Bank Zachodni WBK

Eyeopener – Fed slightly more dovish

28 April 2011

- **Zloty stronger after FinMin official's comment, EURUSD stable before Fed decision, then up**
- **Domestic debt market slightly weaker amid low investors' activity, yields in core markets slightly higher**
- **Retail sales better than expected, unemployment down**
- **Fed slightly more dovish than expected**
- **Today, US data on GDP in Q1, weekly jobless claims, pending home sales**

The Wednesday's session was carried in a very optimistic moods. Stock indices advanced strongly due to better than expected quarterly financial results of companies, among others in automotive industry. The demand for risky assets was also fuelled by expectations that the Fed will not suggest any need to tighten monetary policy soon and the interest rate will remain low for an extended period of time. The volatility on the currency market was limited amid expectations for evening decision and conference of the Fed. As the data on GDP in Q1 in Great Britain was released the pound appreciated versus the euro. Though the reading was roughly in line with consensus, the market was rather worried that the data may disappoint.

Just as it was expected the Fed left the interest rate unchanged and decided to carry on the bond purchase program worth $600bn due to be terminated in June. The changes of the communiqué was only marginal. Just as in the previous ones it was underlined that the situation in the labour market is improving while real estate market is still under pressure. The Fed also released its new forecasts for 2011. The central bank slightly reduced its expectations for GDP growth (it shall reach 3.1-3.3%), but increased its PCE inflation forecast (2.1-2.8%). Still, during the first post-meeting press conference in history, Ben Bernanke underlined that higher inflation will be only a temporarily phenomenon and as the upward trend of commodities prices will abate, it will go down. Bernanke suggested that the sentence repeated in the statement saying that the interest rate shall remain low for an "extended period of time" means, that there will be no interest rates hikes for "a couple" of meetings. Earlier the markets assessed that it may mean around six months. All in all, the tone of the communiqué and comments on the press conference were regarded as more dovish than the market had expected and pushed stock markets up while the dollar weakened versus the euro.

The Bank of Japan kept interest rates on hold at 0-0.1%. Also, the asset purchase fund at 10bn yen and a special credit programme of 30bn were unchanged.

Deputy finance minister Dominik Radziwiłł said yesterday that in the second quarter the ministry would certainly exchange some euro on the market "due to some needs connected with EU funds spending". This was a factor, which drove the Polish currency stronger against the euro.

At the beginning of the day the EURPLN rose above 3.934, but later during the day improved global sentiment supported the zloty. The above-mentioned comment by Radziwiłł brought the EURPLN below the support level and the rate fell to 3.92. Even if there was some rebound later on, it remained around 3.93 until the end of the day. Today in the morning it is still lat similar level (3.927) and it seems that the downward trend of EURPLN observed since the start of the week will be continued. We see a potential for a further move to 3.915-3.917 and then some correction to 3.925.

EURUSD was stable during the European session in the range of 1.465-1.469, as investors were waiting for Fed's decision, communiqué and press conference. Dovish tone of the official statement and Fed Governor's comments pushed the rate to 1.488. Later on, a correction took place, which brought the rate to 1.484 this morning. We do not expect further rises in the rate. If the support at 1.482, which is being tested at the moment, will be breached, the level of 1.478 may be achieved. Volatility may be limited in anticipation of the data from the US.

In the domestic debt market yields have increased slightly after the morning data from the Polish economy, which have been perceived as hawkish. The activity in the market was limited.

Core bond markets rose slightly due to improved moods in the global markets. At the end of the day yields of ten-year Bunds and Treasuries amounted to 3.27% and 3.36%, respectively.

Data on retail sales and unemployment for March confirmed quite positive situation in Polish economy in Q1. Retail sales increased 9.4%YoY, showing that the consumer demand recovered pretty fast from a temporary slowdown triggered by VAT hike, and now is growing quite quickly. The consumer sentiment is still poor but it seems it does not prevent sales from rising. The situation in the labour market is improving (unemployment rate fell to 13.1%) and in coming months the number of unemployed should be declining. Consequently, that will work towards higher wages in the private sector while freezing wages in budget sector will have effectively smaller effect due to "leading" wage hikes made in Q4 2010. In our opinion today's data confirm a risk of strengthening of inflationary impulses, although it will rather not prompt the MPC to hike interest rates already in May.

