

Eyeopener – Still poor sentiment in the markets

24 May 2011

- **Concerns about debt problems in the euro zone and disappointing PMIs maintained negative sentiment in the global markets**
- **Zloty weaker amid heightened risk aversion, euro under pressure to dollar, EURCHF the lowest ever**
- **Fresh comments from MPC supports expectations for next rate hike already in June**
- **Domestic debt market slightly weaker in the middle and at the long end of the curve, core debt markets stronger**
- **Today German Ifo, the euro zone's industrial orders and the US housing market data**

The whole yesterday's session was predominated by risk aversion resulting from debt problems of the euro zone. A defeat of Spanish ruling party in the local election, downgrade of Italian outlook by the S&P and expectations for further, deeper reforms in Greece took its toll on the euro, which weakened versus the dollar and recorded the lowest level versus the Swiss franc in the history (1.232). The European stock indices recorded over 1% losses, yields of Bunds and Treasuries dropped as well. The market pessimism was mainly caused by weaker than expected flash PMI indexes for manufacturing in Germany and euro zone, suggesting a deeper than anticipated slowdown in this sector of economy. The global sentiment did not change substantially since the close of yesterday's session.

The EURUSD rate broke through the indicated support at 1.4025 quite quickly and continued to slide to 1.3968 (the lowest level since mid-March). After reaching this level, a slight rebound took place and the rate climbed to 1.4081 during the US and Asian trading hours. This level is a major resistance for today. The upcoming data, reflecting condition of euro zone and US economies, will be important for direction of the EURUSD.

The EURPLN and USDPLN rates recorded considerable increases during the yesterday's session. After breaking through 3.94, later on EURPLN hovered in 3.94-3.95 area to continue upward trend towards 3.96 after start of US session. High risk aversion contributed to zloty weakening. The declining EURUSD rate pushed the USDPLN rate to its highest level since early April (2.8304). In our view the global sentiment will weigh on zloty trading today, similarly as yesterday. We see no potential to substantial improvement of moods, which can make it difficult for the

domestic currency to pare its recent losses. Support for EURPLN is at 3.94 and resistance at 3.96.

On the domestic debt market yields increased at the opening, but began to drop in the following hours. The sell-off of bonds could have been caused by the MinFin statement that the ministry is going to offer road bonds IPS1014 and IDS1018 worth PLN1-2.5bn. The securities from the middle and long end of the curve did not manage to pare losses and their yields increased slightly.

On the core debt markets yields began the week with substantial declines amid strong demand for safe assets. At the end of the day yields of 10Y Bunds and Treasuries reached 3.03% and 3.10%, respectively.

MPC member Jerzy Hausner, said yesterday in an interview with obserwatorfinansowy.pl that an interest rate hike in May was a sign the MPC had chosen a way of action aimed at bringing inflation down „by faster interest rate hikes and lower total scale of the hikes”. He stressed that an attempt of bringing the CPI inflation from high level (that it reached due to external factors) with radical monetary tightening would have “killed economic activity in Poland”. In his opinion, the MPC acts so that avoid stabilisation of inflation expectations at high level and preventing the wage pressure from strengthening. He added that as NBP's inflation projections show that “the inflation will approach the inflation target”, there should be soon a prospect of an end to the monetary tightening cycle. In his opinion, it would be better for the economy if that happens with “appropriately low interest rates”. MPC's Anna Zielińska-Głębocka said that “recent situation – regarding the outlook for economic growth and inflationary pressure – justifies further monetary policy tightening”. In her opinion, sooner interest rates are justified. Still, she underlined that the MPC does not have fixed path of hikes. Hawkish Jan Winiecki said that “the MPC does not treat the last hike as something final”, suggesting further monetary policy tightening. Overall, fresh comments from MPC members, together with recently released domestic macro data, support our expectations that next interest rate hike will take place already in June.

The CSO released yesterday data on financial results of enterprises in 2011Q1. The surveyed companies recorded an improvement of all major economic and financial indicators as compared to 2010Q1. Revenues from entire activity increased by 12%YoY, costs by 11%YoY.

