Bank Zachodni WBK

Eyeopener – Sentiment improves in Asia

9 December 2010

- **Temporary weakening of the domestic currency, slightly weaker debt market**
- **Improvement in global moods overnight after good data from Asia and Australia**
- **Hawkish comments of MPC members**
- **Today, new jobless claims and wholesale inventories in the US**

During Wednesday's session stock indices were stable. Upward trend in yields of Bunds and Treasuries (started after news about extension of Bush tax cuts) slowed down, the same as appreciation of the dollar. The US currency was supported in recent days by the high yields of Treasuries, making them an attractive capital investment. Luxembourg’s PM Jean-Claude Juncker said yesterday that Germany rejected the proposal of issuing common bonds of the euro area before examining the exact details of the solution. In addition, a spokesman for the German government, Steffen Seibert said that the introduction of a common bond for the euro area would require amendments to the Treaty of Lisbon. Such position of the Europe's largest economy makes it difficult for EU finance ministers to find a common position on the possibility of supporting countries facing debt problems. After the morning's disappointing data on German exports, later in the day there was release of much better than expected data on German industrial production. Overnight there was a significant improvement in sentiment in the markets, which was related to strong data from Japan and Australia. GDP growth in Japan in Q3 reached 4.5%YoY, more than expected, due to increased consumption and investment expenditure. In Australia, data for November showed a rise in employment, which was two times higher than expected and amounted to 54.6k. Both releases contributed to rise in investors’ optimism regarding prospects for the global economic recovery, which resulted in increases in equity prices in Asian stock markets, higher commodity prices and a weaker US dollar.

Yesterday the EURPLN rate tested 4.05 in the first hours of trade, but then returned to around 4.02. Another approach to break through resistance at 4.05 occurred in the early afternoon, but after topping 4.06 the zloty recovered. As a result, at the end of the yesterday’s session the EURPLN rate was around 4.04. Although changes in the EURUSD were limited yesterday, it translated into clear fluctuations of the zloty. This morning the zloty gained to around 4.02 due to improved sentiment in global markets overnight. The level of 4.05 remains important resistance and we expect that if nothing breaks optimism originated in Asia today, the EURPLN rate can move towards 4.0, and the next support is at 3.98.

The EURUSD remained yesterday around 1.323, although quite significant fluctuations were observed. Overnight the US dollar weakened to ca. 1.33 and it may remain near that level until the publication of the US data in the afternoon.

On the domestic debt market the day started at slightly higher yields due to weaker opening of Bunds. Later in the day the yields were stable. The Ministry of Finance sold yesterday bonds WZ0121 worth PLN1.07bn amid demand PLN1.37bn and IZ0823 worth PLN0.98bn amid demand PLN1.79bn and the average yield of 3.08%.

On the core debt markets, after the significant rise during the previous night, the yields have stabilized, and then slightly decreased. At the end of the day yields on 10-year Bunds and Treasuries were 2.99% and 3.23%, respectively.

According to the Minister of Economy, Waldemar Pawlak, the current exchange rate is favourable for the Polish economy. He also added that the fact that Poland did not enter the euro zone had a positive impact on our competitiveness.

Krystyna Świetlik from the Institute of Agricultural and Food Economics said yesterday that food prices in November rose by 1%MoM (our forecast is at 0.7%). She added that in the first quarter of 2011 food prices may go up at average rate of 1%MoM.

Head of NBP's statistics department, Józef Sobota, said that given the current forecasts of next year’s GDP growth, the current account deficit may increase from 2.8-3.2% to 3.2-4.0% of GDP in 2011. He added that he does not expect that foreign direct investment come close to the levels registered in 2005-2006, and the structure of financing of current account deficit in 2011 will be similar to that of the current year. In his view, the capacity utilization at the level of 76-78% indicates that there is potential for investment rise, and consequently, for growth in demand for credit.

MPC member Andrzej Rzońca said today in an interview with TVN CNBC that his assessment of inflation risks has not changed since August, when he voted for 50bp rate hike. In turn, in his interview with Bloomberg, Andrzej Bratkowski said that the Council should hikes rates now or wait for 2-3 months. He also added that the MPC should act in a forward-looking manner and in his view the market stopped believing that the inflation target of 2.5% is important for the Council. It looks as if hawks would vote for a hike at the upcoming MPC meeting, although it seems to us that the motion to hike rate will win support of majority of rate-setters only in Q1 2011.

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F/X rates (today's opening)

EURUSD	1.3302	CADPLN	2.9987
USDPLN	3.0251	DKKPLN	0.5396
EURPLN	4.0238	NOKPLN	0.5049
CHFPLN	3.0766	SEKPLN	0.4415
JPYPLN*	3.6058	CZKPLN	0.1608
GBPPLN	4.7890	HUFPLN*	1.4532

*for 100JPY/100HUF

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.0289	4.0647	4.0506	4.0522	4.0415
USDPLN	3.0380	3.0799	3.0690	3.0660	3.0558
EURUSD	1.3177	1.3270	1.3200	1.3214	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2L	4.65	-4	1/12	4.595
5L	5.42	-1	13/10	5.137
10L	5.96	2	17/11	5.456

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	4.44	-1	0.48	0	1.36	2
2L	4.86	1	0.72	4	1.58	7
3L	5.13	2	1.07	1	1.86	12
4L	5.30	0	1.49	6	2.17	15
5L	5.42	1	1.95	7	2.45	16
8L	5.58	2	2.87	7	3.03	19
10L	5.60	5	3.25	7	3.27	18

