

Eyeopener – Focus on flash PMI today

15 December 2011

- **Results of Italian bond auction and lack of Fed's declaration of further support weighing on moods**
- **Zloty rebounded after Tuesday's slump, EURUSD at lowest level since January 2011**
- **Domestic bonds slightly weaker due to unstable moods, 2012 redemptions reduced by PLN5.26bn**
- **Today, flash PMI indices for Germany and euro zone, important US data, bond auction in Spain**

The yesterday's session passed in a similar way as the Tuesday's one. At the beginning of the day, the moods were relatively stable after Tuesday's deterioration. The euro tried to pare losses against the dollar, suffered one day before. The zloty was also rebounding. A turning point of the session was the auction of Italian 5Y bonds. Even though bonds worth €3bn were sold (planned offer at €2-3bn), the yields rose to the highest level in this segment in the euro zone's history (6.47%). Rising risk aversion was also supported, but to a lesser extent, by the worse than expected data of euro zone's industrial output data and persisting disappointment about lack of announcement of further Fed actions, aiming at promoting the growth. After close of domestic session, the negative sentiment was prevailing on the US and Asian bourses. The economic activity indices in manufacturing for Japan and China, released today, indicated a further drop of output in those sectors, fuelling worries about global economic growth.

Rating agency S&P announced that its opinion on the budget and on Polish government's plans is positive and "if the government conducts fiscal reforms and continues fiscal consolidation, then we may raise credit outlook to positive". This opinion is in sharp contrast to the S&P's assessment of outlook for most of other European countries – please recall recent warnings about possibility of ratings downgrade for the euro zone and EU states. We think that it should be supportive for the zloty and domestic assets.

The EURUSD stabilized around 1.303 in the first part of the session. Weak Italian bond auction results negatively affected the European currency, limiting some corrective move. In next hours the EURUSD dropped below 1.30, but breaking this level did not cause further sharp decrease. At the end of the European session it was close 1.296, and it has continued downward move during the US session slightly below 1.295, the lowest level since January this year. In overnight trading the EURUSD market was very calm, with rate moving in the horizontal trend slightly below 1.30 and this morning it is traded near 1.299. Today, the key factors for the market are the flash

PMI readings for Germany and the euro zone, the US macro data and Spanish bonds auction. Support and resistance levels are at 1.295 and 1.302-1.305, respectively.

The EURPLN after retreat from 4.60 to 4.56 seen in the morning, in the following hours remained exceptionally stable, regarding the market conditions. When the EURUSD started to decline, the zloty pared earlier gains versus the dollar. After closing of the domestic session, the EURPLN declined further to 4.55 and stayed close that level until today. We see short-term support for the exchange rate at 4.545 and if it is broken, the EURPLN may decline further to ca. 4.50. Flash PMI, data from the US and how much losses will euro pare versus dollar will be crucial for the developments on the market.

Due to gradual deterioration of sentiment, the domestic debt market has seen a rise in 5- and 10Y bonds' yields. However, the investors' activity was limited and other segments of the curve did not move substantially. As the year-end is approaching, the market liquidity may fall, so, in face of a sudden sentiment deterioration (which seems quite probable under high market uncertainty), even small transactions may cause considerable changes of yields. On the other hand, the results of switch auction were favourable. The finance ministry has lowered redemptions in 2012 by ca. PLN5.26bn (buyback of OK0112, PS0412, OK0712), placing WZ0115, IZ0816, PS1016 and WZ0121 bonds worth PLN4.63bn in total.

In November the M3 money growth reached 11.6%YoY versus 10.5%YoY in previous month. Growth of households' deposits accelerated to 13.7%YoY and corporate deposits to 13.5% (from 12.9% and 8.6%, respectively). Considerable increase on companies' accounts (PLN12.5bn during the month) was probably due to payment for Polkomtel. That transaction might have also had an impact on loans for companies (annual pace of growth reached 16.9% (highest for over 2 years, even after currency effect adjustment). Somewhat opposite tendency was observed in case of loans for households, which increased by 13.3%YoY (14.5% in October). After FX adjustment the pace of growth decelerated to ca. 7.7%YoY (lowest since end of 2003). According to deputy finance minister Hanna Majszczyk, budget deficit reached PLN21.6bn after eleven months, which means that November alone saw a surplus of PLN0.9bn. Much better than predicted realisation of budget deficit is mainly the effect of lower expenditure (by ca. PLN10bn). Full-year result will depend on December's performance, but it seems likely that this year's deficit may be even lower than PLN28bn estimated by the FinMin after October's data.