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F/X rates (today's opening)

EURUSD	1.4842	CADPLN	2.7879
USDPLN	2.6445	DKKPLN	0.5264
EURPLN	3.9276	NOKPLN	0.5020
CHFPLN	3.0372	SEKPLN	0.4378
JPYPLN*	3.2355	CZKPLN	0.1630
GBPPLN	4.4236	HUFPLN*	1.4844

*for 100JPY/100HUF

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.9216	3.9421	3.9336	3.9362	3.9421
USDPLN	2.6713	2.6877	2.6802	2.6887	2.6838
EURUSD	1.4651	1.4693	1.4674	1.4642	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2L	4.95	3	13.04	5.16
5L	5.74	3	5.01	5.642
10L	6.12	2	12.01	6.215

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	4.91	5	0.39	0	1.93	0
2L	5.25	3	0.78	-1	2.31	-2
3L	5.48	4	1.29	-2	2.60	-5
4L	5.61	2	1.77	-2	2.83	-5
5L	5.66	2	2.19	-3	3.02	-6
8L	5.67	2	3.04	-2	3.41	-6
10L	5.64	2	3.37	-1	3.58	-6

WIBOR rates

TERM	%	Daily change (bp)
O/N	3.83	14
T/N	3.88	10
SW	4.03	0
2W	4.05	-1
1M	4.10	0
3M	4.30	0
6M	4.51	0
9M	4.60	0
1Y	4.66	0

FRA rates (Mid)

TERM	%	Daily change (bp)
1x2	4.26	-6
1x4	4.47	2
3x6	4.71	4
6x9	5.01	3
9x12	5.21	3
3x9	4.92	1
6X12	5.18	-3

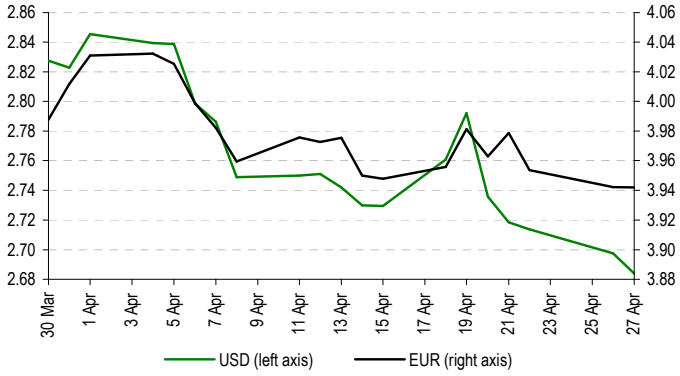
Measures of fiscal risk

Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	152.0	1	2.85	1
Czech Republic	78.3	0	0.73	-2
Hungary	249.5	0	3.92	-2
Greece	1513.6	39	12.85	75
Spain	252.8	2	2.24	0
Italy	158.3	2	1.54	0
Portugal	677.0	17	6.51	-1
Ireland	673.5	18	7.45	4
Germany	44.5	1	--	--

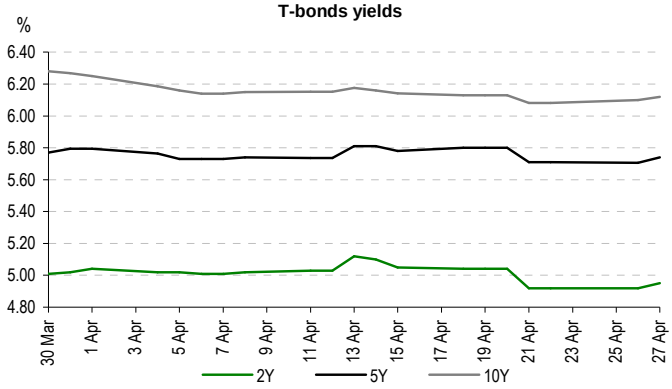
* 10Y treasury bonds over 10Y Bunds

Source: Reuters

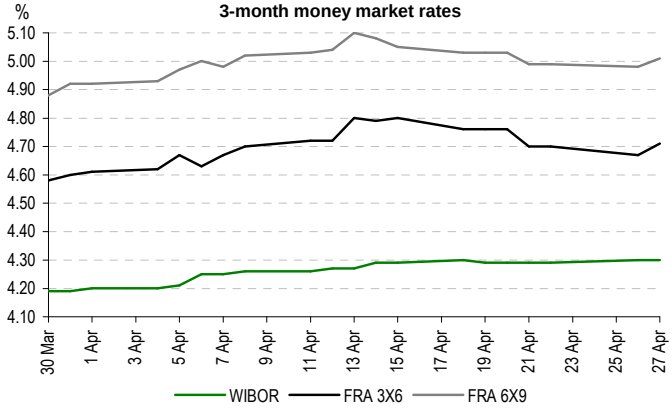
Zloty exchange rate (fixing)



