

Eyeopener – Core inflation data today

21 December 2010

- **Low liquidity at the start of last week before Christmas, euro and zloty under pressure, yields on core debt markets lower**
- **Interest rate hike in Hungary had no permanent impact on the market**
- **Today, data on core inflation for November**

Performance of the FX markets during yesterday's session was typical for period of increased risk aversion. The euro reached the weakest level in history versus the Swiss franc. Yen appreciated for the third day in a row. Yields in the core debt markets were lower than on Friday. Deterioration in sentiment on the global market was caused by tension in the Korean peninsula and no concrete results of the EU summit last week as regards the European debt crisis. CDS rates for France rose to the highest level in history yesterday. This should be seen as a result of rumours appearing recently that the French rating may be downgraded. Despite heightened risk aversion, the European stock indices rose yesterday. It seems that fund managers decided to use lowered liquidity of the market to increase share prices and thus improve results of asset management. Such inconsistent developments in the markets may be seen until the end of the year amid lowered liquidity. The Hungarian central bank's decision to raise interest rates by 25bps to 5.75% only briefly supported the forint and over the whole day it was the weakest performing currency in the region. After the European trading hours there was a significant improvement in moods on the markets and decrease in risk aversion among others thanks to weakened tension in the Korean peninsula (North Korea agreed to let international inspectors to its nuclear facilities) and comments from China's deputy PM that the country had taken "concrete action" to help the EU cope with its debt problems. As a result, stock markets in the US and Asia gained and the euro rebounded.

The EURPLN after morning's surge above 3.99 (and temporarily breaking 4.0) was relatively stable at around 3.995. After the decision of Hungarian central bank only for a moment the exchange rate dropped below 3.99. Another attack on 4.0 level seen at the end of the Polish trading hours proved to be unsuccessful as well. Today in the morning the EURPLN hovers at ca. 3.99 and due to lack of publication of any vital macro data we do not see room for major changes, the exchange rate shall remain the tight range of 3.98-4.0.

The EURUSD during the better part of the day was stable at around 1.316 and only at the end of the European session the dollar appreciated considerably and the EURUSD plunged to ca. 1.31. After visible improvement of the market sentiment that occurred over the night the euro managed to recover and today in the morning the EURUSD hovers at ca. 1.32. As there are no vital macro data publications scheduled for today, we do not suppose that the EURUSD has enough fuel to continue the upward trend and shall remain stable at around 1.32.

On the domestic debt market with low liquidity and thin trading volume yields increased slightly along the curve.

On the core fixed income markets yields started the week well below levels seen at Friday's closing, due to high risk aversion that emerged during the Asian session and persisted over the European trading hours. At the end of the day yields of the 10Y Bunds and Treasuries reached 2.96% and 3.28% respectively.

The FinMin announced yesterday that at the end of October, the Treasury debt reached PLN709.66bn, up by PLN5.0bn (0.7%) versus September. Since the beginning of the year, debt increased by PLN78.15bn (12.4%). The debt structure in terms of currency did not change much (19.4% is denominated in the euro, 3.9% in the dollar and 4.1% in other foreign currencies). Today's *Rzeczpospolita* daily reported that according to the FinMin, at the end of December the budget deficit will reach PLN47.5bn, i.e. ca. PLN5.0bn more than in November.

NBP governor Marek Belka said in an interview with *Gazeta Wyborcza* daily that thanks to rising labour participation Poland's GDP growth may be higher than in recent years. He added that Poland may grow above 4% without higher inflation. MPC member Andrzej Kaźmierczak also believes that economic growth in 2011 may top 4%. At the same time he said that VAT hike would increase consumer prices by ca. 0.4% in 2011.

Deputy head of the Energy Regulatory Office, Marek Woszczyk, said that after approval of the new tariffs, electricity prices for households will rise by 5.6-5.7% on average.

The Bank of Japan, just as it was expected, left the interest rates unchanged, close to zero. The GfK index of German consumer sentiment in January decreased slightly to 54, from 55 in December, versus expected rise to 58.0.

ECONOMIC ANALYSIS

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F/X rates (today's opening)

EURUSD	1.3196	CADPLN	2.9810
USDPLN	3.0282	DKKPLN	0.5364
EURPLN	3.9955	NOKPLN	0.5084
CHFPLN	3.1458	SEKPLN	0.4441
JPYPLN*	3.6181	CZKPLN	0.1583
GBPPLN	4.7116	HUFPLN*	1.4479

*for 100JPY/100HUF

Financial market review - 20.12.2010

The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.9870	4.0033	3.9905	4.0007	3.9998
USDPLN	3.0268	3.0566	3.0309	3.0548	3.0396
EURUSD	1.3092	1.3183	1.3167	1.3100	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2L	4.67	1	1/12	4.595
5L	5.44	1	13/10	5.137
10L	5.98	1	17/11	5.456

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	4.41	-2	0.48	0	1.40	-3
2L	4.84	0	0.83	-1	1.72	-5
3L	5.11	0	1.28	-2	2.05	-6
4L	5.31	1	1.73	-3	2.35	-9
5L	5.43	1	2.15	-3	2.61	-11
8L	5.57	0	3.07	-4	3.13	-12
10L	5.56	0	3.41	-3	3.35	-13

WIBOR rates

TERM	%	Daily change (bp)
O/N	2.90	-58
T/N	2.97	-52
SW	3.42	-7
2W	3.50	-4
1M	3.65	0
3M	3.92	1
6M	4.15	1
9M	4.32	2
1Y	4.35	1

FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.74	1
3X6	4.25	0
6X9	4.54	-1
9X12	4.74	0
3X9	4.44	0
6X12	4.71	0

