

# Eyeopener – Better moods at start of the year

3 January 2011

- **Zloty stronger on the shallow market with activity of the state-owned BGK bank; EURUSD higher**
- **The government decided to shift a part of pension contribution from privately managed open pension funds to the state Social Security Fund**
- **Domestic debt market weaker in reaction to changes in pension system; no major changes in core debt markets**
- **Today locally PMI and FinMin's inflation forecast while abroad manufacturing activity indicators in Germany, the euro zone and the US**

In the week between Christmas and New Year's Eve there were no significant changes in market sentiment. In the first part of the week some negative data emerged from the US (clear decline of home prices and deterioration of consumer confidence). In China the interest rate was raised by 25bps for the second time in 2010. That was next step towards constraining high inflation. The Chinese central bank announced that it would use any measures to drag the CPI inflation down, which may be interpreted that we will see both next interest rate hikes and possibly also faster yuan's appreciation. Moderate drop of the Chinese PMI manufacturing index in December may be a sign that policy tightening implemented in the past year is efficient. As regards news relating to China, it is worth to notice that the country declared willingness to support Hungary (in its funding needs), which provided some support for CEE currencies. In the second part of the past week some positive data were released in the US. The pending home sales recorded pretty strong increase (3.5%MoM in November) and Chicago PMI index climbed stronger than predicted (to 68.6pts). Also weekly labour market data were better than expected. Since the last session in the past year the market sentiment has improved. Better than expected data published in last days of 2010 and expectations for more positive data in the first days of 2011 pushed the stock indices and commodities prices up. The emerging market currencies appreciated.

At the beginning of the past week EURPLN rose from 3.965 to just above 3.99, but later in the week the zloty started to appreciate, backed by information that the state-owned BKG bank was selling the euro on the market. As a result, at the end of 2010 the EURPLN declined to ca. 3.96. Today in the morning the exchange rate hovered above 3.95, which is vital technical support level for the EURPLN for today's session.

The EURUSD was pretty volatile. At the beginning of the past week the euro appreciated from 1.315 to 1.325, but that move was soon erased. Later in the week the common currency was gaining versus the dollar and EURUSD ended the week at ca. 1.335. Today in the morning the exchange rate dropped below 1.33 and headed towards next level of support at 1.325. The macro data for the euro zone and the US published later in the day should give direction for EURUSD.

On the domestic debt market yields were stable through the first part of the week amid scarce activity of investors. Only after Thursday's Prime Minister's press conference on the changes in pension scheme, more significant correction in the bond market took place, and low liquidity was an additional factor reinforcing the fall in prices.

There were no major changes on the core debt markets, and bond yields fluctuated in a narrow range. At the end of the week yields on 10-year Bunds and Treasuries were 2.96% and 3.33%, respectively.

At Thursday's meeting, the government decided to trim contributions to the open pension funds (OFE) from 7.3% to 2.3% of gross wages. The remaining 5% will go to individual accounts in the state-controlled Social Security Office (ZUS). In time, the share of contributions transferred to OFE will be growing. Also, investment limits in equities for open pension funds are supposed to be rising, although there were no details on this issue. The change will come into force since April, although it depends on the adoption of appropriate amendments to the law. The main objective of the proposed changes in the pension system was a reduction of the fiscal deficit and public debt growth, and lessening threat of breaching the debt threshold at 55% of GDP.

Last week, the MPC members were fairly active in the media. Adam Glapiński said on Friday that he believed in 2011 "inflation will be higher, but under control". He stressed that monetary policy tightening cycle in increments of 25 bp may begin in the first or second quarter of 2011. Anna Zielińska-Głębocka reiterated her opinion that in the first quarter of 2011 the Council should seriously consider rate hikes. Zyta Gilowska said on Thursday that rate hikes "seem to be inevitable" in 2011. She added that tightening monetary policy will take place not only in Poland. NBP President, Marek Belka, said on Thursday that he believed the next year the biggest threat to the national economy may be dynamic changes in the markets that will result from not so positive developments in the euro area. The general tone those comments clearly indicates a more "hawkish" attitude of those MPC members who have been slightly less determined so far to hike rates. We believe that the Council will want to wait for the new CPI projection, and data for the first months of 2011, hence the first increase by 25 basis points will take place in March.

