Bank Zachodni WBK

# Eyeopener – Zloty pared loss

25 February 2011

- **Yesterday slight improvement in sentiment on the markets thanks to positive data from the US, today more optimism due to drop in oil prices**
- **The zloty pared losses to major currencies, while EURUSD climbed**
- **Domestic interest rate market under impact of 'forecasts' from the stats office and moods in the global markets**
- **Today focus on important data in the US and further developments in the MENA region**

The Thursday's session was a consecutive one dominated by risk aversion. Rising oil prices due to the unrest in Libya have raised concerns of investors about the possibility of maintaining the expansion of global economy. The risk that the soaring prices of raw materials may adversely affect the growth potential of the largest economies has considerably reduced demand for risky assets. During the yesterday's session the stock indices and yields in core debt markets dropped and the USDCHF exchange rate recorded its lowest level ever. The weekly US data on number of new unemployed were slightly better than expected similarly as the data on orders for durable goods in January. Even though the orders decreased by 3.6%MoM after excluding the means of transport, the stock indices' drops slowed down after release of those readings and growths began. The disappointing data on new home sales in January didn't halt the improvement of market sentiment. The factor, whih pushed the EURUSD exchange rate up, was a statement of ECB's Axel Weber who said that there is only one direction the interest rates in euro zone – upwards. Besides, Fed's James Bullard emphasized that one should 'never say never' about the possibility of launching QE3 and the outlook for another round of US economy stimulus had a negative impact on the dollar. Compared to other CEE currencies, the forint gained substantially, what could be a result of strong demand at yesterday's auctions of 3- and 5-year bonds, more of which were sold than was initially planned.

After close of the domestic session the sentiment in global financial markets improved. The factor which contributed to that was the decline in oil prices after assurances from Saudi Arabia, the US and the International Energy Agency, that the loss of oil supply due to turmoil in Libya can be fully compensated. As a result, the changes of US stock indices were mixed while growths prevailed in Asia.

In the first part of the yesterday's session EURUSD broke the support at 1.372 but did not continue the downward move. Following hours brought upward trend and the EURUSD climbed above the resistance at 1.377 tested already on Wednesday. The euro's appreciation was supported by slight improvement of market sentiment that occurred after publication of US data and comments from Weber and Bullard. Still, the upward momentum was soon halted by resistance at 1.381 and the exchange rate hovered around that level overnight. The extending stabilization may indicate that decline towards first support at 1.377 is more likely. Still, until the US data publication the volatility may be limited.

EURPLN and USDPLN surged since the beginning of the yesterday's session due to persisting high risk aversion. The EURPLN broke even psychological level of 4.0, but soon the correction of that increase was observed. The zloty's appreciation was supported by positive US macro data. At the end of the day the EURPLN declined below vital technical area of just below 3.99 and today in the morning is testing a support at ca. 3.976. We expect that it will not be broken and the EURPLN will spend the whole session between that support and yesterday's maximum at 4.0015.

On the core fixed income markets yields were declining gradually amid persisting risk aversion. First set of US data was interpreted by the market as quite optimistic and yields rebounded to Wednesday's closing levels. At the end of the day yields of the 10Y Bunds and Treasuries reached 3.15% and 3.45%, respectively.

On the domestic fixed income market yields across the curve started the day above Wednesday's closing levels due to prevailing risk aversion. Later in the day bonds pared loses and at the end of the day were close to previous day's close. Inflation forecasts from the stats office's acting President (in March it may increase to 4.1-4.2%YoY) pushed FRA and IRS rates up.

In an interview with PAP published yesterday, the acting President of the CSO, Janusz Witkowski, presented forecasts of the indicators published by the statistical office (which is rather rare in practice of such institutions). According to him, the CPI inflation is likely to rise to 4.1-4.2%YoY in March and then will fall. Witkowski said that in the whole 2011 the average inflation will be at 3.5%. He believes that the investment will be the main factor supporting the domestic economy growth.

**ECONOMIC ANALYSIS**

ul. Marszałkowska 142. 00-061
email: ekonomia@bzwbk.pl
fax +48 022 586 83 40
Web site: http://www.bzwbk.pl

| | |
|---|---|
| Maciej Reluga (Chief Economist) | +48 (0) 22 586 83 63 |
| Piotr Bielski | +48 (0) 22 586 83 33 |
| Piotr Bujak | +48 (0) 22 586 83 41 |
| Marcin Sulewski | +48 (0) 22 586 83 42 |
| Marcin Luziński | |

**TREASURY SERVICES**

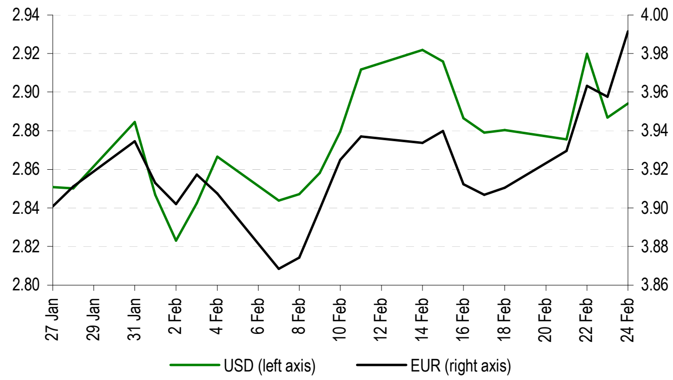
| | |
|---|---|
| Poznań | +48 (0) 61 856 5814/25 |
| Warszawa | +48 (0) 22 586 8320 |
| Wrocław | +48 (0) 71 370 2587 |

