

Eyeopener – Warnings from rating agencies

29 November 2011

- **Start of the week under the sign of sentiment improvement, but reasons for optimism fragile**
- **Rating agencies warn about looming downgrades**
- **Zloty did not benefit from global rebound, Czech crown and Hungarian forint stronger, euro trimming losses versus dollar**
- **Domestic bonds stable amid low turnover**
- **Today, new data from US and Italian bond auction**

The Monday's session passed in good mood. The stock markets in Europe and stock futures in the USA have recorded considerable gains, while safe assets, like German and US bonds, were under pressure (at the end of the day, the yields of 10Y bonds amounted to 2.33% and 2.05%, respectively). One of the factors, which have caused market's relief at the beginning of the day, was the information released during the weekend in Italian press that IMF is considering granting Italy a loan. Although the IMF has dismissed these rumours, the market sentiment did not deteriorate. The moods were also supported by information from the German press that Chancellor Merkel and President Sarkozy want to quickly push through a new euro zone stabilization pact, which – if necessary – will involve only a part of euro zone countries and will not require change of treaties. Next week, the EU summit is on cards and the investors hope that EU policymakers will finally make some constructive decisions aiming at solving the debt crisis. The risk appetite was to some extent supported by the news from overseas, where the shops recorded results better than one year before at the traditional sales after Thanksgiving. The optimism was neither threatened by the news that Belgian yields rose substantially during 10Y bonds auction (to 5.66% from 4.37% last month) nor by further comments from Germany, opposing introduction of common Eurobonds. OECD has lowered the GDP growth forecasts (2.5% for Poland in 2012) and called the European policymakers for more decisive actions, due to rising risk of crisis spillover and deep recession. Italy sold 12Y bonds worth €567m, but market is more concerned by results of today's auction of 3Y and 11Y securities, when Rome plans to raise €8bn. Stock market gains were maintained at sessions in US and Asia, yet the latter were more constrained, after announcement of Fitch's decision to cut outlook for US debt to negative, due to lower trust in government's ability to curb deficit. In turn, French press reported that S&P is expected to trim France's outlook to negative within days. Moody's warned yesterday about

possible downgrades of European states and banks, should the debt crisis in the euro zone escalate.

Yesterday's whiff of optimism was noticeable, but when considering its reasons – denied rumour on loan for Italy and hopes for more decisive actions of UE leaders – it is hard to say how long positive market mood will prevail. The UE summit that will take place on December 9th is surely an important event but even before some comment of euro zone leaders or rating agencies, or auction results may trigger clear correction of investors' expectations.

Soon after the beginning of the session the EURUSD broke resistance pointed by us (1.334) and in the following hours the euro continued appreciating versus the greenback. The exchange rate approached 1.34 but did not manage to break it. After a correction, at the end of the domestic session the EURUSD was close to 1.337. In the following hours the downward trend was maintained and only at 1.3285 it was reversed and the exchange rate rebounded close to 1.337. Yesterday the EURUSD rebounded from vital support on daily chart at ca. 1.32 and the resistance area at 1.34-1.345 constrains potential for upward move. Awaiting the next week's UE summit the market may be sensitive to comments of European politicians.

The EURPLN declined slightly to ca. 4.51 yet before the beginning of the domestic session and stayed there for the better part of the session. The USDPLN was falling gradually down due to upward move of EURUSD. At the end of the domestic session some part of that gain was pared as the EURUSD initiated a correction. The zloty obviously did not benefit from yesterday's surge of optimism, though Czech crown and Hungarian forint appreciated versus the euro by ca. 1.3% and 1.7%, respectively. After closing of the domestic session the EURPLN hovered around 4.52 and today in the morning is close to that level. Today in the morning the market sentiment is still good, but not as much as yesterday. Scope for zloty appreciation is clearly limited by uncertainty regarding further developments in the euro zone. The support and resistance are at 4.50 and 4.54.

On the domestic debt market the session was calm, with limited turnover. Domestic bonds, similarly as the zloty, did not gain on the wave of higher demand for risky assets. IRS rates fell, mainly in the middle of the curve, which pushed asset swap spread slightly higher. FRA market recorded some correction of earlier rise triggered by zloty weakening.

