

# Eyeopener – Awaiting important decisions

3 October 2011

- Risk aversion dominating again, Greece in focus
- Polish manufacturing PMI lower than expected
- NBP intervened again, but FX market reaction smaller than before; euro weakening under pressure of debt concerns
- Domestic debt market stable, bonds supported by MinFin's supply plans for Q4
- Today, indices of activity in manufacturing, Eurogroup meeting

The optimism, which appeared after Thursday's positive data from the US, has evaporated quickly after start of Friday's session. The market was predominated by concerns about condition of Chinese industry, which, according to the final PMI reading – contracted in September by a third time in a row. The disappointing data on retail sales in Germany have also contributed to losses on the European stock markets. A major surprise was delivered by euro zone's flash HICP inflation figure in September, but the higher-than-expected reading did not affect the FX market, as investors do not even consider rate hikes in face of imminent economic slowdown and they rather expect monetary easing. Meanwhile, it seems that the joint IMF, EC and ECB mission, which returned to Greece last week, still has not revived its work as the striking citizens had blocked entrances to government premises in Athens. The US data proved to be quite good, but even much better-than-expected readings of Chicago-PMI and Michigan indices failed to persistently improve the market sentiment. The weekend has seen a strengthening of concerns about Greece. The budget for 2012, which was approved by the government, does not fulfil the austerity aims set in the bailout agreement. Moreover, a German politician from the ruling coalition has said that Greece is "bankrupt" and it may be necessary to increase haircut on its debt to 50%, while another politician said that it would be better if Greece left the euro zone.

Polish PMI manufacturing index fell to 50.2 in September, and was much below forecasts, showing the economic slowdown in the euro zone is having a significant drag on Polish industrial sector.

The EURUSD exchange rate was falling throughout the day on Friday due to prevailing concerns about global economy. The support at 1.352 was broken and at the end of domestic session the rate was close to 1.344. During Friday's session in the USA and today's in Asia the rate has dropped further due to sour sentiment, to slightly above 1.33 this morning. We see a potential to further declines amid distressing news about Greece. Comments from the today's Eurogroup meeting will be of key importance. First support is at 1.327, resistance at 1.338.

EURPLN has plummeted to 4.40 from 4.44 on the information that NBP dealers are asking for euro buy and sell offers. This has amplified expectations for central bank intervention and caused a

considerable zloty strengthening. In the further part of the day the NBP has actually sold foreign currencies, but this time the market reaction proved to be sparse (EURPLN dropped from 4.41 to 4.40) and temporary. At the end of domestic session the rate was close to 4.415. This morning EURPLN is near 4.43. The technical analysis is indicating that the key levels for today are 4.42 and 4.44. If the resistance is broken (which is indicated as more likely by technical signals), then 4.50 may be tested soon.

On the domestic fixed income market yields did not change much. The negative pressure put by the negative market sentiment was neutralized by the debt supply plan for Q4 presented by the FinMin. According to the plan in last three months there will be three switch bond auctions and depending on market conditions additional three regular bond auctions may be conducted. The FinMin does not plan issuing T-bill in the remainder of the year. Debt Department Director, Piotr Marczak, said that at the end of September 92% of annual borrowing needs has already been covered and the Ministry has free cash amounting to PLN44bn in zlotys and euro. Our calculations show that until the end of the year the FinMin has to buyback securities worth PLN10.3bn.

On the core debt markets yields were falling amid poor market sentiment. Only after Chicago-PMI and Michigan indexes data the downward trend was halted. At the end of the day yields of the 10Y Bunds and Treasuries reached 1.89% and 1.91% respectively.

Although the last week's data from the US have surprised on the upside, they did not change the outlook the global economic growth substantially. The indices on activity in manufacturing for the US, Germany and the euro zone, to be released today, are likely to confirm that September was another month of contracting activity in this sector. At the end of the week, investors will pay attention to the monthly data from the US labour market, which tends to disappoint recently. Also the consecutive votes over EFSF and even their positive results (this week Malta is likely to vote) will not change substantially the markets' assessment of prospects for solving the debt crisis in the euro zone, as it seems apparent that further enhancement the EFSF will be needed, some additional actions securing the banking system. On Monday the Eurogroup will begin its meeting and the market will remain sensitive to their comments. The discussions will probably include enhancing the EFSF capacity and increasing the haircut on Greek debt. Focus will be also on the EBC statement (particularly in the context of higher than expected inflation in September), while the communique of the Polish MPC is unlikely to impact the market. We predict the EURPLN will stay in range 4.36-4.50 as uncertain situation in world markets will constrain potential for decline.

