

# Eyeopener – The zloty claws back some ground

2 December 2010

- **Euro rebounds to the dollar as markets expect the ECB to become market active in the markets**
- **Higher risk appetite globally and strong domestic PMI positively affected the zloty and long-term local bonds**
- **Today focus on ECB and US data on initial jobless claims and pending home sales**

The possibility of intensified actions on the debt market by the ECB under the government bonds buying program constrained yesterday the negative pressure on the prices of securities issued by peripheral euro zone countries. Some rumours emerged that the ECB has already bought yesterday Irish and Portuguese bonds. Investors will be carefully analysing the conference after today's ECB meeting, when Jean-Claude Trichet may announce the decision on supporting the financial system. If the ECB does not disappoint the market, which expects more decisive actions than recently took place (particularly after latest Trichet's comments that investors underestimate determination of policy makers in fighting with debt crisis in Europe), then the euro may appreciate versus the dollar. Lower worries over the situation on the European debt market fuelled risk appetite, which was reflected in rising stock indices and EURUSD and appreciation of emerging market currencies. The tender of Portuguese T-bills was pretty successful, the demand was relatively higher than in November. The emerging optimism was not burdened by weaker than expected final data on PMI indexes for manufacturing sector in Germany and the euro zone. Later in the day, positive market sentiment was supported by strong data from the US labour market and slightly higher than expected ISM index.

In the Fed's Beige Book published yesterday the US central bank stated that the economic conditions improved in 10 out of 12 regions in the US. The Fed assessed that the situation on the labour market picked up and inflation remains under control. The report did not influence the market. However, the sentiment on the global market improved considerably (strong rise in US and Asian stock indices) after good macro data from major economies. The rise in optimism was somewhat constrained by uncertainty regarding tensions in the Korean peninsula.

After opening at 4.02, the EURPLN approached 4.0 few times during the yesterday's session. Still, the momentum was not strong enough to break that level. In the morning even the improving market sentiment after good news from Asia and better than expected Polish PMI did not manage to drag the exchange rate down. Also second attempt, after US macro data, was not successful. All in all, at the end of the day the EURPLN returned to somewhere around the opening level. The USDPLN declined slightly, as the EURUSD increased. Today in the morning, as the market mood continued to improve, the EURPLN dropped below 3.99. Until the ECB conference the situation on the market should

be relatively stable. Later on, performance of the zloty and risky assets will depend on the outcome of the ECB's meeting.

The EURUSD was rising visibly during yesterday's session. The euro was supported by expectations that the ECB may intervene on the debt market and extend the emergency liquidity actions. Consequently, the EURUSD advanced from just above 1.30 to nearly 1.31 during the European session. Today in the morning the exchange rate was at ca. 1.315 and there is room for further increase, if the ECB does not disappoint the markets.

On the domestic debt market a fall in long-term bond yields was continued, which started after Tuesday's GDP data. Although before the auction yields of 2-year bonds fell slightly, in the whole day they recorded an increase. Ministry of Finance sold yesterday bonds OK0113 worth PLN4.1bn amid demand PLN9.3bn and the average yield 4.798% (4.595% previously on 6 Oct). At the top-up auction PLN0.6bn of bonds were sold amid supply PLN0.8bn.

At the core debt markets yields rose strongly amid improving moods in the market and weak demand at the auction of 5-year German bonds. At the end of the day yields on 10-year Bunds and Treasuries were 2.79% and 2.96%, respectively. This morning, they were at 2.81% and 2.97%.

PMI in the Polish industry rose to 55.9, in line with our forecast, confirming that the industrial production growth in November will be strong. For more information about the data please see our yesterday's Instant comment.

The Ministry of Finance predicts that the CPI inflation stabilized in November at 2.8%YoY (our forecast is 2.9%YoY) amid price increase of 0.2%MoM. Ministry estimates that monthly rise in prices of food and soft drinks was 0.4% (our forecast 0.7%MoM), while alcoholic beverages and tobacco prices rose 0.5%MoM (our forecast 0.1 %). They added that, for statistical reasons, the December CPI will be slightly above 3%YoY (we expect 3.2%).

