Bank Zachodni WBK

Eyeopener – Slight improvement in risk sentiment

18 November 2010

- **Market sentiment improved amid hopes for resolution of Irish debt problems – today in Dublin talks with the IMF, EC and ECB start**
- **Zloty broadly stable; local debt market focused on auction of 10Y bonds**
- **Yesterday yields in the core debt markets lower after weak data from the US, overnight a rebound in yields**
- **Today domestic labour market data and minutes of the MPC meeting in October; abroad next data from the US**

Although the yesterday's session did not bring a final solution of the Irish debt problems, there were some decisions taken which gives the markets hope that some resolution will be find soon. Today the group of IMF, ECB and EC officials start the examination that should show whether Ireland is able to bear costs connected with its ailing banking sector on its own. The Irish prime minister still claims that the country itself does not need help and no request for an international aid package was submitted. As a proof of relatively good condition of Irish economy, the prime minister announced that next week the draft of four-year savings plan will be released. Ireland has cash reserves until mid 2011 and is reluctant to accept the financial help based on the Greek scenario (loan on condition that severe fiscal belt tightening will be implemented). The stabilization on the debt market is presently most wanted by other peripheral euro zone countries – that do not have such good liquidity position – and Germany, which would like to finally solve the Irish debt problems and return to discussion over rules of new mechanism regulating the fiscal situation in the euro zone. In the US another set of disappointing macro data was published yesterday. The CPI figures were lower than expected and data fro the housing market disappointed as well.

The information on IMF, ECB and EC officials' visit to Ireland supported the market sentiment. Yesterday's session on the Wall Street ended with some slight gains, while in Asia stock indices surged (Nikkei reached the highest level for 5 months).

After EURPLN reached the upper band of the downward trend (presently at just over 3.96) on Tuesday's night, there was decline to 3.94 in the first part of the session. However, prompt correction occurred and the zloty depreciated again to 3.96. At the end of the day the exchange rate started to decline. As the EURUSD was pretty stable, the USDPLN followed changes of EURPLN and hovered in the range of 2.91-2.946. We expect that slight stabilization of market sentiment that occurred yesterday – and was continued in Asia – will support the zloty. We expect that after rebounding from the upper band of the downward trend, the EURPLN will head towards 3.92 in coming days.

After two days of rapid decline, the EURUSD slightly rebounded yesterday. Factors which supported the euro are actions regarding Ireland and more weak data from the US. We believe that the next few days will probably see some resolution to the debt problems of Ireland, which will further support the market sentiment and will halt the recent weakening of the single currency. We expect EURUSD to rise from 1.36 at today's opening to the first resistance zone of 1.37-1.38 in the coming days.

On the domestic debt market the most important event was the last auction of 10-year bonds this year and the trade has focused on these papers. Relatively weak demand resulted in a slight decrease in prices at the long end of the curve, with the rest of the curve stable.

Head of the FinMin's Public Debt Department, Piotr Marczak, said yesterday that probably until the first quarter of 2011 the state-owned BGK bank will not issue bonds for the National Road Fund. Limited supply of these securities is positive factors for Polish government bonds.

On the core debt markets yields were falling, but in the case of Treasuries the fall was more pronounced. Higher demand for American bonds was supported by weak macro data published yesterday. At the end of the day yields on 10-year Bunds and Treasuries were at 2.60% and 2.82%, respectively. After the clear increase in yields overnight, today they are at 2.63% and 2.89%, respectively.

Deputy NBP governor, Witold Koziński, told the Polish Press Agency that 'the presence of the NBP in the FX market to constrain large fluctuations is well worth considering'. This is his the second statement in a week suggesting there are arguments for more activity of the central bank in the FX market. MPC member Andrzej Bratkowski also shared a similar view recently. Such statements remind us that the NBP may carry out market intervention in an effort to curb the appreciation and reduce the excessive volatility of the zloty.

Today at 14:00 the CSO will publish next macro data for Poland. We expect that the annual rise in average wage in the enterprises sector accelerated in October slightly to 3.9% from 3.7% in September. Such growth would mean, however, that wage pressure remains limited, especially taking into account the expected continued growth in demand for labour. We expect, similarly as the market, that in October the annual growth of employment in enterprises accelerated to 2.0% from 1.8% in September.

