

Eyeopener – Quick return of risk appetite

2 February 2011

- **Better than expected activity indicators from the euro zone and the US lifted sentiment in markets**
- **Higher risk appetite strengthened the zloty and pushed EURUSD higher**
- **Domestic debt stronger and core debt markets weaker amid larger appetite for risky assets**
- **Today switch auction of bonds locally while in the global markets focus on ADP report in the US and further developments in Egypt**

The Tuesday's session was marked by high risk appetite. Already at the beginning of the day positive information supporting demand for risky assets emerged. Although two PMI indices calculated for China headed towards opposite directions, overall they fuelled expectations for acceleration of economic growth in the world's second biggest economy in coming quarters. The final reading of the PMI for manufacturing sector in the euro zone was higher than previously estimated. Additionally, PMI data showed that there was a visible acceleration recorded in manufacturing sectors in peripheral euro zone countries. Furthermore, some positive information emerged in Spain where regional banks showed data pointing to reduced exposure to the real estate market and declining ratio of NPLs. As the ECB meeting is coming closer, expectations for prompt interest rates hikes in the euro zone seem gain steam and provide more support to the single currency. The US ISM manufacturing for January fuelled further market optimism as the data showed increase well above market consensus. The index climbed to the highest level since July 2004. Due to strong macro data from China, Europe and the US the increase in risk appetite was continued also after close of the European session. In the US stock indices reached new peaks during the current bull market and in Asia stocks also increased considerably. Additional support was provided by positive information from the US and Asian companies.

After temporarily drop to 1.37 at the beginning of the yesterday's session, EURUSD advanced in following hours. Strong PMIs in the euro zone and strengthening expectations for interest rates hikes in the euro zone backed the single currency. The accumulation of positive factors pushed the EURUSD above the upper band of the consolidation. Today in the morning the EURUSD was close to short-term resistance at ca. 1.385. Possible profit taking and awaiting for the US data may stabilize the exchange rate while some slight dollar's appreciation is also possible.

The EURPLN, due to visible improvement in market moods, broke the support level on 3.92 in the first part of the

session and continued the downward trend later on. The zloty gained also versus the dollar. Breaking the support level gives the EURPLN potential for further decline. First support is at ca. 3.89 from which the exchange rate rebounded today in the morning and assuming expected developments on the EURUSD further rebound it possible.

On the domestic debt market yields have fallen, underpinned by a significant improvement of moods in the global market. Investors turned towards riskier assets, which supported the domestic bonds.

At the core debt markets yields continued their upward trend, which started on Monday, as investors were reducing positions in safe assets. At the end of the day yields on 10Y Bunds and Treasuries were 3.22% and 3.45%, respectively.

Poland's PMI manufacturing fell to 55.6 in January, below our forecast and market expectations. It does not change the fact that the reading was one of the five best scores recorded in the history of the survey. The main elements that positively influenced the index included the new orders (the fastest growth since May 2004) and new export orders (record-high growth rate). Although the orders and production backlog accelerated growth, a pace of production rise has dropped, negatively affecting the overall PMI. This is consistent with our forecast of annual production growth, which implies that in January there has been a slowdown to 10.5% from 11.5% in December. The growing backlog of production seen in the PMI survey suggest that amid continuing growth in new orders companies may decide to boost investment spending. It should also be noted that in January the inflationary pressure has increased in the Polish manufacturing sector. The cost inflation accelerated sharply, reaching the highest rate in the history of the research. Firms reported a rise in commodity prices and a VAT hike. Many respondents also reported the upward pressure on energy prices.

Member of the NBP Board, Andrzej Raczko, said yesterday that proposed changes to the pension funds cannot be substitute for reforms and fiscal consolidation. He added that a temporary reduction in the fiscal burden (due to changes in pension funds) would be a good time to make such a deliberate reforms in public finance.

Deputy finance minister, Hanna Majszczyk, said yesterday that the central budget deficit in 2010 was "several hundred million" smaller than PLN45bn. She added that the ministry maintains its forecast of the general government deficit in 2010 at 7.9% of GDP.

