Bank Zachodni WBK

Eyeopener – Waiting for Fed and earning reports

26 January 2011

- **Deterioration of market sentiment after surprising drop in UK GDP, large demand for EFSF bonds**
- **EURUSD up after temporary decrease, EURPLN stable**
- **Decline in market interest rates after dovish comment of MPC's Andrzej Bratkowski**
- **Today, US new home sales, FOMC decision, earning reports by Boeing and US Airways**

The optimism that had emerged during the US and Asian sessions gave place to increased risk aversion soon after the beginning of the European trading hours. The deterioration of sentiment on the stock market and fall in yields on the core fixed income market was a reaction to the unexpected drop of British GDP. In Q4 the UK economy contracted by 0.5%QoQ versus market expectations pointing to growth by 0.5%. The factor to which the poor performance of economy is attributed is weather. The debut issuance of bonds by the EFSF attracted very solid demand as the demand reached ca. €43.0bn amid supply of €5.0bn. According to market information, the declaration of China and Japan to purchase considerable share of this debt (those governments bought yesterday over 40% of offered bonds) prompted demand from private investment funds from Asia. The euro appreciated versus the dollar on hopes for good results of the auction, but soon visible correction occurred. In the afternoon, worse than expected data was released in the US. Although in November the monthly change of home prices was better than expected, but on the annual basis there was the biggest drop since December 2009 (-1.6%). Decreasing home prices and unemployment rate persisting at elevated level triggers worries, that the bank foreclosures will increase further due to troubles in paying back the mortgage credit and falling value of the collateral. The Conference Board's consumer confidence index surprised to the upside in January and reached the highest level since May 2010 (60.6). Also the sub-index of expectations recorded visible increase (from 72.3pts to 80.3pts). Still, even that optimistic data did not manage to support the market sentiment and the pessimism persisted until the end of the session.

The EURUSD only shortly after the start of the session managed to stay close to peak established the day before, then the dollar appreciated to 1.357 per euro. Following hours brought the correction of that move and – just as it was seen at the end of the Monday's session – the EURUSD started to increase. At the end of the European trading hours the exchange rate reached levels seen at the opening and in the evening the upward trend was fuelled further by Barack Obama's announcement of budget spending cuts in following years. The EURUSD reached nearly 1.37. The considerable surge of the EURUSD at the end of the day confirmed latest breaking the area of resistance and the scenario of continuation of the upward trend towards 1.375 is valid. The dollar may be under additional negative pressure today due to expectations that the Fed's comment (to be released today in the evening) will be quite dovish.

At the beginning of the yesterday's session EURPLN fell to ca. 3.86 and USDPLN rose to 2.856 with falling EURUSD. After rebound to 3.878, later in the day EURPLN was ranging within 3.86-3.876. At the same time the zloty gained to 2.83 against the dollar amid clear weakening of the US currency to the euro. EURPLN remains in the horizontal trend ranging 3.84-3.92 and currently there is lack of an impulse, which could driven the zloty out of the consolidation range.

In the domestic debt market yields fell across the curve, which was caused by dovish comments in the morning from Andrzej Bratkowski, suggesting no rate hike in March. FRA and IRS rates dropped on a similar scale as bond yields.

In the core debt markets yields declined in the first part of the session due to rise in risk aversion in reaction to weak GDP figures for Q4 from the UK. In the afternoon the trend reversed. At the end of the day yields of 10Y Bunds and Treasuries reached 3.14% and 3.39%, respectively.

MPC member, Andrzej Rzońca, said yesterday that he hoped the government will withdraw from planned changes in the pension system. In his opinion the planned actions are unfavourable for the economic growth.

Regional representative of the IMF, Mark Allen, said yesterday that the "current fiscal policy in Poland is appropriate", but the Fund expects further actions in the next years. He added that the decision on changes in the pension system is not "ideal" solution, but it was "understandable". Allen believes that in the current conditions the key risk for the Polish economy is situation in the EU. Besides, Poland may become under negative pressure due to possible problems in Hungary. In the opinion of the IMF representative, Poland should join the euro when the country's economy will be ready and when the new EU institutions and regulations will be known better.