## ECONOMIC ANALYSIS

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F/X rates (today's opening)

EURUSD	1.3323	CADPLN	3.1658
USDPLN	3.3271	DKKPLN	0.5957
EURPLN	4.4326	NOKPLN	0.5637
CHFPLN	3.6517	SEKPLN	0.4809
JPYPLN*	4.3181	CZKPLN	0.1790
GBPPLN	5.1652	HUFPLN*	15041

\*for 100JPY/100HUF

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.3969	4.4431	4.4320	4.4215	4.4112
USDPLN	3.2520	3.3005	3.2705	3.2934	3.2574
EURUSD	1.3413	1.3552	1.3552	1.3417	-

T-bonds

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0713 (2Y)	4.44	-1	10.08	4.469
PS0416 (5Y)	5.23	-4	10.08	5.256
DS1020 (10Y)	5.91	0	12.01	6.215

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	4.72	3	0.51	4	1.64	0
2L	4.66	1	0.55	2	1.54	1
3L	4.71	4	0.72	7	1.69	3
4L	4.78	3	0.98	5	1.85	4
5L	4.85	2	1.26	6	2.06	5
8L	4.99	4	1.89	1	2.43	3
10L	5.01	3	2.15	0	2.60	3

WIBOR rates

TERM	%	Daily change (bp)
O/N	4.62	11
T/N	4.63	1
SW	4.57	0
2W	4.59	0
1M	4.64	0
3M	4.76	0
6M	4.86	0
9M	4.87	0
1Y	4.88	-1

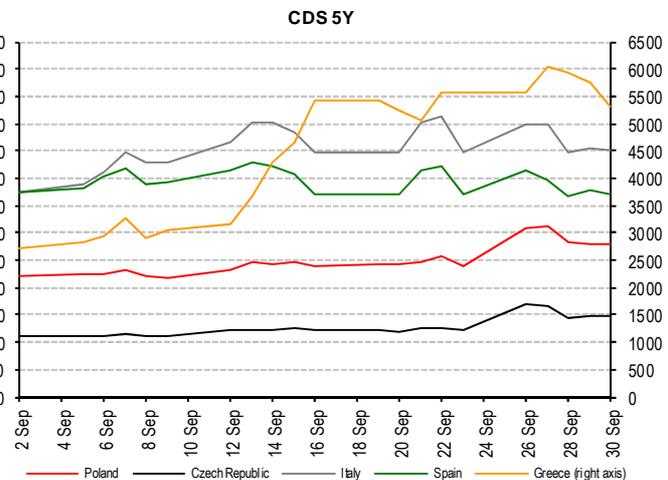
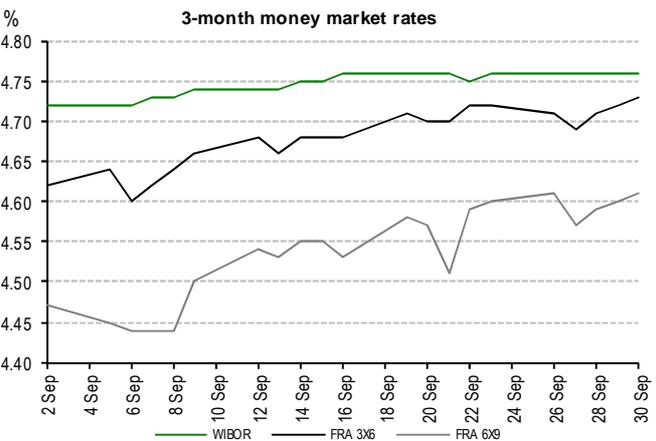
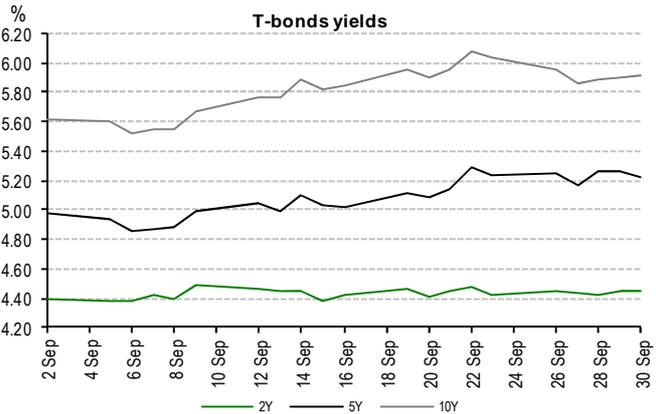
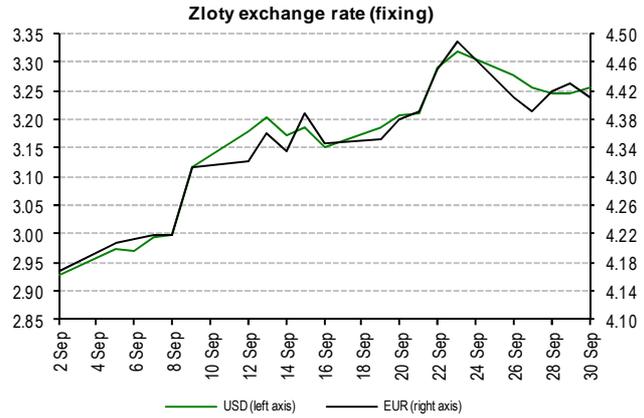
FRA rates (Mid)

