Bank Zachodni WBK

Eyeopener – Optimism during the long weekend

2 May 2011

- **Optimism in the markets maintained by strong earnings reports**
- **Zloty slightly stronger with rumours about BGK state bank activity, EURUSD corrected down**
- **Domestic debt market unchanged, yields in the core debt markets slightly higher**
- **Today PMI manufacturing in Germany and the euro zone as well as ISM manufacturing in the US**

At the beginning of the Friday's session stock indices dropped slightly amid some profit taking, but soon managed to rise above the opening levels. In the afternoon demand for risky assets was fuelled by better than expected quarterly financial results of the US companies. Flash data on HICP inflation in April in the euro zone surprised to the upside as it advanced to 2.8%YoY versus expected stabilization at 2.7%YoY. The reading supported the euro versus the dollar and pushed yields on the core debt markets but only slightly and only for a moment. The US PCE grew by 0.1%MoM, just as expected. Slightly higher than forecasted increase was recorded in case of personal income (0.5% vs 0.4%) while the US consumer spending grew by 0.6%MoM, in line with market consensus. These data had no visible market impact. Slight deterioration of investors' moods occurred only after publication on Chicago PMI and University of Michigan indexes.

Friday's session in the US stock markets ended with rise in major indices due to strong earnings report from Caterpillar. The optimism prevailed also today during the Asian session and rising futures of European indices suggests that today's session will be marked by positive moods.

The EURUSD increased in the first part of the Friday's session. As it approached indicated resistance level, the trend was reversed. In the following hours the dollar was appreciating versus the euro, data on flash HICP did not have much impact on the market. EURUSD declined to 1.483 but at the end of the session rebounded to 1.485. Overnight, the downward trend of the EURUSD was continued and today in the morning it rebounded from 1.476. We expect that this level will not be broken and the euro will recover versus the dollar. The resistance is at 1.484.

The EURPLN and USDPLN were in slightly downward trends on Friday. Some rumours emerged that the BGK was selling the euro on the market, but the size of that transactions was perceived as not too heavy, what was seen in relative small appreciation of the zloty. As the EURUSD started to decline, the zloty started to depreciate versus the dollar. Overnight, the zloty lost ca. 0.1PLN versus the euro and dollar. Due to tomorrow's market holiday in Poland we do not expect any major changes on the domestic market. The EURPLN should remain in the range of 3.92-3.95.

In the domestic debt market yields did not change with scant investors' activity due to closed market in the UK.

In the core debt markets yields increased slightly at the beginning of the session, to some extent due to HICP figures. At the end of the day yields of the 10Y Bunds and Treasuries reached 3.27% and 3.33%, respectively.

NBP data published on Friday showed that the CPI inflation expected by households in 12 months reached 4.0%YoY (current inflation known to households during the survey was 3.6%YoY for February) in April against 4.6%YoY in March. The drop in the NBP measure of inflation expectations is probably temporary and one may expect that in May it would go up again due to further rise in the current inflation (CPI in March surged to 4.3%YoY). High inflation expectations is one of arguments for rate hikes, but the fact it eased somewhat in April means that dovish central bankers may not be in hurry to deliver the next interest rate hike already at the MPC meeting in May. We expect the third rate hike in the cycle will take place in June. Detailed inflation expectations data for March, published as always with 1-month delay, showed that percentage of households expecting consumer prices in the next 12 months rising faster or at the same pace as currently reached 81.5%, which is the highest level since May 2004.

According to Ipsos data published on Friday the consumer optimism indicator slightly rose in April following the strongest in 2 years drop in March, but annual change in the index remained unchanged at –16pts.