NBP Board Member, Andrzej Raczek, said yesterday that in the medium run the domestic currency should strengthen, however, liquidity in the zloty market causes that high variation can be seen as a result of external factors. He added that the NBP has the appropriate tools (including verbal intervention) to signal that the exchange rate is deviating from the level implied by the economic fundamentals. Referring to the GDP data, he said that only a marked acceleration of investment growth will be a sign of sustained economic growth. In his view, the pace of fiscal consolidation should be such as not to jeopardize the economic growth. In the context of monetary policy, he said the key will be whether the increase in food prices, fuel and VAT hike will lead to a second round effects.

## ECONOMIC ANALYSIS

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F/X rates (today's opening)

EURUSD	1.3158	CADPLN	2.9898
USDPLN	3.0284	DKKPLN	0.5348
EURPLN	3.9855	NOKPLN	0.4939
CHFPLN	3.0234	SEKPLN	0.4352
JPYPLN*	3.6033	CZKPLN	0.1596
GBPPLN	4.7314	HUFPLN*	1.4295

\*for 100JPY/100HUF

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.9958	4.0252	4.0131	4.0218	4.0205
USDPLN	3.0444	3.0888	3.0788	3.0771	3.0753
EURUSD	1.3021	1.3136	1.3035	1.3060	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2L	4.80	2	1/12	4.595
5L	5.45	0	13/10	5.137
10L	5.98	-4	17/11	5.456

IRS rates (Mid)

TERM	PL	US	EA
	%	%	%
	Change (bp)	Change (bp)	Change (bp)
1L	4.43	0.56	1.36
2L	4.86	0.75	1.55
3L	5.11	1.01	1.78
4L	5.30	1.37	2.04
5L	5.40	1.74	2.29
8L	5.53	2.60	2.82
10L	5.50	2.95	3.04

WIBOR rates

TERM	%	Daily change (bp)
O/N	3.58	7
T/N	3.59	9
SW	3.46	1
2W	3.49	1
1M	3.63	2
3M	3.89	1
6M	4.11	3
9M	4.29	2
1Y	4.33	3

FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.72	-4
3X6	4.21	-2
6X9	4.53	-1
9X12	4.73	-3
3X9	4.43	0
6X12	4.69	-2

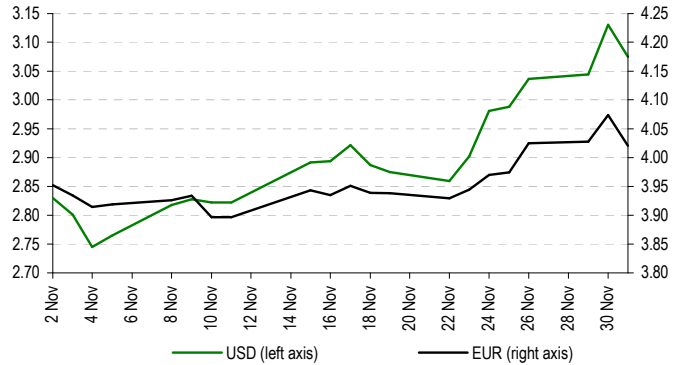
Measures of fiscal risk

Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	168.0	7	3.20	-16
Czech Republic	101.0	8	1.09	-7
Hungary	386.8	9	5.54	-37
Greece	978.3	5	9.13	-20
Spain	368.0	25	2.50	-40
Italy	268.3	25	1.71	-31
Portugal	557.0	25	4.09	-40
Germany	55.8	5	--	--

