Bank Zachodni WBK

# **Eyeopener –** Data on production and PPI today

17 December 2010

- **Weakening of zloty and euro at the end of Thursday session, rebound today in the morning; local debt stable amid low investors' activity**
- **Employment growth accelerated in November in line with forecast, wage growth disappointed**
- **Today local PPI and production data, abroad business climate indicators**

The improvement of market sentiment that took place at the end of the Wednesday's session after US data occurred to be only temporary. The issue of debt problems in the euro zone started to play the main role. Better than expected data on flash PMI indexes in manufacturing sector for euro zone and particularly for Germany did not manage to improve market mood. The negative pressure on the market sentiment was put by worries that at the EU summit started yesterday European leaders will struggle to reach an agreement. Additionally, the prospect of the last Spanish bonds auction this year triggered some uncertainty and even despite market response to its results was quite positive, the overall sentiment remained negative. The ECB announced that in three years time its subscribed capital will be raised by €5.0bn to €10.76bn. According to the bank, this is the response to higher market volatility and credit risk. Optimistic data from the US was published too late and not all European stock indices managed to finish the session in black. It seems, that the increase of Philly Fed index made the biggest impression on investors. US data, confirming that the economy is developing, supported the markets in the US and Asia, where stock indices increased slightly. Market sentiment picked up also after the evening announcement that the EU leaders agreed to change the Treaty of Lisbon that will put fundamentals for establishing the European Stabilization Mechanism, used to support euro zone countries if needed. Still, there is no agreement on how the facility shall work. Today in the morning another information taming market optimism emerged, as Moody's cut Ireland's rating by five grades, from Aa2 to Baa1, maintaining a negative outlook.

The EURPLN increased at the beginning of the session to 3.99 and declined gradually to 3.975 later on. At the end of the Polish session the zloty depreciated visibly, the EURPLN reached nearly 3.995, because the EURUSD plunged. Today in the morning, after some decline, the EURPLN hovers at ca. 3.98 and we expect that for the better part of the session the exchange rate will be close to that level. Reaction to Moody's decision was only temporarily.

The EURUSD was stable at around 1.324 during the European session. After publication of Philly Fed data the exchange rate plunged below 1.32 but overnight the euro managed to recover and today in the morning the EURUSD hovers at ca. 1.33. Small number of key macro data will constrain volatility.

On the domestic fixed income market there were no major changes and very small investor's activity. The market did not react neither to data on wages and employment nor to MPC minutes.

On the core fixed income market yields declined slightly but soon the downward trend was reversed and until the end of the session the yields were rising. In case of US bonds the surge was visible after publication of macro data. At the end of the day yields of the 10Y Bunds and Treasuries reached 3.06% and 3.52% respectively.

Employment growth accelerated in November, as expected, to 2.2%YoY, but wage growth disappointed and decelerated unexpectedly to 3.6%YoY. Wage pressure is still limited, which will not encourage the MPC to hasten rate hikes. We still think that the first decision to increase rates will take place in Q1 2011 (rather March than January). According to the minutes of the MPC meeting, in November for the first time the Council was mulling a motion to hike rates by 25 bp, not only by 50 bp. The Council still seems to be divided in the discussion on key issues for the inflation outlook, such as the impact of interest rate differential on the exchange rate, or the risk of second round effects. Broader analysis was presented in the yesterday's *Instant comment*.

The Energy Regulatory Office (URE) has approved a reduction in the gas tariffs since 1 January 2011 by an average 3.23%. Transmission fees and transfer fees remain unchanged so the cut for the end-user may reach ca. 2.3%. URE deputy president Mark Woszczyk also said that households can expect growth in electricity tariffs next year of ca. 3-5%. The change in energy prices for businesses will be 7-8%. The announced changes are consistent with our forecast assuming inflation rise in the first quarter of 2011 to around 3.5%YoY.

