Bank Zachodni WBK

Eyeopener – Key week for the euro zone

5 December 2011

- **Rumours about ECB's loan to IMF and US data supported the market moods**
- **Zloty weaker versus dollar due to profit taking in EURUSD**
- **Domestic bonds slightly stronger amid lower turnover**
- **Today, indices of activity in services sector in the euro zone and the US, Merkel-Sarkozy meeting**

Better than expected macroeconomic data releases in the US (the ADP report, ISM index) raised hopes for positive non-farm payrolls reading for November. As a consequence, starting from the beginning of Friday's session investors' mood was positive. It resulted in increasing in share prices and slight euro strengthening. The speech of German Chancellor Angela Merkel (who mentioned that discussion on the common bonds of the euro zone countries makes no sense, because the German constitution does not allow to hand the control over fiscal matters for European institutions) did not affect the market sentiment. Greater volatility on the FX market was observed after news that the ECB is ready to provide financial means to the IMF, which might be used to overcome the debt crisis in the euro zone. Another impulse, supporting the positive mood on the market, came from the US – the November's labour market data showed that the rise in the number of new jobs in non-farm sector was more or less in line with expectations, while the previous month data was revised upwards and unemployment rate fell significantly. The session on Wall Street started with strong gains, but later on there was some profit taking and as a result the session ended at the level from previous day.

The EURUSD exchange rate has been climbing since the very beginning of the session, thanks to expectations for good data from the USA. After rumours that IMF may be provided with financial means by the ECB, a considerable surge occurred. The exchange rate broke the upper resistance, which we have indicated as more likely scenario in our last daily report. The data from the USA have pushed EURUSD even higher, to almost 1.355, but a correction occurred soon, as the market has already priced-in the optimistic figures. The dollar appreciation was halted after close of domestic session, at ca. 1.336. At the beginning of this week, the market sentiment is still quite sanguine, which has supported the euro to trim some of its losses, so this morning EURUSD hovers slightly above 1.34. The good mood at the start of the session may support the single currency, but potential for more pronounced euro appreciation is limited due to uncertainty about the developments in the euro zone, especially ahead of the EU summit. Support and resistance for today are at 1.336 and 1.346, respectively.

EURPLN was fluctuating near 4.475 throughout the session and its reaction to events in the global market was limited. USDPLN was declining slightly amid rise in EURUSD, but when a correction of the latter took place, the zloty also pared gains versus the US currency. After a rise to almost 4.50, the EURPLN fell to 4.48 due to reversal of upward trend in EURUSD and today in the morning it was hovering near this level. We see a scope for zloty appreciation at today's session. The support for domestic currency– at least at the start of the session – will be good sentiment in the market (signalled by rising futures in Europe and US) and rising EURUSD. The support for EURPLN is 4.465, resistance 4.485.

On the domestic fixed income market yields started the day below Thursday's closing and in the following hours bonds were stable close to Friday's opening levels. The trade volume was smaller than on Thursday. In other segments on the curve and IRS market there were also hardly any changes.

This week may be crucial for situation in European and global markets and investors will focus their attention on actions aiming at preventing the euro zone from collapse. The main events of the week to come in the global markets will be the ECB decisions on Thursday and EU summit on Friday. Investors are expecting more decisive actions from both the central bank and euro zone leaders towards resolution of debt crisis. Although in Friday's speech the German Chancellor underlined that it may take years until the situation gets back to normal, it does not change the fact that investors are anticipating more specific decisions. Over the weekend the new Italian government announced new austerity measures worth €24bn that shall balance budget by 2013 and help to regain trust of the market. Today German chancellor is due to meet again French president to discuss propositions in order to guarantee the future of the Europe. All information on possible anti-crisis actions may have significant impact on the market. We expect that the ECB will cut main interest rate by 25 bps on Thursday and may announce the launch of new measures supporting liquidity in the interbank market. As regards domestic monetary policy, the MPC members' statements clearly suggest that the NBP interest rates will remain unchanged and the decision (due on Wednesday) should not trigger significant market move. We think that the hawkish tone of the communique will be maintained, which may influence the domestic interest rate market. Last week the EURPLN broke through the upward trend line and rebounded from a resistance important in a monthly horizon. This fact, and hopes for resolution of debt crisis in Europe, may support the zloty, at least in the first part of the week.

