

Eyeopener – Zloty weakening again

26 November 2010

- **Quite stable foreign markets amid market holiday in the US, zloty and local bonds under pressure of risk aversion**
- **Rapid retail sales growth, unemployment rate stable in October**
- **Today, money supply data in the euro zone**

Thursday's session was relatively stable, stock indices and the EURUSD did not change much. Foreign markets, due to lack of any macro data publications focused on the information relating European debt market. For the next time in the past two weeks one of the European clearing house increased (to 45%) margin required for those willing to trade on Irish bonds. Additional negative pressure was put by Germany that want to start working on the fiscal stability system. One of its assumptions is that investors buying euro zone's debt will have to share costs connected with bailing out European bankrupts. The ECB Governing Council member, Axel Weber, said yesterday that the value of the European stabilization fund (that is currently worth €750bn) may be enlarged if needed.

The EURPLN declined at the beginning of the session to 3.95, but did not manage to stay in the downward trend channel. Later in the day, as the negative sentiment regarding the situation on the European debt market, zloty depreciated to ca. 3.98 per euro, and he stayed there till the end of the Polish session. In the afternoon the USDPLN started to decline as the EURUSD increased slightly. Today early in the morning the EURPLN reached 4.0. Breaking out of the downward trend channel and rising above resistance at 3.98 gives the green light towards the resistance area at 4.02-4.04. That move is fuelled by prevailing risk aversion due to the fact that contagion may spread to other euro zone countries.

The EURUSD declined below 1.33 in the first part of the session, but the dollar's appreciation was temporarily. Later in the day the EURUSD recovered and ended the European session at ca. 1.355. In the evening the dollar started to firm versus the euro and the exchange rate declined below 1.33. We expect that today the EURUSD will hover at ca. 1.33.

On the domestic fixed income market bonds were still under the selling pressure. Yields surged most on the long end, but also in other areas of the curve visible changes occurred. The reason were still high worries over the fiscal situation in the peripheral Europe. Until the situation does not calm down, prices of Polish bonds may remain under the pressure.

Ministry of Finance, resigned from the planned bond issue this year in the Japanese market, due to "uncertainty in global markets." It was not specified when the next attempt will be taken.

At the core debt markets without major changes, yields on 10-year Bunds first slightly increased, and later in the day returned to the

previous day's levels. US Treasuries were not traded yesterday, but after Wednesday's session in Europe their yields continued upward trend and reached 2.91%. At the end of the day yield of 10Y Bunds stood at 2.65%.

The growth of retail sales accelerated in October to 9.0%YoY, and the unemployment rate remained unchanged at 11.5%. The data was in line with our expectations, though the change in the structure of sales and deteriorating consumer confidence may worry whether the trends will be maintained. If the positive changes on the labour market persist, then consumers' worries should abate. Data on investment outlays in big companies allow for some optimism in this regard, as they showed that there was a rebound already in Q3. It supports our forecasts of GDP and backs expectations that firms will keep increasing demand for labour in coming months. Broader discussion of the data was presented in yesterday's *Instant comment*.

CSO vice president Janusz Witkowski, said in an interview published this morning that GDP growth in Q3 was much higher than in Q2, and "was closer to 4.0% than 3.5%." This supports our forecast at 3.8%YoY.

MPC member Adam Glapiński, who in the past - as A. Bratkowski - used to support a single rate hike by 50 bp, told PAP that the MPC should not create additional momentum for the inflow of foreign capital into Poland through interest rates. According to him, "there is some evolution of the views" in the Council, the MPC is monitoring the situation and will not be late (with rate hikes), but "for now the picture is such that the anti-inflationary effect is accomplished through zloty appreciation". This statement confirms that the balance of power in the MPC has changed quite significantly, and this year the interest rate hike is unlikely.

According to figures published by the NBP, in November the average inflation expected by households in the 12 months horizon increased to 2.6% from 2.1% in October. CPI known at the time of the study was 2.5%. This is the fourth consecutive month when the expected rate of price increase is above inflation known at the time of the survey. We believe that a further rise in CPI will also trigger higher inflation expectations of consumers.