TERM	%	Daily change (bp)
1x2	4.63	-1
1x4	4.77	2
3x6	4.73	1
6x9	4.61	1
9x12	4.50	2
3x9	4.82	2
6x12	4.69	3

Measures of fiscal risk

Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	279.5	-1	4.02	11
Czech Republic	146.6	-1	1.21	1
Hungary	506.9	0	6.40	19
Greece	5295.9	-452	20.77	-44
Spain	369.8	-9	3.27	17
Italy	452.6	-2	3.66	6
Portugal	1163.2	-22	9.43	-3
Ireland	745.7	-39	5.93	10
Germany	103.9	4	--	--

\* 10Y treasury bonds over 10Y Bunds



Source: Reuters

## Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	BZWBK			
<b>FRIDAY (30 September)</b>								
4:30	CN	PMI - manufacturing	Sep	pts	-	-	49.9	49.9
8:00	DE	Retail sales	Sep	%MoM	-0.5	-	-2.9	0.3
11:00	EZ	Flash HICP	Sep	% YoY	2.5	-	3.0	2.5
<b>14:00</b>	<b>PL</b>	<b>Inflation expectations</b>	<b>Sep</b>	<b>%YoY</b>	<b>-</b>	<b>-</b>	<b>3.8</b>	<b>4.2</b>
14:30	US	Consumer spending	Aug	%MoM	-	-	0.2	0.7
14:30	US	Personal income	Aug	%MoM	0.1	-	-0.1	0.1
14:30	US	Core PCE	Aug	%MoM	0.2	-	0.1	0.2
15:45	US	Chicago PMI	Sep	pts	55.5	-	60.4	56.5
15:55	US	Michigan index	Sep	pts	57.8	-	59.4	57.8
<b>MONDAY (3 October)</b>								
<b>9:00</b>	<b>PL</b>	<b>PMI – manufacturing</b>	<b>Sep</b>	<b>pts</b>	<b>51.0</b>	<b>51.4</b>		<b>51.8</b>
9:28	DE	PMI – manufacturing	Sep	pts	50.0	-		50.9
9:58	EZ	PMI – manufacturing	Sep	pts	48.7	-		49.0
16:00	US	ISM – manufacturing	Sep	pts	50.3	-		50.6
<b>TUESDAY (4 October)</b>								
11:00	EZ	PPI	Aug	%YoY	5.8	-		6.1
16:00	US	Industrial orders	Aug	%MoM	0.0	-		2.4
<b>WEDNESDAY (5 October)</b>								
	<b>PL</b>	<b>MPC decision</b>		<b>%</b>	<b>4.50</b>	<b>4.50</b>		<b>4.50</b>
9:58	EZ	PMI – services	Sep	pts	49.1	-		51.5
11:00	EZ	GDP revision	Q2	%YoY	1.7	-		2.4
11:00	EZ	Retail sales	Aug	%YoY	-0.7	-		-0.2
14:15	US	ADP report	Sep	k	75	-		91
16:00	US	ISM – services	Sep	pts	53.0	-		53.3
<b>THURSDAY (6 October)</b>								
13:00	GB	BoE decision		%	0.50	-		0.50
13:45	EZ	EBC decision		%	1.50	-		1.50
14:30	US	Initial jobless claims	week	k	410	-		391
<b>FRIDAY (7 October)</b>								
12:00	DE	Industrial production	Aug	%MoM	-1.9	-		4.0
14:30	US	Non-farm payrolls	Sep	k	60	-		0
14:30	US	Unemployment rate	Sep	%	9.1	-		9.1

Source: BZ WBK, Reuters, Parkiet

\* in case of the revision, the data is updated

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