ECONOMIC ANALYSIS

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F/X rates (today's opening)

EURUSD	1.3605	CADPLN	2.8440
USDPLN	2.8985	DKKPLN	0.5290
EURPLN	3.9433	NOKPLN	0.4843
CHFPLN	2.9355	SEKPLN	0.4213
JPYPLN*	3.4846	CZKPLN	0.1602
GBPPLN	4.6193	HUFPLN*	1.4296

*for 100JPY/100HUF

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.9430	3.9670	3.9614	3.9574	3.9510
USDPLN	2.9138	2.9462	2.9357	2.9225	2.9217
EURUSD	1.3458	1.3554	1.3496	1.3541	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2L	4.70	-6	6/10	4.595
5L	5.28	1	12/10	5.137
10L	5.78	27	15/09	5.456

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	4.41	2	0.45	0	1.44	-1
2L	4.83	0	0.69	0	1.67	-3
3L	5.08	2	1.00	0	1.88	-4
4L	5.20	1	1.35	1	2.07	-5
5L	5.30	4	1.74	1	2.25	3
8L	5.34	2	2.60	2	2.73	-6
10L	5.31	3	2.97	3	2.94	17

WIBOR rates

TERM	%	Daily change (bp)
O/N	3.15	-6
T/N	3.20	-3
SW	3.44	1
2W	3.47	0
1M	3.61	0
3M	3.86	1
6M	4.05	0
9M	4.23	0
1Y	4.27	0

FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.74	1
3X6	4.20	-2
6X9	4.55	0
9X12	4.75	-1
3X9	4.36	-3
6X12	4.72	7

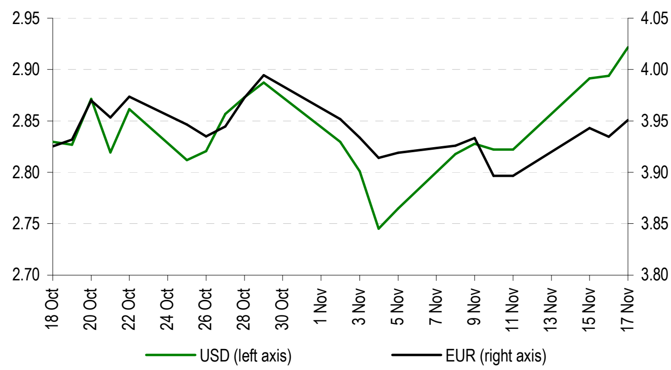
Measures of fiscal risk

Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	133.9	7	3.18	27
Czech Republic	83.5	2	1.01	-2
Hungary	327.6	14	4.85	4
Greece	975.2	83	9.17	4
Spain	255.8	8	2.01	0
Italy	185.0	2	1.53	-2
Portugal	423.9	10	4.20	-7
Germany	38.9	0	--	--

