Bank Zachodni WBK

Eyeopener – Moody's affirms Poland's rating

20 December 2011

- **Investment mood stable, market players are waiting for turning point in the EU leaders talks**
- **The zloty slightly stronger, Moody's affirms Poland's rating, the EURUSD relatively stable**
- **Domestic debt market was calm, with low turnovers, T-bills buy-back in line with expectation**
- **Today's focus on domestic core measures, Ifo in Germany and real estate data from the US**

The market sentiment was rather sour at the very beginning of the Monday's session, due to decisions of the rating agencies and uncertainty about the political developments in North Korea. However, a rebound occurred quite soon and trading passed in calm mood in the following hours. The sentiment was supported by words of president of French central bank and member of ECB Governing Council, Christian Noyer, who said that the ECB will be active on the market in order to limit financial institutions' difficulties with liquidity. Noyer added that purchase of bonds of threatened euro zone countries substantially exceeds the mandate of lender of last resort. Still, these words did not affect the market, as investors hoped that in the evening the EU policymakers will reach an agreement about details and rules of fiscal integration. In short term, some negative impact on EURUSD exchange rate was also put by comment of German spokesperson for the finance ministry, who said that is it not probable that Germany will cover its whole ESM contribution in 2012.

The EURUSD exchange rate was close to opening level only in the first hours of session. In the following hours, the euro gained against the dollar due to hopes for fruitful result of EU policymakers' meeting. Still, the market volatility was very low, similarly as in better part of the previous week. The rate climbed slightly above 1.304, but this move was corrected after start of US session. The decision of EU leaders about agreement on contributing €150bn to the IMF did not cause any considerable changes. In general, the recent narrowing of the hovering range can indicate that a pre-holiday atmosphere is predominating. This morning EURUSD is hovering close to 1.30 and a more pronounced impact can be exerted by Ifo reading. Support and resistance for today are at 1.298 and 1.305, respectively.

EURPLN and EURUSD fell at the start of the day amid reversal of downward trend in EURUSD and remained stable until the end of session. EURPLN did not manage to break through the support indicated by us at 4.48, but during the session in Asia the level was tested many times. Similar situation is observed this morning, EURPLN is testing important support, and in case of breaking it may go down to 4.46. Although volatility in EURUSD has fallen clearly in recent days, it did not stop the zloty from gaining over 10 groszy versus euro. So it seems that if the risk appetite appears, the domestic currency could gain further (however the start of the European session shows a slight drop in stock indices). Ifo index may be important for moods today. Resistance for EURPLN is 4.50-4.51.

Moody's rating agency confirmed Poland's rating at A2 with stable outlook. The statement says that the main factors behind rating confirmation were: macroeconomic stability and resilience, even amid significant external shocks, credible fiscal consolidation, "buffers" created of by the government, among others in form of access to the IMF's flexible credit line.

The MPC member Andrzej Bratkowski said that despite high inflation, the scenario that the Council will keep rates on hold in 2012 is not very likely. In his view, in case of deep slowdown in the euro area, one cannot rule out a rate cut, although this scenario is possible if the zloty does not weaken too much. Bratkowski added that the weakening of the zloty would threaten the stability of the financial system.

On the domestic fixed income market yields did not change during the day amid hardly any activity of investors. Such beginning of the week suggests, that the situation may not change until the end of the year. In other segments of the curve there were also no changes.

The Finance Ministry repurchased yesterday T-bills worth PLN2.2bn that constitutes 13% of next year's redemptions. After results of yesterday's tender were published, director of debt department in the Ministry, Piotr Marczak, said that there may be another T-bills buy-back this year.

Industrial output growth accelerated in November to 8.7%YoY, while construction output to 13%YoY, clearly exceeding expectations. Production growth in Q4 potentially may be even higher than in Q3, which confirms that a slowdown in GDP growth in the final part of the year will be moderate. Still, we expect that a severe economic slowdown in the euro zone (possible recession in nearest quarters) will constrain growth in Polish exports and production significantly in 2012. Producer prices keep accelerating, affected by zloty exchange rate and commodity prices. There are no arguments for the MPC to cut interest rates at the moment.