In the New Year's Eve edition of *Parkiet* Daily the final results of macroeconomic forecasts' competition in 2010 were presented. We are pleased to inform that our team took the first place with significant advantage over other financial institutions. In all categories (inflation, labour market, demand and balance of payments) we were in the top three. We also won the competition for best forecasts in 4Q 2010. It is worth to remind that in 2008 we took the second place and in 2009 the third place and we are the only institution, which maintained the position on the podium for the three consecutive years.

## ECONOMIC ANALYSIS

ul. Marszałkowska 142, 00-061  
email: [ekonomia@bzwbk.pl](mailto:ekonomia@bzwbk.pl)

Maciej Reluga (Chief Economist)  
Piotr Bielski  
Piotr Bujak  
Marcin Sulewski

fax +48 022 586 83 40

Web site: <http://www.bzwbk.pl>

+48 (0) 22 586 83 63  
+48 (0) 22 586 83 33  
+48 (0) 22 586 83 41  
+48 (0) 22 586 83 42

## TREASURY SERVICES

Poznań  
Warszawa  
Wrocław

+48 (0) 61 856 5814/25  
+48 (0) 22 586 8320  
+48 (0) 71 370 2587

F/X rates (today's opening)

EURUSD	1.3294	CADPLN	2.9977
USDPLN	2.9743	DKKPLN	0.5305
EURPLN	3.9542	NOKPLN	0.5079
CHFPLN	3.1797	SEKPLN	0.4416
JPYPLN*	3.6596	CZKPLN	0.1581
GBPPLN	4.6238	HUFPLN*	1.4209

\*for 100JPY/100HUF

Financial market review - 31.12.2010

The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.9445	3.9745	3.9637	3.9636	3.9603
USDPLN	2.9480	2.9775	2.9645	2.9547	2.9641
EURUSD	1.3321	1.3422	1.3363	1.3416	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2L	4.76	0	1/12	4.595
5L	5.49	0	13/10	5.137
10L	6.06	0	17/11	5.456

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	4.46	0	0.46	-1	1.32	1
2L	4.86	0	0.83	-2	1.59	1
3L	5.15	1	1.32	-2	1.91	-6
4L	5.34	0	1.79	-2	2.22	4
5L	5.46	0	2.21	-4	2.48	-2
8L	5.60	0	3.10	-4	3.05	3
10L	5.60	0	3.43	-4	3.29	2

WIBOR rates

TERM	%	Daily change (bp)
O/N	3.63	135
T/N	3.61	3
SW	3.48	3
2W	3.51	0
1M	3.66	0
3M	3.95	0
6M	4.16	0
9M	4.33	1
1Y	4.37	1

FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.79	0
3X6	4.27	0
6X9	4.55	0
9X12	4.75	0
3X9	4.46	1
6X12	4.72	0

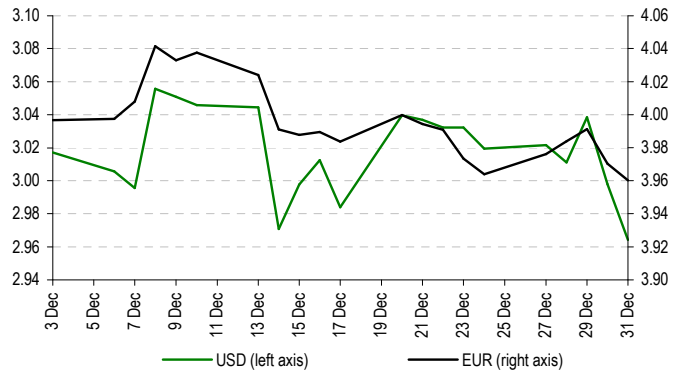
Measures of fiscal risk

Measures of fiscal risk				
Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	145.5	0	3.11	9
Czech Republic	90.2	0	0.98	-1
Hungary	386.8	0	5.13	-1
Greece	1039.7	3	9.59	0
Spain	349.9	1	2.50	-2
Italy	234.0	0	1.91	3
Portugal	500.4	1	3.72	-6
Germany	57.9	0	--	--

