L	5.28	1	2.39	2	2.58	-2
10L	5.23	0	2.79	2	2.78	-2

WIBOR rates

TERM	%	Daily change (bp)
O/N	3.21	0
T/N	3.32	0
SW	3.43	0
2W	3.47	0
1M	3.61	0
3M	3.86	0
6M	4.06	0
9M	4.24	0
1Y	4.27	0

FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.85	0
3X6	4.31	1
6X9	4.64	1
9X12	4.85	1
3X9	4.47	0
6X12	4.81	3

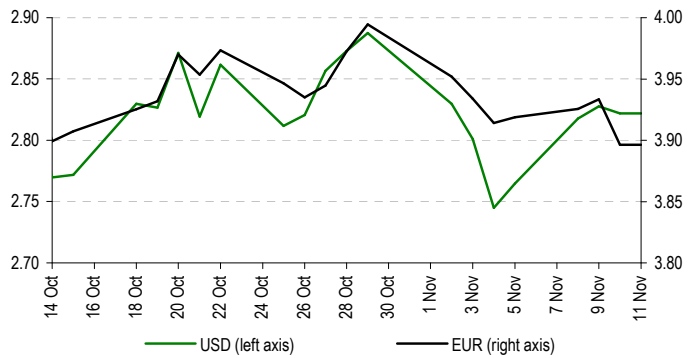
Measures of fiscal risk

Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	122.2	3	3.04	-2
Czech Republic	80.5	-2	1.19	4
Hungary	305.7	8	4.87	3
Greece	893.2	12	9.26	10
Spain	273.7	11	2.14	3
Italy	198.7	2	1.70	4
Portugal	473.5	22	4.70	-18
Germanv	36.9	0	--	--

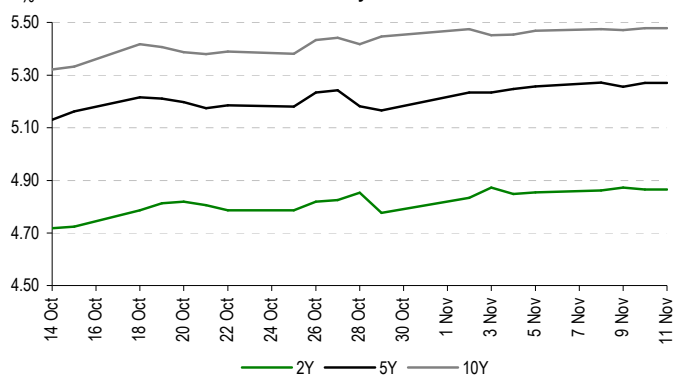
* 10Y treasury bonds over 10Y Bunds

Source: Reuters

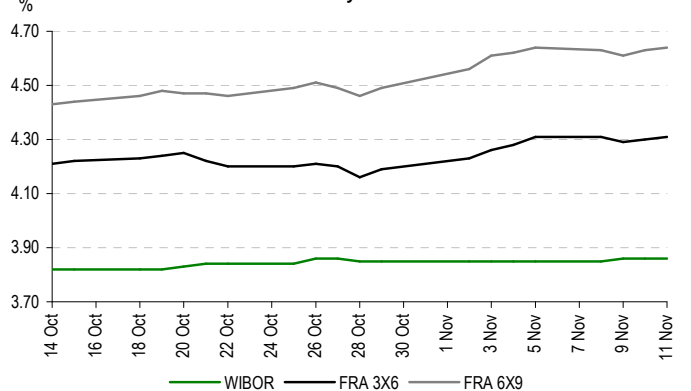
Zloty exchange rate (fixing)



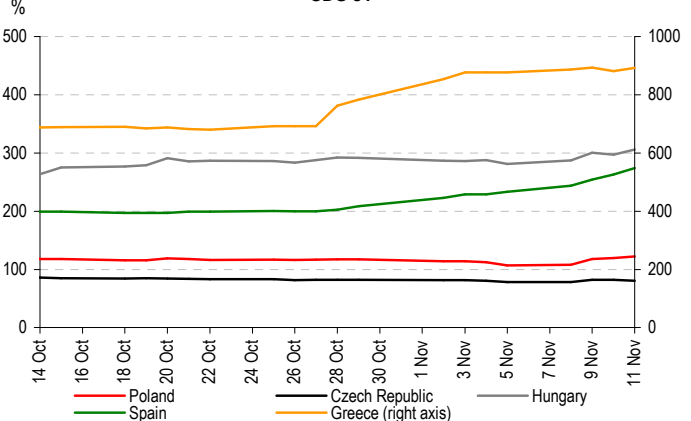
T-bonds yields



3-month money market rates



CDS 5Y



Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE *
					MARKET	BZWBK		
		MONDAY (8 November)						
10:30	EZ	Sentix index	Nov	pts	9.5	-	14.0	8.8
12:00	DE	Industrial output	Sep	%MoM	0.5	-	-0.8	1.5
		TUESDAY (9 November)						
16:00	US	Wholesale inventories	Sep	%MoM	0.7	-	1.5	1.2
		WEDNESDAY (10 November)						
3:00	CN	Trade balance	Oct	\$ bn	25.5	-	27.1	16.88
11:00	PL	Bonds switching auction						
14:00	PL	Current account	Sep	€ m	-1 180	-1 030	-1 417	-1 129
14:00	PL	Exports	Sep	€ m	11 262	11 644	11 258	9 603
14:00	PL	Imports	Sep	€ m	11 874	11 999	11 795	10 389
14:30	US	Initial jobless claims	week	k	450.0	-	435.0	459.0
14:30	US	Import prices	Oct	%MoM	1.2	-	0.9	-0.1
14:30	US	Trade balance	Sep	\$ bn	-45.6	-	-44.0	-46.5
		THURSDAY (11 November)						
	PL	The Independence Day						
3:00	CN	CPI	Oct	%YoY	4.0	-	4.4	3.6
3:00	CN	Industrial output	Oct	%YoY	13.5	-	13.1	13.3
	US	Market holiday						
		FRIDAY (12 November)						
11:00	EZ	Flash GDP	Q3	%QoQ	0.4	-		1.0
11:00	EZ	Industrial output	Sep	%YoY	7.1	-		7.9
14:00	PL	Money supply	Oct	%YoY	6.8	7.0		8.9
15:55	US	Flash Michigan	Nov	pts	69.0	-		67.7

Source: BZ WBK, Parkiet, Reuters

* in case of the revision, the data is updated

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