ECONOMIC ANALYSIS

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

Maciej Reluga (Chief Economist)
Piotr Bielski
Agnieszka Decewicz
Marcin Sulewski
Marcin Luźniński

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 +48 61 856 5814/25
Warszawa +48 22 586 8320
Wrocław +48 71 370 2587

F/X rates (today's opening)

EURUSD	1.3348	CADPLN	3.2790
USDPLN	3.3877	DKKPLN	0.6079
EURPLN	4.5222	NOKPLN	0.5763
CHFPLN	3.6803	SEKPLN	0.4878
JPYPLN*	4.3438	CZKPLN	0.1760
GBPPLN	5.2562	HUFPLN*	14659

*for 100JPY/100HUF

Financial market review - 28.11.2011

The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.4981	4.5345	4.5154	4.5245	4.5071
USDPLN	3.3597	3.4132	3.3992	3.3898	3.3705
EURUSD	1.3271	1.3398	1.3283	1.3351	-

T-bonds

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0114 (2Y)	4.94	0	12.10	4.5824
PS0416 (5Y)	5.41	-4	16.11	5.147
DS1020 (10Y)	6.05	0	12.01	6.215

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	4.98	0	0.76	3	1.64	2
2L	4.94	-2	0.80	-1	1.56	1
3L	4.95	-4	0.91	4	1.73	1
4L	5.02	-4	1.11	3	1.91	3
5L	5.07	-6	1.36	4	2.12	6
8L	5.19	-5	1.91	2	2.52	1
10L	5.21	-2	2.14	2	2.69	7

WIBOR rates

TERM	%	Daily change (bp)
O/N	4.39	-16
T/N	4.53	-3
SW	4.61	0
2W	4.64	0
1M	4.74	-1
3M	4.95	-1
6M	4.97	0
9M	4.96	-1
1Y	4.96	-1

FRA rates (Mid)

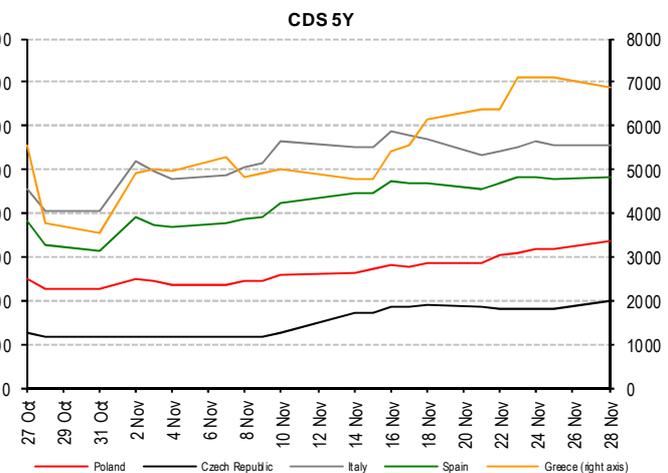
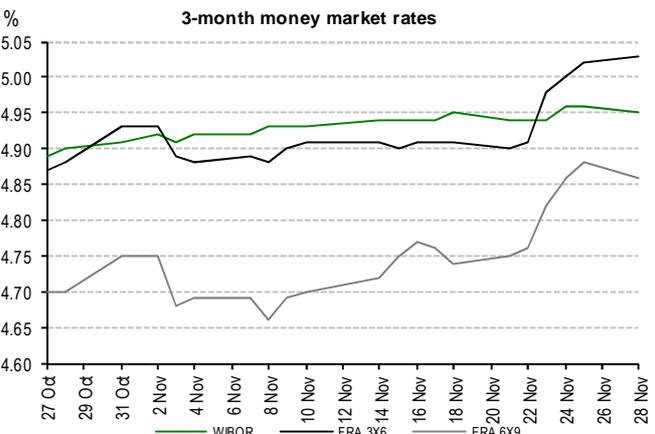
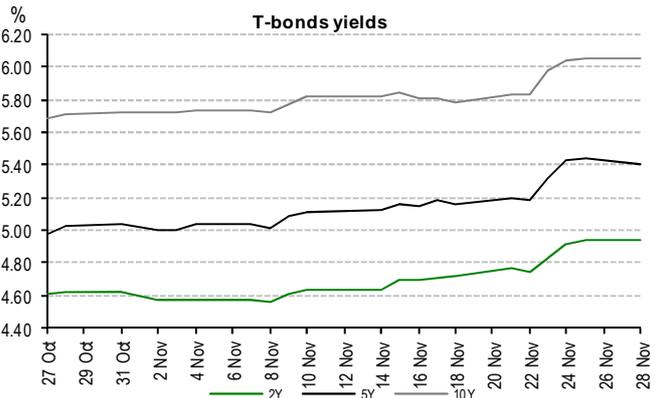
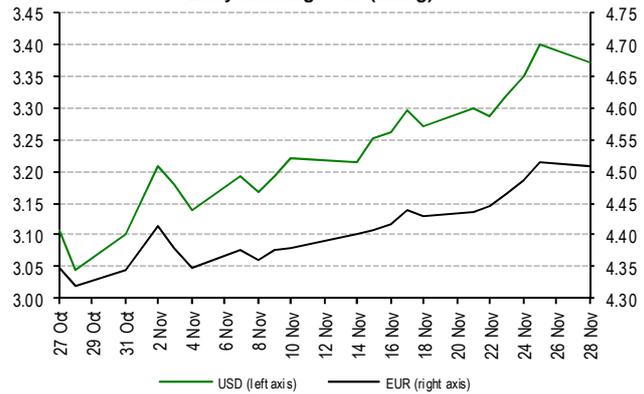
TERM	%	Daily change (bp)
1x2	4.79	-1
1x4	5.01	2
3x6	5.03	1
6x9	4.86	-2
9x12	4.77	-3
3x9	5.04	2
6X12	4.87	-6