### F/X rates (today's opening)

| | | | |
|---|---|---|---|
| EURUSD | 1.3816 | CADPLN | 2.9398 |
| USDPLN | 2.8853 | DKKPLN | 0.5347 |
| EURPLN | 3.9864 | NOKPLN | 0.5145 |
| CHFPLN | 3.1204 | SEKPLN | 0.4526 |
| JPYPLN* | 3.5250 | CZKPLN | 0.1627 |
| GBPPLN | 4.6579 | HUFPLN* | 1.4572 |

*for 100JPY/100HUF

### Zloty exchange rate (fixing)




**Financial market review - 24.02.2011**

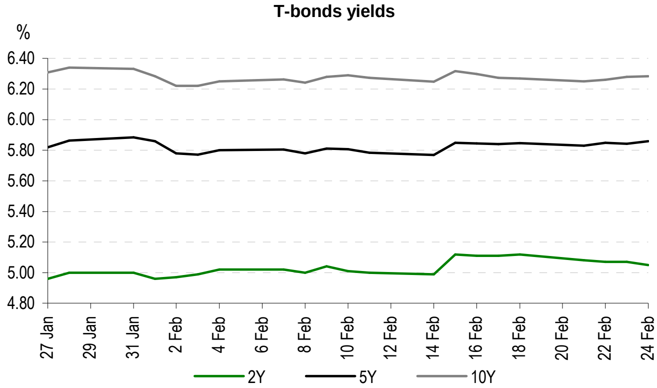
### The zloty trading ranges

| | min | max | open | close | fixing |
|---|---|---|---|---|---|
| EURPLN | 3.9755 | 4.0015 | 3.9862 | 3.9861 | 3.9916 |
| USDPLN | 2.8780 | 2.9135 | 2.9032 | 2.8914 | 2.8941 |
| EURUSD | 1.3701 | 1.3820 | 1.3731 | 1.3793 | - |

### T-bonds

| TERM | Yield (%) | Change (bp) | Last auction | Average yield |
|---|---|---|---|---|
| 2L | 5.05 | -2 | 5/01 | 4.984 |
| 5L | 5.86 | 2 | 5/01 | 5.642 |
| 10L | 6.28 | 0 | 12/01 | 6.215 |

### T-bonds yields



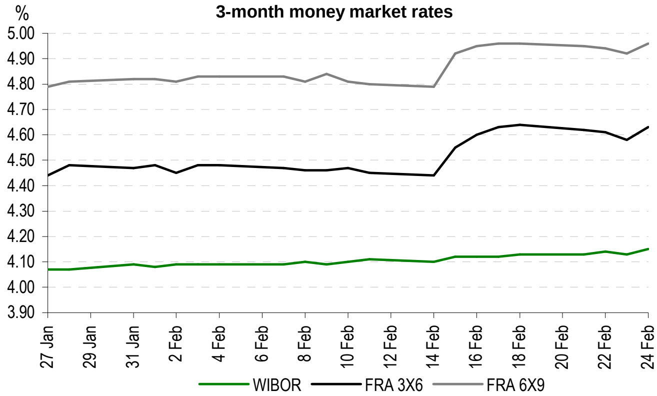

### IRS rates (Mid)

| TERM | PL | | US | | EA | |
|---|---|---|---|---|---|---|
| | % | Change (bp) | % | Change (bp) | % | Change (bp) |
| 1L | 4.82 | 5 | 0.43 | 0 | 1.68 | -1 |
| 2L | 5.23 | 2 | 0.91 | 2 | 2.11 | -1 |
| 3L | 5.47 | 3 | 1.47 | 1 | 2.39 | 1 |
| 4L | 5.59 | 4 | 1.95 | 2 | 2.63 | 2 |
| 5L | 5.64 | 3 | 2.39 | 0 | 2.81 | 3 |
| 8L | 5.64 | 3 | 3.25 | 1 | 3.25 | 3 |
| 10L | 5.60 | 4 | 3.58 | -1 | 3.41 | 2 |

### WIBOR rates

| TERM | % | Daily change (bp) |
|---|---|---|
| O/N | 3.10 | -23 |
| T/N | 3.40 | -4 |
| SW | 3.78 | 1 |
| 2W | 3.83 | 0 |
| 1M | 3.88 | 1 |
| 3M | 4.15 | 2 |
| 6M | 4.36 | 0 |
| 9M | 4.47 | 0 |
| 1Y | 4.52 | 0 |

