Bank Zachodni WBK

Eyeopener – Focus on the ECB

6 October 2011

- **Plans of strengthening the European banking system and increasing IMF's role in fighting crisis improved market sentiment**
- **MPC did not surprise, the statement still quite hawkish**
- **Zloty stronger thanks to improvement in market sentiment, EURUSD stable**
- **Strengthening in domestic debt market amid rise in risk appetite, core debt markets weaker**
- **Today, decisions of EBC and BoE, weekly data from the US labour market**

Since the very beginning of the Wednesday's session it was clear that the information than the European policymakers are discussing the issue of recapitalizing the banks has considerably improved the sentiment. This calmed the concerns about banking system after news from the previous days about possible renegotiation of the second bailout for Greece regarding the level of losses carried by the private sector. The plans to protect the financial institutions against negative consequences of the debt crisis have pushed the stock indices strongly up already at the beginning of session. The sentiment was supported further by the declaration of director of European Department of the IMF that the Fund can more actively join the fight against the debt crisis, among others by interventions on the FI market, in order to prevent the crisis from spilling into other big economies, like Italy or Spain. Some positive impact was also exerted by the better-than-expected data about the US labour market and the activity in services, while the disappointing figures from the euro zone were ignored by investors. It seems that the yesterday's rise in optimism, similarly as in the previous week, was primarily supported by hopes for actions of the euro zone policymakers. If concrete proposals concerning debt crisis are not put forward soon, the risk aversion will be prevailing on the market again. Meanwhile, a high representative of the "Troika", which had already finished its assessment of Greek progress in the fiscal consolidation and is currently preparing a report, said that the disbursement of the sixth tranche is not certain, but possible. A higher demand for risk and upward trend on the bourses persisted during the US and Asian sessions.

The Monetary Policy Council has kept the interest rates unchanged yesterday, reiterating that an adjustment of monetary policy is probable, should the outlook of inflation returning to target deteriorate, which de facto stands for maintaining the restrictive informal bias. The result of the MPC meeting confirms that the Council did not see a necessity of prompt loosening of monetary policy. In our view the interest rates will remain on hold until the end of the year. However, in a few months' horizon (at the beginning of 2012), when the inflation is lower, the FX market situation is more stable and the ECB implements monetary easing (an important hint about this matter may be delivered by today's communiqué), the Council will change its bias towards more dovish and will cut rates in two careful moves by 25bps. The NBP President has confirmed a further possibility of interventions on the FX market, which has supported the zloty and can limit its volatility it the upcoming time. We wrote more on that matter in yesterday's *Post-MPC comment*.

The EURUSD moved, during the European session, in a slight uptrend. The euro gained thanks to optimism that the European policymakers are seeking a solution, particularly with the solvency of European banks, but the scale of the appreciation was not too clear as investors await details of real actions. Before the start of the US session, the level of 1.3340 effectively stopped the upward trend. This morning the pair is close to 1.335 and the most important factor that will affect the EURUSD will be the message from the ECB's rate-setting meeting. It is widely expected the ECB will restore the 12-month liquidity operations (in order to reduce tensions on the interbank market), and some investors expect rate cuts, even by 50bps. We expect the EURUSD to slightly increase in anticipation of the EBC's decision. The first support and resistance levels are 1.329 and 1.338, respectively.

The EURPLN and the USDPLN were gradually falling during yesterday's session due to higher risk appetite and the EURUSD upward move. The EURPLN fell below support level at 4.3850 after better than expected data from the US. Moreover, the zloty was supported by the NBP's governor, who did not rule out further FX intervention to strengthen the zloty. The EURPLN decreased to 4.3675, but the downward correction on the EURUSD has caused the withdrawal of a substantial part of this movement. The EURPLN remained stable during the Asian session and it started today's session near 4.37. The mood at the beginning of the session is positive and it could support the PLN appreciation against the euro. Indicated yesterday support level for the pair at 4.385 was broken, and we foresee the EURPLN to decline towards 4.36-4.35. Crucial will be the EURUSD reaction to the ECB decision.