The beginning of the week in the domestic market should be marked by low volatility due to the long weekend (market holiday in Tuesday). Final PMI manufacturing indices for the euro zone and Germany will probably be close to flash estimates and should not have strong impact on the market, just as Polish PMI due for release on Wednesday. In the following days the ECB will decide on the interest rates and investors will surely pay much attention to the post-meeting press conference looking for suggestions when the next interest rate hike will take place in the euro zone. On Friday the US non-farm payrolls report will be released and we will see if positive momentum in that key area of the US economy was sustained. At the end of the week many FOMC members will take the floor and that may have some impact on the EURUSD. We expect that after Friday's retreat from latest peak the dollar's appreciation will be continued towards 1.47. The EURPLN broke tested support at 3.94 after deputy finance minister, Dominik Radziwiłł, said that in Q2 the FinMin will surely sell the euro from the EU in the market. If the EURPLN will manage to stay below that support it may decline further to 3.90.

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F/X rates (today's opening)

EURUSD	1.4804	CADPLN	2.8103
USDPLN	2.6621	DKKPLN	0.5285
EURPLN	3.9402	NOKPLN	0.5068
CHFPLN	3.0645	SEKPLN	0.4412
JPYPLN*	3.2670	CZKPLN	0.1628
GBPPLN	4.4408	HUFPLN*	1.4897

*for 100JPY/100HUF

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.9254	3.9406	3.9376	3.9315	3.9376
USDPLN	2.6400	2.6567	2.6545	2.6509	2.6501
EURUSD	1.4826	1.4878	1.4834	1.4837	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2L	4.95	0	13.04	5.16
5L	5.74	0	5.01	5.642
10L	6.13	0	12.01	6.215

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	4.91	0	0.38	0	1.96	-1
2L	5.26	0	0.77	-2	2.34	-2
3L	5.48	0	1.27	-1	2.64	-4
4L	5.62	0	1.77	-1	2.87	-6
5L	5.67	0	2.15	-2	3.06	-5
8L	5.68	0	3.02	-4	3.41	-5
10L	5.64	0	3.37	-3	3.58	-5

WIBOR rates

TERM	%	Daily change (bp)
O/N	3.84	-4
T/N	3.91	-1
SW	4.05	0
2W	4.06	-1
1M	4.10	0
3M	4.30	0
6M	4.50	-1
9M	4.60	-1
1Y	4.66	-1

FRA rates (Mid)

TERM	%	Daily change (bp)
1x2	4.25	0
1x4	4.46	0
3x6	4.70	0
6x9	5.00	0
9x12	5.20	0
3x9	4.90	0
6X12	5.17	0

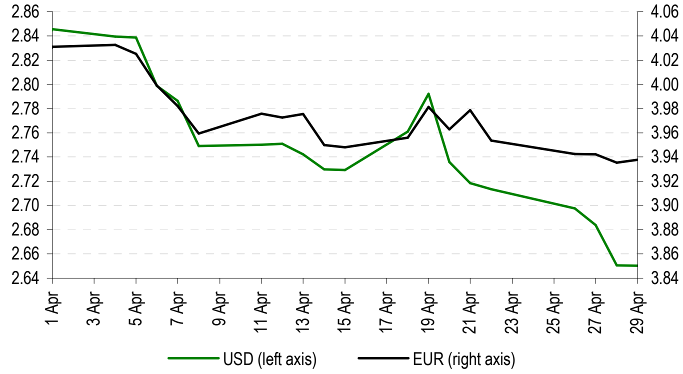
Measures of fiscal risk

Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	147.2	-4	2.86	-1
Czech Republic	77.8	0	0.74	1
Hungary	244.2	-4	3.89	-1
Greece	1474.1	-35	12.73	-15
Spain	233.7	-14	2.01	-15
Italy	145.0	-8	1.47	-5
Portugal	649.5	-21	6.67	24
Ireland	663.5	-14	7.48	-3
Germany	41.8	-2	--	--