Fitch Ratings in a report published yesterday concluded that consolidation of public finances is necessary for the maintenance of Poland's current credit rating. To prevent the creation of negative pressure on ratings, budget deficits must be reduced over several years in order to stop the growth of debt. The report shows that there is not much space to tolerate further delays in achieving the objectives related to the level of budget deficit.

ECONOMIC ANALYSIS

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F/X rates (today's opening)

EURUSD	1.3275	CADPLN	2.9777
USDPLN	3.0183	DKKPLN	0.5374
EURPLN	4.0068	NOKPLN	0.4924
CHFPLN	3.0102	SEKPLN	0.4316
JPYPLN*	3.5960	CZKPLN	0.1618
GBPPLN	4.7399	HUFPLN*	1.4363

*for 100JPY/100HUF

Financial market review - 25.11.2010

The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.9514	3.9812	3.9582	3.9797	3.9747
USDPLN	2.9632	2.9933	2.9689	2.9755	2.9881
EURUSD	1.3285	1.3359	1.3333	1.3373	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2L	4.77	5	6/10	4.595
5L	5.41	4	12/10	5.137
10L	6.05	9	15/09	5.456

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	4.37	-1	0.51	2	1.39	6
2L	4.81	1	0.75	2	1.61	11
3L	5.09	2	1.03	5	1.85	13
4L	5.27	3	1.41	7	2.10	14
5L	5.38	4	1.78	9	2.33	15
8L	5.50	7	2.68	9	2.81	15
10L	5.47	8	3.04	10	3.03	14

WIBOR rates

TERM	%	Daily change (bp)
O/N	2.38	-49
T/N	2.71	-25
SW	3.40	-1
2W	3.45	-1
1M	3.61	0
3M	3.85	0
6M	4.05	0
9M	4.23	-1
1Y	4.27	0

FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.71	1
3X6	4.18	-1
6X9	4.53	1
9X12	4.72	-1
3X9	4.36	-1
6X12	4.67	-1

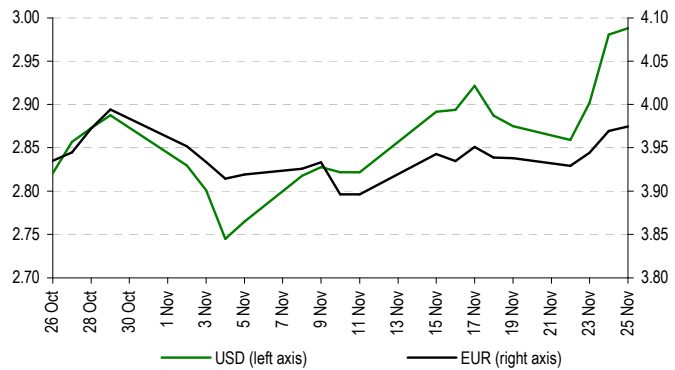
Measures of fiscal risk

Measures of fiscal risk				
Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	136.8	1	3.41	9
Czech Republic	85.8	0	1.10	0
Hungary	329.3	-6	5.31	13
Greece	983.0	-53	9.42	-2
Spain	297.1	-3	2.57	12
Italy	201.9	1	1.70	7
Portugal	489.1	-11	4.46	-3
Germany	43.9	4	--	--