On the domestic fixed income market yields were clearly falling before the MPC statement was released due to higher demand for risky assets. Bonds from the middle of the curve were gaining most, while 2Y securities were stable, as they did not suffer most from latest sell off of Polish bonds. The statement of the MPC was relatively hawkish and that triggered some slight upward correction of yields.

On the core debt market yields were rising due to lower demand for risky assets. At the end of the day yields of the 10Y Bunds and Treasuries reached 1.83% and 1.89% respectively.

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F/X rates (today's opening)

EURUSD	1.3353	CADPLN	3.1458
USDPLN	3.2747	DKKPLN	0.5874
EURPLN	4.3730	NOKPLN	0.5594
CHFPLN	3.5488	SEKPLN	0.4777
JPYPLN*	4.2683	CZKPLN	0.1769
GBPPLN	5.0503	HUFPLN*	1.4722

*for 100JPY/100HUF

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.3730	4.4075	4.3915	4.3812	4.3918
USDPLN	3.2775	3.3194	3.3019	3.2919	3.2966
EURUSD	1.3280	1.3374	1.3306	1.3310	-

T-bonds

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0713 (2Y)	4.40	-6	10.08	4.469
PS0416 (5Y)	5.21	-9	10.08	5.256
DS1020 (10Y)	5.87	-8	12.01	6.215

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	4.68	-4	0.55	-5	1.57	3
2L	4.60	-4	0.58	-6	1.44	2
3L	4.63	-4	0.73	-6	1.58	0
4L	4.69	-8	0.94	-8	1.71	-3
5L	4.78	-4	1.19	-7	1.91	-5
8L	4.92	-6	1.73	-7	2.29	-11
10L	4.95	-5	1.98	-8	2.45	-12

WIBOR rates

TERM	%	Daily change (bp)
O/N	4.47	-6
T/N	4.52	-3
SW	4.57	0
2W	4.59	0
1M	4.64	0
3M	4.75	-1
6M	4.86	0
9M	4.88	1
1Y	4.89	0

FRA rates (Mid)

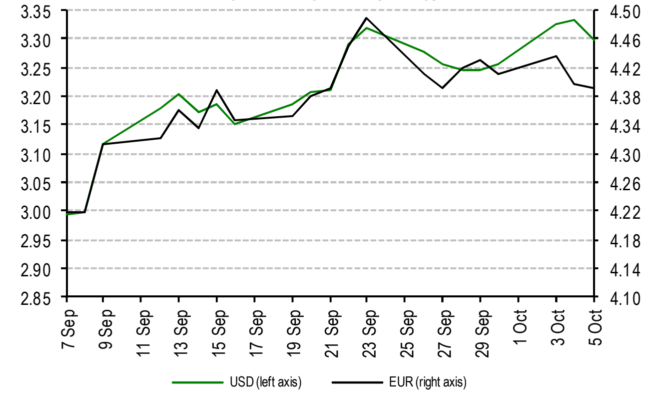
TERM	%	Daily change (bp)
1x2	4.65	0
1x4	4.74	-1
3x6	4.72	-1
6x9	4.60	-1
9x12	4.48	-1
3x9	4.81	-1
6X12	4.68	-1

Measures of fiscal risk

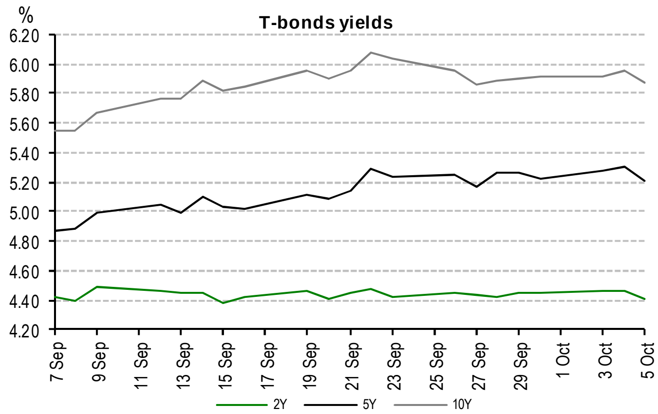
Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	305.3	9	4.04	-23
Czech Republic	155.6	-1	1.28	-13
Hungary	549.6	19	6.52	-41
Greece	5304.8	4	21.33	18
Spain	391.9	15	3.27	-17
Italy	490.1	23	3.71	-11
Portugal	1230.4	43	9.62	-13
Ireland	758.2	16	5.98	-11
Germany	118.4	4	--	--