WIBOR rates

TERM	%	Daily change (bp)
O/N	3.08	25
T/N	3.14	24
SW	3.45	1
2W	3.47	0
1M	3.63	0
3M	3.90	0
6M	4.14	1
9M	4.29	-1
1Y	4.34	0

FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.76	1
3X6	4.28	1
6X9	4.57	1
9X12	4.77	1
3X9	4.48	1
6X12	4.74	1

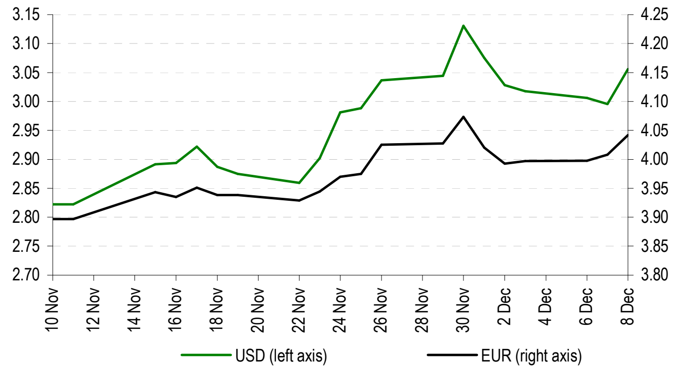
Measures of fiscal risk

Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	144.5	-4	2.98	-3
Czech Republic	88.5	-3	1.01	0
Hungary	376.0	-3	5.09	-9
Greece	915.9	-5	8.82	-10
Spain	308.5	-3	2.26	-5
Italy	205.9	-8	1.55	-6
Portugal	446.6	45	3.15	3
Germany	46.9	3	--	--

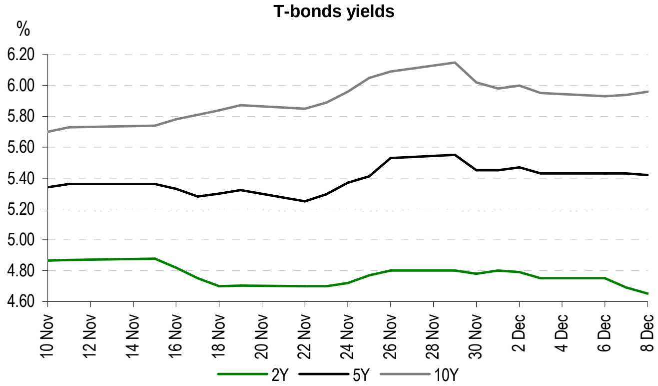
* 10Y treasury bonds over 10Y Bunds

Source: Reuters

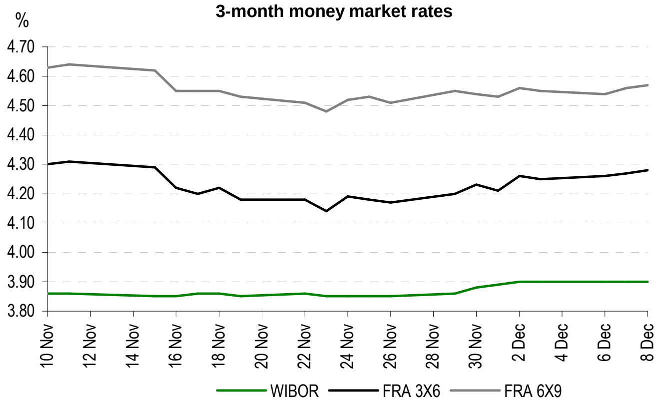
Zloty exchange rate (fixing)



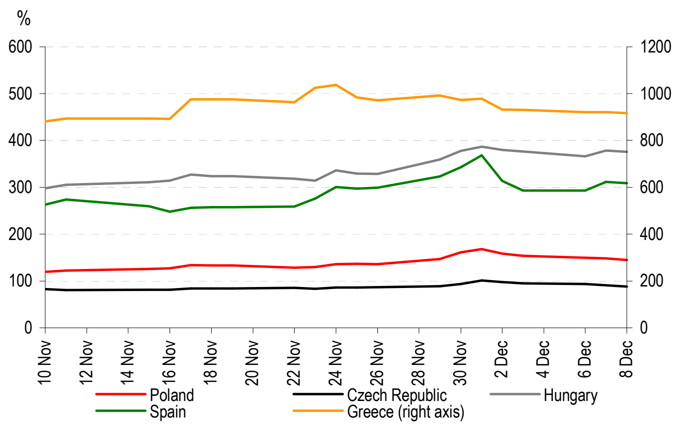
T-bonds yields



3-month money market rates



CDS 5Y



Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE *
		MONDAY (6 December)						
10:30	EZ	Sentix sentiment index	Dec	pts		-	9.7	14.0
		TUESDAY (7 December)						
12:00	DE	Industrial orders	Oct	%MoM	1.8	-	1.6	-4.0
		WEDNESDAY (8 December)						
11:00	**PL**	**Auction of bonds WZ0121 and IZ0823**						
12:00	DE	Industrial output	Oct	%MoM	0.9	-		-0.8
		THURSDAY (9 December)						
	CN	Trade balance	Nov	$bn	21.0	-		27.2
14:30	US	Initial jobless claims	week	k	428	-		436
14:30	US	Wholesale inventories	Nov	%MoM	0.8	-		1.5
		FRIDAY (10 December)						
14:30	US	Import prices	Nov	%MoM	0.8	-		0.9
14:30	US	Trade balance	Oct	$bn	-43.3	-		-44.0
15:55	US	Flash Michigan	Dec	pts	70.0	-		71.6

Source: BZ WBK, Parkiet, Reuters

* in case of the revision, the data is updated

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