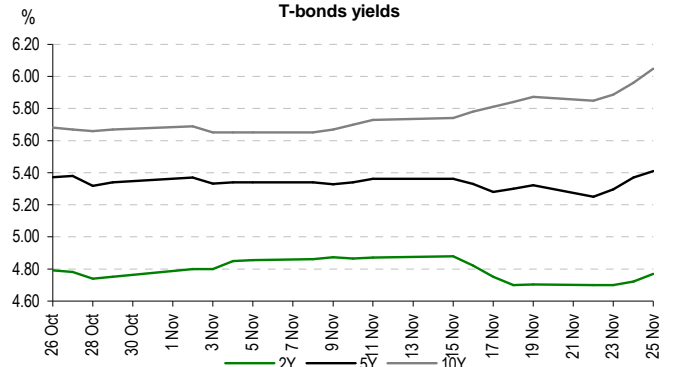
* 10Y treasury bonds over 10Y Bunds

Source: Reuters

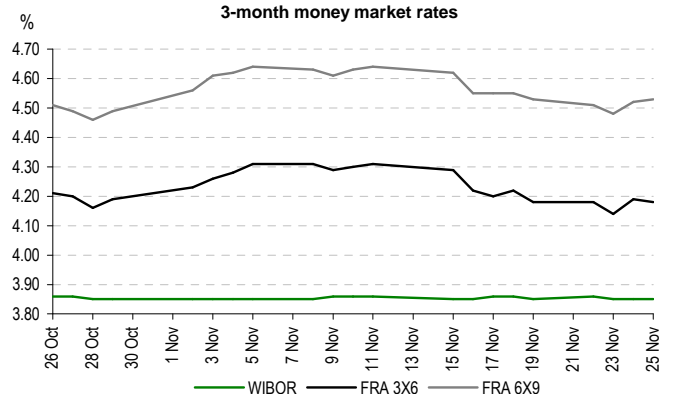
Zloty exchange rate (fixing)



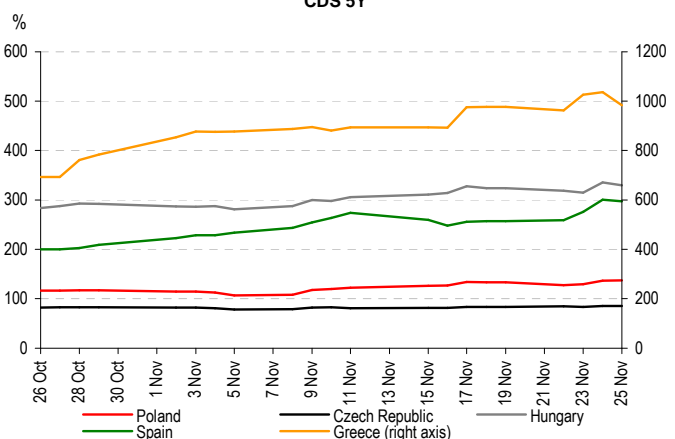
T-bonds yields



3-month money market rates



CDS 5Y



Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE *
					MARKET	BZWBK		
		MONDAY (22 November)						
14:00	PL	Core CPI	Oct	%YoY	1.2	1.2	1.2	1.2
14:00	PL	Business climate	Nov	pts		-		
16:00	EZ	Consumer confidence	Nov	pts	-11.0	-	-9.5	-10.9
		TUESDAY (23 November)						
	PL	MPC decision		%	3.50	3.50	3.50	3.50
8:00	DE	GfK index	Dec	pts	5.0	-	5.5	4.9
9:28	DE	Flash PMI – manufacturing	Nov	pts	56.8	-	58.9	56.6
9:58	EZ	Flash PMI – manufacturing	Nov	pts	54.4	-	55.5	54.6
14:30	US	Core PCE	Q3	QoQ	0.8	-	0.8	0.8
14:30	US	Preliminary GDP	Q3	QoQ	2.4	-	2.5	1.7
16:00	US	Home sales	Oct	m	4.5	-	4.43	4.53
20:00	US	Fed minutes						
		WEDNESDAY (24 November)						
10:00	DE	Ifo index	Nov	pts	107.4	-	109.3	107.7
11:00	EZ	Industrial orders	Sep	%YoY	14.7	-	13.5	24.7
14:30	US	Personal income	Oct	%MoM	0.4	-	0.5	0.0
14:30	US	Consumer spending	Oct	%MoM	0.5	-	0.4	0.3
14:30	US	Core PCE	Oct	%MoM	0.1	-	0.0	0.0
14:30	US	Durable goods orders	Oct	%MoM	-0.4	-	-3.3	5.0
14:30	US	Initial jobless claims	week	k	435.0	-	407.0	441.0
15:55	US	Michigan index	Nov	pts	69.4	-	71.6	67.7
16:00	US	New home sales	Oct	k	310.0		283.0	307.0
		THURSDAY (25 November)						
10:00	PL	Unemployment rate	Oct	%	-	11.5	11.5	11.5
10:00	PL	Retail sales	Oct	%YoY	7.9	8.9	9.0	8.6
	US	Market holiday						
		FRIDAY (26 November)						
10:00	EZ	Money supply	Oct	%YoY	1.3	-		1.0

Source: BZ WBK, Parkiet, Reuters

* in case of the revision, the data is updated

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