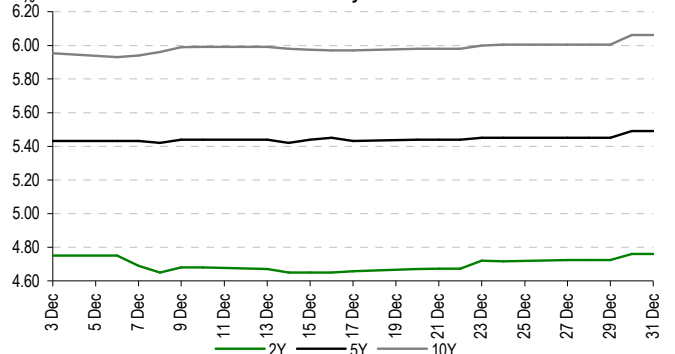
\* 10Y treasury bonds over 10Y Bunds

Source: Reuters

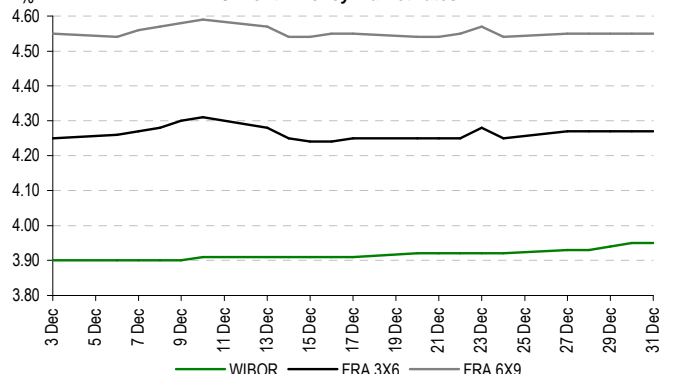
Zloty exchange rate (fixing)



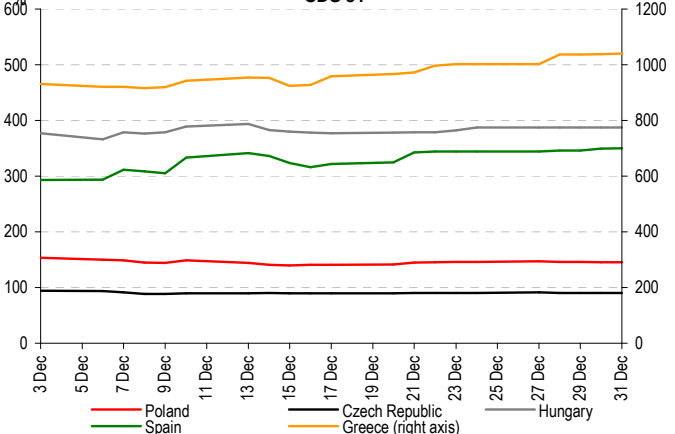
T-bonds yields



3-month money market rates



CDS 5Y



## Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE *
					MARKET	BZWBK		
		MONDAY (3 January)						
9:00	PL	PMI - manufacturing	Dec	pts	-	56.1	56.3	55.9
9:28	DE	PMI – manufacturing	Dec	pts	60.9	-		60.9
9:58	EZ	PMI – manufacturing	Dec	pts	56.8	-		55.3
16:00	US	ISM – manufacturing	Dec	pts	56.9	-		56.6
		TUESDAY (4 January)						
16:00	US	Industrial orders	Nov	%MoM	0.0	-		-0.9
20:00	US	Fed minutes	Dec					
		WEDNESDAY (5 January)						
9:53	DE	PMI – services	Dec	pts		-		59.2
9:58	EZ	PMI – services	Dec	pts		-		55.4
14:30	US	ADP report	Dec	pts	100	-		93
16:00	US	ISM – services	Dec	pts	55.5	-		55.0
		THURSDAY (6 January)						
11:00	EZ	Retail sales	Nov	%YoY		-		
14:30	US	Initial jobless claims	week	k	-	-		388
		FRIDAY (7 January)						
11:00	EZ	Final GDP	Q3	%QoQ	0.4	-		1.0
11:00	EZ	Unemployment rate	Dec	%	10.1	-		10.1
14:30	US	Non-farm payrolls	Dec	k	126	-		39
14:30	US	Unemployment rate	Dec	%	9.7	-		9.8

Source: BZ WBK, Parkiet, Reuters

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

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Additional information is available on request. Please contact Bank Zachodni WBK S.A. Treasury Division. Economic Analysis Unit. ul. Marszałkowska 142. 00-061 Warsaw, Poland. phone (+48 22) 586 83 63. email [ekonomia@bzwbk.pl](mailto:ekonomia@bzwbk.pl). <http://www.bzwbk.pl>



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