ECONOMIC ANALYSIS

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F/X rates (today's opening)

EURUSD	1.3838	CADPLN	2.8496
USDPLN	2.8186	DKKPLN	0.5232
EURPLN	3.9008	NOKPLN	0.4947
CHFPLN	3.0145	SEKPLN	0.4423
JPYPLN*	3.4573	CZKPLN	0.1623
GBPPLN	4.5539	HUFPLN*	1.4394

*for 100JPY/100HUF

Financial market review - 01.02.2011

The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.8925	3.9240	3.9230	3.8988	3.9129
USDPLN	2.8274	2.8594	2.8553	2.8268	2.8468
EURUSD	1.3697	1.3776	1.3743	1.3791	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2L	4.96	-4	5/01	4.984
5L	5.86	-3	5/01	5.642
10L	6.28	-5	12/01	6.215

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	4.68	1	0.44	2	1.58	1
2L	5.15	0	0.79	3	2.01	2
3L	5.41	0	1.25	3	2.35	2
4L	5.56	-1	1.73	4	2.63	-2
5L	5.67	-2	2.17	5	2.85	4
8L	5.75	-2	3.10	4	3.28	5
10L	5.75	0	3.46	4	3.46	6

WIBOR rates

TERM	%	Daily change (bp)
O/N	3.56	15
T/N	3.60	10
SW	3.76	1
2W	3.80	0
1M	3.85	0
3M	4.08	-1
6M	4.32	0
9M	4.45	0
1Y	4.50	0

FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.93	2
3X6	4.48	1
6X9	4.82	0
9X12	5.01	-1
3X9	4.65	-3
6X12	4.96	-3

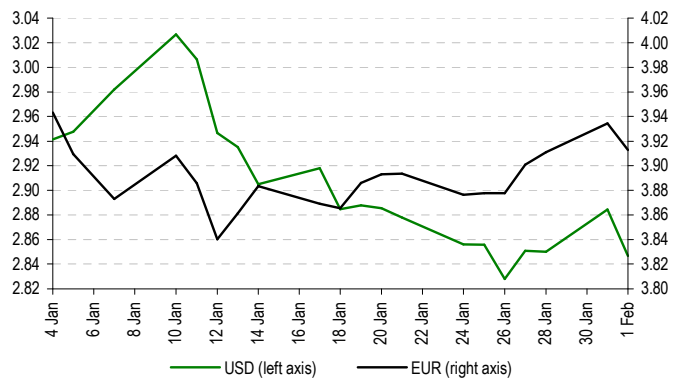
Measures of fiscal risk

Measures of fiscal risk				
Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	155.5	-4	3.08	-10
Czech Republic	90.8	0	0.77	-9
Hungary	348.8	-12	4.17	-15
Greece	917.6	-1	7.91	-30
Spain	253.4	-10	2.02	-22
Italy	174.0	-12	1.44	-14
Portugal	436.4	-19	3.67	-21
Germany	59.8	0	--	--

