

# Eyeopener – Today focus on US payrolls

4 February 2011

- **Escalation of protests in Egypt limits risk appetite, but stock markets gained thanks to strong macro data and earnings reports**
- **Slightly more dovish rhetoric of the ECB drove EURUSD down, while the zloty the zloty and other currencies in the region stronger on hawkish signals from the Czech central bank**
- **Domestic debt market broadly stable**
- **Today focus on the US non-farm payrolls report and the EU summit**

At the beginning of the yesterday's session the market sentiment was quite pessimistic. The stock indices and EURUSD declined. The increase of risk aversion was triggered by escalation of protests in Egypt and unrest in Yemen. The uncertainty regarding the situation in the Middle East was reflected in rising prices of oil and other commodities. The final PMI services indexes for Germany and the euro zone were better than flash estimates but did not have any impact on the market. The yields on the peripheral euro zone bond market increased. Apart from profit taking, the beginning of the today's EU summit, that may again disappoint as regards finding the common solution to the European debt problems, prompted investors to sell PIIGS' bonds. Additionally, Spain did not manage to collect planned amount of cash at auction of 2Y and 5Y bonds. The increase of labour productivity in the US in Q3 2010 was higher than expected. Also ISM services and industrial orders surprised to the upside.

As expected, the ECB left the interest rate unchanged at 1%. What has changed in comparison to the previous communiqué, and triggered sudden plunge of the EURUSD, was lack of any strengthening of hawkish remarks on possibility of acceleration of inflation in the short term made last time. After last meeting, where for the first time it was underscored that there is an upside risk for inflation in the short term, the market started to price in more aggressively interest rates hikes in the euro zone. In the yesterday's statement that remark was repeated, but the ECB added that in its view the inflation will be stable not only in the medium term, but also in the long term.

The Fed's governor, Ben Bernanke, said yesterday in the evening that despite some positive signs indicating improvement of the US economy it still needs Fed's support. Bernanke focused mainly on the labour market saying that "until we see a sustained period of stronger job creation, we cannot consider the recovery to be truly established".

After close of the domestic session the global markets were pretty stable. Rising tensions in Egypt (and protests in Yemen) pushed the prices of commodities up, but stock market gained in the US and Asia due to good macro data and positive news from companies.

EURUSD was falling since the start of yesterday's session. This was partly related to increased risk aversion as a result of spreading riots in Egypt. In the statement released after the ECB meeting, there were no sufficient arguments that would justify a recent strong appreciation of

the euro. Disappointment with less hawkish statement than expected by some market participants, triggered a marked depreciation of the euro. The EURUSD broke the support at 1.375 and headed towards 1.36. Thus, the rate returned to the range of 1.36-1.375. The direction of changes in today's session may be determined by the data from the US labour market.

The EURPLN was rising since the beginning of the session, amid declining appetite for risky assets. The USDPLN recorded a stronger growth. Pressure on the zloty could have also been reinforced in the first part of the session by a fall in market expectations for interest rate hikes in the region after the Romanian and Czech central banks decided to leave monetary policy unchanged. In subsequent hours, after the comment of the Czech central bank's governor that the bank sees inflationary pressures rising, the zloty started strengthening, albeit it remained at elevated levels against the US currency. The EURPLN remains in the range of 3.89-3.916 and, like yesterday, changes within this range will be determined by the events abroad.

On the domestic debt market, low investors' activity was seen yesterday, and stability of yields versus Wednesday's levels, when there was a significant strengthening of bonds under the influence of risk aversion, and the MinFin's suggestion that it may carry out IRS transactions converting a fixed interest rate to variable. The BGK bank informed that it will issue 2- and 4-year floating-coupon bonds worth PLN2bn. Declarations of demand will be collected until February 11, and the settlement of the tender will be February 16. Today, the debt market should be stable until the publication of data from the US labour market. Later on, the short end should remain stable, while the long end will be under the influence of yields in the core markets and changes in risk appetite.

