

Eyeopener – Today focus on ECB

5 May 2011

- **Sentiment in the global markets deteriorated due to disappointing earnings reports and macro data**
- **Zloty stronger with clear rise in EURUSD**
- **Domestic debt stronger in 5Y and 10Y segment of the curve after successful switch auction; core debt markets weaker after Portugal's bailout**
- **The government to discuss 2012 budget today**
- **Today ECB and BoE announce decisions while in the US weekly labour market statistics and data on labour productivity**

Since the beginning of the Wednesday's session the negative market sentiment continued to prevail. In Europe stock indices declined as the companies from the continent revealed lower than expected financial results. Also the final data on PMI index for Germany (that was below flash estimates) and ISM index for services (that was at 52.8pts versus market expectations at 57.4pts and 57.3pts in March) put a negative pressure on the investors' mood. The euro zone's data on retail sales for March disappointed. The set of lower than expected data was enlarged by ADP report on the US labour market. As it was released, the EURUSD surged to 1.4932. The announcement of successful end of negotiations on Portuguese bailout program did not have any clear impact on the market. The market sentiment deteriorated further as the domestic session ended. The negative pressure on investors' moods was put by US data and companies' quarterly results as they deteriorated the outlook for the global economy. Main US stock indices declined. Today in Asia the results of the session was mixed, but the index for the whole region declined. Weaker outlook for the global economy put commodities prices further down.

The EURUSD advanced fast at the beginning of the session and until publication of the US data it remained stable in the range of 1.485-1.488. After ADP data it surged and established daily maximum at 1.4939. Not too optimistic hint before Friday's payrolls data supported expectations that the Fed will keep the interest rate at low level for an extended period of time and that put a negative pressure on the dollar. At the end of the domestic session the upward trend was reversed and at the end of the day the exchange rate was close to 1.488. Today the most important event is the ECB meeting and the result of it (not the decision on the interest rate itself, but suggestions regarding timing on next hike) will probably determine the changes of the EURUSD. The market expects maintaining hawkish tone of the communiqué. Until the communiqué is released, we expect stabilization of the EURUSD in the range of 1.476-1.49.

The EURPLN declined gradually during the better part of the yesterday's session, mainly due to rising EURUSD. The latter initiated very strong downward trend of the USDPLN and consequently it reached the Monday's low. As the correction of the

EURUSD started, the EURPLN and USDPLN started to increase. We expect that yesterday's maximum will not be tested by the EURPLN and it may decline slightly due to better market sentiment. The support is at 3.936.

On the domestic fixed income market yields declined slightly at the middle and long end of the curve amid pretty good results of the bond switching auction. The FinMin sold WZ0115 and DS1020 bonds worth PLN3.26bn and repurchased OK0711, PS0511 and WZ0911 for PLN3.16bn. The short end was stable as investors await the MPC meeting next week.

On the core debt market yields advanced, mainly in case of Bunds what might have been due to successful end of negotiations with Portugal. Yields of Treasuries were relatively stable after the overnight decline. At the end of the day yields of the 10Y Bunds and Treasuries reached 3.29% and 3.22% respectively.

Poland's PMI manufacturing for April proved weaker than expected, dropping to 54.4 from 54.8 while our forecast was 55.1. Pace of output growth stabilised at the March's level. For the first time in 7 months there was reduction in production backlogs, which was to some extent a result of investment aimed at increasing production capacity. In order to reduce production backlogs, enterprises also continued to increase employment, although at slightly slower pace than in March. Growth in production costs lowered, but it was still very high. All in all, PMI survey for April confirmed positive tendencies in the economy, but also maintained worries about inflationary pressures. Detailed indices support our expectations for continuation of employment growth and revival in investment activity. Other data released yesterday by HSBC showed that Polish exporters are the most optimistic in the EU. 57% of responders in the survey expect rise in foreign trade turnover, while one third predicts it will stabilise. According to results of the survey, the most important barrier for development of foreign trade is the exchange rate volatility (this factor was indicated by 55% of domestic enterprises).

Yesterday the government discussed informally the 2012 budget draft. The government assumes the GDP growth will stabilise at 4% predicted for this year (for both years we are more optimistic) and slowdown in domestic demand growth from 4.5% this year to 4% in 2012 (also below our forecasts for both years). Annual average inflation is predicted to fall to 2.8% in 2012 from 3.5% this year (again below our forecasts). All in all, macroeconomic assumptions seem conservative. Central budget deficit was set at PLN35bn versus PLN35.7bn assumed for this year. At the same time, budget gross borrowing needs will increase to PLN185.7bn from PLN154.9bn this year. Net borrowing needs will not change much and rise in gross borrowing needs will result from large redemptions for bonds issued during the crisis in 2009-2010.

ECONOMIC ANALYSIS

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F/X rates (today's opening)

EURUSD	1.4853	CADPLN	2.7692
USDPLN	2.6575	DKKPLN	0.5294
EURPLN	3.9460	NOKPLN	0.5000
CHFPLN	3.0899	SEKPLN	0.4363
JPYPLN*	3.3070	CZKPLN	0.1634
GBPPLN	4.3871	HUFPLN*	1.4869

*for 100JPY/100HUF

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.9263	3.9448	3.9402	3.9478	3.9366
USDPLN	2.6301	2.6654	2.6621	2.6529	2.6499
EURUSD	1.4797	1.4939	1.4804	1.4883	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2L	4.93	-2	13.04	5.16
5L	5.72	-2	5.01	5.642
10L	6.10	-3	12.01	6.215