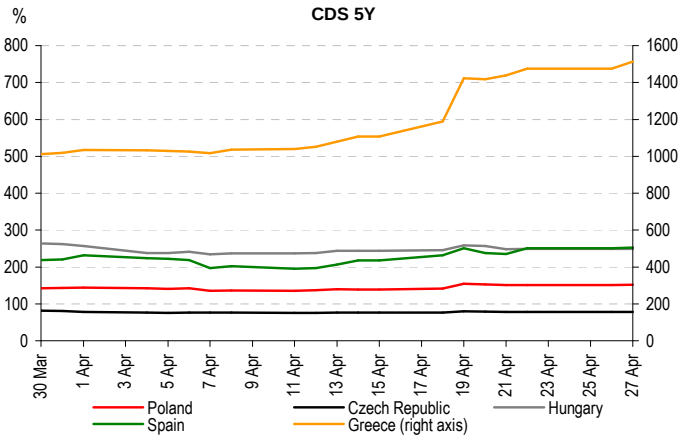
T-bonds yields



3-month money market rates



CDS 5Y



Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	BZWBK		
		MONDAY (25 April)						
PL, DE, CH, GB		Easter						
16:00	US	New homes sales	Mar	k	280	-	300	270
		TUESDAY (26 April)						
11:00	**PL**	**General government deficit (ESA'95)**	**2010**	**% GDP**			**7.9**	**7.3****
11:00	**PL**	**Public debt (ESA'95)**	**2010**	**% GDP**			**55.0**	**50.9****
11:00	**PL**	**Revised GDP**	**2010**	**%YoY**			**3.8**	**3.8**
15:00	US	S&P/Case-Shiller index	Feb	%MoM	-0.3	-	-0.2	-0.2
16:00	US	Consumer sentiment index	Apr	pts	64.5	-	65.4	63.8
		WEDNESDAY (27 April)						
8:00	DE	GfK index	May	pts	5.9	-	5.7	5.9
10:00	**PL**	**Retail sales**	**Mar**	**%YoY**	**8.4**	**7.0**	**9.4**	**12.2**
10:00	**PL**	**Unemployment rate**	**Mar**	**%**	**13.1**	**13.2**	**13.1**	**13.2**
10:00	**PL**	**Consumer confidence**	**Apr**	**pts**			**-26.8**	**-29.0**
10:30	GB	GDP	Q1	%QoQ	0.6	-	0.5	-0.5
18:30	US	Fed's decision		%	0.0-0.25	-	0.0-0.25	0.0-0.25
		THURSDAY (28 April)						
14:30	US	First GDP estimate	Q1	%QoQ	2.0	-		3.1
14:30	US	Initial jobless claims	week	k	392	-		403
16:00	US	Pending homes sales	Mar	%MoM	1.5	-		2.1
		FRIDAY (29 April)						
11:00	EZ	Flash HICP	Apr	%YoY	2.7	-		2.7
11:00	EZ	Economic sentiment index	Apr	pts	107.0	-		107.13
14:00	**PL**	**Inflation expectations**	**IV**	**%YoY**	**-**	**-**	**-**	**4.6**
14:30	US	Consumer spending	Mar	%MoM	0.5	-		0.7
14:30	US	Personal income	Mar	%Mom	0.4	-		0.3
14:30	US	Core PCE	Mar	%Mom	0.1	-		0.2
15:45	US	PMI Chicago index	Apr	pts	69.0	-		70.6
15:55	US	Michigan index	Apr	pts	69.6	-		67.5
18:30	US	Speech of Ben Bernanke						

Source: BZ WBK, Parkiet, Reuters

* in case of the revision. the data is updated

** data for 2009

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