ECONOMIC ANALYSIS

ul. Marszałkowska 142, 00-061
email: ekonomia@bzwbk.pl

Maciej Reluga (Chief Economist)

Piotr Bielski

Agnieszka Decewicz

Marcin Sulewski

Marcin Luziński

fax +48 22 586 83 40

Web site: <http://www.bzwbk.pl>

+48 22 586 83 63

+48 22 586 83 33

+48 22 586 83 41

+48 22 586 83 42

+48 22 586 83 62

TREASURY SERVICES

Poznań

Warszawa

Wrocław

+48 61 856 5814/25

+48 22 586 8320

+48 71 370 2587

F/X rates (today's opening)

EURUSD	1.2997	CADPLN	3.3747
USDPLN	3.5012	DKKPLN	0.6122
EURPLN	4.5500	NOKPLN	0.5852
CHFPLN	3.6810	SEKPLN	0.5006
JPYPLN*	4.4876	CZKPLN	0.1776
GBPPLN	5.4134	HUFPLN*	1.4994

*for 100JPY/100HUF

Financial market review - 14.12.2011

The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.5517	4.5816	4.5710	4.5639	4.5642
USDPLN	3.4856	3.5213	3.5060	3.5241	3.4977
EURUSD	1.2964	1.3063	1.3040	1.2950	-

T-bonds

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0114 (2Y)	4.92	-1	12.10	4.5824
PS0416 (5Y)	5.39	3	10.08	5.256
DS1020 (10Y)	5.96	3	12.01	6.215

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	4.95	1	0.65	2	1.50	-2
2L	4.84	-1	0.68	2	1.39	1
3L	4.82	-1	0.78	2	1.48	0
4L	4.86	0	0.99	1	1.67	-1
5L	4.91	0	1.24	0	1.88	-2
8L	5.03	0	1.86	-2	2.36	-1
10L	5.03	-1	2.11	-3	2.52	-4

WIBOR rates

TERM	%	Daily change (bp)
O/N	4.43	3
T/N	4.47	2
SW	4.61	0
2W	4.64	-1
1M	4.76	0
3M	4.98	0
6M	4.99	0
9M	4.99	0
1Y	4.99	0

FRA rates (Mid)

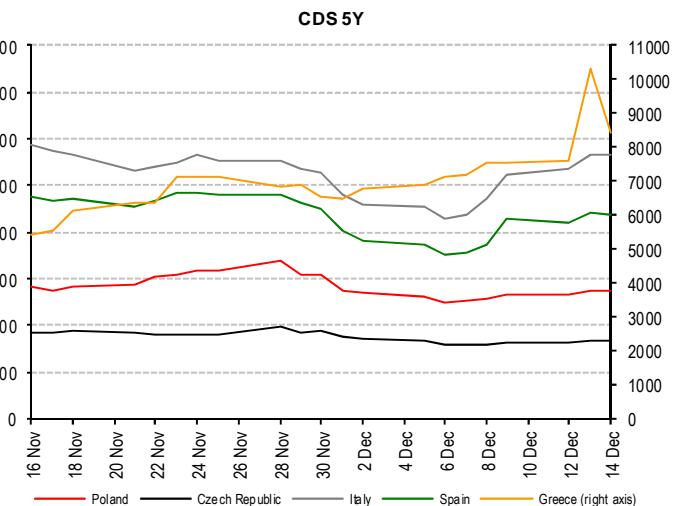
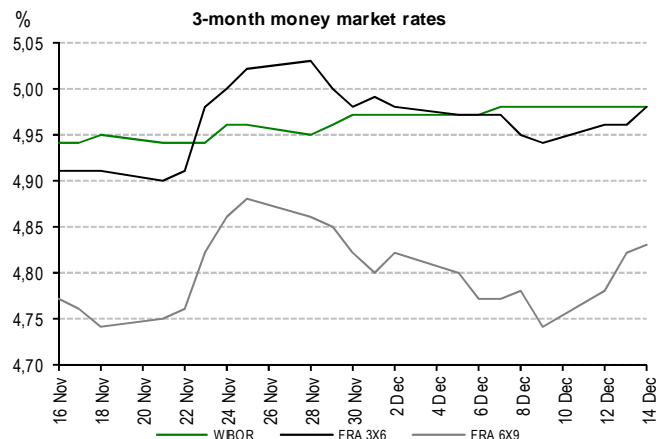
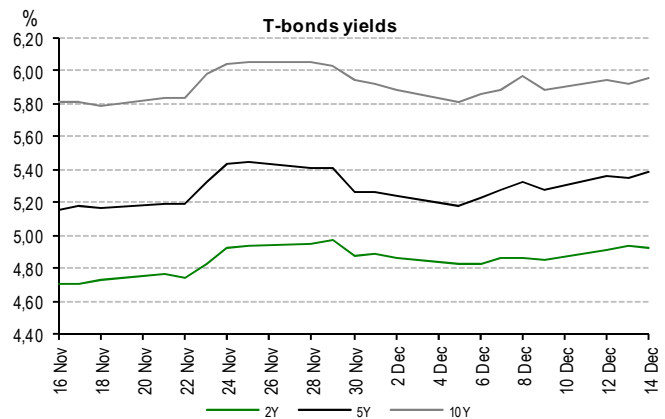
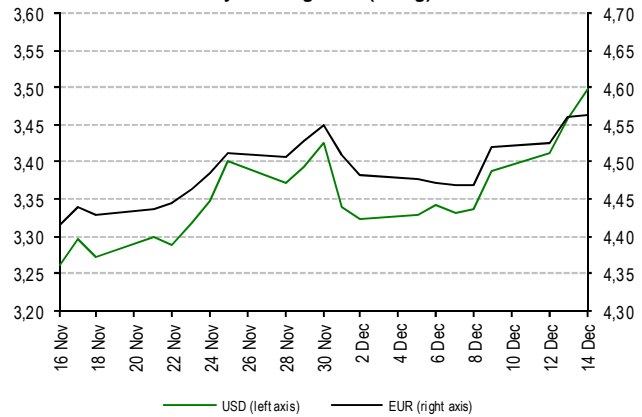
TERM	%	Daily change (bp)
1x2	4.77	0
1x4	4.98	0
3x6	4.98	2
6x9	4.83	1
9x12	4.72	-2
3x9	4.99	1
6X12	4.84	-1