On the core debt markets, yields of Bunds were falling throughout yesterday's session (which was supported by less hawkish than expected tone of ECB president's comments), while the yields of Treasuries rose (due to strong macro data from the US). At the end of the day yields of 10-year Bunds and Treasuries were 3.24% and 3.53%.

MPC member, Andrzej Kaźmierczak, said in an interview with Bloomberg that the MPC should not hurry with next interest rate hikes, because it could negatively affect GDP growth, and yet may fail to reduce the acceleration of inflation due to external factors. It is worth recalling that at a press conference after the January MPC meeting Kaźmierczak was much more hawkish and on this basis, we believe that the January rate hike was supported by all members of the MPC. New Kaźmierczak's comments suggest, however, that in the coming months, opinions on the need for further moves may be more divided and it will be harder to reach unanimous decision, while in March there may be no majority at all (or a tie with a casting vote of the NBP President) in favour of a hike, although much will depend on the new data.

## ECONOMIC ANALYSIS

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F/X rates (today's opening)

EURUSD	1.3632	CADPLN	2.8932
USDPLN	2.8637	DKKPLN	0.5236
EURPLN	3.9039	NOKPLN	0.4983
CHFPLN	3.0225	SEKPLN	0.4427
JPYPLN*	3.5083	CZKPLN	0.1628
GBPPLN	4.6215	HUFPLN*	1.4469

\*for 100JPY/100HUF

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.8890	3.9187	3.9070	3.9015	3.9173
USDPLN	2.8185	2.8634	2.8280	2.8622	2.8424
EURUSD	1.3621	1.3825	1.3815	1.3628	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2L	4.99	2	5/01	4.984
5L	5.77	-1	5/01	5.642
10L	6.22	0	12/01	6.215

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	4.66	-1	0.46	3	1.63	2
2L	5.12	-1	0.86	4	2.08	4
3L	5.36	0	1.38	3	2.41	7
4L	5.49	0	1.87	3	2.67	8
5L	5.54	-2	2.31	3	2.90	7
8L	5.59	-3	3.21	2	3.33	5
10L	5.57	-3	3.56	1	3.52	4

WIBOR rates

TERM	%	Daily change (bp)
O/N	3.60	1
T/N	3.65	5
SW	3.77	1
2W	3.80	0
1M	3.86	0
3M	4.09	0
6M	4.33	1
9M	4.45	0
1Y	4.50	0

FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.97	3
3X6	4.48	3
6X9	4.83	2
9X12	5.03	1
3X9	4.70	2
6X12	4.99	0

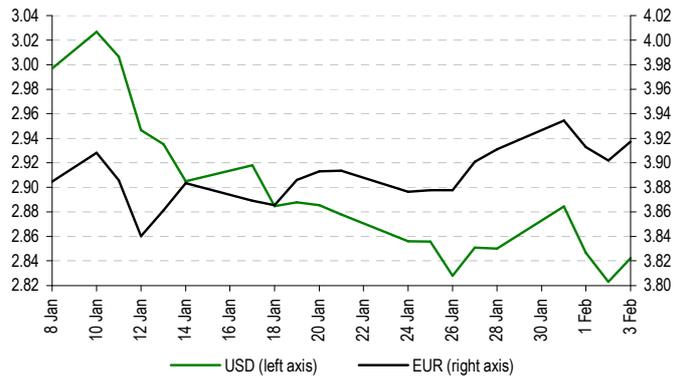
Measures of fiscal risk

Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	147.3	0	2.98	-3
Czech Republic	87.8	0	0.78	-3
Hungary	305.3	-16	4.15	2
Greece	825.9	-11	7.72	11
Spain	218.6	-10	1.93	5
Italy	157.2	-6	1.36	4
Portugal	388.6	-11	3.72	11
Germany	52.8	-3	--	--