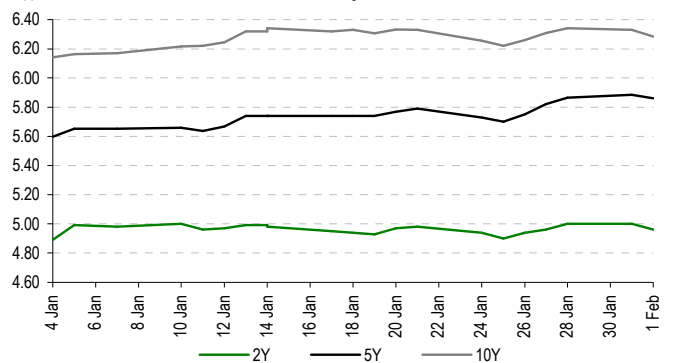
* 10Y treasury bonds over 10Y Bunds

Source: Reuters

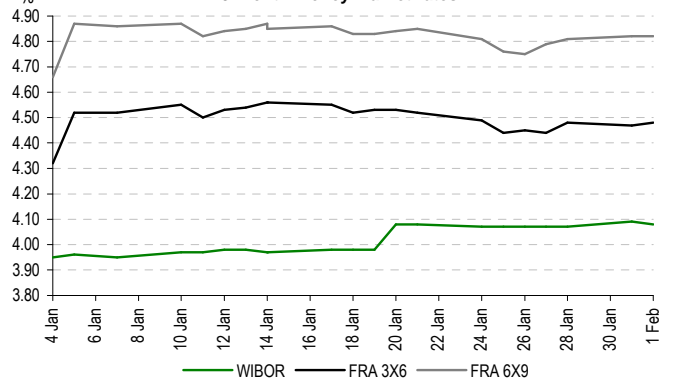
Zloty exchange rate (fixing)



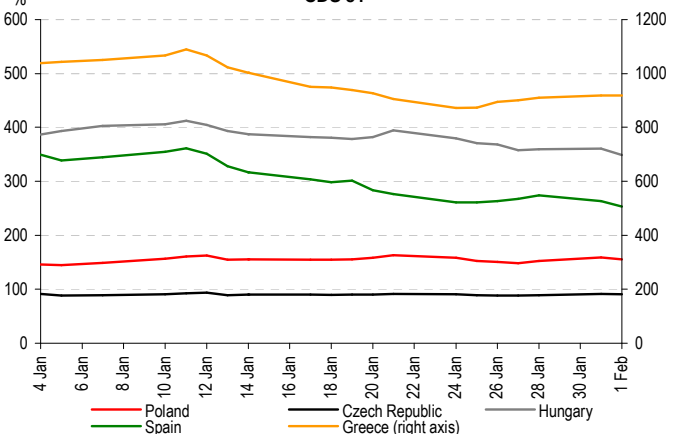
T-bonds yields



3-month money market rates



CDS 5Y



Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE *
					MARKET	BZWBK		
		MONDAY (31 January)						
11:00	PL	Tender of 52-week T-bills worth PLN1.5-2.0bn						
11:00	EZ	Flash HICP	Jan	pts	2.3	-	2.4	2.2
14:30	US	Core PCE	Dec	%MoM	0.1	-	0.0	0.1
14:30	US	Personal income	Dec	%MoM	0.5	-	0.4	0.4
14:30	US	Personal consumption	Dec	%MoM	0.6	-	0.7	0.3
15:45	US	Chicago PMI index	Jan	pts	65.8	-	68.8	66.8
		TUESDAY (1 February)						
3:30	CN	PMI – manufacturing	Jan	pts	-	-	54.5	54.4
9:00	PL	PMI – manufacturing	Jan	pts	56.0	56.2	55.6	56.3
9:53	DE	PMI – manufacturing	Jan	pts	60.2	-	60.5	60.7
9:58	EZ	PMI – manufacturing	Jan	pts	56.9	-	57.3	57.1
16:00	US	ISM – manufacturing	Jan	pts	57.8	-	60.8	58.5
WEDNESDAY (2 February)								
11:00	PL	Bond switching auction						
14:15	US	ADP report	Jan	k	145	-		297
THURSDAY (3 February)								
9:53	DE	PMI – services	Jan	pts	60.0	-		59.2
9:58	EZ	PMI – services	Jan	pts	55.2	-		54.2
13:45	EZ	ECB decision		%	1.0	-		1.0
14:30	US	Preliminary productivity	Q4	%QoQ	2.0	-		2.3
14:30	US	Initial jobless claims	week	k	423	-		454
16:00	US	Industrial orders	Dec	%MoM	1.1	-		0.7
16:00	US	ISM – services	Jan	pts	57.0	-		57.1
19:15	US	Public speech of Fed's governor						
FRIDAY (4 February)								
14:30	US	Non-farm payrolls	Jan	k	108	-		103
14:30	US	Unemployment rate	Jan	%	9.4	-		9.4

Source: BZ WBK. Parkiet. Reuters

* in case of the revision. the data is updated

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