Measures of fiscal risk

Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	273.3	-1	3.98	13
Czech Republic	168.8	4	1.85	4
Hungary	578.1	-5	7.10	17
Greece	8421.0	-1884	31.12	29
Spain	439.5	-2	3.69	7
Italy	568.1	2	5.19	25
Portugal	1207.6	8	11.18	13
Ireland	751.4	-3	6.90	8
Germany	101.9	0	--	--

* 10Y treasury bonds over 10Y Bunds

Zloty exchange rate (fixing)



Source: Reuters

Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	BZWBK			
		FRIDAY (9 December)						
8:00	DE	Exports	Oct	%MoM	-1.0	-	-3.6	1.0
14:30	US	Trade balance	Oct	\$bn	-44.0	-	-43.5	-43..2
15:55	US	Flash Michigan index	Dec	pts	65.3	-	67.7	64.1
		MONDAY (12 December)						
		No important data releases						
		TUESDAY (13 December)						
11:00	DE	ZEW index	Dec	pts	-56.5	-	-53.8	-55.2
14:00	PL	CPI	Nov	%YoY	4.5	4.4	4.8	4.3
14:00	PL	Current account balance	Oct	€m	-1897	-1799	-1622	-1901
14:00	PL	Exports	Oct	€m	12 063	12 063	11 957	12 170
14:00	PL	Imports	Oct	€m	12 672	12 550	12 609	12 624
14:30	US	Retail sales excluding autos	Nov	%MoM	0.4	-	0.2	0.6
20:15	US	Fed decision		%	0.0-0.25	-	0.0-0.25	0.0-0.25
		WEDNESDAY (14 December)						
11:00	EZ	Industrial output	Oct	%MoM	0.0	-	-0.1	-2.0
14:00	PL	Money supply	Nov	%YoY	10.6	10.3	11.6	10.3
14:30	US	Import prices	Nov	%MoM	0.9	-	0.7	-0.5
		THURSDAY (15 December)						
3:30	CN	Flash PMI – manufacturing	Dec	pts	-	-	49.0	47.7
9:28	DE	Flash PMI – manufacturing	Dec	pts	47.5	-		47.9
9:58	EZ	Flash PMI – manufacturing	Dec	pts	46.0	-		46.4
11:00	EZ	HICP	Nov	%YoY	3.0	-		3.0
14:30	US	Initial jobless claims	week	k	390	-		381
15:15	US	Industrial output	Nov	%MoM	0.2	-		0.7
15:15	US	Philly Fed index	Dec	pts	5.0	-		3.6
		FRIDAY (16 December)						
14:00	PL	Wages in enterprise sector	Nov	%YoY	5.1	5.1		5.1
14:00	PL	Employment in enterprise sector	Nov	%YoY	2.3	2.3		2.5
14:30	US	Core CPI	Nov	%MoM	0.2	-		0.1

Source: BZ WBK, Reuters, Parkiet

* in case of the revision, the data is updated

This publication has been prepared by Bank Zachodni WBK S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Bank Zachodni WBK S.A., its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Bank Zachodni WBK S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Bank Zachodni WBK S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

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>