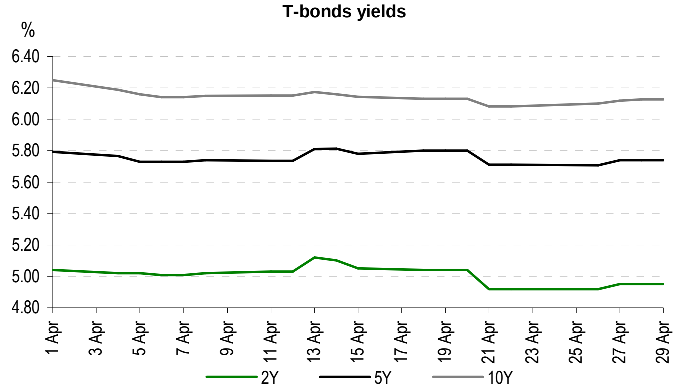
* 10Y treasury bonds over 10Y Bunds

Source: Reuters

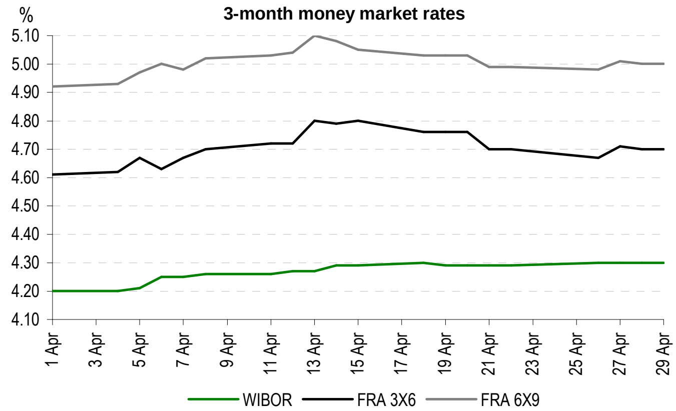
Zloty exchange rate (fixing)



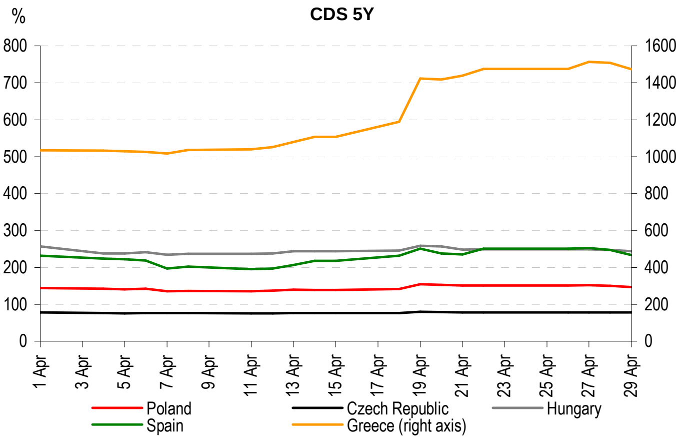
T-bonds yields



3-month money market rates



CDS 5Y



Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	BZWBK		
		MONDAY (2 May)						
9:53	DE	PMI – manufacturing	Apr	pts	61.7	-		60.9
9:58	EZ	PMI – manufacturing	Apr	pts	57.7	-		57.5
16:00	US	PMI – manufacturing	Apr	pts	60.0	-		61.2
		TUESDAY (3 May)						
	PL	**3rd May Constitution Day**						
11:00	EZ	PPI	Mar	%YoY	6.6	-		6.6
16:00	US	Factory orders	Mar	%MoM	1.8	-		-0.1
		WEDNESDAY (4 May)						
9:00	**PL**	**PMI – manufacturing**	**Apr**	**pts**	**54.7**	**55.1**		**54.8**
9:53	DE	PMI – services	Apr	pts	57.7	-		60.1
9:58	EZ	PMI – services	Apr	pts	56.9	-		57.6
11:00	PL	Bond switching auction						
11:00	EZ	Retail sales	Mar	%YoY	0.0	-		0.1
14:15	US	ADP report	Apr	k	200	-		201
		THURSDAY (5 May)						
13:00	GB	BoE decision		%	0.50	-		0.50
13:45	EZ	EBC decision		%	1.25	-		1.25
14:30	US	Initial jobless claims	week	K	410	-		429
14:30	US	Labour productivity	Q1	%QoQ	0.9	-		2.6
		FRIDAY (6 May)						
14:30	US	Non-farm payrolls	Apr	k	190	-		216
14:30	US	Unemployment rate	Apr	%	8.8	-		8.8

Source: BZ WBK, Parkiet, Reuters

* in case of the revision. the data is updated

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