The NBP business climate report published yesterday showed clear improvement in enterprises moods in Q4 2010, rise in demand and orders as well as "further gradual increase in investment activity". What is interesting, this processes were not coupled with plans to raise employment and wages. At the same time, enterprises expect clear rise in inflation and plan to raise prices of their goods and services. The NBP credit survey showed that in Q4 2010 there was a tightening of credit policy for households and easing of credit policy for firms with exception of long-term credits for SMEs. Banks also reported rise in demand for credit from enterprises and drop in demand for credit from households.

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F/X rates (today's opening)

EURUSD	1.3663	CADPLN	2.8478
USDPLN	2.8379	DKKPLN	0.5202
EURPLN	3.8760	NOKPLN	0.4927
CHFPLN	3.0070	SEKPLN	0.4349
JPYPLN*	3.4570	CZKPLN	0.1604
GBPPLN	4.4839	HUFPLN*	1.4086

*for 100JPY/100HUF

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.8585	3.8780	3.8634	3.8745	3.8777
USDPLN	2.8206	2.8562	2.8266	2.8328	2.8558
EURUSD	1.3570	1.3687	1.3668	1.3677	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2L	4.90	-4	5/01	4.984
5L	5.70	-3	5/01	5.642
10L	6.22	-4	12/01	6.215

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	4.64	-4	0.45	-3	1.50	-1
2L	5.06	-5	0.83	-4	1.90	-1
3L	5.28	-5	1.31	-5	2.23	0
4L	5.43	-5	1.78	-4	2.50	0
5L	5.53	-5	2.21	-2	2.74	1
8L	5.63	-4	3.11	-1	3.20	1
10L	5.62	-2	3.47	-1	3.40	1

WIBOR rates

TERM	%	Daily change (bp)
O/N	3.18	53
T/N	3.22	44
SW	3.69	1
2W	3.77	0
1M	3.85	1
3M	4.07	0
6M	4.31	0
9M	4.44	0
1Y	4.49	0

FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.90	-3
3X6	4.44	-5
6X9	4.76	-5
9X12	4.95	-5
3X9	4.61	-12
6X12	4.91	-14

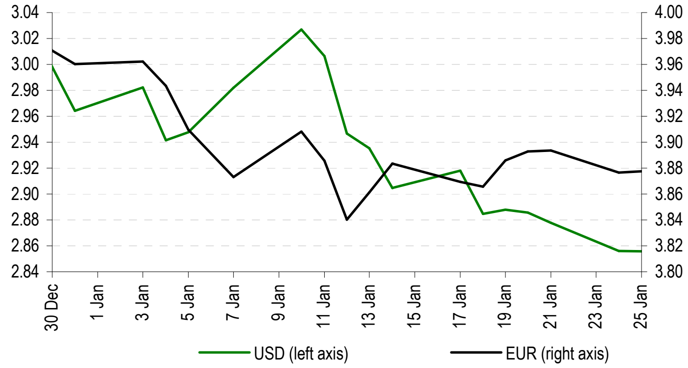
Measures of fiscal risk

Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	152.5	-6	3.08	-1
Czech Republic	89.2	-2	0.92	5
Hungary	370.8	-9	4.54	-5
Greece	873.4	1	8.28	16
Spain	260.8	0	2.05	8
Italy	185.1	0	1.57	4
Portugal	431.7	0	3.79	13
Germany	57.8	0	--	--