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F/X rates (today's opening)

EURUSD	1.3431	CADPLN	3.2844
USDPLN	3.3393	DKKPLN	0.6033
EURPLN	4.4835	NOKPLN	0.5785
CHFPLN	3.6279	SEKPLN	0.4961
JPYPLN*	4.2814	CZKPLN	0.1782
GBPPLN	5.2207	HUFPLN*	1.4805

*for 100JPY/100HUF

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.4632	4.4886	4.4834	4.4832	4.4812
USDPLN	3.2921	3.3320	3.3281	3.3401	3.3235
EURUSD	1.3454	1.3548	1.3470	1.3433	-

T-bonds

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0114 (2Y)	4.86	-2	12.10	4.5824
PS0416 (5Y)	5.24	-2	10.08	5.256
DS1020 (10Y)	5.88	-3	12.01	6.215

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	4.94	1	0.61	0	1.49	-4
2L	4.82	0	0.67	2	1.40	-4
3L	4.81	-1	0.82	2	1.56	-7
4L	4.86	-1	1.06	2	1.76	-9
5L	4.91	-1	1.34	2	2.00	-7
8L	5.04	-1	1.98	2	2.45	-8
10L	5.06	-2	2.24	3	2.64	-9

WIBOR rates

TERM	%	Daily change (bp)
O/N	4.62	-2
T/N	4.63	-1
SW	4.61	0
2W	4.64	0
1M	4.75	0
3M	4.97	0
6M	4.97	0
9M	4.97	0
1Y	4.97	0

FRA rates (Mid)

TERM	%	Daily change (bp)
1x2	4.79	1
1x4	4.97	-1
3x6	4.98	-1
6x9	4.82	2
9x12	4.71	-1
3x9	4.98	-2
6X12	4.82	-2

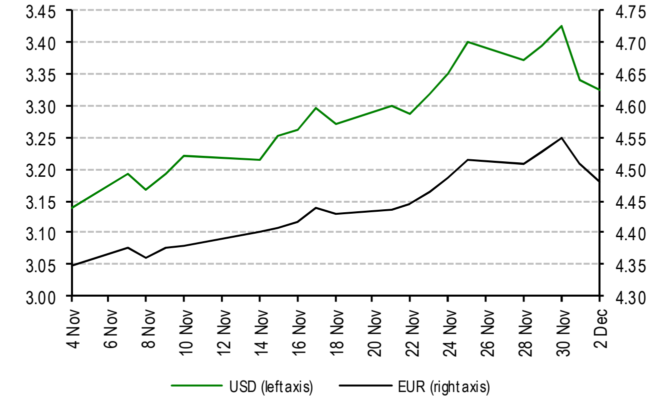
Measures of fiscal risk

Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	270.2	-5	3.70	3
Czech Republic	172.3	-4	173	-16
Hungary	573.3	-9	6.49	-11
Greece	6782.9	283	27.27	35
Spain	381.7	-20	3.41	-15
Italy	458.5	-20	4.42	-13
Portugal	1109.7	-30	11.96	27
Ireland	724.7	-10	7.06	-6
Germany	95.6	-1	--	--