### 3-month money market rates




### FRA rates (Mid)

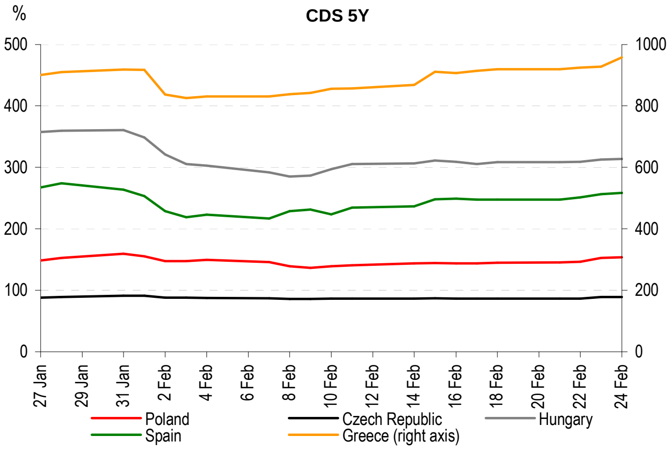
| TERM | % | Daily change (bp) |
|---|---|---|
| 1X2 | 4.05 | 3 |
| 3X6 | 4.63 | 5 |
| 6X9 | 4.96 | 4 |
| 9X12 | 5.22 | 6 |
| 3X9 | 4.84 | 5 |
| 6X12 | 5.15 | 4 |

### Measures of fiscal risk

| Country | CDS 5Y | | Spread 10Y* | |
|---|---|---|---|---|
| | Value | Change (bp) | Value | Change (bp) |
| Poland | 153.8 | 2 | 3.14 | 2 |
| Czech Republic | 88.8 | 0 | 0.90 | -1 |
| Hungary | 313.8 | 1 | 4.49 | 0 |
| Greece | 958.2 | 31 | 8.81 | 12 |
| Spain | 258.4 | 3 | 2.22 | -2 |
| Italy | 180.7 | 2 | 1.68 | -3 |
| Portugal | 472.1 | -2 | 4.42 | 5 |
| Ireland | 597.6 | 8 | 6.13 | 14 |
| Germany | 54.1 | 0 | -- | -- |

* 10Y treasury bonds over 10Y Bunds

### CDS 5Y




Source: Reuters

## Economic calendar

| Time CET | COUNTRY | INDICATOR | PERIOD | | FORECAST | | ACTUAL VALUE | LAST VALUE * |
|---|---|---|---|---|---|---|---|---|
| | | | | | MARKET | BZWBK | | |
| | | **MONDAY (21 February)** | | | | | | |
| 9:28 | DE | Flash PMI – manufacturing | Feb | pts | 60.0 | - | 62.6 | 60.5 |
| 9:58 | EZ | Flash PMI – manufacturing | Feb | pts | 57.0 | - | 59.0 | 57.3 |
| 9:28 | EZ | Flash PMI – services | Feb | pts | 55.6 | - | 57.2 | 55.9 |
| 10:00 | DE | Ifo index | Feb | pts | 110.3 | - | 111.2 | 110.3 |
| **11:00** | **PL** | **Tender of 52-week T-bills worth PLN1.5-2.0bn** | | | | | | |
| **14:00** | **PL** | **Business climate** | **Feb** | **pts** | **-** | **-** | | **-** |
| | US | Market holiday | | | | - | | |
| | | **TUESDAY (22 February)** | | | | | | |
| 8:00 | DE | GfK index | Mar | pts | 5.8 | - | 6.0 | 5.8 |
| 15:00 | US | S&P/Case-Shiller home price index | Dec | %MoM | -0.5 | - | -0.4 | -0.6 |
| 16:00 | US | Consumer confidence index | Feb | pts | 65.0 | - | 70.4 | 64.8 |
| | | **WEDNESDAY (23 February)** | | | | | | |
| **10:00** | **PL** | **Unemployment rate** | **Jan** | **%YoY** | **12.9** | **12.8** | **5.8** | **12.3** |
| **10:00** | **PL** | **Retail sales** | **Jan** | **%YoY** | **8.5** | **9.9** | **13.0** | **12.0** |
| 11:00 | EZ | Industrial orders | Dec | %MoM | -0.8 | - | 2.1 | 2.1 |
| 16:00 | US | Home sales | Jan | m | 5.24 | - | 5.36 | 5.28 |
| | | **THURSDAY (24 February)** | | | | | | |
| 8:00 | DE | Final GDP | Q4 | %QoQ | 0.4 | - | 0.4 | 0.7 |
| 11:00 | EZ | Economic sentiment | Feb | pts | 106.8 | - | 107.8 | 106.5 |
| 14:30 | US | Initial jobless claims | week | k | 400 | - | 391 | 413 |
| 14:30 | US | Durable goods orders | Jan | %MoM | 2.7 | - | 2.7 | -0.4 |
| 16:00 | US | New home sales | Jan | k | 310 | - | 284 | 325 |
| | | **FRIDAY (25 February)** | | | | | | |
| 14:30 | US | Preliminary GDP | Q4 | %QoQ | 3.3 | - | | 2.6 |
| 15:55 | US | Final Michigan index | Feb | pts | 75.3 | - | | 74.2 |

Source: BZ WBK, Bloomberg Parkiet, Reuters

* in case of the revision. the data is updated



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. http://www.bzwbk.pl

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