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F/X rates (today's opening)

EURUSD	1.4059	CADPLN	2.8765
USDPLN	2.8088	DKKPLN	0.5295
EURPLN	3.9493	NOKPLN	0.5029
CHFPLN	3.1780	SEKPLN	0.4421
JPYPLN*	3.4345	CZKPLN	0.1607
GBPPLN	4.5205	HUFPLN*	1.4567

*for 100JPY/100HUF

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.9312	3.9601	3.9231	3.9545	3.9437
USDPLN	2.7943	2.8304	2.7219	2.8203	2.8193
EURUSD	1.3968	1.4072	1.4415	1.4022	-

T-bonds

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0713 (2Y)	5.04	0	12.05	5.112
PS0416 (5Y)	5.60	2	18.05	5.614
DS1020 (10Y)	6.05	2	12.01	6.215

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	4.92	1	0.36	-1	2.01	0
2L	5.19	1	0.70	-5	2.27	-2
3L	5.34	0	1.16	-7	2.54	-2
4L	5.44	-1	1.60	-4	2.71	-3
5L	5.47	-1	2.00	-6	2.89	-3
8L	5.50	-1	2.87	-6	3.22	-3
10L	5.48	0	3.22	-4	3.40	-2

WIBOR rates

TERM	%	Daily change (bp)
O/N	3.33	-69
T/N	3.49	-58
SW	4.22	-3
2W	4.26	-2
1M	4.35	1
3M	4.45	0
6M	4.62	0
9M	4.70	1
1Y	4.76	-1

FRA rates (Mid)

TERM	%	Daily change (bp)
1x2	4.43	-2
1x4	4.59	0
3x6	4.74	2
6x9	5.01	2
9x12	5.17	2
3x9	4.90	-1
6X12	5.11	-2

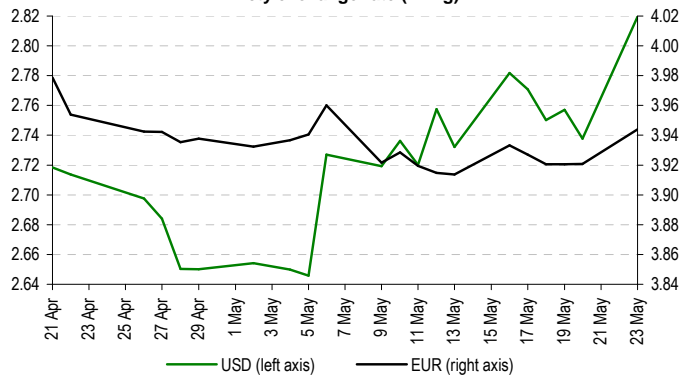
Measures of fiscal risk

Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	139.9	2	3.04	9
Czech Republic	76.0	0	0.78	0
Hungary	254.9	5	4.26	17
Greece	1492.7	11	14.34	58
Spain	251.1	7	2.53	12
Italy	156.3	4	1.79	8
Portugal	634.9	7	6.69	52
Ireland	644.3	8	8.11	46
Germany	37.5	0	-	-