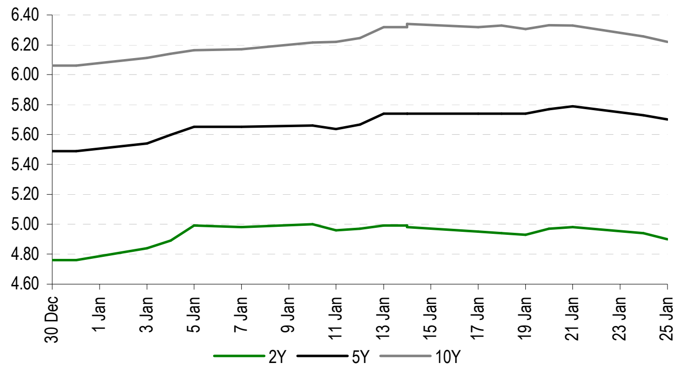
* 10Y treasury bonds over 10Y Bunds

Source: Reuters

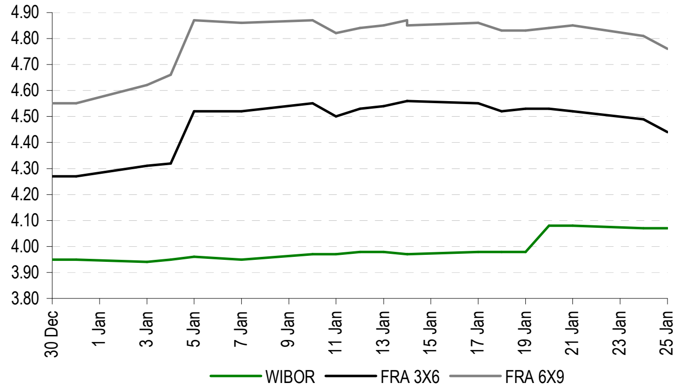
Zloty exchange rate (fixing)



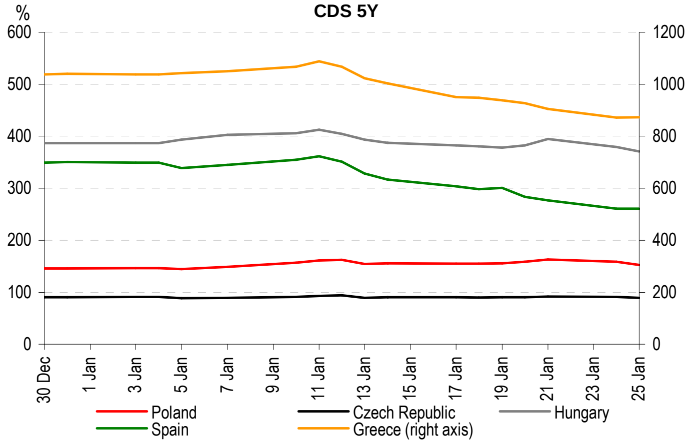
T-bonds yields



3-month money market rates



CDS 5Y



Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE *
		MONDAY (24 January)						
9:28	DE	Flash PMI – manufacturing	Jan	pts	60.8	-	60.2	60.7
9:28	DE	Flash PMI – services	Jan	pts	59.1	-	60.0	59.2
9:58	EZ	Flash PMI – manufacturing	Jan	pts	57.0	-	56.9	57.1
9:58	EZ	Flash PMI – services	Jan	pts	54.2	-	55.2	54.2
11:00	EZ	Industrial orders	Nov	%YoY	16.7	-	19.9	14.8
		TUESDAY (25 January)						
8:00	DE	GfK index	Feb	pts	5.4	-	5.7	5.4
15:00	US	S&P/Case-Shiller home price index	Nov	%MoM	-0.8	-	-0.5	-1.0
16:00	US	Consumer confidence	Jan	pts	54.3	-	60.6	53.3
		WEDNESDAY (26 January)						
16:00	US	New home sales	Dec	k	300	-		290
20:15	US	FED decision		%	0.0-0.25	-		0.0-0.25
		THURSDAY (27 January)						
11:00	EZ	Consumer confidence	Jan	pts	-11	-		-11
14:30	US	Flash durable goods orders	Dec	%MoM	0.9	-		-0.3
14:30	US	Initial jobless claims	week	k	409	-		404
16:00	US	Pending home sales	Dec	%MoM	1.5	-		3.5
		FRIDAY (28 January)						
10:00	**PL**	**GDP**	**2010**	**%**	**3.7**	**3.7**		**1.7**
10:00	**PL**	**Individual consumption**	**2010**	**%**	**3.2**	**3.0**		**2.1**
10:00	**PL**	**Fixed investments**	**2010**	**%**	**-1.2**	**-1.0**		**-1.1**
10:00	**PL**	**Retail sales**	**Dec**	**%YoY**	**9.7**	**9.0**		**8.3**
10:00	**PL**	**Unemployment rate**	**Dec**	**%**	**12.0**	**12.0**		**11.7**
10:00	EZ	Money supply	Dec	%YoY	2.0	-		1.9
14:30	US	Advance GDP	Q4	%QoQ	3.5	-		2.6
14:30	US	Core PCE	Q4	%QoQ	0.5	-		0.5
15:55	US	Final Michigan index	Jan	pts	75.4	-		74.5

Source: BZ WBK, Parkiet, Reuters

* in case of the revision, the data is updated

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