* 10Y treasury bonds over 10Y Bunds

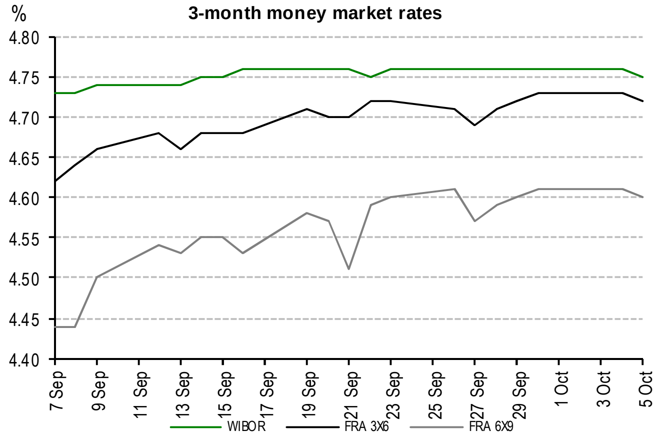
Zloty exchange rate (fixing)



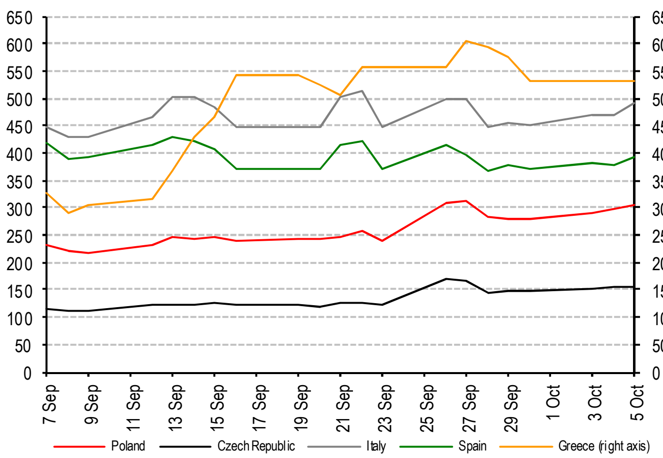
T-bonds yields



3-month money market rates



CDS 5Y



Source: Reuters

Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE*
		MONDAY (3 October)						
9:00	**PL**	**PMI – manufacturing**	**Sep**	**pts**	**51.0**	**51.4**	**50.2**	**51.8**
9:28	DE	PMI – manufacturing	Sep	pts	50.0	-	50.3	50.9
9:58	EZ	PMI – manufacturing	Sep	pts	48.7	-	48.5	49.0
16:00	US	ISM – manufacturing	Sep	pts	50.3	-	51.6	50.6
		TUESDAY (4 October)						
11:00	EZ	PPI	Aug	%YoY	5.8	-	5.9	6.1
16:00	US	Industrial orders	Aug	%MoM	0.0	-	-0.2	2.1
		WEDNESDAY (5 October)						
	PL	**MPC decision**		**%**	**4.50**	**4.50**	**4.50**	**4.50**
9:58	EZ	PMI – services	Sep	pts	49.1	-	48.8	51.5
11:00	EZ	GDP revision	Q2	%YoY	1.7	-	1.6	2.4
11:00	EZ	Retail sales	Aug	%YoY	-0.7	-	-1.0	-0.4
14:15	US	ADP report	Sep	k	75	-	91	89
16:00	US	ISM – services	Sep	pts	52.9	-	53.0	53.3
		THURSDAY (6 October)						
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
		FRIDAY (7 October)						
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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