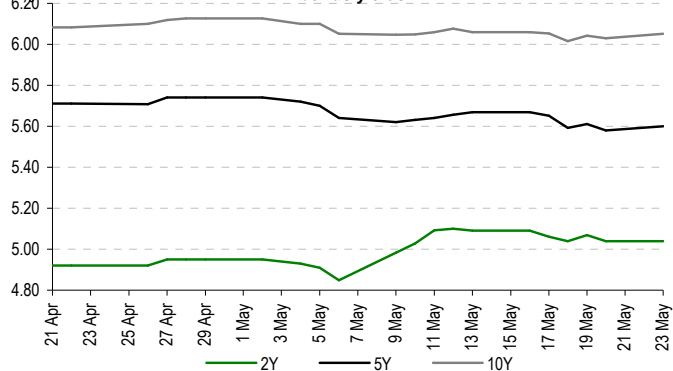
* 10Y treasury bonds over 10Y Bunds

Source: Reuters

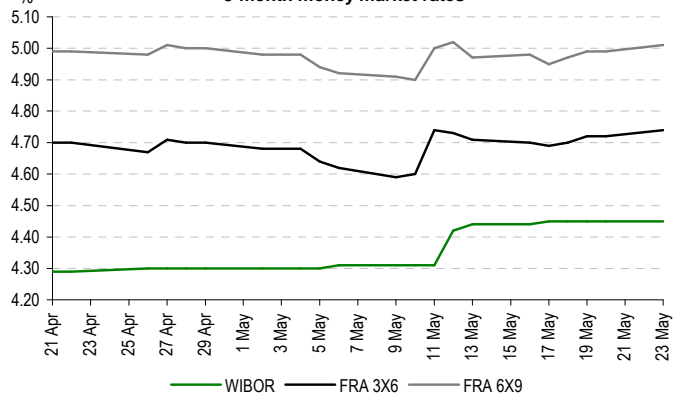
Zloty exchange rate (fixing)



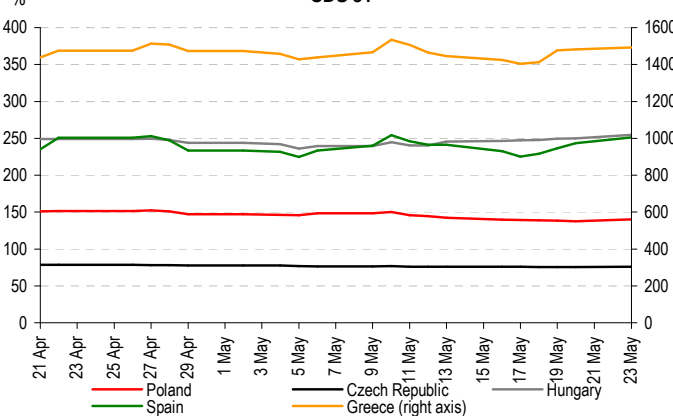
T-bonds yields



3-month money market rates



CDS 5Y



Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	BZWBK		
		MONDAY (23 May)						
4:30	CN	Flash PMI – manufacturing	May	pts	-	-	51.1	51.8
9:28	DE	Flash PMI – manufacturing	May	pts	61.1	-	58.2	62.0
9:58	EZ	Flash PMI – manufacturing	May	pts	57.5	-	54.8	58.0
11:00	PL	Tender of 44-week T-bills worth PLN0.5-1.0bn						
TUESDAY (24 May)								
10:00	DE	Ifo index	May	pts	110.2	-		110.4
11:00	EZ	Industrial orders	Mar	%MoM	-1.3	-		0.9
16:00	US	New home sales	Apr	k	300	-		300
WEDNESDAY (25 May)								
8:00	DE	GfK index	May	pts	5.6	-		5.7
10:00	PL	Retail sales	Apr	%YoY	14.9	18.0		9.4
10:00	PL	Unemployment rate	Apr	%YoY	12.6	12.5		13.1
10:30	GB	GDP revision	Q1	%QoQ	0.5	-		-0.5
14:30	US	Durable goods orders	Apr	%MoM	-1.5	-		4.1
THURSDAY (26 May)								
14:30	US	Preliminary GDP	Q1	%QoQ	2.1	-		3.1
14:30	US	Initial jobless claims	week	k	404	-		409
FRIDAY (27 May)								
14:30	US	Consumer spending	Apr	%MoM	0.5	-		0.6
14:30	US	Personal income	Apr	%MoM	0.4	-		0.5
14:30	US	Core PCE	Apr	%MoM	0.2	-		0.1
15:55	US	Michigan index	May	pts	70.0	-		69.8
16:00	US	Pending home sales	Apr	%MoM	-1.0	-		5.1

Source: BZ WBK, Parkiet, Reuters

* in case of the revision, the data is updated

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