Measures of fiscal risk

Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	337.9	22	3.70	-8
Czech Republic	197.7	16	2.12	-5
Hungary	638.6	48	6.85	-59
Greece	6863.7	-265	26.26	57
Spain	481.7	3	4.25	-23
Italy	554.3	0	4.86	-21
Portugal	1232.2	40	11.26	29
Ireland	789.6	18	7.29	-31
Germany	114.7	6	--	--

* 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 (25 November)								
10:00	PL	Retail sales	Oct	%YoY	10.4	10.9	11.2	11.4
10:00	PL	Unemployment	Oct	%	11.9	11.9	11.8	11.8
MONDAY (28 November)								
10:00	EZ	Money supply	Oct	%YoY	3.4	-	2.6	3.0
13:00	DE	GfK index	Dec	pts	5.2	-	5.6	5.4
16:00	US	New home sales	Oct	k	313	-	307	303
TUESDAY (29 November)								
15:00	US	S&P/Case-Shiller home price index	Sep	%MoM	0.0	-		0.0
16:00	US	Consumer confidence index	Nov	pts	43.0	-		39.8
WEDNESDAY (30 November)								
10:00	PL	GDP	Q3	%YoY	4.0	4.2		4.3
11:00	EZ	Flash HICP	Nov	%YoY	3.0	-		3.0
14:00	PL	Inflation expectations	Nov	%YoY	-	-		4.2
14:15	US	ADP raport	Nov	k	130	-		110
15:45	US	Chicago PMI index	Nov	pts	58.0	-		58.4
16:00	US	Pending home sales	Oct	%MoM	1.4	-		-4.6
20:00	US	Fed's Beige Book						
THURSDAY (1 December)								
3:30	CN	PMI – manufacturing	Nov	pts	-	-		51.0
9:00	PL	PMI – manufacturing	Nov	pts	50.6	50.9		51.7
9:28	DE	PMI – manufacturing	Nov	pts	47.9	-		49.1
9:58	EZ	PMI – manufacturing	Nov	pts	46.4	-		47.1
14:30	US	Initial jobless claims	week	k	390	-		393
16:00	US	ISM – manufacturing	Nov	pts	51.5	-		50.8
FRIDAY (2 December)								
14:30	US	Non-farm payrolls	Nov	k	117	-		80
14:30	US	Unemployment rate	Nov	%	9.0	-		9.0

Source: BZ WBK, Reuters, Parkiet, Dow Jones

* 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>