Prime Minister, Donald Tusk, said that participation in the European Stabilization Mechanism is seriously considered. As he added, taking under consideration present situation on the global market, "perhaps it is better to take a risk and pay some share but than count on help (...) if something goes wrong in Poland".

Deputy finance minister Hanna Majszczyk said that the ministry is expecting higher tax revenues in December than in November.

The IMF agreed on Thursday to give Ireland €22.5bn loan to combat the financial crisis, which is part of the aid package amounting to €85bn, which is also financed by the European Union and the ECB.


**ECONOMIC ANALYSIS**

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### F/X rates (today's opening)

| | | | |
|---|---|---|---|
| EURUSD | 1.3300 | CADPLN | 2.9759 |
| USDPLN | 2.9924 | DKKPLN | 0.5342 |
| EURPLN | 3.9790 | NOKPLN | 0.5048 |
| CHFPLN | 3.1203 | SEKPLN | 0.4420 |
| JPYPLN* | 3.5664 | CZKPLN | 0.1582 |
| GBPPLN | 4.6779 | HUFPLN* | 1.4546 |

*for 100JPY/100HUF

**Financial market review - 16.12.2010**

### The zloty trading ranges

| | min | max | open | close | fixing |
|---|---|---|---|---|---|
| EURPLN | 3.9740 | 3.9968 | 3.9856 | 3.9911 | 3.9896 |
| USDPLN | 3.0005 | 3.0292 | 3.0124 | 3.0250 | 3.0125 |
| EURUSD | 1.3187 | 1.3265 | 1.3233 | 1.3194 | - |

### T-bonds

| TERM | Yield (%) | Change (bp) | Last auction | Average yield |
|---|---|---|---|---|
| 2L | 4.65 | 0 | 1/12 | 4.595 |
| 5L | 5.45 | 1 | 13/10 | 5.137 |
| 10L | 5.97 | 0 | 17/11 | 5.456 |

### IRS rates (Mid)

| TERM | PL | | US | | EA | |
|---|---|---|---|---|---|---|
| | % | Change (bp) | % | Change (bp) | % | Change (bp) |
| 1L | 4.44 | 0 | 0.54 | 0 | 1.41 | 5 |
| 2L | 4.85 | 0 | 0.91 | -1 | 1.74 | 6 |
| 3L | 5.13 | 1 | 1.36 | 1 | 2.07 | 6 |
| 4L | 5.32 | 2 | 1.91 | 0 | 2.37 | 14 |
| 5L | 5.44 | 2 | 2.34 | -2 | 2.64 | 12 |
| 8L | 5.59 | 2 | 3.28 | -1 | 3.18 | 10 |
| 10L | 5.58 | 2 | 3.64 | -2 | 3.40 | 12 |

### WIBOR rates

| TERM | % | Daily change (bp) |
|---|---|---|
| O/N | 3.66 | 0 |
| T/N | 3.60 | -7 |
| SW | 3.51 | -1 |
| 2W | 3.54 | 0 |
| 1M | 3.65 | 0 |
| 3M | 3.91 | 0 |
| 6M | 4.14 | 0 |
| 9M | 4.30 | 0 |
| 1Y | 4.34 | 0 |

### FRA rates (Mid)

| TERM | % | Daily change (bp) |
|---|---|---|
| 1X2 | 3.73 | -1 |
| 3X6 | 4.24 | 0 |
| 6X9 | 4.55 | 1 |
| 9X12 | 4.74 | 0 |
| 3X9 | 4.44 | 0 |
| 6X12 | 4.71 | 0 |