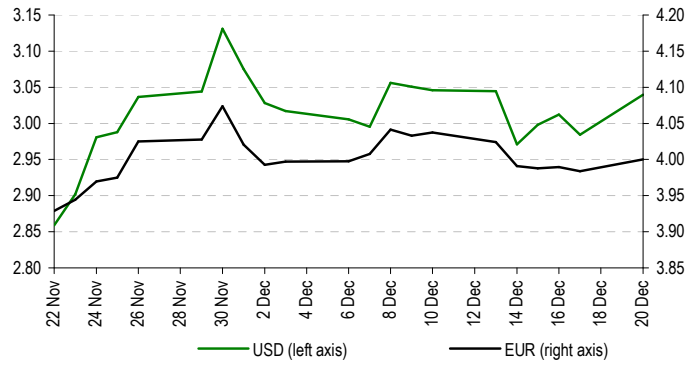
Measures of fiscal risk

Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	141.2	0	3.01	8
Czech Republic	89.5	0	1.00	6
Hungary	377.8	1	4.98	9
Greece	965.9	8	9.02	7
Spain	324.7	3	2.58	5
Italy	202.2	2	1.68	6
Portugal	470.7	20	3.62	10
Germany	53.9	0	--	--

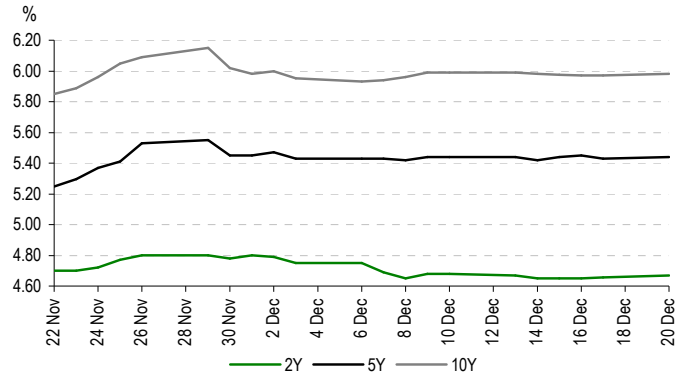
* 10Y treasury bonds over 10Y Bunds

Source: Reuters

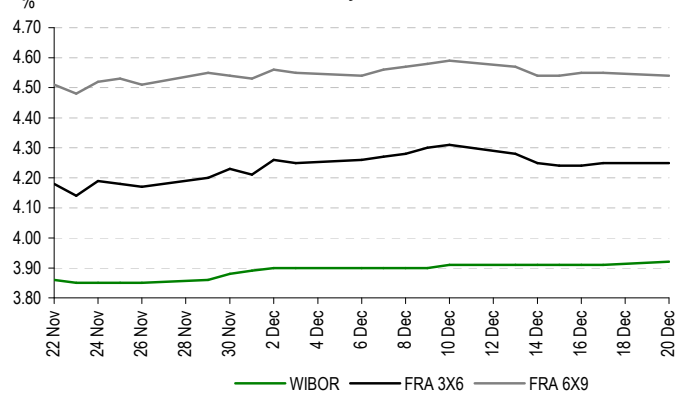
Zloty exchange rate (fixing)



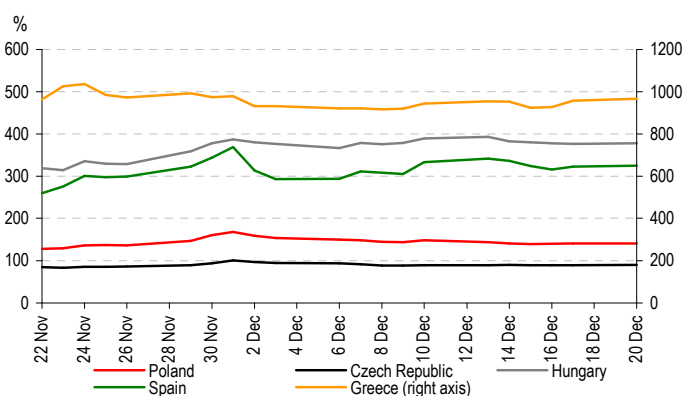
T-bonds yields



3-month money market rates



CDS 5Y



Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE *
					MARKET	BZWBK		
MONDAY (20 December)								
8:00	DE	PPI	Nov	%YoY	4.5	-	4.4	4.3
TUESDAY (21 December)								
8:00	DE	GfK index	Jan	pts	5.8	-	5.4	5.5
14:00	PL	Core CPI	Nov	%YoY	1.2	1.3		1.2
WEDNESDAY (22 December)								
	PL	MPC decision		%	3.50	3.50		3.50
14:00	PL	Business confidence	Dec	pts				
14:30	US	Final GDP	Q3	%QoQ	2.6	-		2.5
14:30	US	Core PCE	Q3	%QoQ	0.8	-		0.8
14:30	US	Home sales	Nov	%MoM	4.63	-		-0.7
THURSDAY (23 December)								
10:00	PL	Retail sales	Nov	%YoY	9.0	9.2		8.9
10:00	PL	Unemployment rate	Nov	%YoY	-	11.7		11.5
14:30	US	Initial jobless claims	week	k		-		420
14:30	US	Durable goods orders	Nov	%MoM	0.4	-		-3.4
14:30	US	Personal income	Nov	%MoM	0.3	-		0.5
14:30	US	Consumption	Nov	%MoM	0.4	-		0.4
14:30	US	Core PCE	Nov	%MoM	0.1	-		0.0
15:55	US	Final Michigan	Dec	pts	72.5	-		74.2
16:00	US	New homes sales	Nov	pts	300	-		283
FRIDAY (24 December)								
	DE	Market holiday						
	US	Market holiday						

Source: BZ WBK, Parkiet, Reuters

* in case of the revision, the data is updated

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