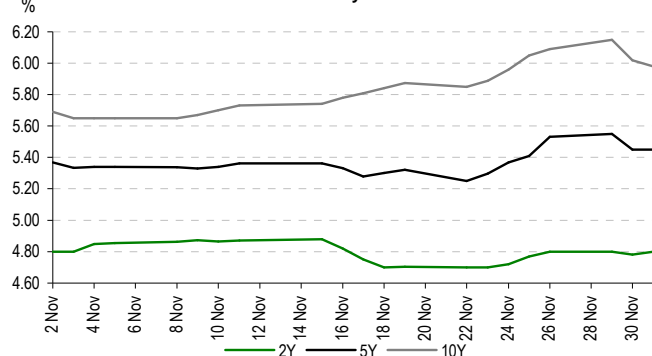
\* 10Y treasury bonds over 10Y Bunds

Source: Reuters

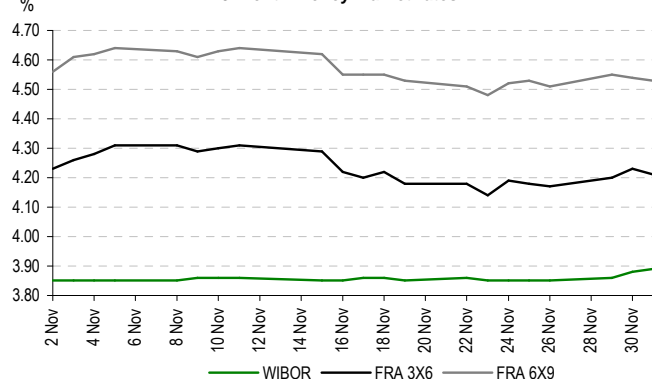
Zloty exchange rate (fixing)



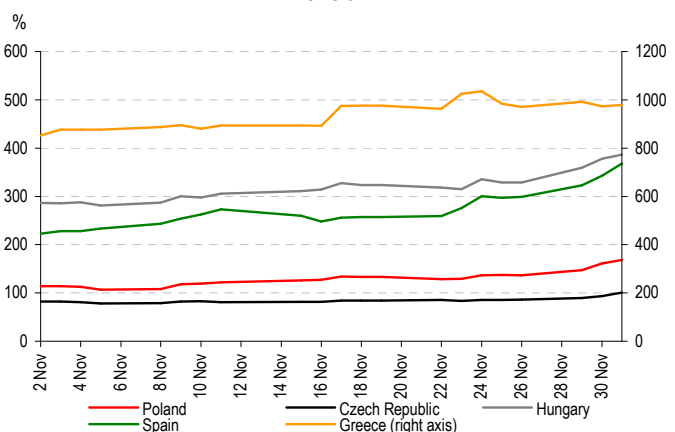
T-bonds yields



3-month money market rates



CDS 5Y



## Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE *
					MARKET	BZWBK		
		MONDAY (29 November)						
11:00	EZ	Economic climate	Nov	pts	105.0	-	105.3	103.8
		TUESDAY (30 November)						
10:00	PL	GDP	Q3	%YoY	3.8	3.8	4.2	3.5
11:00	EZ	Unemployment rate	Oct	%	10.1	-	10.1	10.0
11:00	EZ	Flash HICP	Nov	%YoY	1.9	-	1.9	1.9
15:00	US	Home prices S&P/Case-Shiller	Sep	%YoY	1.2	-	0.6	1.7
15:45	US	Chicago PMI	Nov	pts	60.0	-	62.5	60.6
16:00	US	Consumer confidence	Nov	pts	52.0	-	54.1	50.2
		WEDNESDAY (1 December)						
3:30	CN	PMI manufacturing	Nov	pts	55.4	-	55.3	54.8
9:00	PL	PMI manufacturing	Nov	pts	55.3	55.9	55.9	55.6
9:53	DE	PMI manufacturing	Nov	pts	58.9	-	58.1	56.6
9:58	EZ	PMI manufacturing	Nov	pts	55.5	-	55.3	54.6
11:00	PL	Auction of bonds OK0113 and PS0416						
14:15	US	ADP report	Nov	k	75.0	-	93.0	82.0
16:00	US	ISM manufacturing	Nov	pts	56.2	-	56.6	56.9
20:00	US	Fed's Beige Book						
		THURSDAY (2 December)						
11:00	EZ	GDP	Q3	%QoQ	0.4	-		0.4
11:00	EZ	PPI	Oct	%YoY	4.3	-		4.2
13:45	EZ	EBC decision		%	1.0	-		1.0
14:30	US	New jobless claims	w/e	k	428.0	-		407.0
16:00	US	Pending home sales	Oct	k	-1.0	-		-1.8
		FRIDAY (3 December)						
9:58	EZ	PMI services	Nov	pts	55.2	-		53.3
11:00	EZ	Retail sales	Oct	%MoM	0.2	-		-0.2
14:30	US	Unemployment rate	Nov	%	9.6	-		9.6
14:30	US	Non-farm payrolls	Nov	k	138.0	-		151.0
16:00	US	ISM non-manufacturing	Nov	pts	54.9	-		54.3
16:00	US	Factory orders	Oct	%MoM	-0.7	-		2.1

Source: BZ WBK, Parkiet, Reuters

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

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