

Eyeopener – GDP data in Poland and USA

28 January 2011

- Beginning of session under influence of Japan's rating downgrade, end under impact of US data
- EURPLN and EURUSD close to key resistance levels
- Higher yields in domestic debt market
- Today, data on GDP in Poland and in the US, plus next important data and earning reports in the USA

The Thursday's session started with a strong impulse from the S&P's downgrade of the credit rating for Japan from "AA" to "AA-". The action was justified by a statement that "country's government lacked a coherent plan to tackle its mounting debt". The reaction of the European stock exchanges to that news was rather subdued while futures, and later also stock prices in Asia, dropped. After release of the information, the dollar appreciated versus the euro and the yen depreciated versus both above-mentioned currencies. Furthermore, yield of Bunds and Treasuries dropped and in the euro zone's peripheral bond market some yields' increase was recorded. The S&P added that Ireland, Portugal and Greece are stuck in recession and the Western Europe for next 18 months will be the area of "three-speed" regarding the pace of recovery. After sudden drop, the EURUSD soon recovered as the ECB member, Lorenzo Bini Smaghi, said that an expected rise in imported goods inflation cannot be ignored regarding the monetary policy. That fuelled expectations that emerged after the latest ECB meeting that first interest rate hike may occur in the euro zone, not in the US. The weekly data from the US labour market were worse than forecast. The dollar weakened after this data as investors still remembered the Wednesday's Fed's statement where the poor condition of the labour market was mentioned as one of factors that justifies the continuation of the government bond buying program. The unexpected drop of durable goods orders fuelled the negative interpretation of weekly jobless claims data. The data from the US real estate market were better than expected. In the evening an additional negative information for the dollar was released as the Moody's rating agency said, that there is a possibility of downgrading the outlook for the US rating due to rising budget deficit.

EURUSD fell sharply at the opening from just over 1.37 to 1.364, after a morning of information on the Japan's rating downgrade. However, soon after there was a clear rebound triggered by hawkish comments of the ECB member and the rate reached almost 1.376. Hence, the rate reached the resistance zone around 1.375. Technical analysis shows that there is greater chance of rebound from the resistance

and return to the vicinity of the previous resistance zone just below 1.36. This move has already started yesterday in the evening, despite a Moody's warning negative for the dollar. This morning the EURUSD was around 1.37.

The EURPLN and USDPLN exchange rates were increasing sharply at the beginning of the session, though they reacted to Japan's downgrade with a slight delay. The EURPLN rose to 3.91 and then a correction of the morning increase took place. A similar situation occurred in the case of EURUSD exchange rate, which recorded its daily maximum at 2.853. EURPLN rate approached the upper limit of the horizontal trend (this morning it is slightly above 3.91) and it may remain near this level for several days.

On the domestic debt market yields have increased, mainly at the long end of the curve. This was due to increases in global debt markets. Today, the domestic debt market may be affected by publication of GDP data (see below).

On the core debt markets yields were falling in the first part of the session after a downgrade of Japan's rating. Later in the day there was a rebound, which was supported by data from the US housing market. At the end of the day yields on 10-year Bunds and Treasuries were 3.20% and 3.43%, respectively.

Deputy PM and economy minister, Waldemar Pawlak, said yesterday that in his opinion the MPC decision to hike interest rates is "detrimental to the Polish economy". Apparently, he is concerned about the possible increase in costs of financing of the fiscal gap and about possible economic slowdown, which would raise probability of exceeding the debt-to-GDP threshold at 55%.

Today at 10:00 CET the stats office will release tentative GDP figures for 2010. We forecast that GDP growth last year was 3.7% with growth in Q4 alone at 4.2%YoY. Our forecasts for individual consumption and fixed investments for the entire year are based on assumption that in Q4 there was growth of correspondingly 3.5%YoY (the same as in Q3) and 3.6%YoY (after rise of a mere 0.4% in Q3). Initially, our forecast for fixed investment growth in Q4 was 6%, but under impact of bad weather in December we revised it down. However, robust construction output numbers for December suggest the weather factor was not as strong as we feared and fixed investment may be closer to our earlier forecast. At the same time we see downward risk to net export due to wider than expected trade gap in November.

ECONOMIC ANALYSIS

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F/X rates (today's opening)

EURUSD	1.3701	CADPLN	2.8643
USDPLN	2.8524	DKKPLN	0.5242
EURPLN	3.9080	NOKPLN	0.4907
CHFPLN	3.0152	SEKPLN	0.4422
JPYPLN*	3.4506	CZKPLN	0.1614
GBPPLN	4.5232	HUFPLN*	1.4373

*for 100JPY/100HUF

Financial market review - 27.01.2011

The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.8725	3.9109	3.8783	3.8970	3.9009
USDPLN	2.8225	2.8531	2.8269	2.8378	2.8508
EURUSD	1.3635	1.3759	1.3720	1.3734	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2L	4.96	2	5/01	4.984
5L	5.82	7	5/01	5.642
10L	6.31	5	12/01	6.215

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	4.64	-1	0.45	3	1.54	1
2L	5.11	2	0.81	5	1.95	2
3L	5.35	4	1.29	7	2.28	-2
4L	5.52	5	1.76	7	2.55	-2
5L	5.61	4	2.21	7	2.78	5
8L	5.74	8	3.12	6	3.24	7
10L	5.72	6	3.48	7	3.44	8