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F/X rates (today's opening)

EURUSD	1.3012	CADPLN	3.3190
USDPLN	3.4425	DKKPLN	0.6026
EURPLN	4.4790	NOKPLN	0.5800
CHFPLN	3.6735	SEKPLN	0.4977
JPYPLN*	4.4165	CZKPLN	0.1766
GBPPLN	5.3453	HUFPLN*	1.4792

*for 100JPY/100HUF

Financial market review - 19.12.2011

The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.4770	4.5052	4.4565	4.4835	4.4910
USDPLN	3.4267	3.4636	3.3150	3.4436	3.4470
EURUSD	1.2996	1.3043	1.3446	1.3022	-

T-bonds

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0114 (2Y)	4.88	0	12.10	4.5824
PS0416 (5Y)	5.34	0	10.08	5.256
DS1020 (10Y)	5.89	1	12.01	6.215

IRS rates (Mid)

TERM	PL %	PL Change (bp)	US %	US Change (bp)	EA %	EA Change (bp)
1L	4.91	3	0.68	1	1.52	1
2L	4.79	1	0.71	0	1.35	-1
3L	4.77	1	0.80	-1	1.45	2
4L	4.81	2	0.99	-3	1.60	-3
5L	4.86	2	1.21	-3	1.81	-4
8L	4.98	1	1.78	-4	2.23	-5
10L	4.99	1	2.01	-4	2.41	-5

WIBOR rates

TERM	%	Daily change (bp)
O/N	3.95	-50
T/N	4.21	-28
SW	4.60	-2
2W	4.65	0
1M	4.77	0
3M	4.98	-1
6M	5.00	0
9M	5.00	-1
1Y	5.00	0

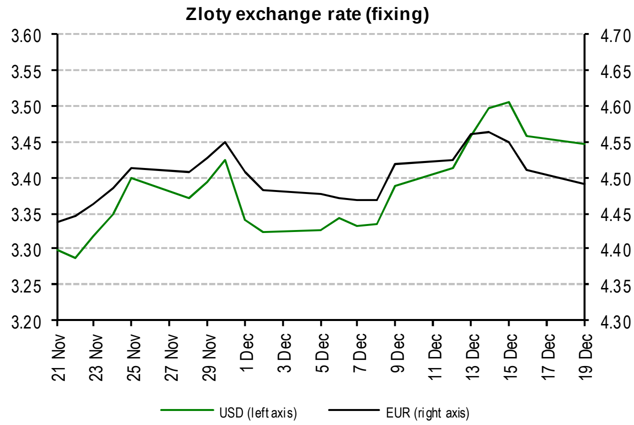
FRA rates (Mid)

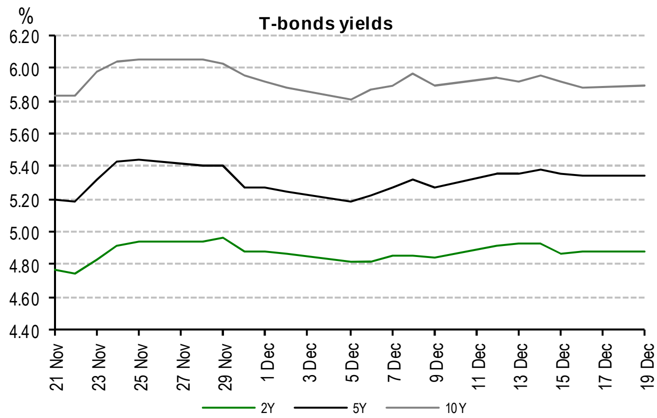
TERM	%	Daily change (bp)
1x2	4.76	-1
1x4	4.97	-1
3x6	4.95	0
6x9	4.78	2
9x12	4.67	1
3x9	4.96	1
6X12	4.79	2