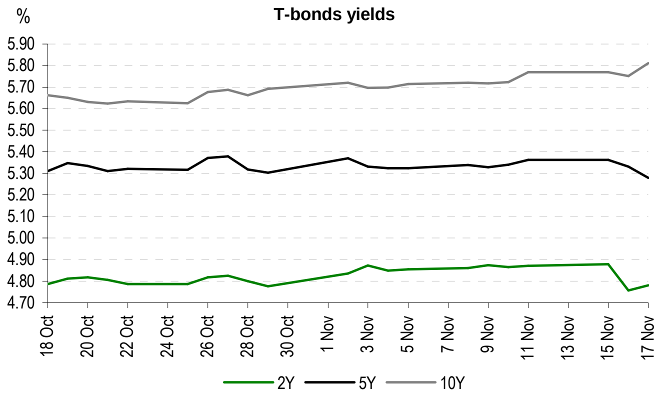
* 10Y treasury bonds over 10Y Bunds

Source: Reuters

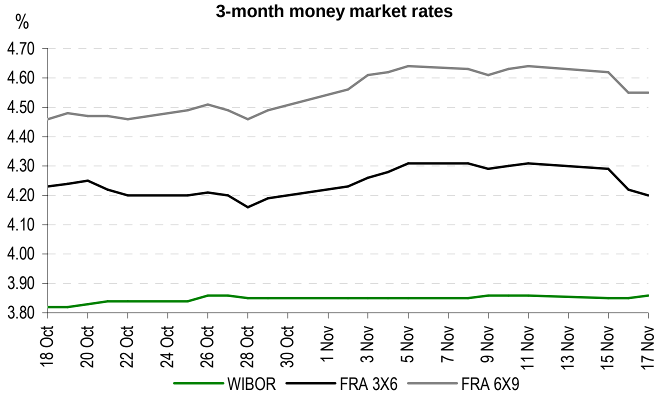
Zloty exchange rate (fixing)



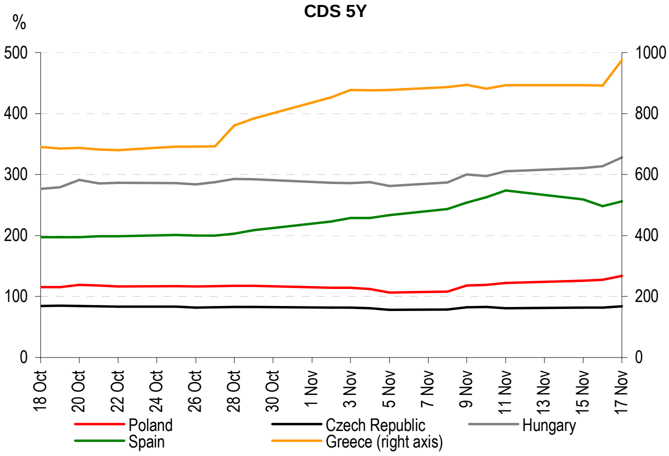
T-bonds yields



3-month money market rates



CDS 5Y



Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE *
					MARKET	BZWBK		
		MONDAY (15 November)						
11:00	EZ	Trade balance	Sep	€bn	0.3	-	2.9	-5.0
14:00	**PL**	**CPI**	**Oct**	**%YoY**	**2.8**	**2.8**	**2.8**	**2.5**
14:30	US	NY Fed index	Nov	pts	14.0	-	-11.14	15.73
14:30	US	Retail sales	Oct	%MoM	0.7	-	1.2	0.7
		TUESDAY (16 November)						
11:00	DE	ZEW index	Nov	pts	-7.0	-	1.8	-7.2
11:00	EZ	HICP	Oct	%YoY	1.9	-	1.9	1.8
14:30	US	PPI	Oct	%MoM	0.8	-	0.4	0.4
15:15	US	Capacity utilization rate	Oct	%	74.9	-	74.8	74.8
15:15	US	Industrial output	Oct	%MoM	0.3	-	0.0	-0.2
		WEDNESDAY (17 November)						
11:00	**PL**	**10Y bond auction DS1020 worth PLN1.5-3.0bn**						
14:30	US	Building permits	Oct	k	570	-	550	550
14:30	US	House starts	Oct	k	600	-	519	588
14:30	US	Core CPI	Oct	%MoM	0.1	-	0.0	0.0
		THURSDAY (18 November)						
10:00	EZ	Current account	Sep	€bn		-		-7.5
14:00	**PL**	**Wages**	**Oct**	**%YoY**	**3.8**	**3.9**		**3.7**
14:00	**PL**	**Employment**	**Oct**	**%YoY**	**2.0**	**2.0**		**1.8**
14:00	**PL**	**MPC minutes**						
14:30	US	Initiall jobless claims	week	k	440	-		435
16:00	US	Philly Fed index	Nov	pts	5.0	-		1.0
16:00	US	Leading indicators	Oct	%MoM	0.4	-		0.3
		FRIDAY (19 November)						
14:00	**PL**	**Industrial output**	**Oct**	**%YoY**	**9.7**	**9.3**		**11.8**
14:00	**PL**	**PPI**	**Oct**	**%YoY**	**4.0**	**4.1**		**4.3**

Source: BZ WBK, Parkiet, Reuters

* in case of the revision, the data is updated

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