WIBOR rates

TERM	%	Daily change (bp)
O/N	2.87	-18
T/N	3.16	6
SW	3.74	2
2W	3.79	1
1M	3.85	0
3M	4.07	0
6M	4.32	0
9M	4.45	0
1Y	4.50	0

FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.90	0
3X6	4.44	-1
6X9	4.79	4
9X12	4.97	1
3X9	4.62	0
6X12	4.92	0

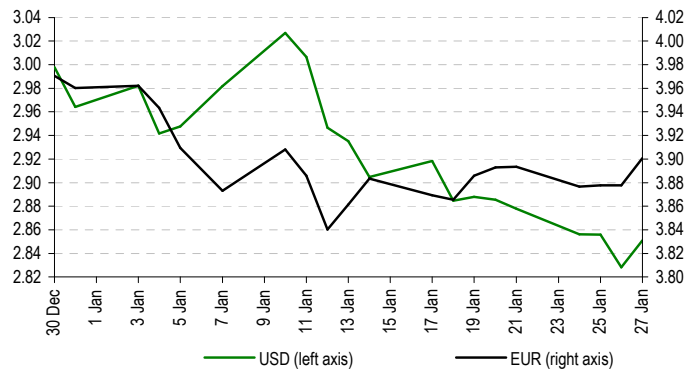
Measures of fiscal risk

Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	148.5	-2	3.11	4
Czech Republic	88.2	0	0.84	-2
Hungary	357.5	-11	4.17	-8
Greece	900.6	6	8.35	4
Spain	267.4	4	2.30	10
Italy	188.1	5	1.62	4
Portugal	446.9	5	3.87	7
Germany	58.8	2	--	--

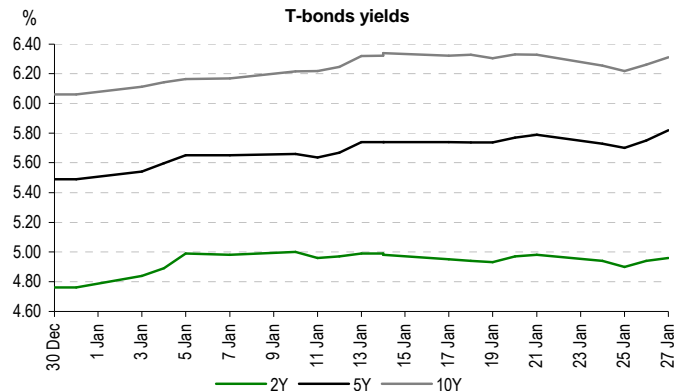
* 10Y treasury bonds over 10Y Bunds

Source: Reuters

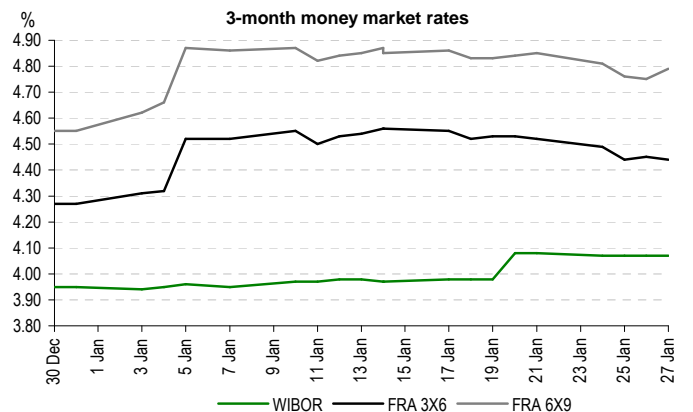
Zloty exchange rate (fixing)



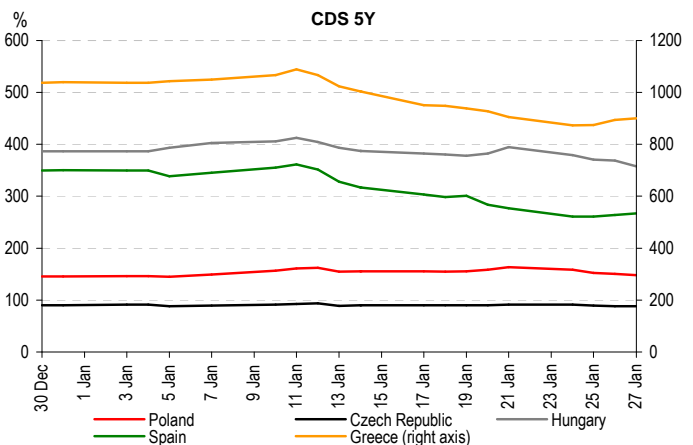
T-bonds yields



3-month money market rates



CDS 5Y



Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE *
					MARKET	BZWBK		
		MONDAY (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)						
15:00	PL	Retail sales	Dec	%YoY	9.7	9.0	12.0	8.3
15:00	PL	Unemployment rate	Dec	%	12.0	12.0	12.3	11.7
16:00	US	New home sales	Dec	k	300	-	329	280
20:15	US	FED decision		%	0.0-0.25	-	0.0-0.25	0.0-0.25
		THURSDAY (27 January)						
11:00	EZ	Consumer confidence	Jan	pts	-11	-	-11.2	-11
14:30	US	Flash durable goods orders	Dec	%MoM	1.5	-	-2.5	-0.1
14:30	US	Initial jobless claims	week	k	409	-	454	403
16:00	US	Pending home sales	Dec	%MoM	1.0	-	2.0	3.1
		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	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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