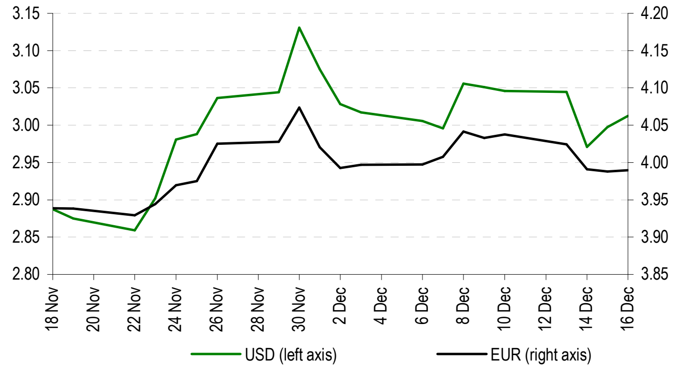
### Measures of fiscal risk

| Country | CDS 5Y | | Spread 10Y* | |
|---|---|---|---|---|
| | Value | Change (bp) | Value | Change (bp) |
| Poland | 140.2 | 1 | 2.91 | -4 |
| Czech Republic | 89.2 | 0 | 0.91 | 0 |
| Hungary | 378.0 | -2 | 4.87 | -13 |
| Greece | 926.6 | 3 | 8.96 | 4 |
| Spain | 316.1 | -8 | 2.47 | 1 |
| Italy | 194.9 | -8 | 1.53 | -5 |
| Portugal | 441.0 | -11 | 3.50 | -4 |
| Germany | 53.8 | 0 | -- | -- |