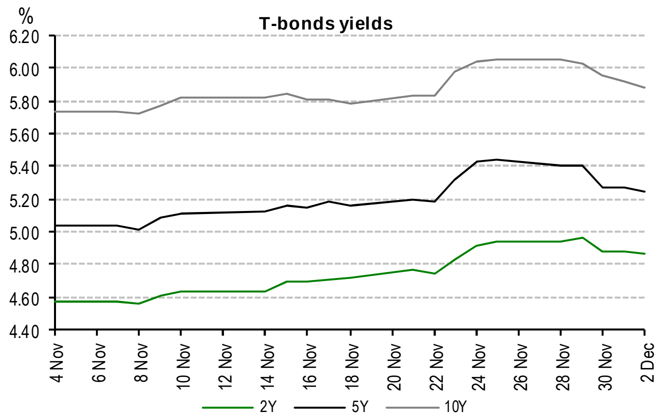
* 10Y treasury bonds over 10Y Bunds

Source: Reuters

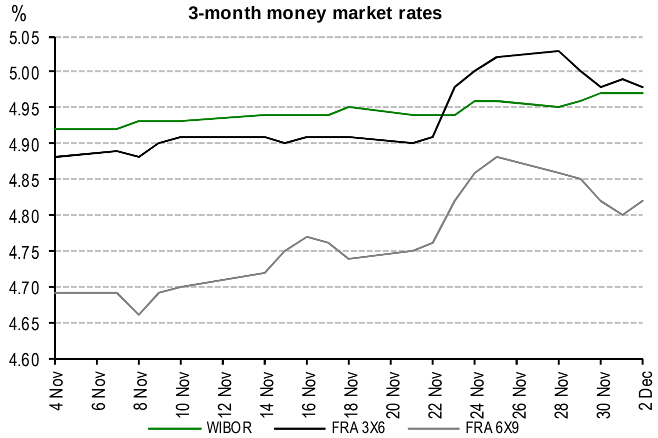
Zloty exchange rate (fixing)



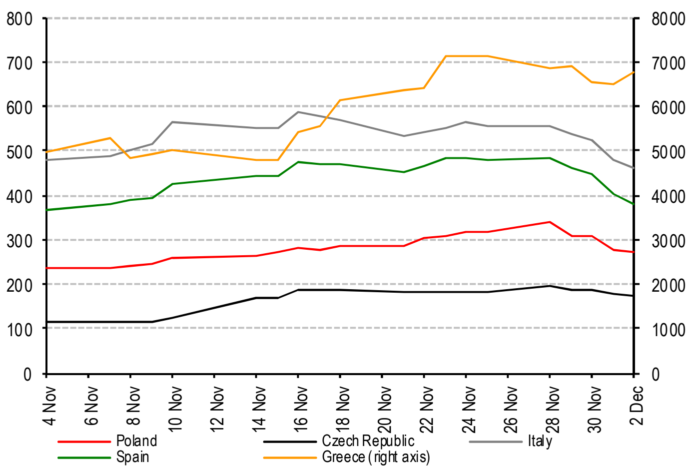
T-bonds yields



3-month money market rates



CDS 5Y



Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE*
		FRIDAY (2 December)						
14:30	US	Non-farm payrolls	Nov	k	117	-		80
14:30	US	Unemployment rate	Nov	%	9.0	-		9.0
		MONDAY (5 December)						
9:53	DE	PMI – services	Nov	pts	51.4	-		50.6
9:58	EZ	PMI – services	Nov	pts	47.8	-		46.4
10:30	EZ	Sentix index	Dec	pts	-22.5	-		-21.2
11:00	EZ	Retail sales	Oct	%YoY	-0.8	-		-1.5
16:00	US	Industrial orders	Oct	%MoM	-0.3	-		0.3
16:00	US	ISM – services	Nov	pts	53.5	-		52.9
		TUESDAY (6 December)						
11:00	EZ	GDP revision	Q3	%YoY	1.4	-		1.6
12:00	DE	Industrial orders	Oct	%MoM	0.8	-		-4.3
		WEDNESDAY (7 December)						
	PL	**MPC decision**		**%**	**4.50**	**4.50**		**4.50**
12:00	DE	Industrial output	Oct	%MoM	0.4	-		-2.7
		THURSDAY (8 December)						
13:00	GB	BoE decision		%	0.50	-		0.50
13:45	EZ	ECB decision		%	1.0	-		1.25
14:30	US	Initial jobless claims	week	k	395	-		402
16:00	US	Wholesale inventories	Oct	%MoM	0.3	-		-0.1
		FRIDAY (9 December)						
8:00	DE	Exports	Oct	%MoM	-1.0	-		0.9
14:30	US	Trade balance	Oct	$bn	-44.0	-		-43.1
15:55	US	Flash Michigan index	Dec	pts	65.3	-		64.1

Source: BZ WBK, Bloomberg, Reuters, Parkiet

** in case of the revision, the data is updated*

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