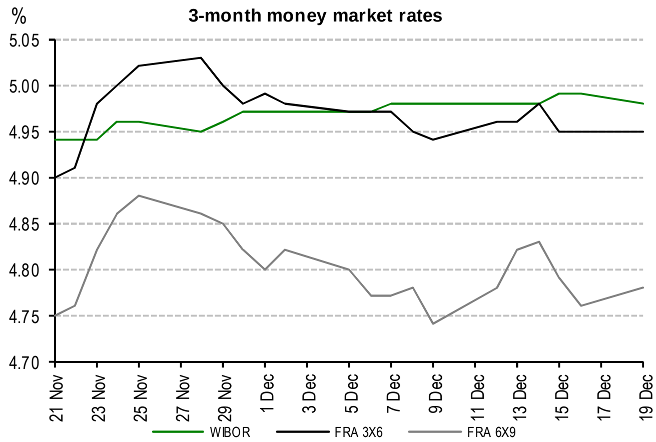
Measures of fiscal risk

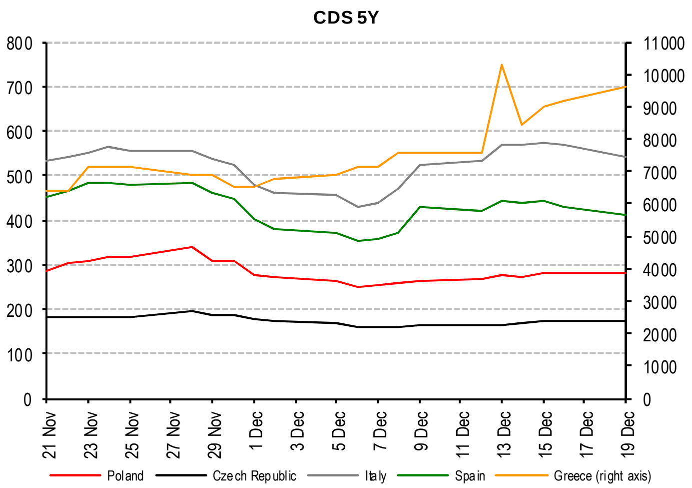
Country	CDS 5Y Value	CDS 5Y Change (bp)	Spread 10Y* Value	Spread 10Y* Change (bp)
Poland	281.5	0	4.01	0
Czech Republic	173.1	0	182	-5
Hungary	576.0	0	7.27	3
Greece	9627.8	452	3161	16
Spain	412.5	-17	3.32	-8
Italy	542.2	-24	4.96	-10
Portugal	1196.2	-17	11.34	1
Ireland	755.8	-11	6.75	-5
Germany	97.5	-2	--	--

* 10Y treasury bonds over 10Y Bunds









Source: Reuters

Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE*
		FRIDAY (16 December)						
14:00	**PL**	**Wages in enterprise sector**	**Nov**	**%YoY**	**5.1**	**5.1**	**4.4**	**5.1**
14:00	**PL**	**Employment in enterprise sector**	**Nov**	**%YoY**	**2.3**	**2.3**	**2.5**	**2.5**
14:30	US	Core CPI	Nov	%MoM	0.1	-	0.2	0.1
		MONDAY (19 December)						
11:00	**PL**	**Repurchase tender of T-bills worth PLN16.7bn**						
14:00	**PL**	**Industrial output**	**Nov**	**%YoY**	**5.9**	**5.8**	**8.7**	**6.5**
14:00	**PL**	**Construction output**	**Nov**	**%YoY**	**11.0**	**7.5**	**13.0**	**8.9**
14:00	**PL**	**PPI**	**Nov**	**%YoY**	**8.6**	**8.7**	**8.9**	**8.5**
		TUESDAY (20 December)						
8:00	DE	GfK index	Jan	pts	5.5	-		5.6
10:00	DE	Ifo index	Dec	pts	106.1	-		106.6
14:00	**PL**	**Core CPI**	**Nov**	**%YoY**	**2.9**	**3.1****		**2.8**
14:30	US	House starts	Nov	k	635	-		628
14:30	US	Building permits	Nov	k	635	-		644
		WEDNESDAY (21 December)						
16:00	US	Home sales	Nov	m	5.0	-		4.97
		THURSDAY (22 December)						
10:00	**PL**	**Retail sales**	**Nov**	**%YoY**	**10.5**	**9.9**		**11.2**
10:00	**PL**	**Unemployment rate**	**Nov**	**%YoY**	**12.0**	**12.0**		**11.8**
14:00	**PL**	**MPC minutes**						
14:30	US	GDP	Q3	%QoQ	2.0	-		1.3
14:30	US	Initial jobless claims	week	k	378	-		366
15:55	US	Michigan index	Dec	pts	68.0	-		64.1
16:00	US	Leading indicators	Nov	%MoM	0.3	-		0.9
		FRIDAY (23 December)						
14:30	US	Consumer spending	Nov	%MoM	0.3	-		0.1
14:30	US	Personal income	Nov	%MoM	0.2	-		0.4
14:30	US	Core PCE	Nov	%MoM	0.1	-		0.1
14:30	US	Durable goods orders	Nov	%MoM	2.0	-		-0.5
16:00	US	New home sales	Nov	k	313	-		307

Source: BZ WBK, Reuters, Parkiet

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

*** estimate after CPI data*

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