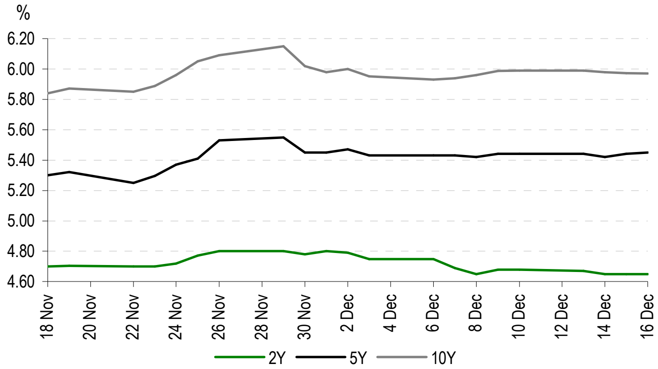
* 10Y treasury bonds over 10Y Bunds

Source: Reuters

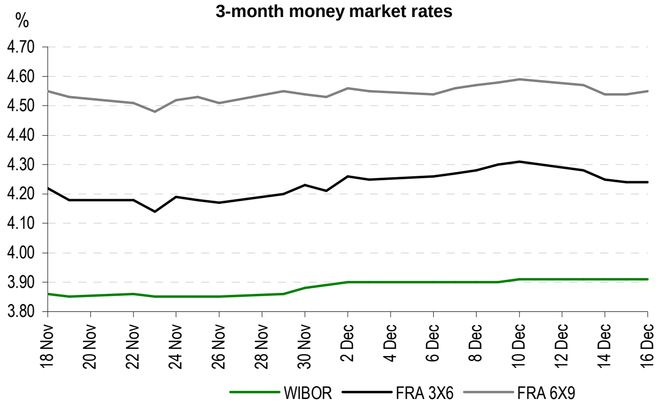
**Zloty exchange rate (fixing)**



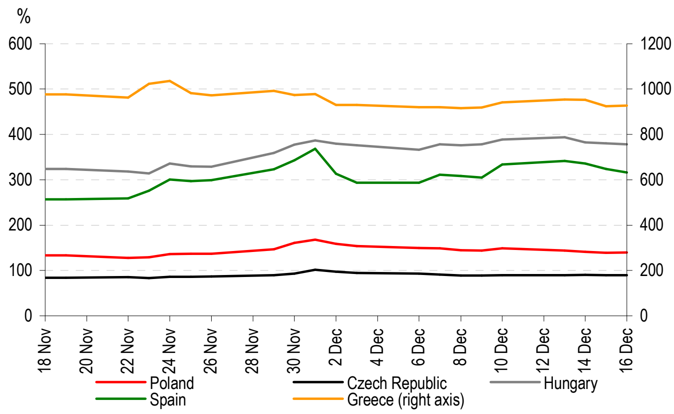

**T-bonds yields**




**3-month money market rates**




**CDS 5Y**



## Economic calendar

| Time CET | COUNTRY | INDICATOR | PERIOD | | FORECAST | | ACTUAL VALUE | LAST VALUE * |
|---|---|---|---|---|---|---|---|---|
| | | | | | MARKET | BZWBK | | |
| | | **MONDAY (13 December)** | | | | | | |
| **14:00** | **PL** | **Current account** | **Oct** | **m€** | **-1153** | **-1055** | **-1155** | **-1417** |
| **14:00** | **PL** | **Exports** | **Oct** | **m€** | **11171** | **11170** | **11236** | **11258** |
| **14:00** | **PL** | **Imports** | **Oct** | **m€** | **11896** | **11975** | **11938** | **11790** |
| | | **TUESDAY (14 December)** | | | | | | |
| 11:00 | DE | ZEW index | Dec | pts | 4.0 | - | 4.3 | 1.8 |
| 11:00 | EZ | Industrial output | Oct | %YoY | 7.8 | - | 6.9 | 5.4 |
| **14:00** | **PL** | **CPI** | **Nov** | **%YoY** | **2.9** | **2.9** | **2.7** | **2.8** |
| **14:00** | **PL** | **Money supply** | **Nov** | **%YoY** | **8.8** | **8.7** | **9.0** | **6,3** |
| 14:30 | US | Retail sales excluding autos | Nov | %MoM | 0.6 | - | 1.2 | 0.8 |
| 20:15 | US | Fed decision | | % | 0.25 | - | 0.25 | 0.25 |
| | | **WEDNESDAY (15 December)** | | | | | | |
| **11:00** | **PL** | **Bond switching auction** | | | | | | |
| 14:30 | US | Core CPI | Nov | %MoM | 0.1 | - | 0.1 | 0.0 |
| 14:30 | US | NY Fed index | Dec | pts | 5.0 | - | 10.6 | -11.14 |
| 15:15 | US | Industrial output | Nov | %MoM | 0.3 | - | 0.4 | -0.2 |
| 15:15 | US | Capacity utilization rate | Nov | % | 75.0 | - | 75.2 | 74.8 |
| | | **THURSDAY (16 December)** | | | | | | |
| 9:28 | DE | Flash PMI – manufacturing | Dec | pts | 58.1 | - | 60.9 | 58.1 |
| 9:58 | EZ | Flash PMI – manufacturing | Dec | pts | 55.3 | - | 56.8 | 55.3 |
| **14:00** | **PL** | **MPC minutes** | **Nov** | | | | | |
| **14:00** | **PL** | **Wages** | **Nov** | **%YoY** | **4.3** | **3.9** | **3.6** | **3.9** |
| **14:00** | **PL** | **Employment** | **Nov** | **%YoY** | **2.2** | **2.2** | **2.2** | **2.1** |
| 14:30 | US | Initial jobless claims | week | k | 425 | - | 420 | 423 |
| 14:30 | US | Building permits | Nov | k | 560 | - | 530 | 550 |
| 14:30 | US | House starts | Nov | k | 552 | - | 555 | 534 |
| 16:00 | US | Philly Fed index | Dec | pts | 15.0 | - | 24.3 | 22.5 |
| | | **FRIDAY (17 December)** | | | | | | |
| 10:00 | DE | Ifo index | Dec | pts | 109.1 | - | | 109.3 |
| **14:00** | **PL** | **Industrial output** | **Nov** | **%YoY** | **9.6** | **10.7** | | **8.0** |
| **14:00** | **PL** | **Construction output** | **Nov** | **%YoY** | **10.2** | **12.6** | | **9.4** |
| **14:00** | **PL** | **PPI** | **Nov** | **%YoY** | **4.4** | **4.5** | | **4.0** |
| 16:00 | US | Leading indicators | Nov | %MoM | 1.0 | - | | 0.5 |

Source: BZ WBK, Parkiet, Reuters

* in case of the revision, the data is updated



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