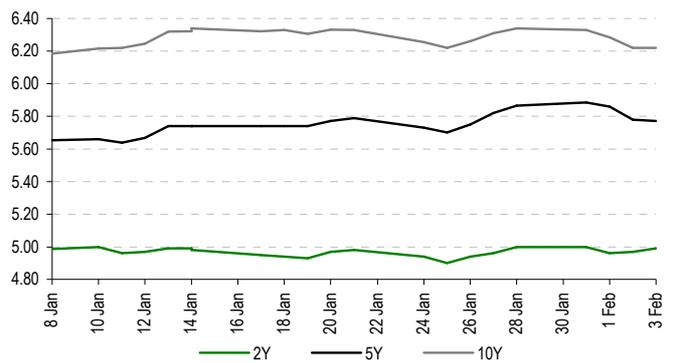
\* 10Y treasury bonds over 10Y Bunds

Source: Reuters

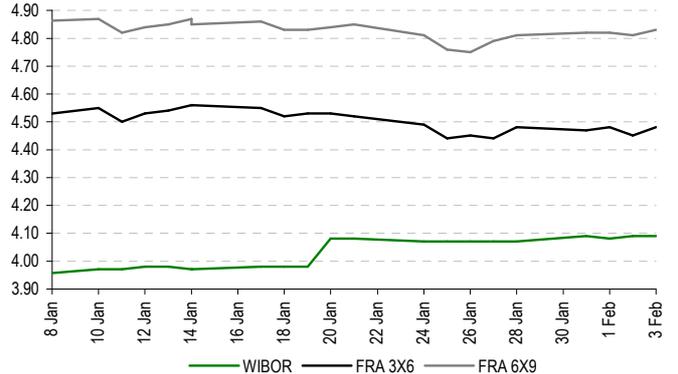
Zloty exchange rate (fixing)



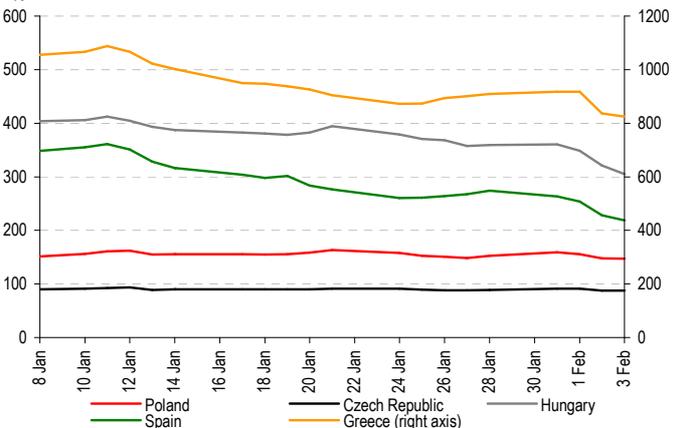
T-bonds yields



3-month money market rates



CDS 5Y



## Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE *
					MARKET	BZWBK		
<b>MONDAY (31 January)</b>								
<b>11:00</b>	<b>PL</b>	<b>Tender of 52-week T-bills worth PLN1.5-2.0bn</b>						
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
<b>TUESDAY (1 February)</b>								
3:30	CN	PMI – manufacturing	Jan	pts	-	-	54.5	54.4
<b>9:00</b>	<b>PL</b>	<b>PMI – manufacturing</b>	Jan	pts	<b>56.0</b>	<b>56.2</b>	<b>55.6</b>	<b>56.3</b>
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
<b>WEDNESDAY (2 February)</b>								
<b>11:00</b>	<b>PL</b>	<b>Bond switching auction</b>						
14:15	US	ADP report	Jan	k	145	-	187	247
<b>THURSDAY (3 February)</b>								
9:53	DE	PMI – services	Jan	pts	60.0	-	60.3	59.2
9:58	EZ	PMI – services	Jan	pts	55.2	-	55.9	54.2
13:45	EZ	ECB decision		%	1.0	-	1.0	1.0
14:30	US	Preliminary productivity	Q4	%QoQ	2.0	-	2.6	2.4
14:30	US	Initial jobless claims	week	k	420	-	415	457
16:00	US	Industrial orders	Dec	%MoM	-0.5	-	0.2	0.7
16:00	US	ISM – services	Jan	pts	57.0	-	59.4	57.1
19:15	US	Public speech of Fed's governor						
<b>FRIDAY (4 February)</b>								
14:30	US	Non-farm payrolls	Jan	k	145	-		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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