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	4.88	-3	0.38	2	2.00	1
2L	5.24	-2	0.77	2	2.40	0
3L	5.46	-2	1.25	2	2.67	-1
4L	5.59	-3	1.70	1	2.89	-1
5L	5.64	-3	2.12	2	3.06	-2
8L	5.65	-3	2.97	2	3.41	-2
10L	5.62	-2	3.31	2	3.57	-3

WIBOR rates

TERM	%	Daily change (bp)
O/N	3.91	2
T/N	3.94	1
SW	4.05	0
2W	4.07	0
1M	4.10	0
3M	4.30	0
6M	4.50	-1
9M	4.61	0
1Y	4.67	0

FRA rates (Mid)

TERM	%	Daily change (bp)
1x2	4.28	3
1x4	4.45	-1
3x6	4.68	0
6x9	4.98	0
9x12	5.18	-2
3x9	4.88	0
6X12	5.15	0

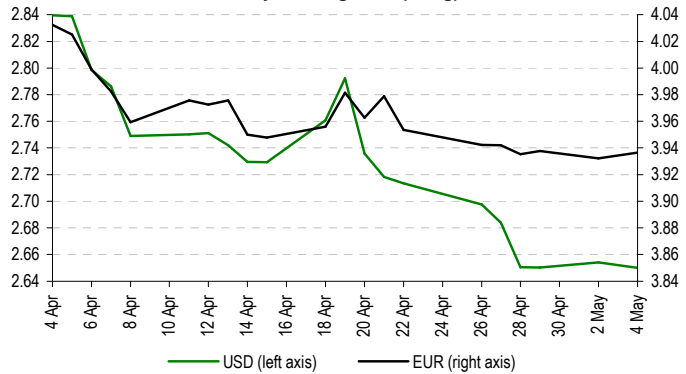
Measures of fiscal risk

Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	146.5	-1	2.80	-7
Czech Republic	77.6	0	0.74	2
Hungary	242.0	-2	3.95	6
Greece	1456.2	-18	12.46	-46
Spain	231.8	-2	1.95	-11
Italy	144.1	-1	1.39	-7
Portugal	652.8	3	6.52	-18
Ireland	670.8	7	7.21	-25
Germany	42.1	0	--	--

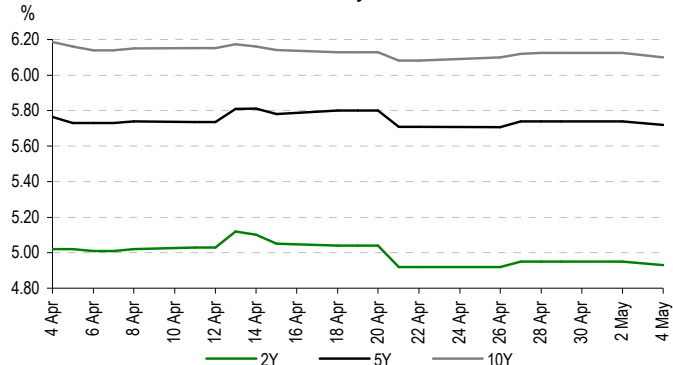
* 10Y treasury bonds over 10Y Bunds

Source: Reuters

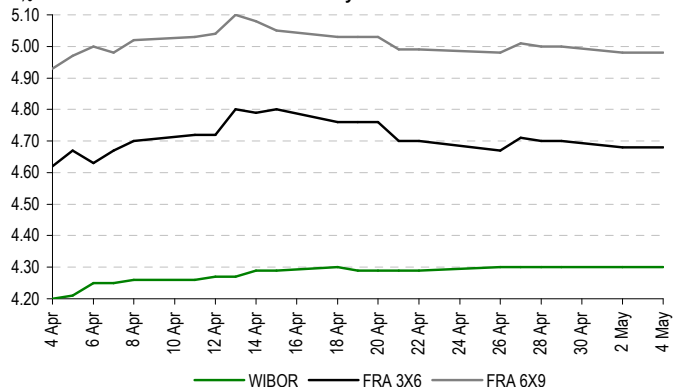
Zloty exchange rate (fixing)



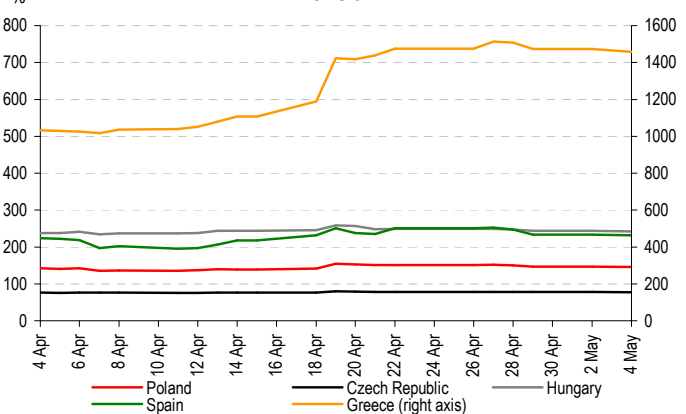
T-bonds yields



3-month money market rates



CDS 5Y



Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	BZWBK		
		MONDAY (2 May)						
9:53	DE	PMI – manufacturing	Apr	pts	61.7	-	62.0	60.9
9:58	EZ	PMI – manufacturing	Apr	pts	57.7	-	58.0	57.5
16:00	US	PMI – manufacturing	Apr	pts	60.0	-	60.4	61.2
		TUESDAY (3 May)						
	PL	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	54.4	54.8
9:53	DE	PMI – services	Apr	pts	57.7	-	56.8	60.1
9:58	EZ	PMI – services	Apr	pts	56.9	-	56.7	57.2
11:00	PL	Bond switching auction						
11:00	EZ	Retail sales	Mar	%YoY	0.0	-	-1.7	1.3
14:15	US	ADP report	Apr	k	200	-	179	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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